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Q3 2018 LPL Financial Holdings Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and thank you for joining the third quarter 2018 earnings conference call for LP (sic) [LPL] Financial Holdings Inc. Joining the call today are our President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer, Matt Audette.

Dan and Matt will offer introductory remarks and then the call will be open for questions. (Operator Instructions)

The company has posted its earnings press release and supplementary information on the Investor Relations section on the company's website, investor.lpl.com.

Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategies and plans as well as other opportunities and potential risks that management foresees. Such forward-looking statements reflect management's current estimates or beliefs and are subject to risks and uncertainties that may cause actual results to differ materially. The company refers listeners to the safe harbor disclosures contained in the earnings press release in the company's latest SEC filings to appreciate those important factors that may cause actual financial operating results or the timing of matters to differ from those contemplated in such forward-looking statements.

During the call, the company will also discuss non-GAAP financial measures governed by SEC Regulation G. For a reconciliation of certain non-GAAP measures to the comparable GAAP figures, please refer to the company's earnings release, which can be found at investor.lpl.com.

With that, I will now turn the call over to Mr. Arnold.

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Hey, thank you, Andrew, and thank you to everyone for joining our call today. In the third quarter, we remained focused on our strategic priorities of growing our core business and executing with excellence. This focus, combined with strong investor engagement and the supportive macro environment, led to another quarter of business and financial growth.

Let's review our third quarter progress starting with our advisors. LPL advisors continue to be recognized for the quality of the advice they provide to millions of Americans. Over the last quarter, our advisors were named to both the Barron's Top Independent Financial Advisor list and the Forbes' Next-Gen Wealth Advisor list. We are proud to see our advisors recognized for the important work they do to help their clients achieve their life goals and dreams.

We're also seeing the ongoing change in the landscape of investor demographics. We expect the advisor practices to evolve in order to meet the market opportunity created by serving more diverse clients. Thus, we're investing to be a destination of choice for a diversity of advisors, as exemplified this quarter by our addition of an all-woman firm and a team of Hispanic advisors.

To support this investment, we have created a program to attract and grow advisor practices that are best positioned to serve the changing investor marketplace. We believe these diversity and inclusion efforts can be a differentiator for our advisors.

Now moving to our third quarter financial results. We continued to generate growth and operating leverage. Gross profit increased 27% year-over-year as a result of growth across all revenue lines. We delivered operating leverage by staying disciplined on our expense management, while increasing investment in organic growth. As a result, third quarter GAAP EPS was $1.19, up more than 80% from a year ago. Matt will review our financial performance in greater depth.

Let's now turn to our third quarter business performance, starting with brokerage and advisory assets. They were $681 billion, up 22% year-over-year as a result of organic growth, assets from NPH and market appreciation.

Organic net new assets were $4.4 billion in the third quarter, which translates to a 3% annualized growth rate. This included net new advisory assets of $5.1 billion or 7% annualized growth rate. As for our asset mix, advisors continue to use more of our advisory, corporate and centrally managed solutions, which enhances our return on assets.

Let's now move to our strategic priorities of growing our core business and executing with excellence. With respect to core business growth, we think about that primarily as increasing assets by adding new advisors and helping existing advisors grow as well as driving a better return on assets.

We see encouraging performance across all 3 of these areas. Today, we will focus our remarks primarily on our efforts to add new advisors to our platform. Now let's start with our recruiting results. Recruited assets were $9.1 billion in the third quarter, up from $6 billion the last quarter. Now this continues the positive trend in our recruiting results as we move through the year.

There are a number of factors that have contributed to this increase. First, over the last 6 months, we've been focused on improving the efficacy of our business development program by reengineering sales processes and enhancing the team's capabilities.

Second, we adjusted our go-to-market approach by using data analytics to better focus our efforts. Third, we are leveraging our digital capabilities to provide scalable messages as a complement to traditional one-on-one dialogues. We like the enhanced performance we've seen to date with these efforts, and we'll continue to sharpen our skills as we go forward.

In addition to investing in the capabilities of our team, we've also worked to position both our corporate and hybrid platforms for profitable growth. We made a number of changes that included aligning transition assistance and recruiter compensation with financial returns. We also simplified and lowered corporate pricing, introduced new capabilities and added a requirement that advisors joining the hybrid platform have a minimum of $50 million of advisory assets.

As a result of these efforts, we've seen an increase in the volume of our recruiting, and we've attracted a mix of advisors who use more of our services and drive the higher return on assets. As we assessed the contributions from the respective changes, the key drivers were the transition assistance, recruiter compensation, pricing and new capabilities, and we will continue those practices going forward.

The change that did not contribute as much was the minimum asset requirement for our hybrid platform. As a result, we have removed this requirement effective earlier this week. We believe this modification better positions our hybrid platform for profitable growth while maintaining our recruiting momentum on the corporate platform.

As we look ahead, we feel good about our fourth quarter pipeline and the team's direction and ability to capitalize on our opportunities.

