
Advent[®] Software

Going Independent: A Technology Survival Guide

How to Evaluate and Select
the Right Software for Your New Firm

By Advent Software



Innovative ■ Responsive ■ Reliable

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The desire to be one's own boss is deeply rooted in the free enterprise system—and especially so in the investment advisory profession. As in other professions such as law or accounting, the investment business often depends more on the strength of interpersonal relationships than on institutional brand names. At one time or another, every advisor at a large firm has probably entertained the notion that he or she could serve clients better, get more satisfaction, and make more money as an independent.

The urge for independence appears to be even stronger in the wake of recent market upheavals. Amidst mergers, buyouts, business closures, and changing fee structures, experts estimate that one in four employed advisors is considering going independent.* And industry analysts predict that up to 15 percent of US advisors will leave their current jobs in the next 18 months, creating hundreds of new advisory firms.

Independence has its rewards, but it also poses some challenges and big decisions. You need legal and accounting advice. You need to choose a custodian and brokers. And, of course, you need clients. Some of the biggest and most daunting decisions, however, revolve around choices regarding your technology platform:

- What kinds of systems will you need?
- Should you build or buy?
- Are installed or outsourced solutions best for you?
- How do you compare and evaluate the various offerings on the market and their providers?
- What is essential, what is “nice to have,” and what can you do without?

Adding to the magnitude of the technology decision is the cost. Technology can be a significant investment, especially for a start-up firm, and an ill-advised decision carries high risk. Complexity is another concern. Most investment professionals are not IT experts, and do not want to be.

Yet some degree of automation is essential if a new firm is to compete with more established players, and the foundation needs to be in place when the firm opens its doors. This guide is intended to help advisors who are considering going independent or who have already struck out on their own to better understand and navigate their technology options. Above all, technology should not be burden or distraction from your business—on the contrary, it should empower you to do what you do best in order to succeed.

Your Declaration of Independence

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*Aite Group survey of 201 financial advisors, August 2008.

Matching Technology to Your Business Priorities

Technology choices should be driven by business priorities, not the other way around. Before looking at different systems and deployment options, think about your overall business strategy and what role you expect technology to play. Based on the experience of successful independent advisors, the priorities driving technology decisions would include:

- **Maximizing time spent with clients and cultivating new business.** Successful advisors agree that the majority of time should be spent on client-facing activity—not on operational, back office, or IT system issues.
- **Getting up and running quickly.** You need a technology platform that can be implemented quickly and that is sufficiently straightforward to start using immediately.
- **Providing professional quality, compliant, credible reporting.** The quality of a firm's reports is a key determinant of client confidence. An independent firm needs reporting capabilities that meet or exceed the standards of large, established firms.
- **Maintaining and growing the client and asset base.** Besides allowing you to spend more time on clients and their portfolios, a system should have the flexibility to accommodate new accounts and assets as your business grows.
- **Being competitive right from the start.** A newly independent firm must be able to demonstrate that it can do anything that established firms can—with the added benefit of delivering more personalized service that larger firms cannot match.

A Platform You Can Build Upon

Most independent advisors gained their experience and honed their skills at larger, more established firms or wire houses. In their previous jobs, they were accustomed to having advanced technology at their fingertips: systems for portfolio accounting, reporting, and account reconciliation; systems for communicating with the trading desk; tools for evaluating investment decisions and calculating performance; CRM systems for keeping in contact with clients. And if any of these systems weren't working correctly, there was usually a "techie" around to troubleshoot.

Striking out on their own, newly independent advisors must decide how much of this functionality they need to sustain the caliber of service to which their clients have become accustomed. The natural impulse is to limit the initial investment to that which is truly mission critical. At the same time, you need to

think beyond your immediate needs and envision where you want your business to go over the longer term. Start with a solution that can be scaled as you grow, rather than technology that has to be replaced as your business and functional requirements expand.

Another factor in the decision is the intended scope and style of the advisor's business. A firm that intends to focus on a fairly narrow mandate—for example, US value equities—will have less complex needs than a firm that plans to invest in global markets or include alternative assets in its portfolios. A firm that is actively trading in pursuit of Alpha or transient inefficiencies in the market may need more sophisticated systems than one that is passively tracking indices.

Some advisors want to keep it small and simple—no employees to worry about and no more clients than they can adequately service personally. Others envision building a team and gaining the benefits of scale. Defining your personal ambitions and your vision for your firm will help identify the technology solutions necessary for achieving them.

