

Working Smarter: Advantages of Independence

Working Smarter: Advantages of Independence

What is driving the tremendous growth in the independent broker/dealer channel and should you consider getting on board? While independence can provide advisors and their clients with many advantages, choosing the right business model for you involves careful consideration of the practical and emotional aspects that come with any career move. This guide will provide you with insight on the advantages of establishing an independent practice along with valuable information to help you determine the right practice affiliation, focus, and fee model for your business.

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Independence Dominates Industry Growth

According to the recent Tiburon Strategic Advisors Markets & Distribution Channels Research Report published in April 2011, the independent broker/dealer channel continues to lead the industry in attracting advisors seeking to break away from wirehouse, regional and other broker/dealer affiliations.

While corporate scandals, the aging Baby Boom generation, and consumer sentiment have led investors to demand unbiased advice and greater transparency in the management of their assets, an even more compelling reason may be responsible for the flight to independence. Industry data overwhelmingly points to increased productivity, profitability and satisfaction among independent advisors.

The Tiburon study reports that 4% of break-away brokers control 50% of the assets under management today and that break-away advisors produce higher revenues than the average financial advisor at \$1.2 million versus \$1.1 million.

One-third of today's break-away advisors choose independence.

TIBURON STRATEGIC ADVISORS

Markets and Distribution Channels
Research Report Series Key Findings:

Nearly all the growth in financial advisors is in the independent broker/dealer and bank channels

6,500 wirehouse brokers changed firms in 2009, up from 5,200 in 2008

12% of wirehouse brokers leave their firms for other firms or to start their own firms each year

Break-away brokers have higher assets under management than the average financial advisor at \$243 million versus \$231 million

Break-away brokers have higher revenues than the average financial advisor at \$1.2 million versus \$1.1 million

Break-away brokers have a higher three year growth rate than the average financial advisor at 42% versus 36%

Specifically, 4% of the break-away brokers control 50% of the assets

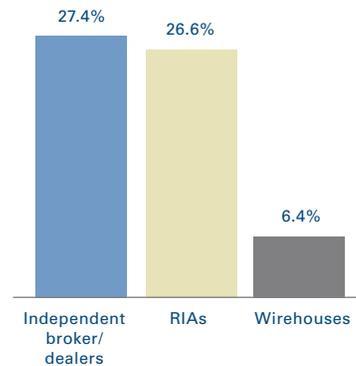
Source: 12/20/10 Investment News; 12/1/10 Financial Planning; 6/1/10 RIA Biz; 10/09 Registered Rep; 9/29/10 Registered Rep Email (Konig); 7/31/09 Securities Technology Monitor; 5/18/09 Inside Information; 5/13/09 Wealth Management Letter (Discovery); 11/19/07 Investment News (Moss Adams); Tiburon Research & Analysis

Why Are So Many Advisors Choosing Independence?

The independent channel continues to lead the industry in asset growth, number of new advisors, and earnings potential, according to industry sources cited below.

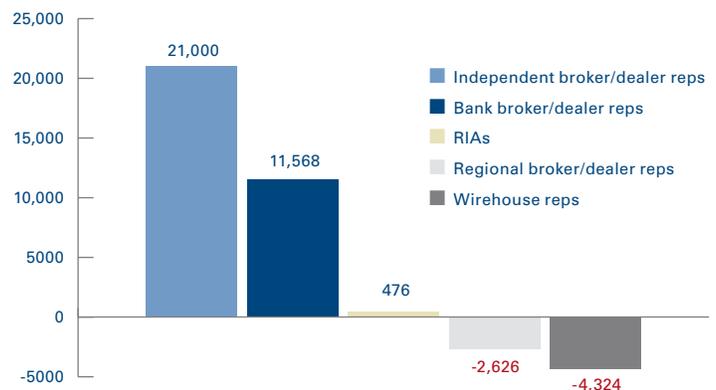
Data from Cerulli Associates indicates that 2009 was an especially difficult year for the wirehouse channel, with many advisors going independent and taking their clients' assets with them. According to Cerulli, every advisor channel except the wirehouses posted double-digit asset growth in 2009 versus 2008.

Independent Broker/Dealers Lead 2009 Asset Growth by Channel



Source: Cerulli Associates, Inc., 2010. The numbers reflect a combination of investment performance, the movement of assets from channel to channel by advisors switching jobs, and client investments and withdrawals.

