



# Fixed Income Solutions in the RIA Industry for Breakaway Advisors

This is the seventh installment of our continuing white paper series designed to help advisors build their dream firm and achieve **Pure Financial Independence.**

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**While the broader wealth management space has seen respectable growth in recent years, the RIA channel has experienced record growth and development in the past year alone.<sup>1</sup> With the RIA industry continuing to mature and flourish, more and more captive advisors are exploring the benefits of Independence.<sup>2</sup>**

Not only is the number of advisors interested in the RIA space increasing, but the size of these breakaway advisory teams is increasing as well. As billion-dollar teams continue to launch RIAs and more industry headlines highlight multibillion-dollar independent firms successfully executing both organic and inorganic growth strategies across the country,<sup>3</sup> the notion that Independence cannot support sophisticated, complex advisors and their clients is being eradicated.

Leading wirehouse advisors desire equity ownership, succession planning solutions, more control over the products and services they offer clients (and more control over the fees they charge for those services), better technology for both their clients and staff, and an escape from the dreaded and ever-changing payout grid. Once and for all, they want to build their own culture and their own firm, with their clients' needs placed first and foremost. Before they can do that, however, they need confidence that they will have the ability to offer the same products and services to their clients that they have always had available to them within the wirehouse environment.

The RIA channel has experienced record growth and development in the past year alone.<sup>1</sup>

To that end, PFI Advisors has produced industry reports covering [innovative lending solutions](#) as well as the rise of [alternative investments](#) in the RIA industry. Management within the wirehouse community tries their best to convince advisors that the RIA space is the Wild West and that advisors are completely left to fend for themselves in the Independent world, with no institutional-caliber support or resources to tap into. "If you go Independent, you will not have any sophisticated investment solutions to offer your clients, and they will no longer be your clients," [the messaging goes](#).

With this white paper, the seventh in our [continuing educational series](#), we will highlight institutional-caliber solutions for fixed income trading available to advisors within the RIA community. We will provide key information for advisors looking to access individual bonds in a scalable fashion, as we feature three solution providers in the fixed income market. By doing so, PFI Advisors hopes to continue affirming our mission: **To further evolve the RIA industry from a collection of practices to businesses, and to be a continued voice in validating the industry as a legitimate landing spot for billion-dollar teams and their clients.**

**To view PFI Advisors' previous white papers, click here**

<sup>1</sup> "RIA Industry Sees Record Growth in Firms, AUM, Employment" Financial Advisor Magazine, September 6, 2018

<sup>2</sup> "The 2018 ECHELON RIA M&A Deal Report" ECHELON Partners, March 2019

<sup>3</sup> "Fourth Quarter 2018 | DeVoe & Company RIA Deal Book" DeVoe & Company, December 31, 2018

# Individual Bonds or Bond Funds?

Regardless of the direction of interest rates or overall volatility in the general markets, exposure to fixed income is required in order for advisors to provide a properly-diversified investment portfolio.

Advisors (and their clients) can choose how to access the fixed income asset class through a portfolio of individual bonds, fixed income mutual funds, ETFs, a separately managed portfolio of bonds, or some combination of these strategies/vehicles.

Some areas of consideration when choosing the best way to access fixed income include: the amount of investable capital; attitude regarding the direc-

tion of interest rates; liquidity needs; diversification; predictability of income; tax considerations; and which area of the fixed income market the client is looking to access.

For further analysis, Fidelity research provides the following table for a side-by-side comparison of individual bonds vs. bond funds:<sup>4</sup>

	Individual Bonds	Bond Funds
<b>Management</b>	Investor-managed or professionally-managed via a managed account of individual bonds.	Professionally-managed.
<b>Maturity Date</b>	Set maturity date (though some bonds may be called prior to maturity).	Generally, no maturity date as bonds are constantly bought and sold.
<b>Income Payments</b>	Usually a fixed, semi-annual income payment, some bond income is monthly or quarterly.	Fluctuating monthly income distributions.
<b>Market Risk</b>	If sold prior to maturity, market price may be higher or lower than what you paid for the bond, leading to a capital gain or loss.	Market conditions constantly affect the fund's value, although the diversification inherent in a fund generally reduces the market risk of any one bond issuer. When you redeem shares of a fund, the sale may result in a capital gain or loss.
<b>Liquidity</b>	You can generally sell a bond prior to maturity on the secondary market. Some bonds are more liquid (trade more frequently) than others: U.S. Treasuries are generally the most liquid, while small municipal issues are generally much less so. A lack of liquidity can result in price volatility, especially in a period of market or issue-specific stress. In some cases, liquidity can disappear altogether for indefinite periods.	Investors can generally sell fund shares at any time, at the current market value (or NAV) of the fund. Some funds may carry a redemption fee.

