



KINETIC
--- STRATEGIC PARTNERS ---

The Changing Industry Landscape

CONFIDENTIALITY



We will keep confidential all information you disclose to us, including information about your practice, your strategies, your clients, and any personal information.

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- 2. Factors Creating Changes in Our Industry***
- 3. The Components Needed to Run a Business***
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***We will act as your advisor,
putting your interests first.***

OUR COMMITMENT



Our recommendations will always be based on your best interests and will be the product of our experience, expertise, our discussions with you and the information that you have provided to us. We will responsibly perform all requested services, we will be available when you need us, and we will provide you with tools, advice, guidance, and opinion in order to make sound decisions.

HOW WE'RE DIFFERENT



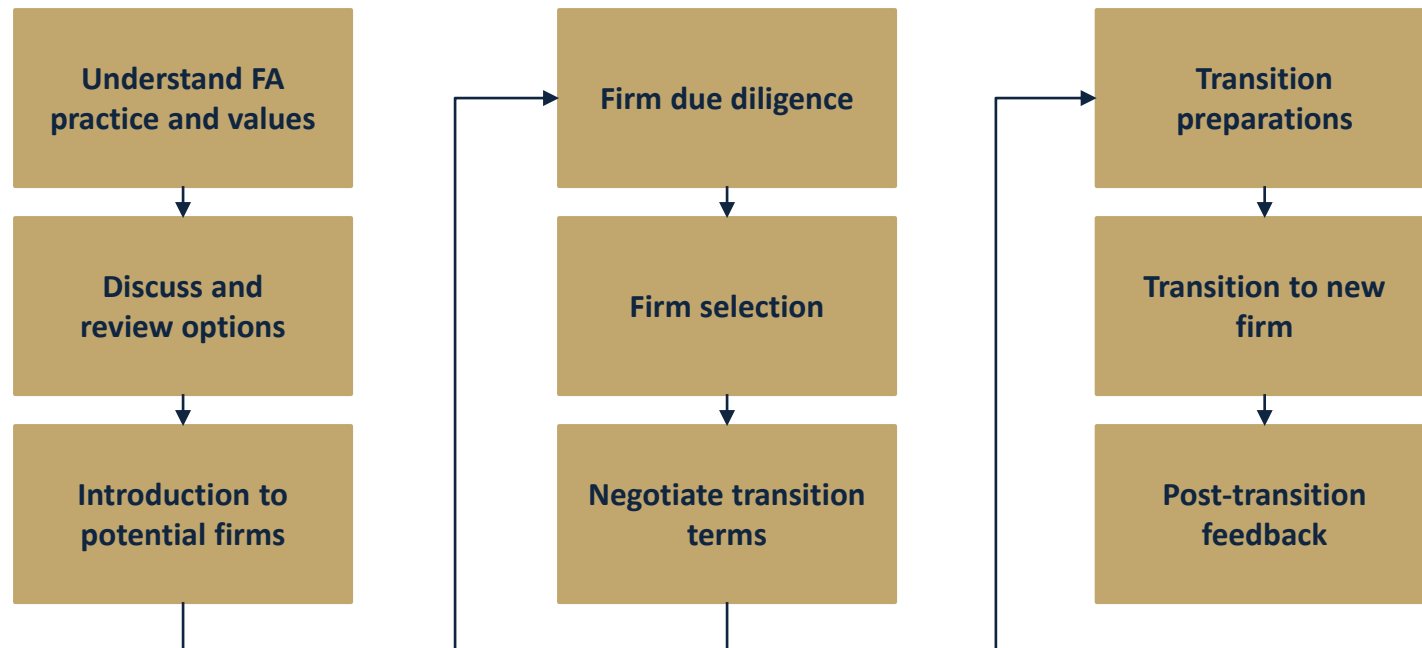
We are **NOT** “recruiters” and **DO NOT** represent any firm.

We understand you. We have experience as a Financial Advisor, Producing Manager, Complex Director, and in Regional Management.

We have relationships with over 70 firms from all business models.

