'Chances are slim to none': Small RIAs may struggle to join referral programs

By Ian Wenik for Citywire

The high thresholds and extensive resources needed to access and benefit from custodial referral programs make them increasingly unobtainable for smaller RIAs.

For smaller RIAs, winning access to lucrative custodial referral programs has historically been about as easy as getting upgraded from basic economy to first class on a United flight.

And it's only set to get more difficult.

The barriers to entry may be getting too high for some advice businesses to even view a spot in Charles Schwab's Schwab Advisor Network (SAN) or Fidelity's Fidelity Wealth Advisor Solutions (WAS) program as an aspirational goal.

Both Schwab Advisor Network and Fidelity Wealth Advisor Solutions operate on the same principle: The brokerage arms of the custodians send out customers to their RIA clients in exchange for a basis point-based referral fee that the RIA pays in perpetuity. Billions of dollars worth of client assets flow through these programs annually.

But the number of RIAs granted access to either club is shrinking. A recent count of RIAs participating in WAS listed just 75 members, down from 84 in December 2020. SAN has 175 members but recently excised 123 RIAs from its prospective ranks as part of the program's combination with TD Ameritrade's old RIA referral program, AdvisorDirect.

'If you're not in [a referral program] right now, I think in most cases, what you're likely to run into is essentially a waiting list,' said Brandon Kawal, a principal at RIA consulting firm Advisor Growth Strategies. 'It's a pretty exclusive club right now in those networks. I'm not super optimistic for the majority of RIAs that you can get in.'

Both programs have strict metrics RIAs must meet to even merit consideration. Fidelity won't consider RIAs for WAS unless they have at least $500m in assets, while Schwab requires that SAN RIAs have at least $250m in assets and five years of experience as an independent firm, effectively shutting the door on recent breakaways.

No free lunch

Advisory firms lucky enough to participate in both programs emphasize that WAS and SAN are anything but a source of passive client flows through which RIAs can just sit back and enjoy the custodians' largesse.

'If organizations are not prepared to dedicate not just advisors, but dedicated client development resources to these programs, we do not believe they will be effective,' said Buckingham Wealth Partners chief executive Adam Birenbaum, whose RIA is a member of both WAS and SAN.

Buckingham, which oversees $60bn in assets through its in-house RIA and turnkey asset management program, has three full-time employees maintaining relationships between its advisors and Schwab/Fidelity branch office staffers near the company's 43 offices.

While any RIA who joins WAS is automatically made an option at any Fidelity branch nationwide, an RIA in SAN is part of a more provincial program, which emphasizes relationship-building with Schwab branch offices in their region. Schwab is planning to reorganize its branch offices as it integrates staffers from legacy TD Ameritrade branches, which will lead to office closures, layoffs, and possibly upheaval in those relationships.

Working those relationships takes a level of manpower that is beyond most RIAs.

At Akron, Ohio-based Sequoia Financial Group, which manages about $7.3bn, roughly 25 of the company's 110 staffers have their job responsibilities touch the referral networks in some way. The RIA joined SAN in 2013 and made its way into WAS in 2019 after navigating a year of due diligence.

'I think scale is critically important in these programs, as well as others,' said Tom Haught, Sequoia's chief executive. 'You really get out of these programs what you put into them, and it requires investment. It requires deeply engaging with both of these programs and understanding what they want, what their advisors want, what the end client wants, and making sure you're building advisors for those programs.'

Haught estimated that both WAS and SAN generate seven figures of new business for Sequoia, making the juice worth the squeeze.

Trust the algo

Smaller RIAs hoping for a third-party source of client referrals that is less resource-intensive may eye some of the algorithmically-based startups that seek to match prospective clients with advisors suited to their financial needs via a targeted search.

Two startups – SmartAsset and Zoe Financial – have attracted serious venture capital money based on this idea: SmartAsset raised $28m in Series C funding in 2018, while Zoe Financial successfully wooed SoftBank as part of a $10m Series A funding round it closed in May.

'It's cold searching,' said Al Kantra, Sequoia's senior vice president of private client services. 'The quality of the referrals, when they've not been stewarded by an advisor to us, will be lower.'

But some prominent firms have been willing to cast their lot with algorithmically generated referrals. Buckingham revealed in February that it had signed up to join Zoe Financial.

'I think these things are early in their evolution, but we particularly believe that organizations like Zoe and SmartAsset are onto something,' Buckingham's Birenbaum said.

Small RIAs that want to consistently generate client referrals may ultimately want to look inward. Working spheres of influence and winning over existing clients' families and friends remain tried-and-true methods for growing an advisor's book of business.

'If I'm not in those [custodial] programs, the chances of me getting in are very, very slim to none,' said Tim Welsh, a former Schwab executive who now runs his own consulting business, Nexus Strategy. 'I would really focus on my own marketing and branding, my own growth engine, and just say, "that's just not the channel for me."'