<sup>4</sup> ["Bonds vs. Bond Funds"](#) Fidelity Investments

# Individual Bonds or Bond Funds?

	Individual Bonds	Bond Funds
Diversification	Investors must purchase many bonds from multiple issuers and maturities to achieve diversification – which means it may require a significant investment to achieve diversification.	Bond funds invest in many individual securities, providing diversification for a relatively small investment minimum.
Credit Risk	Higher-rated bonds historically have a lower risk of default.	Dependent on the quality of the underlying securities in which the fund invests (varies by fund type and objective). Provides diversification, which can mitigate credit risk.
Cost	A mark-up or mark-down upon purchase or sale. The mark-up/mark-down is the difference between the dealer’s purchase price and its subsequent sales price to a customer. If the bonds are part of a managed account program, then the investor pays an annual advisory fee.	Funds carry an annual expense ratio, which usually includes management and other fees. May have a sales charge or transaction fee at time of purchase.

When evaluating individual bonds or bond funds, Charles Schwab’s research concludes:<sup>5</sup> “For those looking for exposure to investment-grade corporate bonds, municipal bonds, U.S. Treasuries and other lower-risk areas of the market, the relative predictability of individual bonds can make the most sense. For those looking to access high-yield and international bonds and other areas of greater risk (and potential reward), the professional management and diversification offered by bond funds can be a significant advantage. And for those wanting a mix of relatively safe and relatively risky investments, combining the two vehicles can provide an optimal middle ground.”

Our aim isn’t to convince advisors that one bond vehicle (individual bonds or bond funds) is better than the other, but to present the expansive fixed income capabilities the RIA industry presents. If an advisor chooses to use bond funds or ETFs, those can easily be accessed through their custodial platforms. And while access to individual bonds may not be as overt as in the wirehouse community, advisors in the RIA channel have just as many (or perhaps more, as some advisors have learned) viable fixed income solutions available to them and their clients.

<sup>5</sup> “Individual Bonds vs. Bond Funds” Charles Schwab, May 11, 2018

# Fixed Income Trading: *Wirehouse vs. RIA Community*

Within a wirehouse, advisors can easily check their screen for their fixed income trading desk's inventory, pick up the phone, and place a trade with competent and highly-skilled fixed income professionals. The advisors are usually brainwashed into believing this level of support and access will not be available to them as an Independent advisor.

In reality, as **Mark Albers, founder of Kinetic Strategic Partners**, states, "When advisors learn about fixed income trading in the RIA channel, they realize they will have greater access – and better execution options – for their clients." This is possible because the major RIA custodians allow advisors to execute fixed income trades at *any* trading desk they choose, across all Wall Street institutions, and settle trades in the clients' custodial accounts. Now, instead of being captive to only one trading desk's inventory and pricing, their new RIA becomes an institution of the street who can competitively price trades at several trading desks.

"In fact," Albers explains, "I know of instances where an advisor has left a wirehouse to set up an RIA, and their RIA was able to establish a relationship with the trading desk at the very firm they just left, allowing them to continue trading with the exact trading desk they've been using for years, among many other desks around the country." While this is a great relief to the advisor, Albers points out, "Advisors are always surprised at how easy it is, and they often get a little angry at the fact they've been fooled for so many years." Before the advisors have made the leap, however, they have a hard time believing him. "If you've been told your whole life that the sky is red, it's really hard to believe the sky is blue until you've been given the opportunity to see it for yourself," he concludes.

"Advisors are always surprised at how easy it is, and they often get a little angry at the fact they've been fooled for so many years."

Mark Albers, *Founder*  
Kinetic Strategic  
Partners

"It wasn't until we broke away that we realized the opportunity we had with this business," said **Eric Bodner, partner of Kore Private Wealth**, an RIA that broke away from Merrill Lynch in June 2018 where he and his team managed \$5 billion in client assets. "One of the upsides of being an RIA is the ability to have coverage from multiple institutions [for fixed income solutions]," he says. "We have onboarded institutional partners like Wells Fargo, Morgan Stanley, JP Morgan, and Bank of America, and have also added new relationships with local partners." He concludes, "Our muni business is much more robust than it's ever been; while we still have the same access to risk management and reporting systems as we did at our prior firm, our coverage universe has expanded immensely."