Now as a complement to our recruiting efforts, we are experimenting with another opportunity to add advisors to our platform over the long term. Across our industry, we anticipate a shortage of advisors to meet the growing demand for advice. In order tohelp meet this demand, we believe we have an opportunity to bring new advisors to our industry in a new way. As a result, earlier this year, we began pairing a group of new-to-the-industry advisors with seasoned LPL advisors. This structure helps new advisors learn the profession in a hands-on environment and it also helps existing advisors with another lever of growth and a potential succession path.

This experiment has given us perspective and insight that culminated in our announcement last month of our new Independent Advisor Institute. This program will drive the expansion of our experiment of bringing new advisors to the industry. After we complete the next iteration of this experiment, we believe we will be positioned to scale the program in the future. We look forward to sharing updates on our progress as we move forward.

In addition to recruiting and training new-to-the-industry advisors, we continue to view M&A as a strategic lever for growth as well as for expanding our capabilities. As we consider potential opportunities, we remain focused on ensuring they're aligned with us strategically, financially and operationally.

Let's now turn to our second strategic priority, executing with excellence. We remain focused on making it easier for advisors and their clients to do business with us and enhancing our technology. With respect to ease of doing business, we're working to create a differentiated service experience at scale. We are doing this by building an end-to-end continuous improvement program, reimagining our service model and transforming our culture. Since the beginning of the year, we have delivered hundreds of enhancements to our advisor experience. The next phase of our effort is formalizing a dedicated team that is focused on harnessing the powerful feedback from our advisors and channeling it into continuous improvement that is repeatable, sustainable and focused on impactful solutions.

In addition, we are beginning to redesign our service model by pairing technology-enabled help with highly trained human expertise to ensure consistent, accurate and efficient service for our growing advisor base.

To support all of these efforts, we are driving a foundational transformation of our culture. We are taking a scientific approach to infuse a client-centric mindset, logic-based thinking and mission-driven alignment in everything we do. This transformation involves the addition of new capabilities for our managers with regard to how we hire, develop and retain talent. And while there is work to do, the feedback from our advisors has been encouraging. They are telling us that we are focused on the right things and that they are seeing improvements. We will maintain our focus and continue our progress to deliver a differentiated service experience that will help our advisors accelerate their pace of winning in the marketplace.

Now let's turn to enhancing our technology, which is primarily focused on ClientWorks, our core operating platform that we will continue to invest in and evolve over time. Over the past 3 quarters, we have released a steady stream of tactical enhancements to version 1.0., which increased the functionality, performance and resiliency of the system. In September, we started delivering new capabilities as part of version 2.0, including a streamlined new account opening experience, enhanced client and account dashboards, a consolidated annual client review and an embedded advisor feedback portal.

Looking to next year, we have a vision for version 3.0 that includes more third-party integrations, enhanced advisory offerings, advanced planning tools and new mobile and texting abilities. Going forward, we plan to continue to invest in ClientWorks as well as our broader technology capabilities to help our advisors drive scalability, efficiency and growth in their practices.

In summary, we're pleased to deliver another quarter of business and financial growth. We plan to remain focused on our strategic priorities of growing our core business and executing with excellence. We believe our strategy positions us well to serve our advisors, drive profitable growth and create long-term shareholder value.

With that, I'll turn the call over to Matt.

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

All right. Thank you, Dan. Yes, I'm glad to speak with everyone on today's call. We had another strong quarter in Q3, growing both assets and gross profit. We also increased our level of investment to drive organic growth, while remaining disciplined on expenses to generate operating leverage.

As a result, our Q3 EPS prior to intangibles was $1.32, nearly double our level from a year ago. We are pleased with these results as we continue to focus on our strategy of growth and execution.

Let's look at our business results in greater depth, starting with total brokerage and advisory assets. We finished the quarter at $681 billion, up $22 billion or 3% sequentially, driven by market appreciation and organic growth. Total net new assets for Q3 were $4.4 billion, which is the highest level of quarterly organic inflows since we began tracking this metric in 2015.

I'd also note that this result includes absorbing $2.4 billion of outflows related to a small group of hybrid firms that we discussed last quarter. So organic growth was even higher prior to those outflows.

Looking at organic growth in greater detail. Net new advisory assets were $5.1 billion or 7% annualized growth rate. This included $1.7 billion in conversions from brokerage to advisory. These results were primarily driven by inflows to our corporate advisory platform. Our centrally managed platforms continued to grow as well, with inflows of $1.8 billion or approximately 1/3 of our net new advisory assets this quarter.

These results highlight 3 positive trends that benefit our gross profit return on assets over time: more assets converting from brokerage to advisory, more growth in corporate advisory and greater usage of our centrally managed platforms.

Now let's turn to our Q3 results, starting with gross profit. It was $493 million, up $10 million or 2% sequentially. This was driven by increases in advisory fees and cash sweep revenues, partially offset by a seasonal increase in production bonus expense.

