# Internet Appendix

# Unlocking clients: The importance of relationships in the financial advisory industry

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***Current Version: July 2020***

Table IA.1: Predicting protocol membership

The table displays the results from predictive regressions of firms joining the broker protocol using firm-year observations for the sample period 2004-2016 (Column 1) and 2007-2016 (Column 2). The dependent variable is an indicator variable that is 1 if the firm joins the broker protocol and is zero otherwise. All independent variables are lagged by one year and their definitions are found in the Appendix except for "% county advisers in protocol," which is the percentage of the advisers at other firms that are members of the protocol in the counties where the firm has branches. $T$-statistics are computed using robust standard errors (reported in parentheses), clustered by firm and year. Significance levels are denoted by $c$, $b$, and $a$, which correspond to 10%, 5%, and 1% levels, respectively.

| Sample: | 2004-2016 (1) | 2007-2016 (2) |
|---|---|---|
| Log (number of advisers) | 0.361$^{a}$ | 0.410$^{a}$ |
| | (0.027) | (0.032) |
| Percent change in advisers | 0.373$^{a}$ | 0.455$^{a}$ |
| | (0.066) | (0.079) |
| Broker-dealer indicator | 0.060 | 0.057 |
| | (0.047) | (0.056) |
| RIA indicator | 0.392$^{a}$ | 0.421$^{a}$ |
| | (0.051) | (0.058) |
| % of county advisers in the protocol | 0.376$^{c}$ | 0.473$^{b}$ |
| | (0.193) | (0.205) |
| Year FE | Y | Y |
| Mean of the dep. var. | 0.527 | 0.696 |
| Adj-R-squared | 0.009 | 0.009 |
| Observations | 125,989 | 108,628 |

## Table IA.2: Adviser turnover and the protocol - firm-level evidence

The table displays regression results from fixed effect OLS regressions (Eq. (2) in the main text) of various measures of turnover on lags of "Join protocol," which is an indicator variable that is one if the firm is member of the broker protocol as of the end of the calendar year. The analysis uses the entire firm-level sample described in Panel B of Table 2 of the main text. The dependent variable in column 1 is turnover, which is defined as the average of the percentage of advisers at the firm joining from and leaving to other firms. Panel A displays results for within industry turnover, which includes advisers joining from and leaving to other firms in the industry during the year. Percentages are calculated based on the number of advisers at the end of year $t-1$. Within industry turnover can be decomposed into two components, turnover to and from firms in the protocol (Panel B), and turnover to and from firms not in the protocol (Panel C). The dependent variable in column 2 is the percentage change in advisers, defined as the change in advisers divided by the number of advisers at the beginning of the year. The dependent variables in columns 3 and 4 decompose the change into advisers joining and leaving the firm. All models include firm and year fixed effects. $T$-statistics are computed using robust standard errors (reported in parentheses), clustered by firm. Significance levels are denoted by $c$, $b$, and $a$, which correspond to 10%, 5%, and 1% levels, respectively.

| Dependent variable: | Turnover (1) | %Δ in advisers (2) | % advisers join (3) | % advisers leave (4) |
|---|---|---|---|---|
| **Panel A:** Within industry | | | | |
| Join protocol ($t=0$) | 4.323$^a$ | 5.559$^a$ | 7.102$^a$ | 1.543$^a$ |
| | (0.692) | (1.104) | (1.130) | (0.539) |
| Join protocol ($t=-1$) | -0.011 | 1.173 | 0.576 | -0.597 |
| | (0.591) | (0.915) | (0.935) | (0.494) |
| Join protocol ($t=-2$) | -0.799 | 0.171 | -0.714 | -0.885$^c$ |
| | (0.605) | (0.929) | (0.956) | (0.500) |
| Join protocol ($t<=-3$) | -1.615$^a$ | -0.721 | -1.975$^b$ | -1.254$^a$ |
| | (0.551) | (0.887) | (0.884) | (0.467) |
| Adj-R-squared | 0.37 | 0.18 | 0.31 | 0.28 |
| **Panel B:** With protocol firms | | | | |
| Join protocol ($t=0$) | 3.415$^a$ | 5.750$^a$ | 6.290$^a$ | 0.541$^a$ |
| | (0.259) | (0.506) | (0.487) | (0.158) |
| Join protocol ($t=-1$) | 1.167$^a$ | 1.793$^a$ | 2.064$^a$ | 0.271$^b$ |
| | (0.203) | (0.361) | (0.360) | (0.136) |
| Join protocol ($t=-2$) | 0.870$^a$ | 0.660$^c$ | 1.200$^a$ | 0.540$^a$ |
| | (0.200) | (0.388) | (0.365) | (0.150) |
| Join protocol ($t<=-3$) | 0.178 | -0.307 | 0.024 | 0.331$^a$ |
| | (0.158) | (0.285) | (0.275) | (0.123) |
| Adj-R-squared | 0.21 | 0.10 | 0.16 | 0.15 |