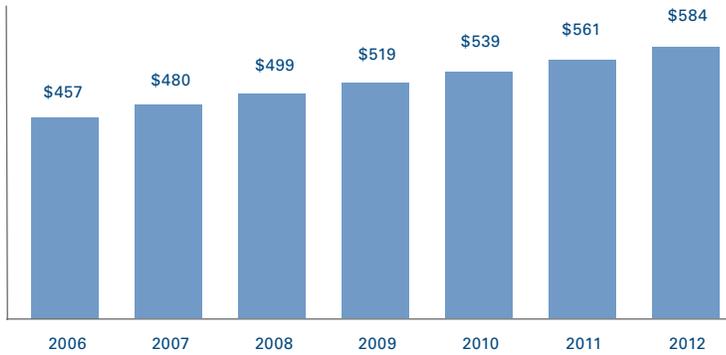
Nearly All the Growth in Financial Advisors is in the Independent Broker/Dealer and Bank Channels



Source: 9/1/10 RIA Biz (Cogent Research); Tiburon Research & Analysis

Independent Broker/Dealer Sales Reps Will Earn \$584 Million in 2012

Independent Broker/Dealer Sales Reps Net Income (\$ Millions)



Source: 1/27/11 RIA Biz; 1/26/11 Investment News; 1/11 Financial Planning; 12/27/10 Google News Alerts; 12/20/10 Investment News; 12/15/10 Investment News; 12/9/10 Wall Street Journal; 1/11/10 Google News Alerts; 5/13/09 Wealth Management Letter (Discovery); Tiburon Research & Analysis

Tiburon reports that break-away brokers also have higher assets under management than the average financial advisor at \$243 million versus \$231 million.

UNDERSTANDING THE FOUR PRIMARY FINANCIAL ADVISOR MODELS:

Independent – Independence offers the broadest choice in practice structure and broker/dealer affiliation. Some independent advisors affiliate with regional or national broker/dealers to leverage support, research, trading, compliance, and other professional services, allowing them to focus exclusively on client servicing and business development.

Others choose to create their own broker/dealer as a registered investment advisor (RIA) and either become a Hybrid RIA, maintaining all of their brokerage business and fee business, or decide to go fee only.

Wirehouse – Large, national retail advisor networks with access to investment banking services. The advisor is generally considered an employee.

Insurance – Previously focused on insurance, annuities, and benefits, insurance representatives are increasingly becoming licensed to sell securities and conduct comprehensive financial planning. The majority of insurance representatives are independent contractors.

Bank – Regional and national retail advisor networks offer bank lending and insured deposit services in addition to traditional brokerage services.

Putting Today's Advisor Marketplace in Perspective

Many advisors today have to contend with outside factors impacting their businesses, from having to explain financial instability and ethical concerns to clients, to worrying about the impact cost reductions or fee increases at the corporate level will have on the way they serve their clients and their bottom line. Repeatedly addressing these concerns takes valuable time away from the planning process and makes it difficult to attract new business.

Reliable back-office, technology, marketing and sales support are also critical to meeting client needs and production goals. Service has a direct impact on client retention, and the amount of support you receive also determines how much time you spend developing new business and client relationships. As an independent advisor, you are no longer saddled by decision makers obligated to focus first on corporate profits and preserving stockholder value. Instead, you call the shots, in line with your best interests and those of your clients.

Reasons for Leaving Previous Broker/Dealer*

Firm Reputation, Strategy, and Culture	12
Product, Technology, and Practice Management Offerings	7
Payout Rates and Fees	3

* Based on the number of mentions in individual financial firm conversion studies as reported by Tiburon Research & Analysis, April 2011.

Is Independence the Smart Move for You?

Independence offers many benefits, including the ability to define the way you want to manage your business. With the right broker/dealer you can do business in the way that makes the most sense for you—that achieves your financial goals, best leverages your skills, and represents the greatest opportunity for growth in your market. Just as important, being independent also allows you to serve your clients in the way you decide is best, with the advice, investments, and services that you determine are most appropriate.