Moving to commission and advisory fees net of payout. They were $123 million in Q3, down $3 million or 3% sequentially, as the typical seasonal increase in production bonus expense more than offset growth in commission and advisory fees. Looking at commission and advisory fees net of payout on a year-over-year basis. They were up $27 million or 28%, primarily driven by NPH assets and greater use of our corporate and centrally managed advisory platforms.

Looking at sales commissions in more detail. They were $194 million in Q3, up $33 million or 21% year-over-year. Of that increase, 18% was related to the full ramp of NPH assets and 3% was from core business growth. This was the strongest organic sales commissions growth on a year-over-year basis in 4 years. Looking ahead to Q4. We anticipate production bonus expense will continue increasing seasonally, as advisors achieve higher levels of production throughout the year.

As context, from Q3 to Q4 last year, our production bonus rate increased by about 30 basis points or $3 million. As for asset-based fees, which include sponsored and cash sweep revenues. Sponsor revenues were $122 million, up $5 million from Q2, primarily driven by higher average assets as well as growth on our no-transaction-fee mutual fund platforms.

Moving to cash sweep revenues. They were $127 million, up $6 million or 5% sequentially. As higher average short-term interest rates increased our yields. As for client cash balances, they were $28.2 billion, down $0.4 billion from Q2. However, I would note that the majority of the decline was in July, and we actually saw an increase in September. And so far in October, we have seen a further increase in balances.

Next I want to provide some additional color on a new metric we have added to our disclosures this quarter, net buying and selling activity. This metric provides insight into our level of investor engagement as well as dynamics around our cash sweep balances. As you can see on our new disclosure, investor engagement has increased meaningfully over the past 2 years, with average net buying more than double 2016 average levels. This increase is the primary driver of our lower cash sweep balances, as investors put more money to work in the market. We hope you find this new disclosure helpful.

Turning back to our results in cash sweep yields. Our Q3 ICA yield was 189 basis points, up 10 basis points from Q2, primarily from the remaining benefit of the June rate hike. Looking ahead to our Q4 ICA yield, we recently increased our deposit rates equivalent to a deposit beta of about 30% or 7.5 basis points on average. So the net benefit of the September rate hike will be approximately 18 basis points. And of that, some benefit showed up in Q3 balances that are indexed to LIBOR. Given those factors and assuming no further interest rate increases or changes to our deposit rates, we anticipate our Q4 ICA yield will be around 200 basis points.

One more item of note on cash sweep. I wanted to give you a sense of our strategic positioning in interest rate management capabilities. Historically, the mix of our cash sweep balances has been mostly tied to short-term rates. This was a conscious choice as interest rates were early in the cycle. However, as we move deeper into the cycle, we thought it was important to highlight that we have the ability to place more of our deposits at longer-term fixed rates as the bank demand for fixed rate agreements is strong. I would also note that we recently moved $1 billion of our cash sweep balances to fixed rate agreements with an average maturity of around 3 years. This brings our total fixed rate balances to just about 10% of the ICA portfolio. We'll keep you updated as our thinking and mix evolve over time.

Let's now move on to Q3 transaction and fee revenues. They were $119 million, up $2 million or 2% from Q2. This increase was primarily driven by $5 million of conference revenue, partially offset by a seasonal decline in transaction revenue. Looking ahead to Q4, we did not have any major conferences in the quarter. So we expect conference revenue to decrease by approximately $5 million.

Now turning to expenses, starting with core G&A. In Q3, core G&A expense was $209 million, up $17 million from Q2. This was primarily driven by our planned increase in service and technology to help drive organic growth. As we look at our expenses for the year, our Q3 results were in line with our expectations. With one quarter left, we are further tightening our full year core G&A range to $810 million to $820 million. This translates to a Q4 core G&A range of $208 million to $218 million, which includes seasonal increases, such as client statements and professional fees as well as the continuation of our planned investments for organic growth.

As we look forward to 2019, I wanted to share some context on how we are thinking about our spending plans. As a reminder, our long-term cost strategy is to deliver operating leverage by prioritizing organic growth investments, driving productivity and efficiency and adapting our expense trajectory as the environment evolves. This year's investments in technology and service are driving growth, and we see opportunities to continue that growth into next year. To give you a sense of our current thinking, we expect our core G&A growth to be around 5%, slightly more than our 2018 growth rate. We look forward to sharing a more specific outlook with you after we finalize our plans later this year.

Moving on to Q3 promotional expenses. They were $53 million, up $9 million or 21% sequentially. This was primarily driven by our Focus Conference in Q3 as well as higher transition assistance from our increased levels of recruiting. Looking ahead to Q4, we expect promotional expense to decrease by about $4 million, as we anticipate lower conference expense, partially offset by increased transition assistance, loan amortization and seasonal marketing expenses.

Moving on to capital management. Our balance sheet remained strong in Q3. Cash available for corporate use was $392 million, well above our target of $200 million. As for our leverage ratio, it was 2.2x, down 0.1 sequentially, as we continue to grow earnings.

Turning to capital deployment. Our priorities remain investing for organic growth first and foremost, conducting M&A when appropriate and returning capital to shareholders.