Table IA.2 continues on the following page.

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| Dependent variable: | Turnover (1) | %Δ in advisers (2) | % advisers join (3) | % advisers leave (4) |
|---|---|---|---|---|
| **Panel C:** With non-protocol firms | | | | |
| Join protocol ($t = 0$) | 0.907 | -0.190 | 0.812 | 1.003$^{b}$ |
| | (0.570) | (0.918) | (0.910) | (0.492) |
| Join protocol ($t = -1$) | -1.178$^{b}$ | -0.620 | -1.488$^{c}$ | -0.868$^{c}$ |
| | (0.523) | (0.820) | (0.826) | (0.449) |
| Join protocol ($t = -2$) | -1.670$^{a}$ | -0.489 | -1.914$^{b}$ | -1.425$^{a}$ |
| | (0.532) | (0.804) | (0.825) | (0.458) |
| Join protocol ($t <= -3$) | -1.792$^{a}$ | -0.414 | -2.000$^{b}$ | -1.585$^{a}$ |
| | (0.499) | (0.781) | (0.790) | (0.423) |
| Adj-R-squared | 0.35 | 0.15 | 0.29 | 0.25 |
| Year FE | Y | Y | Y | Y |
| Firm FE | Y | Y | Y | Y |
| Observations | 130,990 | 130,990 | 130,990 | 130,990 |

Table IA.3: Adviser turnover and the protocol - alternative models

The table displays regression results for four different models using the sample and methodology outlined in Table 3 of the main text. In Panels A, B, and C the dependent variables are "Leave to another firm","Leave to a protocol firm", and "Leave to a non-protocol firm," respectively. None of the models include controls other than the fixed effects that are indicated at the bottom of the table. $T$-statistics are computed using robust standard errors (reported in parentheses), clustered by firm. Significance levels are denoted by $c$, $b$, and $a$, which correspond to 10%, 5%, and 1% levels, respectively.

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| **Panel A:** Dep. var. = "Leave to another firm" | | | | |
| Firm in protocol | 0.322 | 0.852 | 0.631 | 0.050 |
| | (1.451) | (1.081) | (0.838) | (0.862) |
| Constant | 9.116$^a$ | | | |
| | (0.560) | | | |
| Adj-R-squared | 0.00 | 0.02 | 0.09 | 0.10 |
| Observations | 5,902,522 | 5,900,371 | 5,893,392 | 5,891,188 |
| **Panel B:** Dep. var. = "Leave to a protocol firm" | | | | |
| Firm in protocol | 4.776$^a$ | 5.032$^a$ | 2.542$^a$ | 1.997$^a$ |
| | (1.511) | (1.067) | (0.511) | (0.554) |
| Constant | 1.878$^a$ | | | |
| | (0.190) | | | |
| Adj-R-squared | 0.02 | 0.03 | 0.10 | 0.11 |
| Observations | 5,902,522 | 5,900,371 | 5,893,392 | 5,891,188 |
| **Panel C:** Dep. var. = "Leave to a non-protocol firm" | | | | |
| Firm in protocol | -4.454$^a$ | -4.180$^a$ | -1.912$^a$ | -1.946$^a$ |
| | (0.500) | (0.517) | (0.440) | (0.508) |
| Constant | 7.237$^a$ | | | |
| | (0.553) | | | |
| Adj-R-squared | 0.01 | 0.02 | 0.09 | 0.09 |
| Observations | 5,902,522 | 5,900,371 | 5,893,392 | 5,891,188 |
| County-Year FE | N | Y | N | Y |
| Firm-county FE | N | N | Y | Y |