Discover the Advantages of Independence

...for You:

- An investment platform free from proprietary products, quotas, and incentives
- A practice that lets you choose your area of interest and expertise
- Freedom to decide how to best service clients
- Choose what, how, and when to charge clients for services rendered
- Ability to build and market your own brand
- Freedom to build equity in your practice
- Ownership of your own business without the financial burden of establishing your own broker/dealer
- Access to business-building and succession-planning resources targeted to your specific needs

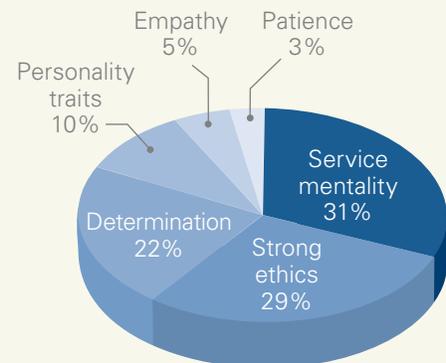
...and Your Clients:

- Greater confidence in objectivity and quality of advice received
- Enhanced services and technology
- More face time with and access to you; improved communication
- Fees in line with services rendered; greater fee transparency
- Elimination of ethical or financial concerns about firm or corporate parent
- Confidence in advisor's long-term commitment
- Cost-effective fees and appropriately priced services

WHAT DOES IT TAKE TO SUCCEED?

Independent reps believe that a service mentality, strong ethics, and determination are the most critical personality traits for success in the financial planning business, according to Tiburon Research & Analysis.

Most Critical Traits for a Successful Independent Practice



Source: Tiburon Research & Analysis

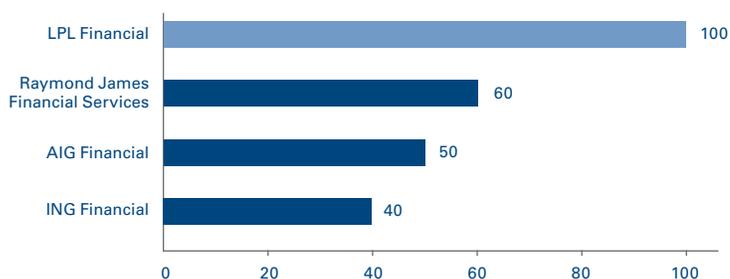
“LPL Financial affiliates expressed a high degree of satisfaction with how the LPL Financial payout rate, technology offerings and responsiveness of home office support staff contributed to their performance.”

Source: 2010 LPL Productivity & Profitability Report

Sizing Up Today’s Leading Independent Broker/Dealers

Choosing to establish your own independent practice can be enormously rewarding. However, there are real responsibilities that will reside with you as a business owner, including day-to-day office management and compliance responsibilities. Having a clear understanding of the capabilities of the broker/dealer you select, how they will support you and your business, and how they compare to other broker/dealers is critical to choosing the right resource for your business.

Independent Broker/Dealers by Assets Under Administration (\$ Billions)



Source: Tiburon Research & Analysis

Assessing Broker/Dealer Experience and Capabilities

A number of resources provide broker/dealer “snapshots” or “report cards” on an annual basis, including:

Investment Advisor www.investmentadvisor.com

Registered Rep www.registeredrep.com

Financial Advisor www.fa-mag.com

These magazines publish their broker/dealer survey results on their websites for easy access. Most provide a thorough and accurate comparison of all facets of the broker/dealer, from advisor statistics to revenue and fee income by source, payout structures, compliance and support staff, to ticket charges and E&O premiums.

It is important to review data from objective resources and to ask your own questions. No one knows better than you what works and does not work for you at your current firm. You want to ensure that a change in broker/dealer will not result in the recurrence of an existing sore point.

As you conduct your due diligence, ensure that your prospective broker/dealer has a track record of providing excellent service to independent advisors and the depth, size and scalability to support multiple business structures.

The LPL Financial *Advantage*

For decades, LPL Financial has helped thousands of financial advisors build and grow profitable, independent practices, establishing themselves as the premier providers of investment advice in the communities they serve.

LPL Financial is the leading independent broker/dealer in terms of the number of corporate office employees, with nearly three-to-nine times as many employees as the other top firms.* Simply put, the advantage to you is reliable, unparalleled service when and where you need it, which translates to greater productivity and profitability across your firm.