While the physical set up of these trading relationships is relatively easy for RIAs, it can be rather time consuming to monitor the trading inventories at various desks and continually work orders across numerous trading parties to ensure best execution for clients. Many RIAs that choose to execute fixed income trades in this manner oftentimes hire dedicated staff for the management of clients' fixed income portfolios. For RIAs looking to outsource some of the trading responsibilities, we've profiled the following three firms that provide advisors access to individual bond securities: **280 CapMarkets**, **CBXmarket**, and **Northern Capital**.

# 280 | CapMarkets

## AT-A-GLANCE

**Founded** 2016

**Headquarters** San Francisco, CA

**Employees** 49

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280 CapMarkets (“280”) was built to make the bond markets more accessible and transparent for independent advisors. **“It’s up to the advisor to select the best vehicle to access fixed income for their clients,”** Says Gurinder Ahluwalia, CEO, “For those who understand and value individual bond investments, we want to be their solution of choice.” 280’s goal is to eliminate the traditional pain points an advisor must consider before breaking away from the wirehouse model, specifically the execution support of an in-house market making desk staffed by experienced traders.

280 understands the advisors’ need for simplicity when investing in fixed income. A traditional wirehouse advisor is accustomed to clicking a button on a front-end platform or placing a call to their in-house desk to execute, then simply allocating bonds bought or sold for their clients in a seamless fashion. 280 seeks to replicate this engagement model for the breakaway advisor through their technology and service model. By simplifying the whole bond investing experience, 280 is empowering independent advisors to buy, sell, and manage bonds confidently and avoid some of the pitfalls with investing in bond funds and ETFs.

280 does this through their free custom-built bond trading platform, BondNav®, by aggregating bonds across multiple trading desks and venues in one

convenient location. BondNav differentiates itself by augmenting the standard electronic communications network (ECN) feeds, which are already available on a variety of platforms, with its extensive network of institutional customers’ bids and offers which have historically only been available to other institutions. It achieves this by combining cloud-based technology with the experience of an institutional market-making and sales desk to help advisors make informed decisions.

In addition to broader access to the secondary market, 280’s underwriting desk gives advisors access to new issue municipal and corporate bonds.

280’s traders help independent advisors achieve parity with their wirehouse counterparts by leveraging 280’s own capital in order to enhance their advisors’ negotiating power. The traders can also act as an insightful resource to advisors with their holistic and dynamic view of fixed income markets. 280 provides advisors access to a diverse team committed to delivering: advisor support & liquidity services; transparent fixed income service; new issue origination/access; and portfolio construction and actionable trade ideas.

In an environment where independent advisors can oftentimes feel alone or tentative about trading individual fixed income securities, best execution is often a top worry that 280’s BondNav can put to rest. Post-trade documentation should be a key component in any bond execution program. Historical pricing is good reference data, but for each BondNav trade, advisors are also provided with a summary of the number of markets checked and the best prices available at the time of the trade through a 280 BestEx® report.

280 believes that the right technology, coupled with conflict-free expertise, creates a fair and level playing field for advisors.

# CBX<sup>TM</sup>MARKET

## AT-A-GLANCE

**Founded** 2015

**Headquarters** New York, NY

**Employees** 25

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Billing itself as a technology partner, CBXmarket has created decision enhancement tools to enable financial advisors to more efficiently navigate the bond markets. To do this, CBXmarket developed OASIS, a best-in-class portfolio management software solution. Powered by a comprehensive database of bond market data and cloud-based technology, OASIS helps advisors streamline time-intensive processes from risk and compliance to portfolio rebalancing and performance reporting, coupled with a flexible solution for client-customized reports. These functionalities enable advisors to realize the benefits of workflow automation by streamlining front-, middle- and back-office processes.

According to CBXmarket, OASIS was developed with five principles in mind: (1) to Optimize bond portfolios based on investment policy statements, strategies, and benchmarks; (2) to Automate otherwise manual processes; (3) to Streamline the construction and generation of presentation-ready client material; (4) to Integrate OASIS with advisors' existing technology suites to create a seamless end-user experience; and (5) to Scale the end-user experience alongside advisors' businesses.

OASIS offers a multi-component platform of tools providing advisors with solutions for portfolio management, research, compliance and client reporting within a single interface. The portfolio management module includes an optimizer, which

publishes trade recommendations based on each client's investment objectives and compliance constraints, while maximizing alpha. Distilling the immense amount of market data into actionable investment decisions was previously inconceivable, particularly for financial advisors with limited portfolio management technology.