Looking at organic growth, our investments are focused on recruiting new advisors to LPL, helping existing advisors grow and enhancing our technology. In total, we are on track to invest more than a quarter billion across these areas this year, a level of investment that we believe is helping our advisors win in the marketplace.

In addition to our investments for organic growth, we returned excess capital to shareholders by paying $22 million in regular quarterly dividends and deploying $122 million in share repurchases. Year-to-date, we have deployed $300 million in share repurchases, and we have $200 million of authorization remaining. If we continued at our recent pace, we would complete it in about 2 quarters. Given our expected levels of cash generation, in our view that our stock is a compelling buy, we're working on a new share repurchase authorization. We'll provide you with more detail after we complete this work.

As a final point, I want to share that we've scheduled our next Investor and Analyst Day for Wednesday, May 22, 2019, in New York City. We look forward to providing more details as we get closer to the event. In closing, we are pleased with our continued strong business and financial results. We remain focused on growing assets and gross profit, investing for organic growth while staying disciplined on expenses, and deploying capital to drive growth and shareholder returns.

With that, operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Christian Bolu with Bernstein.

Christian Bolu ***Sanford C. Bernstein & Co., LLC., Research Division - Equity Analyst***

Wanted to dig into your gross profit ROA trends, as it's one of the biggest pushbacks I get on the stock. So I guess, Slide 11 is -- on your deck is quite instructive. I guess, year-over-year gross profit ROA was up 1.3 basis points. Well, all of that was cash sweep. So ex sweep, it's fairly stable-ish. And this is in the backdrop where presumably you're growing higher ROA businesses, whether it's the corporate platform, advisory, centrally managed. So I guess, the question is really why aren't we seeing like better core gross ROA growth? And then in a less favorable macro backdrop, i.e., flat markets flat rates, how do you think about growing -- kind of growing the business?

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, sure, thanks, Chris. I mean, I think we're -- I'd emphasize we're excited about the trends in the business. We're excited about the higher ROA assets that are coming onboard to your point. I mean, when you look at those trends year-over-year, I mean, I just encourage you we quote our return on assets overall. But keep in mind, each of those categories don't necessarily move in line exactly with assets. So as an example, if you look at commission and advisory fees, which are the primary areas that move based on asset levels, we've got a nice improvement year-over-year from 6.9 to 7.3 basis points. And if you look at an area where visually you see some compression on the transaction and fees, well, that's an area where transactions are driven more by activity levels and fees are driven more by the number of advisors we have as opposed to the assets they have with us. So there's a little bit of noise in that, but I think takes away from the core headline that we're driving assets into higher ROA areas of our business.

Christian Bolu ***Sanford C. Bernstein & Co., LLC., Research Division - Equity Analyst***

Okay. And then on the cash -- no, thanks for the color on the net buy and also the October cash levels being higher. I know you can never say never, but best you can tell, have we seen the worst of the cash levels declining, i.e. are we past the worst here or the bottom here? And maybe if you think like most of the maybe yield-seeking or nontransactional cashes of the platform and we're bottomed out here?

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes, so Chris, this is Dan. Maybe I take that and then, Matt, you could just jump in with any color. I think, look, when we think about the primary driver of the cash balances, I think we look to investor sentiment as the gauge there. And I think as that disclosure reflects that you mentioned, you see strong investor engagement that quite frankly is picked up over the past 2 years. And with that, we think that leads to putting more money to work in overall investors' accounts and thus that has the opposite impact on the cash balances. And that's the primary driver. And I think if you believe that the economy continues to chug along in a solid way, then you would, I think, expect to see investor engagement hanging in there and continuing to be robust in creating discretionary income that can be put to work. I think that said, certainly the market or the equity market's performance also has an impact on investor engagement. And in many cases, in terms of volatility, we actually see some people move to the sidelines and you see a greater allocation of assets to cash. And you certainly see more trading activity occur as advisors tend to rebalance portfolios. And I think we see some of that trend occurring in October correlated with this velocity or in the marketplace. And so that's how -- long-winded way of saying I can't predict exactly whether we've bottomed out yet or not, but those are the drivers around we think about our cash balances and how we think about potentially the movement of them going forward. I do believe that since you've been in a protracted strong period of investor engagement that perhaps new money being put to work is new money that's being attracted and coming in versus rebalancing portfolios. So that may be one way to think about the ongoing pressure on the cash balances versus what we've seen over the past 2 years. I don't know, Matt, if you want to add anything to that.

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

No, nothing else, well said.

Operator

And our next question comes from the line of Bill Katz with Citi.

William R. Katz ***Citigroup Inc, Research Division - MD***

So just on your comments, Matt, around sort of the extension on the ICA that seems to be an incremental positive, given it's so late in the rate cycle. Have you done any stress work around your core deposit base to sort of think about how far you might be able to go without taking on any kind of sort of liquidity risks within the cash sweep aum in total?