We even put these statements to the test in our 2010 LPL Productivity & Profitability Report. The study was initiated to help financial advisors determine the benefits of affiliating with an independent broker/dealer. The survey focused on the efficiencies and operating cost savings that advisors gain through their broker/dealer's support infrastructure.

The study results included in this guide represent only a portion of the feedback we received from LPL Financial affiliated advisors and non-affiliated advisors as they pertain to productivity, profitability, service, business growth and other important areas. Additional information can be obtained by visiting www.joinlpl.com, or contacting an LPL Financial representative at (888) 250-2420.

As an LPL Financial advisor, you receive all the benefits of autonomy—the ability to pursue your own business strategy; you own your client relationships and your brand; and you manage your practice as you see fit.

We understand what it takes to help financial advisors succeed, and we have structured our entire organization to provide you with those resources. With LPL Financial, you have all the benefits of independence, plus the support of a committed partner.

Source: Tiburon Strategic Advisors, Markets & Distribution Channels Research Report, April 2011

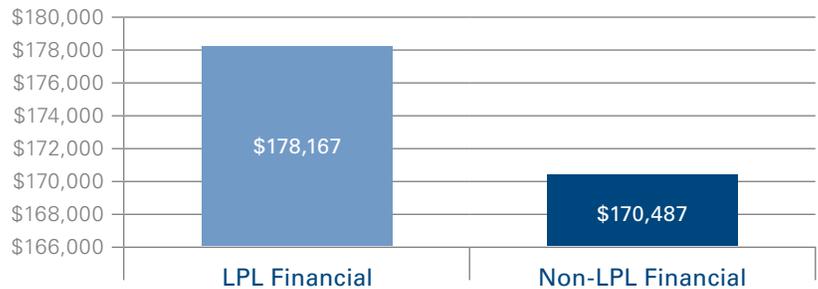
“In addition to overall profitability, LPL Financial advisors have more productive assets, as indicated in not only the profit per client comparison but also in overall return on assets (ROA).”

Source: 2010 LPL Productivity & Profitability Report

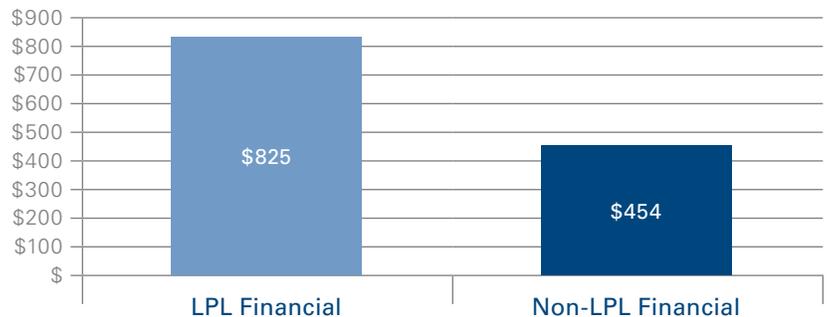
Advantage | Profitability

LPL Financial affiliated practices show an overall higher profitability than their broker/dealer peers, as pretax profit per owner averaged \$178,167 for LPL Financial versus \$170,487 for non-affiliated advisors. On a per client basis, profit* earned by LPL Financial affiliates also exceeded profits earned by peers. While the average profit per client for LPL Financial affiliates was \$825, non-affiliates realized significantly less, at \$454 in profit per client.

Profit per Owner



Profit per Client

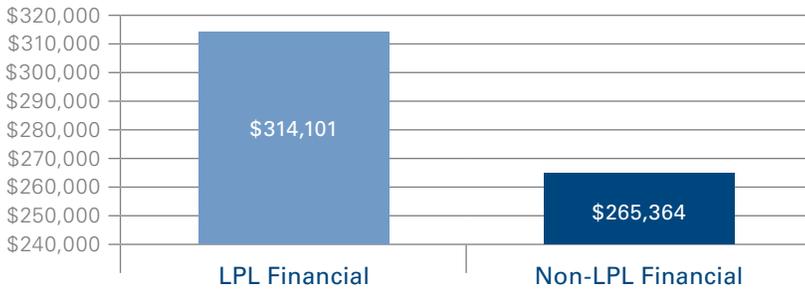


Source: 2010 LPL Productivity & Profitability Report

However, because many practice owners compensate themselves through profit distribution rather than salary, a more meaningful profitability comparison is pretax income per owner adding back owners' draws and base compensation. This method yields a more accurate measure of how much the owners earn.