## Table IA.4: Adviser turnover and the protocol - robustness

The table displays regression results for various subsamples using the model and methodology outlined in Table 3 of the main text. In Panels A and B the samples are restricted to advisers who are brokers and advisers who are registered at only one firm, respectively. In Panel C, The sample is expanded to include all available data from 2003 until 2016. All models include firm-county and county-year fixed effect and the controls included in Table 3 of the main text. $T$-statistics are computed using robust standard errors (reported in parentheses), clustered by firm. Significance levels are denoted by $c$, $b$, and $a$, which correspond to 10%, 5%, and 1% levels, respectively.

| | Leave to another firm | Leave to a protocol firm | Leave to a non-protocol firm | Leave to a protocol firm | Leave to a protocol firm | Leave to a non-protocol firm | Leave to a non-protocol firm |
|---|---|---|---|---|---|---|---|
| | | | | State enforces NCAs? | | | |
| Sample | Full | Full | Full | Yes | No | Yes | No |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| **Panel A:** Sample of brokers | | | | | | | |
| Firm in protocol | -0.218 | 1.808$^a$ | -2.026$^a$ | 2.020$^a$ | 1.051$^c$ | -2.164$^a$ | -1.559$^a$ |
| | (0.889) | (0.595) | (0.505) | (0.639) | (0.600) | (0.539) | (0.491) |
| Adj-R-squared | 0.10 | 0.11 | 0.09 | 0.11 | 0.12 | 0.09 | 0.10 |
| Observations | 5,854,012 | 5,854,012 | 5,854,012 | 4,685,166 | 1,168,846 | 4,685,166 | 1,168,846 |
| $\hat{\beta}_{p,\text{yes}} - \hat{\beta}_{p,\text{no}}$ | | | | | 0.969$^c$ | | -0.605 |
| | | | | | (0.536) | | (0.370) |
| **Panel B:** Sample of advisers registered with only one firm | | | | | | | |
| Firm in protocol | 0.022 | 1.943$^a$ | -1.921$^a$ | 2.170$^a$ | 1.126 | -2.065$^a$ | -1.430$^b$ |
| | (1.021) | (0.689) | (0.576) | (0.741) | (0.689) | (0.616) | (0.561) |
| Adj-R-squared | 0.11 | 0.11 | 0.10 | 0.11 | 0.12 | 0.10 | 0.10 |
| Observations | 5,414,700 | 5,414,700 | 5,414,700 | 4,328,580 | 1,086,120 | 4,328,580 | 1,086,120 |
| $\hat{\beta}_{p,\text{yes}} - \hat{\beta}_{p,\text{no}}$ | | | | | 1.044$^c$ | | -0.635 |
| | | | | | (0.625) | | (0.432) |
| **Panel C:** Extended sample 2003-2016 | | | | | | | |
| Firm in protocol | 0.047 | 2.355$^a$ | -2.308$^a$ | 2.434$^a$ | 2.040$^a$ | -2.451$^a$ | -1.815$^a$ |
| | (0.577) | (0.435) | (0.372) | (0.450) | (0.501) | (0.413) | (0.492) |
| Adj-R-squared | 0.10 | 0.08 | 0.11 | 0.08 | 0.09 | 0.11 | 0.12 |
| Observations | 8,224,925 | 8,224,925 | 8,224,925 | 6,574,983 | 1,637,294 | 6,574,983 | 1,637,294 |
| $\hat{\beta}_{p,\text{yes}} - \hat{\beta}_{p,\text{no}}$ | | | | | 0.394 | | -0.636 |
| | | | | | (0.392) | | (0.529) |
| County-Year FE | Y | Y | Y | Y | Y | Y | Y |
| Firm-county FE | Y | Y | Y | Y | Y | Y | Y |

