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LPL Joins Battle with Schwab, Fidelity, TD

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LPL Financial¹ of Boston is jumping with both feet into competition with firms that serve fee-based registered investment advisors (RIAs) – a pool that currently has [Charles Schwab & Co.](#)², [Fidelity Investments](#)³, and [TD Ameritrade](#)⁴ as its big fish. LPL already ranks as the largest independent broker-dealer company with \$284 billion in assets, and its planned move later this year will essentially open up the platforms it has built for its 11,000 financial advisors, who are primarily commission-based, to the universe of independent, fee-based RIAs.

While opening up its custody, managed account product, and technology platforms to outside RIAs, LPL is also giving its own corporate advisors the ability to set themselves up individually as RIAs and thereby have more flexibility in how they pursue fee-based investment strategies. The new option will allow LPL advisors to opt for a mixed relationship by keeping their commission business and setting up as an RIA as well, or they could fully pursue fee-based business but stay with LPL for its custody platform. LPL advisors already manage about \$75 billion worth of fee-based advisory assets, but today only can access those managed account products by going through LPL's own RIA.

The shift essentially will take what has been a set of platforms offered exclusively to LPL advisors and break open the model, letting outsiders in and allowing their own advisors to roam more freely.

"This opens us up to service virtually any business model in the marketplace today, both as broker-dealer and custodian," says **Gary Gallagher**, who LPL recently hired as executive v.p. and head of RIA services. The firm snatched him from a senior post at Fidelity where he had helped to launch managed accounts platforms for advisors, and he now reports to **Esther Stearns**, president and COO of LPL.

The new model will allow individual advisors to run both commission-based and fee-based investments for their clients on the same LPL chassis, particularly helping advisors who are registered both as RIAs with the [Securities and Exchange Commission](#)⁵ and as broker-dealer representatives with the [Financial Industry Regulatory Authority](#)⁶.

"This is a single integrated platform that allows advisors to use one comprehensive reporting package and billing system; one integrated compliance, technology, and relationship management servicing experience; and one of the broadest ranges of investment capabilities for both fee and commission products," Gallagher says. "We also have a comprehensive practice management offering with features such as health insurance and errors and omissions insurance." Indeed, many of LPL's offerings mirror the type of broad-based, practice-out-of-a-box service packages that Schwab and Fidelity have created to make it easier for advisors to set up an independent RIA.

Gallagher says the impetus for LPL's shift is "based on the needs of advisors in the marketplace." He says the firm has heard demand from its own advisors as well, but would not specify if there was pressure from them to open up the model. He also declines to explain the timing of the move.

LPL's plan appears to be a further sign that the fee-based model has growth momentum compared to the commission-based business, says John Shields, a principal in Portsmouth, N.H., for [MainStay Consulting Group](#)⁷, an asset management industry consultant. He says it was only a matter of time before the broker-dealer world began to encroach on the fee-based advisory servicing model of Schwab and Fidelity. "The lines have been blurring so much, with the offerings that the independent broker-dealers have on the fee-based side of the business," he adds.

Shields says that LPL's new tack is uncommon, because most other broker-dealers

that offer fee-based options to their financial advisors are not also trying to directly attract independent RIAs to use their services. And although Schwab last year created a relationship with **Cambridge Investment Research**⁸, an independent broker-dealer, to help its RIAs handle commission-based business, LPL's model keeps it all under one roof, Shields says.

Gallagher would not cite specific pricing for the various relationship options under its new format, though he says the details are still being finalized. "We fully intend to be extremely competitive," he says. "Advisors can save because of our efficiencies and our integrated platform."

LPL currently allows its advisors to tap into five managed account platforms that all together have the \$75 billion in assets and that include separately managed accounts, mutual fund wrap, and a unified managed account program. LPL advisors can also tap into selected turnkey asset management programs for managed account options, a tab not included in the \$75 billion.

The push to win fee-based business appears to dovetail with LPL's other recent moves, such as the hiring earlier this year of former **Citi**⁹ executive **Christopher Poch** as executive v.p. for wealth management charged with building an upmarket business focused on the \$10 million to \$100 million net worth investor. LPL's client base has been further down-market historically. And LPL last fall also hired **Burt White**, who had been a senior executive on the money manager due diligence team at **Wachovia**¹⁰, to take on a role as managing director of LPL Financial Research.

LPL did not respond to questions about whether the new format could upset its existing advisors by removing the competitive advantage they may have in using LPL's platforms, because they would now be open to competing RIAs. MainStay's Shields says that should not be an issue to most LPL advisors, however, because the firm's acquisition model in recent years has added many independent broker-dealers into its fold, essentially increasing the number of advisors who use the LPL platforms anyway.

Shields also says that there is limited overlap in terms of client base today between the typical LPL advisor and the type of independent RIA firms that might be attracted to the new offering.

LPL has been developing the framework for the new shift for the past year, Shields says. The biggest hurdle is managing the papering of client accounts and detailing compliance lines for "when the broker-dealer relationship stops and the RIA picks up," he says. "I think that if anybody can do this well, LPL is positioned to do it."

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