* Profit defined as pretax net profit, including owners' draws and base compensation.

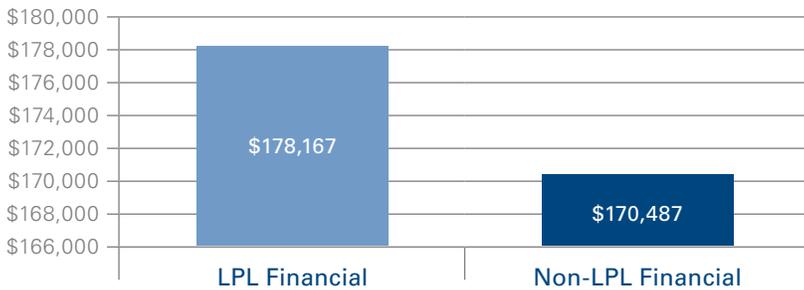
Revenue per Rep



Source: 2010 LPL Productivity & Profitability Report

In addition to overall profitability, LPL Financial advisors have more productive assets, as indicated by not only the profit per client comparison but also in overall return on assets (ROA). LPL Financial affiliates have an average ROA of 91 basis points, compared to 64 basis points for non-affiliates.

ROA (basis points)



Source: 2010 LPL Productivity & Profitability Report

“Specific areas in which LPL Financial advisors spend significantly less in overhead include advertising, public relations and marketing costs; employee benefits; travel and entertainment costs; office expenses and other discretionary non-business expenses.”

Source: 2010 LPL Productivity & Profitability Report

LPL Financial Advisors Report Lower Direct Expenses

Direct expenses cover the costs associated with compensating professionals of the firm, or owners and non-owners who are directly engaged in providing advice to clients. According to the 2010 LPL Productivity & Profitability Report, on average, LPL Financial affiliates spend less of their revenue compensating professionals, at 12% compared to 22% for non-affiliates.

The report also indicated that part of the LPL Financial advisor’s lower direct expenses is attributable to the lower percentage of revenue spent on non-professionals, at 11% versus 13% for non-affiliate practices. The fact that LPL Financial advisors have lower professional compensation as a percent of revenue indicates that professional productivity is higher, allowing the practice to obtain the same or greater output utilizing a smaller number of professionals.

Advantage | Business Growth

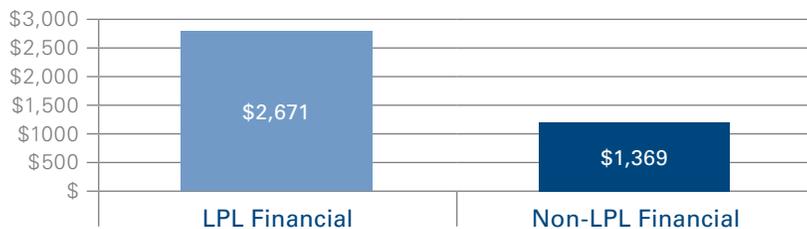
The 2010 LPL Productivity & Profitability Report revealed that despite the economic environment, LPL Financial advisors reported growth in their AUM value in 2009, with an average increase of over \$20 million. Of the advisors who realized growth in AUM value, those in the industry between 20 and 30 years witnessed the greatest increase, relative to their less experienced peers.

Consistent with AUM growth, LPL Financial advisors witnessed an increase in the number of clients they served during 2009, up on average by 4%, whereas non-affiliated advisors realized an increase of only 2%. Advisors in the industry between 10 and 20 years noticed the greatest increase in their client base and also performed best in retaining their existing clients. Further, LPL Financial practices earned higher average revenue per client relative to peers, at \$2,671 compared to \$1,369 for non-affiliates.

“LPL Financial practices earned higher average revenue per client relative to peers, at \$2,671 compared to \$1,369 for non-affiliates.”