## Table IA.5: Turnover sensitivity to misconduct and the protocol - robustness

The table extends the analysis from Table 5 of from the main text by estimating the results using various subsamples. In Panel A, only advisers who are investment advisers (investment adviser=1) are included. In Panel B, only advisers who are not investment advisers (investment adviser=0) are included in the sample. In Panel C, only advisers who are employed by only one firm are included in the sample. In Panel D, the sample is from 2003-2016, but the years 2003-2006 suffer from survivorship bias. All models include firm-county and county-year fixed effects and the controls included in Table 3 of the main text. $T$-statistics are computed using robust standard errors (reported in parentheses), clustered by firm. Using the same robust standard error estimation we also report$\hat{\beta}_{p\times m,\text{yes}} - \hat{\beta}_{p\times m,\text{no}}$ (the difference between the coefficient estimates on the interaction term of "Firm in the protocol" and "Misconduct" between the "No" and "Yes" samples.) and the associated standard errors. Significance levels are denoted by $c$, $b$, and $a$, which correspond to 10%, 5%, and 1% levels, respectively.

| Sample | All | State enforces NCAs? Yes | No |
|---|---|---|---|
| | (1) | (2) | (3) |
| **Panel A:** Sample of brokers | | | |
| Misconduct | 0.446$^b$ | 0.571$^a$ | -0.015 |
| | (0.184) | (0.187) | (0.399) |
| Firm in protocol | -0.335$^c$ | -0.307$^c$ | -0.433$^c$ |
| | (0.176) | (0.174) | (0.246) |
| Firm in protocol × Misconduct | -0.534$^b$ | -0.780$^a$ | 0.308 |
| | (0.242) | (0.248) | (0.533) |
| Adj-R-squared | 0.03 | 0.03 | 0.03 |
| Observations | 5,854,012 | 4,685,166 | 1,168,846 |
| $\hat{\beta}_{p\times m,\text{yes}} - \hat{\beta}_{p\times m,\text{no}}$ | | | -1.088$^c$ |
| | | | (0.561) |
| **Panel B:** Sample of advisers registered with only one firm | | | |
| Misconduct | 0.446$^b$ | 0.580$^a$ | -0.056 |
| | (0.201) | (0.204) | (0.425) |
| Firm in protocol | -0.351$^c$ | -0.313$^c$ | -0.483$^c$ |
| | (0.190) | (0.186) | (0.274) |
| Firm in protocol × Misconduct | -0.507$^b$ | -0.740$^a$ | 0.307 |
| | (0.255) | (0.263) | (0.549) |
| Adj-R-squared | 0.03 | 0.03 | 0.03 |
| Observations | 5,414,700 | 4,328,580 | 1,086,120 |
| $\hat{\beta}_{p\times m,\text{yes}} - \hat{\beta}_{p\times m,\text{no}}$ | | | -1.047$^c$ |
| | | | (0.578) |

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| Sample | All | State enforces NCAs? Yes | No |
|---|---|---|---|
| | (1) | (2) | (3) |
| **Panel C:** Extended sample 2003-2016 | | | |
| Misconduct | 0.308[b] | 0.333[b] | 0.229 |
| | (0.138) | (0.152) | (0.293) |
| Firm in protocol | 0.036 | 0.021 | 0.080 |
| | (0.177) | (0.177) | (0.270) |
| Firm in protocol × Misconduct | -0.239 | -0.355 | 0.096 |
| | (0.216) | (0.221) | (0.469) |
| Adj-R-squared | 0.04 | 0.04 | 0.04 |
| Observations | 8,224,925 | 6,574,983 | 1,637,294 |
| $\hat{\beta}_{p\times m,\text{yes}} - \hat{\beta}_{p\times m,\text{no}}$ | | | -0.451 |
| | | | (0.490) |
| Controls | Y | Y | Y |
| County-Year FE | Y | Y | Y |
| Firm-county FE | Y | Y | Y |