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, I mean, I think I -- it's a -- I think getting out of your question, what's the most or the highest percent fixed you can have in the portfolio, just given the nature of movements of cash back and forth on a daily basis. I think that's the question. Yes -- and I think our -- in that regard, our sweep is no different than others, right? When you -- when other folks are looking at the fixed versus floating percent, I think almost everybody will have a certain percent that remains in floating purely from liquidity purposes, separating it apart from their view on the interest rate risk exposure that they want to have. And I think we bring to it that same lens. So I don't think we're any different than anybody else.

William R. Katz ***Citigroup Inc, Research Division - MD***

Okay. And then just a follow-up question on the organic growth. So in September, trends look to accelerate nicely off of what you were also experiencing previously and are seeing a number of different headlines since the quarter has closed. So maybe a 2-part question. One, is all that new growth that's been announced, I presume that's not part of the 9/30 number. But maybe just stepping back more broadly, I know Dan spent a lot of time early talking about a bunch of iterations of new opportunities. But is there anything you can point to here in terms of market share or specific aspects of new technology or products that is driving such growth and maybe you could comment a little bit on the brokerage side, which actually turned positive in September as well? I know it's in there, so I apologize.

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes -- no, so sorry if I missed some of it, but let me take a swing at that. And then again, Matt, you fill in anything that you think I may have missed or you could add color to. So look, when we think about organic growth, we're encouraged by the results in Q3, and it's a #1 priority, it's a big part of our strategy. We continue to focus on it, and we'll continue to work to drive that higher. I think as Bill asked, one of the key drivers of that organic growth is certainly the assets that we attract to the platform, right? And we think about that across 3 areas: the new assets that we attract through new advisors; helping our existing advisors grow their business; and then, of course, the retention of our advisors. And in Q3, I think we had pretty solid performance across all 3 of those lenses. If you look at just a couple of them maybe to highlight, so on the recruiting front, I think we continue to focus on how do we improve the efficacy of the performance of our recruiting and business development teams so that we can most -- make the most out of their capabilities. And we continue to work on that. We've seen good progress there and a really good on improvement in their overall performance. So that's encouraging if you think about that in a sustainable way. I think we continue to work on the appeal of the model too and whether that's tweaking pricing or adding new capabilities or even working on the service and the technology front are ways of which we drive the appeal of the business. And I think our continued focus on improving the service and improving ClientWorks are 2 great examples that helped the appeal of the model. And then finally, I think when you think about existing advisors, what are we doing to support and help them to position them to grow going forward and here think about digitizing their practices such that we make them more efficient, i.e., lower their cost and scalability. Two, we continue to add to our advisory platform capabilities that help them differentiate their advice, such that they're positioned to win going forward and then this evolution of their overall practice management so that they run a better, higher performing practices. And so that's where we're really focused from investments and capabilities that we've been delivering throughout the year. And we will continue that going into '19. So I think those are some of the key drivers of the organic growth. And look, we feel good about the third quarter. As I said, I think it's an indication of maybe some of the manifestation of our strategy and some of the investments that we're making. And we feel confident that we can continue to improve that number going forward. So I hope I've got some of that, Bill.

Operator

And our next question comes from the line of Steven Chubak with Wolfe Research.

Steven Joseph Chubak ***Wolfe Research, LLC - Director of Equity Research***

So wanted to start off with a question on core G&A. Really appreciated the early guidance and the early look on expense put in for next year. It does sound like the 5% growth actually does contemplate a very healthy level of investment. But I was hoping, Matt, you could speak to the amount of flexibility that target affords you if the revenue backdrop ends up being a bit more challenged?

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, I think a couple of things. I mean, I think first and foremost, it's good to think through how our model reacts in a challenging or a down market, right? There's some natural hedges and offsets that are built in. So if you have a decline in markets like we saw in the past few days prior to today while your asset-based revenues will decline is typically offsets from cash balances going up and trading levels going up as advisors rebalance their portfolio. So I'd just start with a -- I think our business model makes us less susceptible to those movements than it would otherwise be. I think on the core G&A front, given that I think 2 things: one, we always maintain flexibility, it's key to our philosophy and principles around expenses and that we can you adjust, given the environment that we're in. But I think what you hear us saying today is the investments we've been making, primarily in service and technology, are really working well. And I think we're excited about that, and we want to continue that. And if it's -- if for some reason the environment doesn't allow for that level of investment, well, then we'll prioritize and adjust. But that's not how we feel today. I think we feel really confident that those investments are the right things to do.

Steven Joseph Chubak ***Wolfe Research, LLC - Director of Equity Research***

And just one follow-up from me on capital management. Really nice to see all of the investments that you've made really driving healthy levels of organic growth. It does look to us like there's more than enough capacity to support your organic growth needs, just given the level of free cash flow generation. As -- and as we think about other capital return priorities, balancing M&A versus buyback, I was hoping you can give us an update, given how much your stock has come in, whether you'd look to tactically get much more aggressive here? Or is the M&A landscape starting to look sufficiently compelling where you might be able to get more attractive properties on the cheap?