Source: 2010 LPL Productivity & Profitability Report

Revenue per Client



Source: 2010 LPL Productivity & Profitability Report

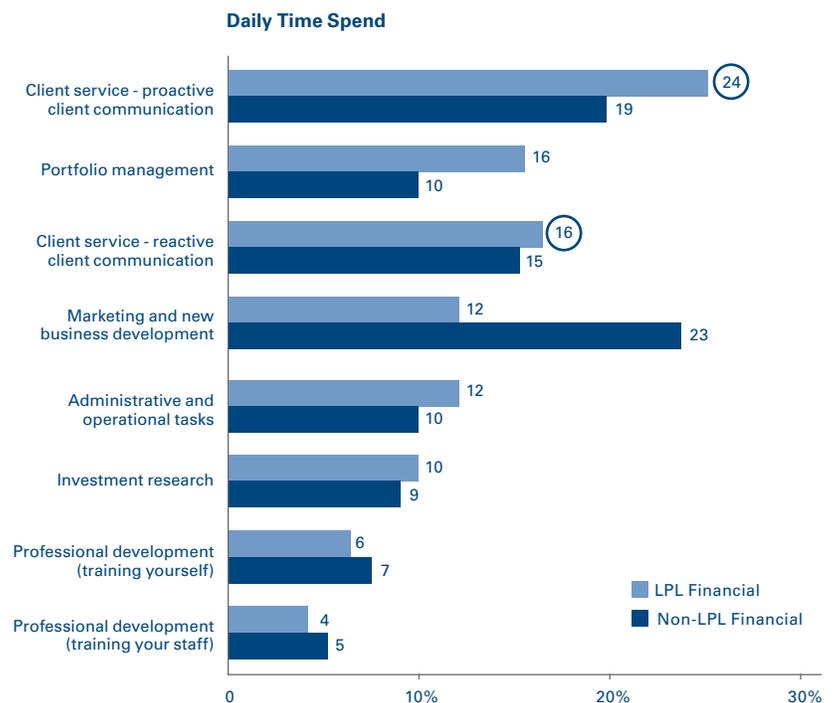
Advantage | Productivity

“Through reliance on LPL Financial tools and capabilities, affiliates are able to operate independently, focusing on client relationships and building the business.”

Source: 2010 LPL Productivity & Profitability Report

Business Activities

Measures of how productive a business operates take into consideration how effectively the firm uses technology, operational infrastructure and training to leverage the existing skills and talents of their employees. In terms of time spend, LPL Financial affiliates spend most of their day on client-service related activities. Their peer group, however, reports spending more time on marketing and new business development.



Source: 2010 LPL Productivity & Profitability Report

As expected, those in the industry less than 10 years dedicate more time to new business development and self-training, whereas more established practices spend more of their time maintaining and strengthening client relationships. Overall, higher revenue businesses spend a greater amount of time on business development and client communication.

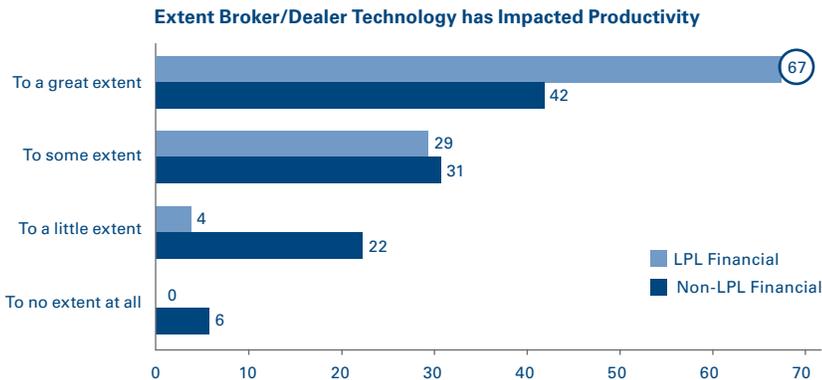


Advantage | Technology

A trend evidenced across the industry is that technology drives satisfaction and performance, in that it improves operational efficiency allowing the business to focus on maintaining performance and continuing to grow. Both interviews with LPL Financial advisors and survey results indicate that advisors highly value LPL Financial technology and rely on this as a means of streamlining operational processes.

LPL Financial advisors derive a high degree of operational leverage from their relationship with LPL Financial, which can help them generate strong profits while maintaining operational processes and standards. Affiliates rely on the LPL Financial platform and tools to minimize manual processes and increase efficiency.