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In recent years technology and automation have come to play an important role in virtually every phase of the investment process and advisory operations. What follows is a discussion of each of the key functional areas in an investment operation and the options within each.

A Range of Technology Options

Portfolio Management: Installed or Outsourced

As the core of any advisory business, portfolio management systems have evolved from basic accounting engines to robust solutions that support a wide range of asset classes and incorporate decision support and analytical functionality. Today's most advanced systems allow managers immediate access to real-time portfolio data, as well as a variety of views for analyzing positions and performance to make timely, informed investment decisions.

The key question for an independent RIA firm is whether to have such a system installed onsite or to access its capabilities through a hosted online version. For larger firms with multiple users and in-house operational support, the size and scale of the firm's business may warrant the installation and maintenance of an onsite system. For firms just starting out, as well as established firms that don't want to maintain their own IT department, outsourcing of the portfolio management system is an increasingly viable option.

Today's best outsourcing solutions offer all the functionality of their installed counterparts. The advantage is that the solution provider takes care of all system maintenance, upgrades, and

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troubleshooting, reducing the need for internal IT support. If the system goes down, you call the provider to take care of it, not an IT consultant who bills by the hour. The upfront investment can be considerably lower as well.

Again, however, firms choosing the outsource option should bear their future needs in mind. The solution chosen should offer:

- Sufficient scalability to accommodate growth in accounts and assets, virtually indefinitely, without the need to hire additional managers or support staff.
- A clear migration path to an onsite solution should the firm’s growth eventually warrant it.

So, the best course of action is to choose a provider that offers both the outsourced and the installed alternatives.

A few large broker-dealer organizations offer access to a hosted portfolio management solution as part of an independent advisors’ “platform,” a turnkey bundle of services including brokerage, custody, and reconciliation. Such platforms appeal to small (one- or two-person) advisory firms with focused mandates, providing them with a one-stop-shop for operational support. The tradeoffs, however, include limitations on flexibility and a locked-in relationship with a single broker for trading and custody.

Things to Consider

- Do you need real-time or daily market data feeds and portfolio updates?
- Do you want to be able to answer client questions immediately, while they’re in your office or on the phone?
- Install or outsource?
 - Are you prepared to maintain an installed system?
 - Would you sacrifice some degree of customization for the economies and convenience of outsourcing?
 - Do you want the option to migrate from an outsourced to an installed system in the future?

Client Reporting

Client reporting, as noted earlier, needs to represent the advisor well, and the quality of reporting reflects the quality of the firm’s service. At the very least, you’ll want reports in a format that is professional and polished.

In today’s more advanced portfolio management systems, automated generation of period-end statements and performance reports is an integral feature. The main question for independents is the degree of customization versus standardization required. Outsourced platforms have historically been based on standardization, although in recent years the more advanced solutions have become more flexible in their custom report creation capabilities.

If you require a particular report that is unique to your firm, or if you have clients with special information requirements, look for a solution that will give you report writing capabilities—or better still, a provider with experience in designing custom reports to meet a variety of specifications.

Things to Consider

- What types of reports do you want to be able to generate?
- Do you need custom reporting capabilities?
- How often will you be providing clients with reports?
- How many reports do you expect to generate per month?
Per quarter?

Trading and Order Management

Many independent advisors find their trading activity is not sufficient to warrant automated trading support, or they work with one broker and require only a single interface. However, advisors who plan to do their own trading, anticipate a high level of trading, invest in multiple asset classes, or have multiple counterparty relationships may benefit from an order management system.

The OMS provides a centralized, automated platform for trade decision making and execution, but today's more advanced OMSs go far beyond basic trade blotter functionality. They incorporate sophisticated portfolio modeling and rebalancing capabilities that integrate trading with portfolio management and streamline the entire process from investment idea through trade execution. They also allow for the easy addition of interfaces for FIX-based order routing, custodial data, and the DTCC, creating a true straight through processing environment that improves operational efficiency and accuracy.

Advisors considering an OMS should look for optimal scalability in a system, so they won't be limited in capacity as their trading volume increases.

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Things to Consider

- Do you trade actively or do you plan to do your own trading in the future?
- Do you anticipate a high level of trading activity?
- Do you need asset allocation and rebalancing capabilities?