We help you get organized and work with you to prepare you and your clients for transition, our clients typically **move 80% of their targeted assets within 30 days.**

OUR PROCESS





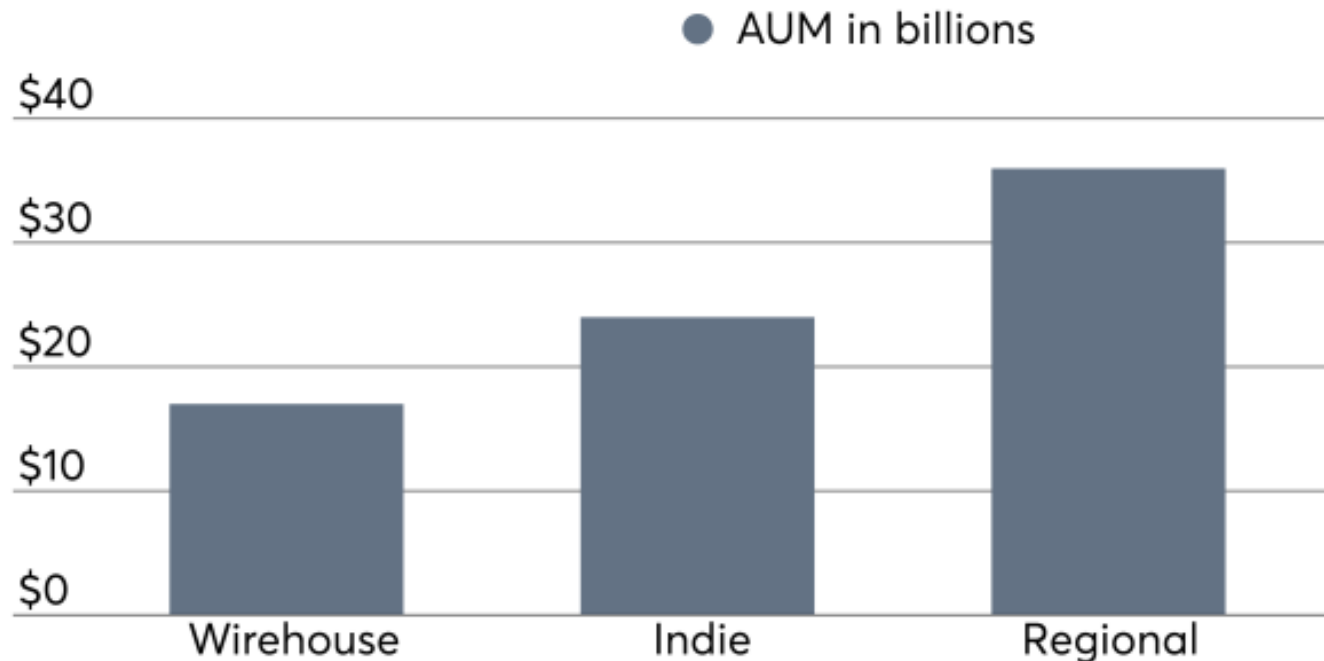
Factors Creating Changes In Our Industry

YOUR BUSINESS IS SIMPLE





Total AUM of new hires, according to hiring announcements.



Source: Company data as of Nov. 8, 2018; analyzed by On Wall Street

THE INDUSTRY HAS CHANGED



The 2008 Credit Crisis

The culture that made so many big firms great has dramatically changed. Being at a major firm is not necessarily a competitive advantage.

Client Confidence

Clients trust their Financial Advisors but their **confidence in firms has eroded.**

Conflicts of Interest

Some firms are focused on shareholder value at the **expense of the Client, the Financial Advisor, and firm Employees.**

THE INDUSTRY HAS CHANGED



Technology

Technology has **leveled the playing field** and providing great service, having a broad platform and product offerings is no longer limited to only the big firms.

New Choices

There are **many business models** and types of firms to choose from besides the traditional Wirehouse.

Regionals firms are emerging, Boutique and Private Banking options are expanding, Independent Broker-Dealers, and new RIA and Hybrid-RIA options are available...

THE INDUSTRY HAS CHANGED



Fiduciary

At broker-dealer firms the suitability standard is still the required level of conduct, at best it can be described as “fiduciary light”.

New Client Services in Demand

Services beyond investments are in demand, including integrated personal and digital offerings which allow clients to access information on their terms.

Fee Structure

Different fee options that are not tied to account balances held long at the firm and increased transparency are in demand.

THE INDUSTRY HAS CHANGED



Value

With the changes in technology and other competitive forces, the costs of running a business have changed and Advisors question the value that they are receiving from their firms in exchange for the 50-60% of the revenue they give up to the firm.

Compensation

Compensation is being cut and a salary/bonus structure may be on the horizon.