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, I mean, I think a few things. I mean, I think on M&A, I think we've talked a lot about how we think that can complement our strategy, and that is something that is hard to predict. And if there's something there that makes sense versus something that doesn't. I mean, I think we've had a good acquisition on the NPH front that was a great success. I think we've always got M&A in our focus. That being said, on share repurchases, I think to kind of build on what you said, our model positions us really well to generate excess cash that we can deploy as opposing to having to keep it on the balance sheet like any other models. And that excess cash above and beyond what we're investing first and foremost for organic growth, we have been deploying into share repurchases. I think we think our stock is an attractive buy. To your point on over the last month, it's even a more attractive buy. And if you look at the pace we've been buying at, that would afford us a couple of more quarters of share repurchases under our current authorization. So we're doing work on determining what a new authorization would look like. So we're not ready to talk about today, but when we do complete that work, I think we'll share that update then.

Operator

And our next question comes from the line of Craig Siegenthaler with Crédit Suisse.

Craig William Siegenthaler ***Crédit Suisse AG, Research Division - MD***

I just wanted to come back to the improving brokerage net new asset trend that just inflected positive in September. And this also comes back to a comment in the Raymond James call earlier today, but it looks like the migration from commissions may be slowing. So do you think this is a case on the macro front? And also at LPL specifically, what other factors have been driving this recent improvement in brokerage NNA that we saw over the last couple of months?

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes, so let me take a stab at some of that. And again, Matt, you provide any quantitative support to any other commentary. So look, when we think about brokerage, as always, we've maintained a position of supporting both advisory and brokerage. We think that's best to advisors to have different options to meet the wide variety of different clients that they may serve and support. And we continue to make sure that we want to do that well. So the support, the investment, the resources there to efficiently and effectively provide those types of solutions, we've maintained both with respect to advisory and brokerage. And I think what you're seeing is a couple of things occurring: one, a little less pressure on the regulatory front relative to brokerage products and still some uncertainty around exactly what the Reg BI will derive with the SEC's work. But a little less onerous sort of overture around that has helped with respect to interest in those brokerage products and being able to deploy them without some real fear for regulatory environment on the other side of that is helpful to the mindset of the advisors. I think secondly, you've seen some innovation in products across the annuity space that is helping -- when I say annuity, I mean fixed and variable annuities -- that is helping advisers take some solutions that are creating a more interesting and compelling value to clients. And that certainly is helping with respect to some momentum building around brokerage products. Now -- and I think quite frankly, just the resetting in the industry of commission rates and maybe some of the structure around how these products are offered, which just make them more of an interesting, viable, long-term solution that create value for clients. And so with that foundational and fundamental shift, I actually think the advisors are now finding a new rhythm as to how to use them and effectively support their clients' needs with them. So I think that has some sort of contribution perhaps on the margin around the edges. But I think those are the biggest drivers that you're beginning to see a higher utilization of brokerage solutions, again, to help clients with respect to their needs. Now you may find a varying allocation of assets and solutions across the different product categories based on the equity market performance or interest rate environment. So we do see some of that moving around, but I do this sort of stable and growing demand for brokerage products is an encouraging start. It's probably too early to call a trend, but it is an encouraging step forward. I don't know, Matt, if you want to add anything to that.

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

No. Well said.

Craig William Siegenthaler ***Crédit Suisse AG, Research Division - MD***

Helpful, Dan. And just as my follow-up on the better recruiting results, can you shed some light on which types of firms the advisors are joining LPL from, especially if there's anything surprising in those trends outside of the Big Three?

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes, I think no news from here, the traditional places that we've tended to focus in recruit firm are still places that continue to contribute to that overall effort. So think about the warehouses, think about other independents as being the primary sources of those new advisors. We continue to work with our model to really explore how we expand the versatility of it. So it creates an appealing scenario for even more potential advisors, and we continue to explore and work on that and experiment with that. And hopefully, we'll have some new and interesting opportunities in '19 that will broaden that appeal even further. But today, that's where the primary source of those advisors come from.

Operator

And our next question comes from the line of Devin Ryan with JMP Securities.

Devin Patrick Ryan ***JMP Securities LLC, Research Division - MD and Senior Research Analyst***

Maybe a couple of more here on recruiting. So good to see the net advisor additions, and thanks for all the detail in the pipeline. When we think about the net headcount trends, how should we be thinking about any departures from IFP? I know there's been some headlines recently. But do you guys have any updated expectations on retention there now that we're a couple of quarters removed from the news that they're leaving to launch a new broker-dealer?

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes, so specifically with respect to IFP, I think to answer your question in short, we feel that's going well. To give you some color and some context around that, I think as a reminder to everyone, IFP was a large enterprise where we teased out we weren't strategically aligned with them and we have mutually agreed to separate. And their sort of next iteration, they're creating a broker-dealer, which I believe will be operational the first half of next year. And to remind everyone from an asset standpoint, they've got about $12 billion in assets under management at the beginning of the year. And what we've been doing and what they've been doing is just making sure that the advisors know their options, so they can make an informed choice about how they think about their affiliation going forward. And so at this point, I'd say roughly a third of the advisors, to our knowledge, have made a decision. And I think 3 out of every 4 has made the decision to stay on the LPL platform. So we feel pretty good about that progress. There's work to do, but I think so far, we see a good trend.