Compliance

The independent advisor typically wears many hats, and one is that of the chief compliance officer. Compliance with SEC regulations and client restrictions can place an onerous burden on a young firm, but the right technology can help lighten it.

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Your portfolio management system should have effective security and access controls to protect sensitive client data and meet compliance guidelines. Today’s advanced systems will also have audit trails that track all edits to the database by user, date, and time. Records can be easily located and retrieved in the event of an SEC exam or inquiry, providing the transparency that today’s markets demand. In addition, regulators are familiar with the various systems on the market. Use of a state-of-the-art system is evidence of best practices in pricing and valuing holdings and calculating performance.

On the trading side, the OMS should have built-in or modular trade compliance functionality in the form of pre- and post-trade rules checking. Advanced systems will enable the firm to create its own set of rules to catch any trade that does not adhere to the firm’s stated investment policies, client requirements, or SEC regulations. Such systems can also run portfolio checks to see if any portfolio’s composition has drifted from its stated objectives and allocations.

Things to Consider

- Do you need the ability to secure client and portfolio data, while making it easily retrievable in the event of an SEC inquiry?
- Do you want to ensure adherence to your investment policies and your clients’ requirements?
- Will you need pre- and post-trade checking and portfolio monitoring to ensure compliance?

Data Reconciliation

Reconciliation can be one of the most labor-intensive challenges a small firm faces. It is a task that cannot be avoided, but it can easily eat up a principal’s valuable time that would be better spent on clients.

If you plan to have an operational support staff, they should be equipped with the latest tools for automating reconciliation. Manual, spreadsheet-based systems are error prone and time consuming—something no firm can afford with transaction volume growing and the pace of the markets accelerating. In contrast, advanced straight through processing (STP) capabilities automate the exchange of data among advisors, brokers, custodians, and the DTCC, speeding the reconciliation process, improving accuracy, and freeing staff to focus on exceptions.

For firms that do not have extensive operations staff, or do not feel adding back office personnel would add value to their process, reconciliation is a function that is ripe for outsourcing. In this scenario, an independent technology provider acts as the

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firm's back office, providing and maintaining both the advanced reconciliation system as well as an expert staff to perform daily reconciliation. As with any outsourced function, the advisor should review providers' capabilities to be sure they have the most advanced technology, the depth of staff expertise, and the financial strength to support the firm for the long term.

Things to Consider

- Would you like to be freed from routine, back office activities to focus on clients and their portfolios?
- Do you plan to hire administrative or operational support staff that can perform reconciliation?
- Do you prefer not to incur the overhead of support staff or an in-house reconciliation system?

Revenue Management

Billing, surprisingly, is an often overlooked area of operations. Newly independent advisors can be so busy making money for their clients that they neglect to collect their own fees. Advisors need to think about how and when they are going to invoice clients and collect their fees to ensure smooth cash flow. Particularly at times when profitability is being squeezed, firms must do everything they can to avoid the opportunity cost of irregular cash flow or uncollected fees.

Without compromising personalized service to any client, it is in the firm's interest to standardize fee arrangements and billing cycles to the greatest extent possible. An automated revenue management system that integrates with the portfolio management system can help support this strategy. It can also save significant time in calculating fees and generating bills—and help avoid embarrassing errors that can strain a client relationship.

“An automated revenue management system that integrates with the portfolio management system can help save significant time in calculating fees and generating bills.”

Things to Consider

- Do you want to retain some degree of flexibility in fee arrangements with clients?
- Is it important to have the ability to calculate fees and generate invoices automatically?
- Is making sure invoices are accurate and issued on time at regular intervals a priority?
- Would you like to be able to demonstrate how fees are calculated to head off questions from clients?

Research Management

Information and market insights are critical to generating effective investment ideas and making timely, informed decisions. The sheer volume of research data available, however, can over-

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whelm a small firm without a dedicated staff to attend to it. Broker tips via email, meeting notes, news items, websites, corporate quarterly and annual reports, earnings calls, analyst reports—the list of sources and the forms of information go on and on. And much of the data a firm collects winds up in different places.

In recent years, research management solutions (RMS) have evolved to help firms cope with information overload. They provide firms with a central repository for storing and organizing research data. The most advanced systems make it easy to search the database and find specific items, as well as classification systems that enable users to see all research related to a particular company, sector, theme, or idea. With the right RMS, you’ll spend less time searching for research data and more time analyzing and applying it.