THE INDUSTRY HAS CHANGED



The Protocol for Broker Recruiting and Restrictive Covenants

In addition to Morgan Stanley and UBS withdrawing from the industry agreement, firms are adding non-competition, garden leave, and other restrictive covenants to employment and bonus agreements.

Bureaucracy

Firm initiatives, firm policies (as opposed to industry regulations), and other bureaucracy steal productive time from Advisors and staff and are a source of widespread frustration.



“to him who has only a hammer, the whole world looks like a nail,”

*- Joseph Weizenbaum,
professor of computer science at M.I.T.*



The Components Needed to Run a Business



What resources are needed to take care of Clients?



THE THREE PARTS OF OUR BUSINESS



Front Office

Client Facing

- Financial Advisors
- Client Associates
- Client Service
- New Business

Middle Office

Business Operations

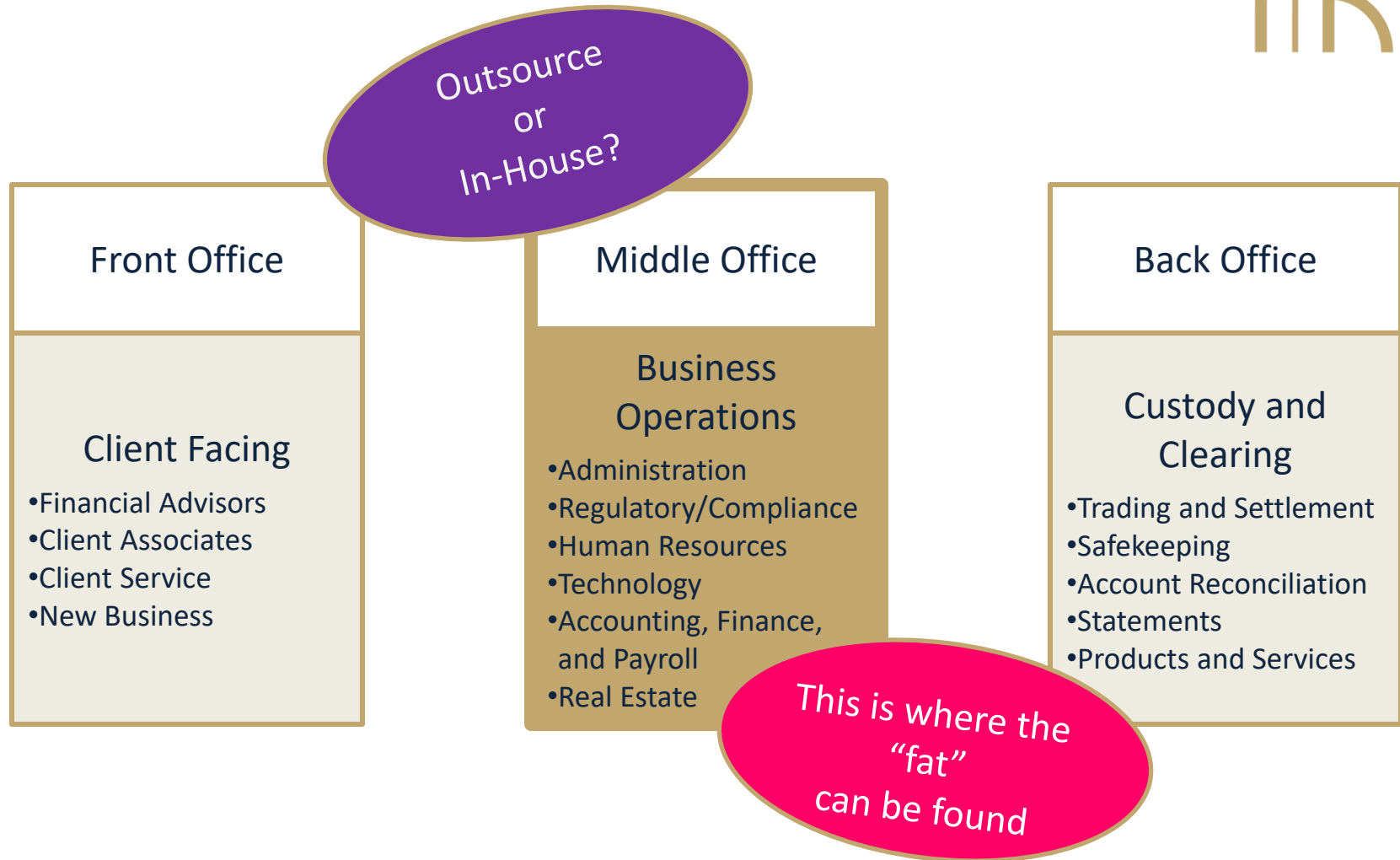
- Administration
- Regulatory/Compliance
- Human Resources
- Technology
- Accounting, Finance, and Payroll
- Real Estate