The research function is powered by analytical tools allowing advisors to perform granular issuer and security-level diligence. Investment monitoring dashboards provide transparency across portfolios with aggregated reporting, alerting advisors to problematic investment scenarios that require their attention. **Advisors can validate quotes with real-time pricing, historical performance charts, and yield calculators for price discovery to determine the fair value of a security.**

OASIS sits at the center of an advisor's fixed income investment process enabling users to distill convoluted research, compliance and allocation processes into elegant and intuitive workflows. Complete connectivity with order management and trade execution systems eliminates operational friction and maximizes scalability. The OASIS reporting module also enables advisors to automate the creation of client reports en masse, further minimizing tedious manual workflows that advisors so often endure. All this is to say that OASIS provides advisors with sophisticated decision enhancement tools that provide institutional-grade reporting in a consumable format, enabling workflow efficiencies and more confidence in navigating the bond markets.

"Given our deep bench of industry expertise, we have an intimate understanding of the issues with legacy technology platforms," says John Mizzi, VP of Strategy & Operations for CBXmarket. "Our team of cloud-based technology experts have developed a solution to address the most acute pain points of fixed income investors, while considering the importance of the user experience and maintaining a thoughtful implementation process."



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## AT-A-GLANCE

**Founded** 1996

**Headquarters** North Andover, MA

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Founded in 1996, Northern Capital has a cutting-edge solution that allows advisors to create customized portfolios of individual bonds, model how they'll behave in future interest rate scenarios, and buy at institutional prices.

Northern Capital believes in the dynamic advantages advisors and their clients attain when buying individual bonds. Whether it be control over taxation, certainty of cash flows, or the ability to position the portfolio to manage specific interest rate risks, they feel advisors have more overall control in their return profile with individual bonds.

Northern Capital works with advisors to create custom strategies employing corporates, CDs, agency, and municipal bonds, so advisors can utilize a variety of asset location strategies within their fixed income portfolios. The firm constructs diversified portfolios and produces client-ready private label portfolio reports based on the advisor's strategies.

Jason Stuck, CFA Managing Director and Head of Portfolio Management of Northern Capital, explains the process, "Everything starts with the strategy. We start by seeking to understand the advisor's overall fixed income needs, reviewing their current fixed income policy, and then work together to define and quantify their investment objectives and strategies in

greater detail. **This process helps to create a scalable and repeatable investment process.** We then use our proprietary analytics to analyze, construct and monitor portfolios and produce private label reports."

Once strategies are decided and the individual bonds themselves are purchased, Northern Capital provides a proprietary "transparency report" to advisors that shows exactly what was purchased and the markup on the bonds. "We don't charge a management fee. We are paid exclusively by executing transactions. Advisors are comfortable with this approach since we voluntarily disclose the details of each transaction - our cost, the advisors cost and the average for the quarter. Our transparency report assists our clients in meeting their best execution obligations and supports our commitment to providing clients with transparency and objectivity," Says Stuck.

The beauty of leveraging Northern Capital to assist in managing individual bond portfolios is they make the entire process easy. They are able to route bonds into clients' custodial accounts so they in turn flow directly into the advisor's performance reporting system for a broader review. This efficient process from due diligence to purchasing to reporting alleviates the advisors and their staff of mundane work and creates efficiencies that differentiates their RIA from the competition. "We have concentrated our skills and resources on a core set of strategic priorities that puts innovation, specialization, objectivity, and value at the heart of everything we do," concludes Stuck.



PFI Advisors, LLC (“Pure Financial Independence”) was founded in 2015 with the following mission in mind:

To further evolve the RIA industry from a collection of practices to businesses, and to be a continued voice in validating the industry as a legitimate landing spot for billion-dollar teams and their clients.

PFI Advisors is an operational consulting firm that supports the unique back office, technology, and strategic needs for RIAs in growth mode. PFI Advisors conducts Operational Diagnostics, manages Technology Conversions, and provides M&A Preparation and Integration Services to RIAs seeking growth support. The firm announced the launch of **COO Resource** in January 2018, an ongoing retainer-based service in which RIAs and their Chief Operating Officers can leverage the knowledge and expertise of PFI.

For breakaway advisors, PFI Advisors manages full RIA set up and transition to Independence, including office build out, RIA infrastructure development, client transition, and billing services - all for a simple consulting fee. There is no complicated long-term AUM fee structure or equity stake required to build the firm’s future and provide advisors **Pure Financial Independence**.