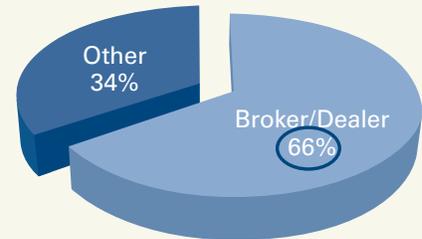
The high use of broker/dealer provided technology could be attributed to its perceived utility, as 67% of LPL Financial affiliates indicated that access to this technology has impacted their productivity to a great extent. In contrast, just 42% of non-affiliates indicated their productivity is impacted by technology provided by their broker/dealer, which appears to be a factor in their lower reliance on this technology to perform day to day operations.



Source: 2010 LPL Productivity & Profitability Report

During interviews with LPL Financial advisors, it was evident that affiliated advisors place a higher value on the improved LPL Financial research tools, as they have become clear drivers of increased productivity and profitability. Additionally, users of the WealthVisionSM platform expressed high levels of satisfaction with the tool, as it provides the advisor a concise and informative snapshot of individual client accounts on a daily basis. LPL Financial advisors also indicated that compliance alerts are helpful in allowing advisors to easily monitor account activity.

LPL Financial Affiliates' Percent of Daily Operations Accomplished by Broker/Dealer Provided Technology



Technology Solutions Independent Advisors Use Most

	LPL Financial	Non-LPL Financial
Advisor Website	90%	61%
Online Account Access for Clients	90%	42%
Contact Management Software	87%	61%
Performance Reporting Tool	83%	45%
Financial Planning Software	80%	71%
Accounting System	72%	37%
Client Presentation Tools	71%	55%
Advisor Workstation (i.e. for trades, account opening, account maintenance)	67%	53%
Asset Allocation Tool	65%	66%
Online Research Reports	60%	45%

Source: 2010 LPL Productivity & Profitability Report

Service has a direct impact on client retention, and the amount of support you receive also determines how much time you spend developing new business and client relationships.

SERVICE360 FEATURES

Dedicated service from a small team who takes exclusive ownership of your service needs

The opportunity to establish close working relationships with your **Service360** team members

A single number to call for all issues and a simplified phone menu

Quicker, more direct processing of operational requests

A single point-of-contact from start to finish, including issue resolution and follow-up

The AskOnce Promise: our pledge to deliver your ultimate service satisfaction

Advantage | Responsive Service

Because financial advisors are the center of our business, we have structured our entire organization around meeting your needs. Our service center is committed to answering 90% or more of advisor questions on the first call, and our training team will help you make the most of our platforms and capabilities.

You can directly contact knowledgeable service representatives in various support areas, including brokerage, advisory, retirement, direct business, compliance, order fulfillment and research, and technical support.

Our service center representatives extensive industry knowledge helps them address issues and answer questions quickly and accurately, allowing you to serve your clients more effectively. And we constantly monitor service to improve quality.

Service360

Service360 is the powerful, team-based solution that is raising the bar for service in the financial services industry. Focused on the factors that matter most to advisors—accuracy, consistency, timeliness—and delivered in the manner most preferred by advisors—personally, from a single point of contact—**Service360** represents another innovation that has helped LPL Financial maintain its position as the nation's top independent broker/dealer.*

Industry-High Satisfaction Levels

LPL Financial advisors rank service delivery highest among other factors, including client services, processes and assistance. Service delivery is defined as responsiveness of home office support staff, fees charged and payout rate. Attributes that are valued as important to the advisor experience include not only home office support staff responsiveness, but also investment research, compliance, asset management services and mutual fund selection.

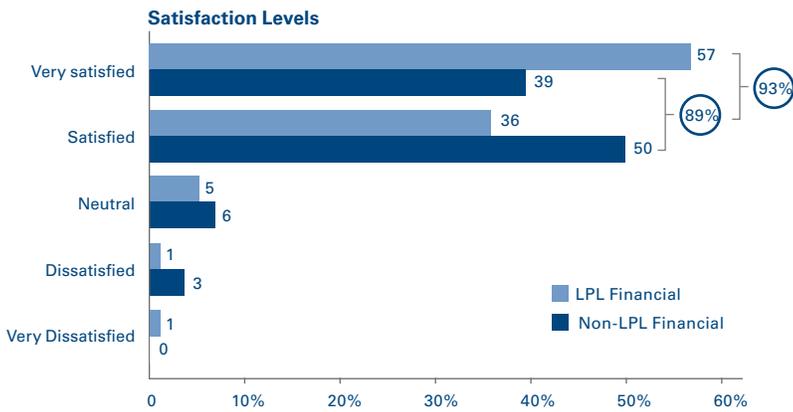
LPL Financial advisors are able to leverage LPL Financial to provide many of the roles larger practices perform internally, particularly around the development of financial and estate plans for clients, trust services, analysis on investment options available, monitoring of compliance activities and production of quarterly and annual statements. Through this reliance on LPL Financial tools and capabilities, affiliates are able to operate independently, focusing on client relationships and building the business.