Table IA.6: Misconduct and the protocol - robustness

The table displays regression results for various subsamples using the model and methodology outlined in Table 6 of the main text. The dependent variable is "Misconduct" multiplied by 100. In columns 1 and 2 the samples are restricted to advisers who brokers and advisers who are only registered with on firm, respectively. In column 4, the sample is expanded to include all available data from 2003 until 2016, but the years 2003-2006 suffer from survivorship bias. In panel A all models include firm-county and county-year fixed effects and in Panel B they include adviser and county-year fixed effects. In both panels the control variables included in Table 6 of the main text are included, but their coefficients are not reported. $T$-statistics are computed using robust standard errors (reported in parentheses), clustered by firm. Significance levels are denoted by $c$, $b$, and $a$, which correspond to 10%, 5%, and 1% levels, respectively.

| Sample | Brokers | One firm | 2003-2016 |
|---|---|---|---|
| | (1) | (2) | (3) |
| **Panel A:** firm-county fixed effects | | | |
| Firm in protocol | 0.105 | 0.122 | -0.014 |
| | (0.070) | (0.074) | (0.041) |
| Past misconduct | 1.313$^a$ | 1.294$^a$ | 1.342$^a$ |
| | (0.069) | (0.067) | (0.059) |
| County-Year FE | Y | Y | Y |
| Firm-county FE | Y | Y | Y |
| Adj-R-squared | 0.03 | 0.03 | 0.03 |
| Observations | 5,818,974 | 5,353,046 | 8,351,264 |
| **Panel B:** adviser fixed effects | | | |
| Firm in protocol | 0.150$^b$ | 0.157$^b$ | 0.100$^a$ |
| | (0.059) | (0.065) | (0.036) |
| County-Year FE | Y | Y | Y |
| Firm-county FE | Y | Y | Y |
| Adj-R-squared | 0.05 | 0.05 | 0.03 |
| Observations | 5,662,639 | 5,184,450 | 8,231,817 |

Table IA.7: Summary statistics for *InvestmentNews* sample

The Table shows summary statistics for the sample of firms covered by the *InvestmentNews* annual independent B-D surveys from 2004 to 2016 with complete data as outlined in Section 3.5 of the main text. All dependent variables are winsorized at the first and ninety-ninth percentiles to remove effects of outliers. "Commission share," captures the percentage of revenue made up by commissions and is equal to the commission fee revenue divided by total revenue. "Fee rate" is the fee revenues divided by the fee-based AUM.

| | Mean | Median | St. Dev. | 1st Per. | 99th Per. |
|---|---|---|---|---|---|
| Commission share | 75.357 | 77.544 | 13.990 | 34.328 | 97.691 |
| Fee rate | 100.362 | 95.146 | 43.909 | 18.243 | 311.661 |
| Firm in protocol | 0.343 | 0.000 | 0.475 | 0.000 | 1.000 |
| Number of advisers | 1,576.101 | 822.500 | 2,272.871 | 23.000 | 13,518.000 |

Table IA.8: Summary statistics for FOCUS sample

The Table shows summary statistics for the sample of firms covered by the FOCUS data used in Panel b of Figure 4 as outlined in Section 3.5 of the main text. All dependent variables are winsorized at the first and ninety-ninth percentiles to remove effects of outliers. "Log (revenue) is the natural log of total firm revenue during the year.

| | Mean | Median | St. Dev. | 1st Per. | 99th Per. |
|---|---|---|---|---|---|
| Log (revenue) | 13.863 | 14.004 | 2.398 | 5.690 | 19.337 |
| Firm in protocol | 0.039 | 0.000 | 0.192 | 0.000 | 1.000 |
| Number of advisers | 70.821 | 9.000 | 438.251 | 2.000 | 1,507.000 |
| Log (number of advisers) | 2.487 | 2.197 | 1.431 | 0.693 | 7.318 |