Institutional Insights

Build your own tech stack one step at a time

A simplified approach for advisors starting their own firms to get the tech they need, when they need it, and evolve as they grow

Inside

- Small steps can break inertia
- What you need and when
- Considerations in selection
- Summary thoughts

KEY TAKEAWAYS

- **Don't let tech hold you back:** A simplified approach eases concerns that can otherwise keep advisors from following their preference to start their own firm.
- **Capabilities to prioritize across three phases:** We've provided a high-level plan that shows which solutions a new firm needs, as well as when they need them.
- **Qualities and features to look for:** Certain screening criteria can help advisors to select individual solutions that work well with this approach.

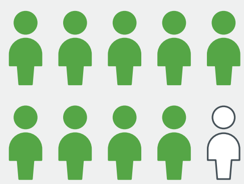
Tech in Action: This article is the first in a new series of thought leadership focused on addressing specific technology challenges that wealth management firms face.

This article is derived from the insights of our technology consulting team, based on their work with advisors considering starting their own firms.

Small steps can break inertia

The rise of independent and hybrid RIAs is a well-established trend in wealth management. The growth of these channels—by assets and advisors—has outpaced all others in recent years.[1] Yet, the growth of these independent channels would likely be even higher if advisors felt that the path to independence was easier to follow.

Indeed, while 7 in 10 advisors prefer these types of independent affiliations, most don't have one. In addition, almost all employee advisors with a preference for independence have concerns about making such a move, including nearly 9 in 10 who are concerned about the quality of available technology.[1]



9 in 10

employee advisors who prefer independence are concerned about the quality of technology that would be available to them if they were to start their own firm.[1]

Source: Cerulli Associates

This data is in line with our experience working with advisors on the path to independence. The perception that building a new tech stack is too complex or time-consuming can keep them from moving forward. Fortunately, we've seen that a simplified approach that focuses on the tech a firm needs, when they need it, can dispel that misperception.

In fact, building a tech stack for a new firm can be easier than it seems, for two reasons:

- First, with technology providers in this space generally charging fees based on number of users or assets, new firm leaders don't need to worry too much about the affordability of different solutions.
- Second, by breaking the process up into smaller steps or phases, advisors can conserve their time, prioritize the capabilities they really need, and evolve their technology to match their evolving needs.

Taking this approach, three distinct phases of this journey to independence take shape:

- Phase 1: Building the foundation
- Phase 2: Enabling investments and advice
- Phase 3: Prioritizing client service

What you need and when

Now, let's take a closer look at this journey and the timing needed for each technology building block, relative to the date the advisor plans to break from their current firm.

A rough timeline to establish a core tech stack for your new firm.

PHASE 1

Foundation
6+ months before break

- Managed service provider
- Email compliance
- CRM system

PHASE 2

Investments and advice
By the break

- Portfolio management
- Trading and rebalancing
- Financial planning

PHASE 3

Service
Initial months following break

- Client portal
- Non-custody account aggregation
- Document management

Phase 1: Foundation

For many advisors on this journey, this first phase leading up to the break may last for 6 months or more. It's a time to set up basic infrastructure and enable communication.

Managed IT services provider (MSP)
Provides IT infrastructure and end user systems.

RELEVANCE

Needed to set up office network, to get access to common applications like email, and for cybersecurity controls.

TIMING

Vendor should be evaluated and selected early to ensure that they are in place by the break date, and to allow time to procure necessary devices.

Electronic communications compliance
Monitors and archives emails and other electronic communications.

RELEVANCE

Email, social media, and any other electronic communications need to be monitored and archived for compliance purposes.

TIMING

Vendor should be evaluated and selected early enough to be in place by the time firm email systems are up and running.

Customer relationship management (CRM)
A CRM tool allows advisors to capture and reference client information.

RELEVANCE

CRM is needed to ensure that all pertinent client information is captured, to enable advisor success and a better service experience.

TIMING

Vendor should be evaluated and selected prior to the break to ensure that all information is properly captured and to create any needed workflows in the system.

Evaluating and selecting these foundational tools early will free up time for more in-depth evaluations of the solutions in the second phase.

Phase 2: Investments and advice

This second phase is focused on establishing core investment management and advisory capabilities. As such, it should be completed by the break, before accounts transfer.

Portfolio management

Aggregates, reconciles, and calculates performance for reporting and client billing.

RELEVANCE

Calculating and reporting client performance and establishing client billing are essential capabilities that advisors need in place before they receive client assets.

