
The fastest growing broker-deal channel? Independents

By Editorial Staff Thu, Nov 29, 2018

'The wirehouses' growth rates have lagged other broker-dealer channels' over the past one and five years. However, this is for 'retail' assets. The opposite is true in the high net worth (HNW) space,' said Donnie Ethier of Cerulli Associates.

Independent broker-dealers (IBDs) have grown at a compound annual rate (CAGR) of 11% over the past five years, compared with 9% at retail bank B/Ds, 9% at regional B/Ds, and only 6% at the four wirehouse brokerages, according to a new report from Cerulli Associates.

IBDs have the second-largest advisor force at more than 59,000 and assets of \$2.8 trillion, Cerulli said. When hybrid registered investment advisors (RIAs) and their assets are included in the total, those numbers reach 86,779 and more than \$3.36 trillion.

Cerulli divides IBDs into four sub-segments:

- True
- Institutional
- Niche
- Insurance Legacy

"The Niche (14%) and Institutional (11%) IBD segments have buoyed channel growth over the past five years. Institutional IBDs are the largest," a Cerulli release said. "There are only 24 in total. They control 49% of the channel's advisor force and 59% of the assets. The segment continues to benefit from national scale, brand reputation, and increasing advisor-counts through recruiting efforts and acquisitions.

There are only 14 Niche IBDs, which are dramatically smaller and control just 11% of the channel's advisors and 14% of assets. They focus on specific niches or products (e.g., retirement plans). Their advisors are the most productive in the channel.

The wirehouse picture is complex. "Naturally, being the largest channel in terms of wealth management assets, the four wirehouses have the most to lose in terms of market share and advisors," Donnie Ethier, Director of Wealth Management and Consulting at Cerulli, told *RIJ* in an email. "Cerulli would not simply attribute their lagging the industry's overall retail growth rate due to their size, however. There are many other factors at play.

"First, is advisor migration. Decisions by advisors, and entire teams, to relocate to other channels, including independent RIAs, has influenced these trends. Independent RIAs have

expanded their advisor headcounts by about 5% over the past five and 10 years, while AUM has grown at 13% and 10% over the past five and 10 years, respectively. Hybrid RIAs have expanded at lesser, but comparable, rates.

“As noted, a portion the RIA growth is due to experienced wirehouse advisors relocating. In 2018, almost one-third of current wirehouse advisors that are considering/interested in relocating to other channels told Cerulli that they would prefer either the independent or hybrid RIA channels. Thirteen percent indicated IBDs.

“That said, there is another important element. Yes, the wirehouses’ growth rates have lagged other B/D channels’ over the past one and five years. However, this is for ‘retail’ assets. What can be overlooked is that the opposite is true in the high net worth (HNW) space. The wirehouses’ HNW growth rates have exceeded the industry average (HNW-specific) over the past 1, 5, and 10 years. Ultimately, their strategic decisions to focus on more affluent clients is paying off. This story is not necessarily observable when looking at overall asset trends.”

The growth of the IBD channel appeals to asset managers seeking broader distribution opportunities. According to Cerulli, “IBDs remain one of asset managers’ most consistent opportunities due to the large number of potential firm partnerships, advisors, and accelerating growth from the hybrid channel.”

To maintain growth, the channel will need to evaluate succession-planning models, improve advisor productivity, and protect against large teams migrating to the independent RIA model, the release said.

Cerulli’s latest report, [*U.S. Broker/Dealer Marketplace 2018: Escalating Margin Pressure*](#), provides in-depth market sizing and competitive analysis of B/D channels, including wirehouses, national and regional B/Ds, IBDs, insurance B/Ds, and retail bank B/Ds. This report extensively covers recruiting and transition trends, including advisor movement sizing, advisor channel preferences, advisor retention, and transition metrics.

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