Things to Consider

- Do you receive a large volume of research in a variety of forms from multiple sources?
- Do you need a way to organize research by themes, sectors, or companies?
- Would you like all the research data you receive to be in one place, accessible to everyone in the firm?
- Do you have multiple locations or teams who need to share research information to collaborate more effectively?

The Integration Advantage: Putting It All Together

“Having just one company to call saves time, improves efficiency, and eliminates frustration.”

While any of these types of systems may have a role to play in an independent advisory firm, they are even more effective if they are integrated and communicating with each other in the same “language.”

It is not impossible to integrate systems from different providers, but it generally requires some custom engineering as opposed to being standardized and seamless. That strengthens the case for working with as few technology providers as possible—and ideally finding one that can meet all your functionality needs.

Another advantage to the single-provider approach is one call for support. If there’s an interface issue between systems from two different providers, you may find yourself playing go-between with their support teams, with each one telling you it’s the other provider’s problem. Having just one company to call saves time, improves efficiency, and eliminates frustration.

Comparing Deployment Options

Installed Solutions	Hosted Solutions	Managed Operations
Traditional Onsite Installed Software <ul style="list-style-type: none">■ Maximum Flexibility and Control■ More Complex Installation Process■ Higher Upfront Cost■ IT Staff Required to Maintain	Remotely Hosted Software Solution <ul style="list-style-type: none">■ Fast Startup without Onsite Installation■ Lower Upfront Cost■ Less Flexibility and Control■ Minimal IT Staff Required■ Business Continuity Included	Bundled Operations Software and Services <ul style="list-style-type: none">■ Fast Startup without Onsite Installation■ No IT Staff Required■ Daily Account Reconciliation■ Client Statements Produced■ Business Continuity Included

In investment management, a technology purchase is not just a business transaction, but the beginning of a relationship that may last years or even decades. In the interest of making that relationship smooth and productive, it is as important to scrutinize the companies behind the products as it is the products themselves. Although any number of factors may influence your final choice, there are a number of basic requirements for getting on your short list:

Dedicated independent advisor practice. Does the prospective provider have people who understand and have experience working with independent advisors of different sizes and strategies? People who understand the challenges you face will be better prepared to advise you and help you make choices that match your needs.

Comprehensive, integrated approach. As noted earlier, it is more efficient to work with one provider who can meet all your needs in an integrated fashion, instead of putting together a patchwork of systems from different, and often competing, players.

Choice of deployment options. Trying to compare one provider's installed solution with another's outsourced alternative is a daunting exercise. A single provider who offers a choice of deployment options—installed onsite, hosted software, or fully managed services—will be able to give you objective advice on the right solution for your needs now, as well as offer you a migration path as your firm grows or your needs evolve.

Depth, strength, and resources. Perhaps the most important consideration is, does the provider have the bench depth, financial strength, and resources to commit to you for the long term? Does it have a proven track record of reliability? Can and will the provider invest in continual product enhancement? In uncertain times like these, your prospective technology partner's track record and financial stability are of paramount importance.

Evaluating Providers: What to Look For

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Technology: The Foundation of Independence

"By starting with solutions that offer scalability and a growth path, you can continually build on your foundation as your business grows and your needs evolve."

There's no way around it—if you are going to compete with larger, established investment management firms, or even with other lean and hungry independents, you will need a technology platform that is competitive with theirs. It's a significant investment for a start-up, but with a range of options for deployment and service levels, you can scale the operation to fit your business needs and your budget. And by starting with solutions that offer scalability and a growth path, you can continually build on your foundation as your business grows and your needs evolve.

By making the right choices, you can get the maximum benefit of technology while minimizing your IT requirements and operational oversight. After all, you've just declared your independence, and you don't want another set of shackles in the form of cumbersome technology or time-consuming back office bottlenecks. Examine your options, talk to experts, and select a technology partner who can free you to focus on what you want to do: serve clients, monitor the market, make informed decisions, and reap the rewards of being your own boss.

About Advent Software

Advent Software, Inc., a global company, has provided trusted solutions to the world's leading financial professionals since 1983. Firms in 60 countries use Advent technology. Advent's quality software, data, services, and tools enable financial professionals to improve service and communication to their clients, allowing them to grow their business while controlling costs. Advent is the only financial services software company to be awarded the Service Capability and Performance certification for being a world-class support organization.



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