Devin Patrick Ryan ***JMP Securities LLC, Research Division - MD and Senior Research Analyst***

Okay, great. Appreciate that color. And then a follow-up. With the recruiting this quarter and having kind of net additions for the first time in a while, I guess, something that we have to think about maybe more going forward is transition assistance coming through the system or incremental transition assistance, I think as you mentioned, Matt, for next quarter. So I know it depends on what channel advisors are coming in through. But maybe if you can just help us kind of think about incremental transition assistance from result, I guess, this quarter and then maybe kind of highlight it for next quarter that, that would be a contributor. And just anything else you can kind of help us think about how to model that to the extent the pipeline materializes and net recruiting is the new trend here.

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, Devin, I mean, I think the key is -- and we've talked a little bit about it in the prepared remarks on how we've aligned transition assistance with our profitability, right? So we pay more for folks that join the corporate platform versus the hybrid platform. We think they're both aligned well for both. I would say, the vast majority of transition assistance now is in the form of loans, so the expenses incurred over time. So I think when you think about from an individual quarter basis, I think we'll keep you updated like we did this quarter on what we expect for the following quarter. But I think the P&L impact over the long term is consistent with the length of loans, which are typically 5 years. So they won't have a short-term P&L impact.

Devin Patrick Ryan ***JMP Securities LLC, Research Division - MD and Senior Research Analyst***

Got it. Very helpful. Last just real quick modeling one here as well. Just with some of those market movements had a big market move up in the third quarter, obviously, and we're starting this quarter with kind of a tougher start. And so some of the business drivers like trailing commissions or asset-based fees, can you maybe just give us a rough math, if possible, around every percent movement in market? At least today, I know you guys have kind of given before. But just to kind of think about on those several items, just given that we've seen some volatility kind of in both directions over the past couple of quarters?

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, sure, Devin. I mean, I think as you know well, the business model has some natural hedges in it. So when the -- when assets move down, I think the rule of thumb we give is every 100 point move in the S&P would be about a $20 million decline in EBITDA related to the asset side. But then that is -- would be offset by any movements into cash and the sweep revenues associated with that, and then typically, any transactions from the trading levels that would typically increase in an environment like that. And I think what we've seen so far in October is what you would typically expect. The cash balances have moved up a little and trading levels have moved up a little. So those will be offset to that. But if you're looking for a rule of thumb simply on the asset side, it'd be about that $20 million.

Operator

And our next question comes from the line of Chris Harris with Wells Fargo.

Christopher Meo Harris ***Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst***

On the outlook for expenses for next year, I'm sure you don't want to go into specifics at this time. But kind of a bigger picture, can you talk a bit about what the main drivers of that growth are? And then maybe help me to answer that question a little bit. Is it possible to identify how much of that growth is maintenance versus what you would perhaps classify as growth spend?

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, I mean, I think I'll start in the categories, are similar to what we're focused on in 2018, which is investments in service and investments in technology. And I think the deeper we get into our investments in organic growth, I think the more they get allocated to new capabilities and things that are going to make our advisors' practices and lives better and more efficient. There's always maintenance every year, but I think the incremental growth when I think about next year is on new capabilities and more efficient experiences really focused on making our advisors more efficient.

Christopher Meo Harris ***Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst***

Okay. And as it relates to technology, once you guys get through ClientWorks 3.0, how do you think you'll compare the industry as it relates to technology and capabilities?

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes. So I think, Chris, when you think about 3.0, we think about our objective and our vision creating an industry-leading platform, and that would be a big step towards that outcome. And you've got your core operating platform and then you've got all the other elements that we're building as part of that platform like the third-party integration concepts that we've talked about, a lot of the improvements in the overall workflows and advisory platforms, integrating in financial planning tools, proposal generation. So there's a lot of new elements that are going into that overarching platform we call ClientWorks. And so we feel like we would be a big step forward towards creating an industry-leading platform. If we're not there, we feel like we would be at the high quartile of options that are out there.

Operator

And our next question comes from the line of Chris Shutler with William Blair.

Christopher Charles Shutler ***William Blair & Company L.L.C., Research Division - Research Analyst***

So Dan, I guess, first just regarding the elimination of the $50 million threshold you put in place a year ago. Can you just talk about what didn't work or what changed, because that hurdle was never going to be positive for the recruiting headcount. But you're essentially, I think, banking that the profitability of the new advisors would outweigh the opportunity cost of fewer advisors. So maybe just a little bit more detail on the thought process there.