Back Office

Custody and Clearing

- Trading and Settlement
- Safekeeping
- Account Reconciliation
- Statements
- Products and Services

THE THREE PARTS OF OUR BUSINESS



THE THREE PARTS OF OUR BUSINESS



**You need a firm
for these
functions**

Front Office
Client Facing <ul style="list-style-type: none">•Financial Advisors•Client Associates•Client Service•New Business

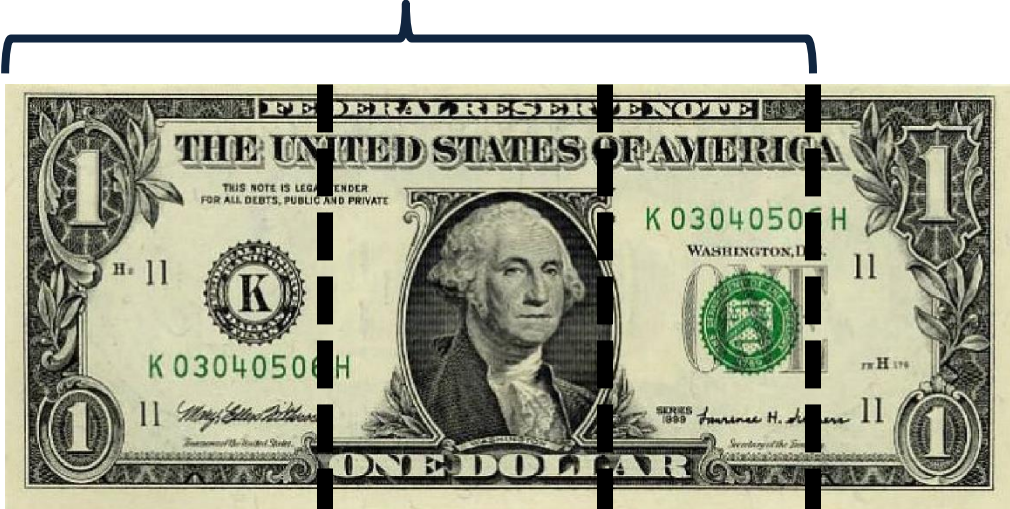
Middle Office
Business Operations <ul style="list-style-type: none">•Administration•Regulatory/Compliance•Human Resources•Technology•Accounting, Finance, and Payroll•Real Estate

Back Office
Custody and Clearing <ul style="list-style-type: none">•Trading and Settlement•Safekeeping•Account Reconciliation•Statements•Products and Services

WIREHOUSE ECONOMICS



Production



30-38%	10-25%	5-10%	10-25%
FA Comp	Local Expenses	Custody and Clearing	Profit

INDUSTRY ECONOMICS



10-20%	10-20%
Local Expenses	Custody and Clearing



The Many Faces of Independence

INDEPENDENCE DOES NOT MEAN “ALONE”



MORE INDEPENDENT

LESS INDEPENDENT

Independent RIA (from scratch)	Independent RIA (with partner)	Join a Strategic Acquiring Firm	Join an Existing Independent RIA	Join an IBD with a Corporate RIA
<ul style="list-style-type: none"> ◦ Become an owner = have vision, drive and the entrepreneurial mindset ◦ Complete control and flexibility over client composition ◦ Freedom to choose own products and vendors ◦ Responsibility of compliance and oversight 	<ul style="list-style-type: none"> ◦ Upfront financing ◦ Complete control and flexibility over client composition ◦ Leverage partner infrastructure (tech and products) ◦ Leverage partner compliance and oversight relationships 	<ul style="list-style-type: none"> ◦ New office of an established firm ◦ Choose an RIA with a similar client profile and service philosophy ◦ Products and technology selection may be flexible, but firm will have established providers ◦ Compliance and oversight typically provided by strategic acquirer 	<ul style="list-style-type: none"> ◦ Become partner or employee of an existing RIA firm ◦ Choose an RIA with a similar client profile and service philosophy ◦ Products may be flexible but technology platform will be available through the firm ◦ Compliance and oversight typically provided by strategic acquirer 	<ul style="list-style-type: none"> ◦ Become employee or contractor of an independent broker-dealer ◦ Best fit for those who want to keep significant commissioned business ◦ Limited range of products; technology platform provided ◦ Compliance and oversight provided



Top 4 Mistakes

TOP 4 MISTAKES



- 1. Meeting with competing firms without knowing what changes are desired***
- 2. Not knowing what is required to implement changes***
- 3. Not knowing what new/additional services/products could be offered to clients***
- 4. Focusing on the Check and “Being Sold”***



“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.”