*As reported in *Financial Planning* magazine, June 1996 – 2010, based on total revenue.

The strength of the relationship between advisors and their broker/dealer is a clear factor that drives advisor performance. Approximately 84% of LPL Financial advisors recommended LPL Financial to a peer within the last year, relative to 65% among non-affiliated advisors. Satisfaction levels among LPL Financial affiliates participating in the 2010 LPL Productivity & Profitability Report were high, with over 90% stating they are very satisfied or satisfied with LPL Financial.

“Affiliates place a great deal of importance on the notion of ‘advisor independence,’ which they believe is LPL Financial’s strongest point relative to other broker/dealers.”

Source: 2010 LPL Productivity & Profitability Report



Source: 2010 LPL Productivity & Profitability Report

Advantage | Flexibility

The LPL Financial universal platform supports any practice model

LPL Financial delivers all the benefits of independence to you with a universal platform designed for any business model—commission-based or fee-based, under your own RIA or our corporate RIA. This helps make it easy and profitable to build your business your way and provides flexibility as your business grows and evolves.

The LPL Financial universal platform supports any practice model.

	Registered Representative	Investment Advisor Representative	Hybrid RIA	RIA
Revenue	Commissions	Fees and commissions	Fees and commissions	Fees
Services	Securities transactions (e.g., stocks, bonds, mutual funds, annuities)	Advisory services (through LPL Financial advisory programs) and securities transactions	Advisory services and securities transactions	Advisory services
Registration	FINRA	FINRA (advisory services provided under LPL Financial SEC registration)	Dual registration (FINRA and SEC)	SEC or State

Ready, Set, Go...

Ten Steps to Independence

This checklist will help you capture and track the key milestones in your journey toward independence.

1. Determine a practice structure; focus and review your current contract with your attorney to avoid any unexpected circumstances or delays.
2. Develop a basic business plan outlining your goals and objectives; some broker/dealers are equipped to assist you with this process.
3. Conduct in-depth interviews with independent broker/dealers firms to narrow down broker/dealers options and determine who can best support your practice structure of choice.
4. Take the time to speak with or interview advisor references at the top two or three firms under consideration to obtain a realistic view of their experiences.
5. Complete any negotiations with the broker/dealers you've selected and begin the transition planning process.
6. Notify your current firm that you are leaving; if your firm permits, notify clients that you are leaving the firm.
7. Approve the detailed transition plan developed in conjunction with your new broker/dealers. (Make sure the plan reflects your needs and is focused on you, not simply the needs of your new broker/dealers, as this is a good indication of how the broker/dealers will or will not cater to advisor needs on an ongoing basis.)
8. Choose a name and location for your new office; complete space negotiations or engage a commercial real estate agent to handle.
9. Interview and begin hiring staff.
10. Select and purchase furniture, office equipment and supplies; approve artwork for business cards, stationery, and signage.

And one more important detail—don't forget to mail invitations to the grand opening celebration at your new office!

For more information about the advantages of choosing independence, visit www.joinlpl.com, or simply contact an LPL Financial representative at (888) 250-2420.

A History of Commitment to the Independent Advisor

LPL Financial brings decades of industry leadership and innovation to serving the growing needs of the financial advisor and broker/dealer communities. We are committed to being the premier independent broker/dealer in the country*. This goal drives every decision we make, from the hiring of talented and experienced staff, to our investments in technology, communications and sales support.

*As reported in *Financial Planning* magazine, June 1996 – 2010, based on total revenue.

We are proud of the significant business growth we have achieved as an organization and of the resulting sound support we are able to provide our advisors.

Member FINRA/SIPC

www.joinlpl.com