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes. Thanks. And so obviously, we were looking at it from very much a strategic standpoint in context. And right, we were positioning -- trying to position both platforms for growth. As we said earlier, we think that's really important to create diversity on our platform to create a greater appeal to a greater number of advisors. And so we very much are committed to having both successfully grow as we move forward. And we turned a number of dials in order to try to experiment and explore what would work best in order to achieve the positioning that we were trying to write. And so you had TA adjustments, you had pricing adjustments, you had new capabilities that we rolled out to the different platforms, et cetera. And I think we always went into it with this notion that we were going to assess the trends that we were seeing with respect to our execution and our progress along the way and try to understand which dials made the most sense relative to what we were trying to achieve. And I think when you step back and you looked at that this desire to create a good momentum for growth on our corporate RIA and at the same time make sure you have a very competitive hybrid platform that also is contributing and attracting new advisors, well, we kind of determined which ones were having the most contribution. And when you step back and looked at it, the hybrid RIA platform are the minimum on it, didn't have a lot to do with the mix between going corporate versus hybrid. And if it was acting as a governor on the overall growth of our hybrid platform, then it made it pretty much of a no-brainer to remove it, such that we still get the healthy mix of advisors go into the platform that serves them best. But we also create a little momentum around our growth. And so that was the concept and that was the iteration that we took. So think about it as a strategic iteration that we just learned and we took that insight and made the adjustment going forward that we thought was best strategically.

Christopher Charles Shutler ***William Blair & Company L.L.C., Research Division - Research Analyst***

And then on the ICA, the fixed rate portion, I think I missed this, Matt. But what exactly are you investing in there and how much better is the yield today versus the 190 bps in the ICA overall?

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, I think, Chris, when you think about our program, these are more -- all the sweep funds are just placed with third-party banks, right? They're making the investments, not us. So it's just a matter of the tenure of the agreement and the type of fixed -- type of interest rate that you negotiate with that bank. So think about it that way. So this one is small, right? So it's $1 billion. It was about on average 3-year fixed rate. So I think you can just look at the yield curve and what the difference between near -- short-term LIBOR is in a 3-year fixed rate, and that would probably give you a good idea of the difference.

Operator

And our next question comes from the line of Michael Cyprys with Morgan Stanley.

Michael J. Cyprys ***Morgan Stanley, Research Division - Executive Director and Senior Research Analyst***

Could you just help frame out the profitability of the recruited asset pipeline that you guys have relative to some of the recent departures, especially in light of some of the recruiting offers you guys have out there in the marketplace today too?

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes. So let me take a part of that, because I think you're making an assumption that may not be accurate, but let me clarify that for you. And then certainly, Matt, you can talk about profitability if you want. So with respect to our transition assistance, I think the implication that we're paying higher rates, and I think that's probably not the right takeaway. I think what you should think about differently is us again thinking about our TA in a more strategic way. And we had historically paid the same transition assistance for someone joining the corporate platform as the hybrid platform. However, advisors that joined the corporate platform use more of our services and thus drive more profitability, right? So what we did was we shifted and pivoted away from that historical way of doing transition assistance. And what we did was we aligned our transition assistance to the relative returns on these platforms. So what you got was a higher TA rate now that we pay for corporate, a lower TA rate for hybrid platforms. But if you took the historical mix of hybrid versus corporate advisors who joined the platform and applied the aggregate TA rate, you're going to find a very similar rate that you had historically. So that may help you just at least think about the transition assistance and kind of how we're approaching it. I'm not sure if you want to speak to profitability on top of that.

Matthew Audette ***LPL Financial Holdings Inc. - MD & CFO***

Yes, I mean, the only thing I'd add is when you look at the $9 billion of recruited AUM for the quarter and to Dan's point on profitability of corporate versus hybrid, I would just highlight that the vast majority of that $9 billion are folks that joined the corporate platform. So the profitability would be consistent with that platform, which is a little higher.

Michael J. Cyprys ***Morgan Stanley, Research Division - Executive Director and Senior Research Analyst***

Got it. Okay. And that kind of, I guess, partially answers the next -- my follow-up question just in terms of the mix of AUM and the recruited platform sounds like 90% corporate. I guess, how does that compare against what you've been pulling in over the past, say, 12 months and what your expectation as you go forward from here and then also overlay it with how you're thinking about average return on client assets as well, revenue returns?

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

With respect to your first question around the mix year-to-date, it's similar to maybe a little bit more on the corporate platform than we've seen year-to-date. I think as we think about that number going forward, we don't have a specific target in mind now that we've adjusted the transition assistance, aligned with the relative returns on the 2 different platforms, we are indifferent relative to exactly what that outcome is and what that mix is. I think what we want to do is make sure that we've got an appealing model that has the capabilities that the advisors need to be successful on either model. And believe that because we're building one chassis, we could invest in one platform and apply those investments to both the hybrid and the corporate. So we like that dynamic, and I think you'll see us approach it in that way. So I hope I answered your question.

Operator

And that concludes today's question-and-answer session. I would now like to turn the conference back over to President and CEO, Mr. Dan Arnold, for closing remarks.

Dan Arnold ***LPL Financial Holdings Inc. - President, CEO & Director***

Yes, so thanks, everyone, for taking the time to join us this afternoon. And we look forward to speaking with you again next quarter. Have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a wonderful day.