- Charles Darwin



Kinetic Strategic Partners acts as the Financial Advisor's fiduciary, providing objective advice in evaluating different firms and opportunities, and helping them execute their plans.



Appendices



DIFFERENCES: IBD VS RIA

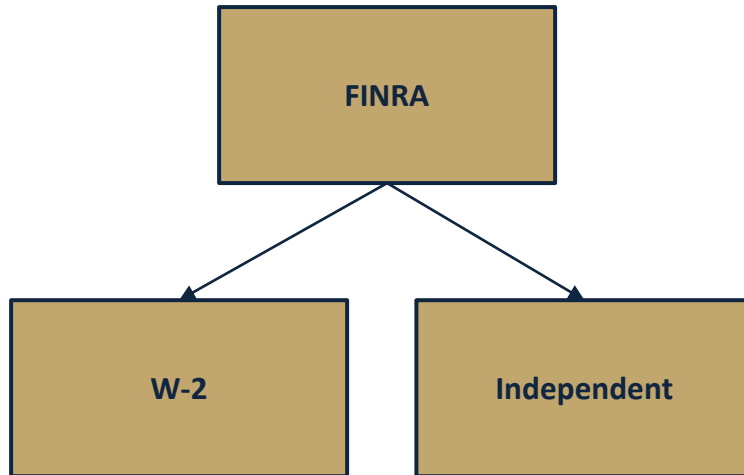
Independent Broker-Dealer	Independent Registered Investment Advisor
Regulatory body: FINRA.	Regulatory body: SEC (or State for RIAs with AUM less than \$100MM).
Standard of care: Suitability.	Standard of care: Fiduciary.
Compensation: based on the products used.	Compensation: advice.
Compensation: grid (usually around 90%).	Compensation: 100% of client fees.
Net Earnings: pay for local expenses after grid payout and trading costs.	Net earnings: pay for local expenses after trading costs. Costs are usually per trade or a negotiated basis point charge based on assets at the custodian(s). These costs may or may not be passed on to the client at the discretion of the advisor.
Pricing: usually the B-D will set the price/commissions charged per product.	Pricing: discretion of the advisor. May be a flat fee, hourly, percentage of assets, or combination. Must be "reasonable".
Billing: in many cases may only offer advice on assets held long at the firm (whether paid or not). Check firm policy under "Selling Away".	Billing: may bill on assets held long and held away.
Products/Platform: the selection of products available to the advisor are limited to what the firm offers on their platform.	Products/Platform: open architecture. Advisors must show a reasonable level of due diligence on products used.
Trading Execution: done at the Broker-Dealer.	Trading Execution: done at the Custodian. Firms may have multiple custodial relationships.
Trading Execution: limited to the resources and relationships of the Broker-Dealer.	Trading Execution: firms may execute trades away from the custodian (trades settle at the custodian). This is typically done with fixed income where multiple desk/firm relationships may be beneficial for access to product and/or for pricing, and is also done with firms that have some product specialty (such as Alternative Investments).
Technology: the Broker-Dealer provides the technology and will approve any additional software that the advisor would like to use.	Technology: the advisor chooses.
Compliance: the Broker-Dealer is responsible for supervision along with the local business owner. Both are liable in the event of a complaint. OBAs must be approved by the B-D.	Compliance: the RIA is responsible for its own supervision. All OBAs and any potential conflicts of interest must be declared in the ADV.
Licensing: the Broker-Dealer maintains the advisors' licenses. Advisor is a "Registered Representative".	Licensing: the RIA maintains the advisors' licenses (Series 65/66). Advisor is an "Investor Advisor Representative" (IAR).