TIMING

If the firm is able to convert existing client data, a solution may be needed early. However, for many, account data will not show up until accounts are established at the new custodian and assets are transferred. A solution should be selected before the break and fully implemented close to break date.

Trading and rebalancing

Enables trade execution in client accounts, across a wide range of strategies.

RELEVANCE

Specialized solutions are needed to execute trades in support of a variety of use cases, like tax loss harvesting and model/UMA management. Keep in mind: some portfolio management solutions also offer these trading capabilities.

TIMING

Given the potential overlap with portfolio management solutions, trading solutions can be evaluated at the same time. While trading will not start until accounts and assets have transferred to the new custodian, firms should evaluate solutions before the break and have one in place at or near the break date.

Financial planning

Enables an advisor to create, monitor, and deliver financial plans for clients.

RELEVANCE

More and more advisors are providing services beyond investment management, including retirement and goal planning. Financial planning tools help advisors to formulate and deliver those offerings.

TIMING

Similar to portfolio management, firms may not be able to convert existing financial plans and will need to recreate them. Recreation of those plans does not typically take place before the break. Firms can evaluate and select a tool, but they won't need to have it in place ahead of time.

These tools are typically in place by the break date. However, as accounts transfer and data starts to flow, more attention is needed to finish setting up client reporting, billing, and trading.

Phase 3: Service

During the initial months following a break, some advisors prefer to add more tech capabilities to their core. However, all should consider prioritizing several solutions that are critical to serving clients.

Client portal
Advisor-provided web portal, allowing clients to see performance and reports.

RELEVANCE

While custodians provide client portals, advisors should plan on having their own as well, to allow them to better tell their story and serve their clients.

TIMING

Client portals may be available through portfolio management or financial planning tools and could be evaluated at the same time. However, portals may not be needed until after the break, after assets have transferred.

Non-custody account aggregation
Aggregation of information for accounts managed by the advisor.

RELEVANCE

This information provides advisors and clients with a holistic view of client assets for reporting and planning purposes. May include 401K/403b, bank, and other accounts.

TIMING

Non-custody account aggregation often occurs through a client portal, portfolio management, or financial planning solution. For that reason, while this capability is not needed until after the break, it should be considered alongside those solutions.

Document management
File storage system that is compliant with "write once, read many" (WORM) requirements.

RELEVANCE

Firms need an effective solution to store and recall client and firm documents, according to regulatory requirements.

TIMING

Early in this journey, either a CRM or an MSP can provide compliant file storage capabilities. However, as a firm grows and expands, firm leaders should consider a dedicated document management solution.

Considerations in selection

There are some considerations that advisors should keep in mind when selecting individual solutions, to help them successfully execute this kind of a phased approach:

1. You don't necessarily have to decide between turnkey and custom solutions. Many solutions offer both strong functionality out-of-the-box and customization options that allow new firms to evolve their capabilities as their needs change.
2. Keep in mind that you may not know your current technology as well as you think. Often, the capabilities that an advisor associates with a specific solution are based on experience using an instance of the software that was customized for their firm. The base capabilities of those solutions can differ quite a bit.
3. There's a wealth of tools available to create custom integrations between solutions, but that doesn't mean you need to use them on day one. Deploying a custom integration can take six to eight months or more, along with a substantial investment. Alternatively, many applications today have built-in integrations with other solutions.
4. Consider vendors that are innovating and investing in their solutions. Technology continues to evolve at a rapid pace, and you don't want to have to change vendors to access each new feature. Request and review product roadmaps to understand plans and priorities.
5. Keep a running list of nice-to-have solutions and integrations. While our foundational approach covers the essentials, each firm's journey offers opportunities to make fruitful investments in additional technology capabilities. Just remember: you may also be able to better use the solutions that you already have!

Summary thoughts

The approach outlined in this article is intended to establish a strong core tech stack that advisors can rely and build upon. Some firms may opt to add to this core out of the gate, but the categories and best practices covered are equally applicable for all new firms. By taking a phased approach and filling technology needs as they arise, advisors starting new firms can construct a reliable and flexible core tech stack without spending all of their time in the process. That leaves these advisors free to focus their attention where it is most impactful in this time of transition: on their clients.

For additional information about setting up your own firm, please call us at 800-735-3756 or visit i.fidelity.com/goingindependent. For additional information about managing your firm's technology, please visit i.fidelity.com/digitalempowerment.

Endnotes

[1] US Broker-Dealer Marketplace Report, Cerulli Associates, 2022

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