SIMILARITIES: IBD AND RIA

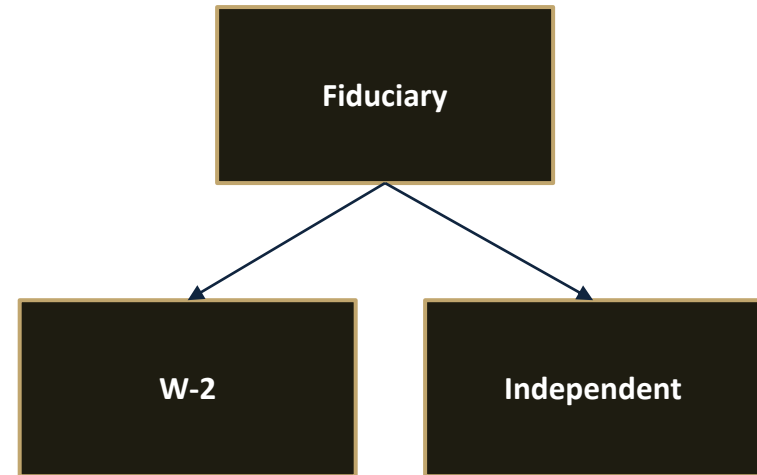


Independent Broker-Dealer	Independent Registered Investment Advisor
Legal entity: the firm is a separate legal entity from the Broker-Dealer. Not employees of the Broker-Dealer.	Legal entity: the firm is a separate legal entity from the Broker-Dealer. Not employees of the Custodian(s).
Outside Business Activities: must be declared to the Broker-Dealer and are listed with FINRA (public may view this information).	Outside Business Activities: must be declared in the firm's ADV and are listed with SEC/State (public may view this information).
Expenses: the firm is responsible for paying its own expenses including: trading/execution costs, real estate, staff salaries, benefits, equipment, and all other operating costs.	Expenses: the firm is responsible for paying its own expenses including: trading/execution costs, real estate, staff salaries, benefits, equipment, and all other operating costs.
A firm may have a relationship with a Broker-Dealer and have a separate custodial relationship (the B-D must approve) as opposed to placing all brokerage and advisory assets with the Broker-Dealer. The firm would have to file its own ADV with the SEC/State.	A firm may have a relationship with a Custodian(s) and have a relationship with a Broker-Dealer. These firms are typically called "Hybrids" and the Broker-Dealer relationship is usually a small portion of the firm's total business. The relationship is usually maintained for the client convenience and/or for access to products that are available only on a commission basis (such as insurance).

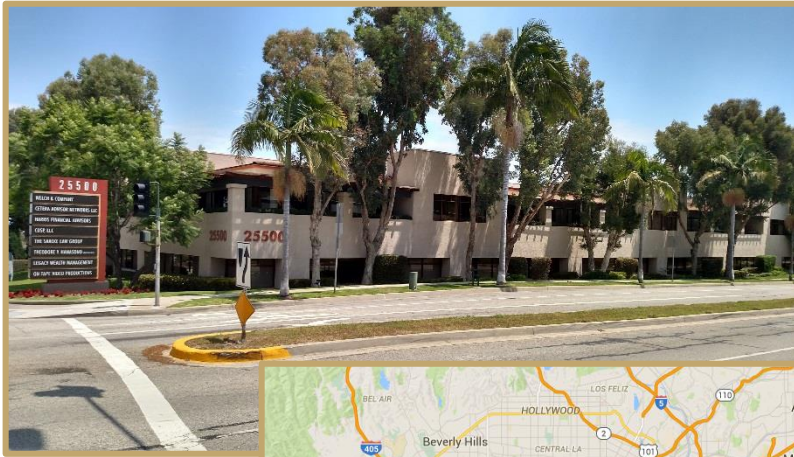
DECISION TREE: START WITH CLIENTS



- Easiest transition for asset mapping
- Products selected by B-D
- Pricing set by B-D
- Platform by B-D
- Shared compliance responsibilities
- Suitability determined by B-D
- Marketing and advertising more restrictive
- Outside business activities approvals required by B-D
- Advice on outside assets may be permitted



- Products selected by RIA
- Pricing set by RIA
- Platform at discretion of RIA
- Compliance responsibility of RIA
- Custodian NOT involved with suitability
- Marketing and advertising at discretion of RIA
- Services beyond investments
- Advice on assets not held long at custodian
- Outside business activities



Our offices are located at 25500 Hawthorne Boulevard in Torrance, California, just south of Pacific Coast Highway and only 13 miles from LAX.

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