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PRESENTATION

Operator

Good afternoon, and thank you for joining the Fourth Quarter and Full Year 2019 Earnings Conference Call for 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 of 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 strategy 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 under the caption forward-looking statements in the earnings press release as well as the company's latest SEC filings to appreciate these -- those important factors that may cause actual financial and 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 such non-GAAP measures to the comparable GAAP figures, please refer to the company's earnings release, which can be found at investors.lpl.com.

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

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

Thank you, Catherine, and thanks, everyone, for joining our call today.

As we discuss each quarter, we believe a thoughtful strategy combined with extraordinary execution and a mission-driven culture will drive long-term growth and value. Working within this framework, we delivered another quarter of solid business and financial growth.

Let's start with the review of the drivers of our business in the fourth quarter. Organic growth, combined with higher equity markets drove total brokerage and advisory assets to a new high of $764 billion. With respect to organic growth, strength in new store sales and advisor retention as well as steady same-store sales drove fourth quarter net new assets of $8.8 billion, which translates to a 4.9% annualized growth rate. For the year, organic net new assets grew at 3.8%, up from 2.3% a year ago.

Turning to our financial results. We continued to drive solid top line growth with gross profit up 6% year-over-year in the fourth quarter and 12% for the year. We also remained focused on investing in the business, while staying disciplined on expenses to drive operating leverage. As a result, fourth quarter EPS prior to intangibles, grew 13% year-over-year to $1.68 and contributed to a 35% increase for the full year to $7.17.

Looking at the marketplace more broadly, we continue to operate in a large and growing market with favorable secular trends towards independence and advisory solutions. In terms of the economic backdrop, our current view is that many of the core drivers of the economy, such as employment and consumer spending, combined with renewed business investment are solid and supportive of economic growth and investor engagement. So while we remain flexible in the event of changes in the macro environment, the strength of our balance sheet and business model positions us well to continue investing to drive organic growth.

With that in mind, we thought it would be helpful to use our strategic framework to provide some color on where we are investing. Our first strategic play involves winning in our traditional independent and institutional markets, while also expanding our affiliation models. With respect to our traditional markets, the efficacy of our business development team and our differentiated capabilities drove solid recruiting outcomes within the quarter and for the year. Fourth quarter recruited AUM was over $10 billion, bringing our full year total to $35 billion, both of which are the highest levels we have recorded. We also continue to make progress on the development of our new affiliation models. This quarter, I'll highlight our new Premium offering. After bringing this model to market in the third quarter, it has been well received and generated good feedback from prospective advisors. We now have our first couple of committed practices, which we expect will join over the next few months and we are encouraged by our growing pipeline of interested advisors.

As we look ahead, we believe enhanced performance in our traditional markets, combined with new affiliation models can drive our recruiting results over time. We also continue to invest in capabilities and pricing to help our advisors differentiate and win in the marketplace. Over the past several years, our pricing investments have been focused on our advisory platforms and transaction costs. In 2020, we are taking the same approach in light of the continued secular industry trends towards advisory solutions and lower retail trading commissions. As a part of this effort, in the fourth quarter, we rolled out a no-transaction-fee ETF offering that builds on the success of our no-transaction-fee mutual fund solution. We made this offering available on both our corporate and hybrid advisory platforms in order to extend the benefit of lower ETF pricing to all of our advisors.

Now let's turn to our second strategic play where we are working to create an industry-leading service experience that enhances our ability to attract and retain advisors. As context, at the beginning of 2018, we launched our Ease of Doing Business program, which focused on investing to enhance and differentiate ClientWorks and making continuous improvements to the advisor experience. As a result, we drove our NPS score up by 45 points over the past 2 years. As we move into 2020, not only are we continuing the Ease of Doing Business program, but we are also adding a new effort, transforming our service offering into a client care model. This includes providing multiple channels for advisors to engage with us, intelligent routing of their inquiries and case management for complex issues.

In the fourth quarter, we made progress on the development of our client care model by piloting our interactive voice response system and scaling our case management team into an enterprise-wide capability. Through ongoing dialogues as well as NPS and transactional surveys, we hear from our advisors that their service experience continues to improve. We remain focused on listening to and applying their feedback as we work to deliver a client care model that is unique to the wealth management industry and can further enhance our service experience, advisor retention and the NPS results.

Our third strategic play is focused on helping advisors in the independent marketplace enhance how they grow, protect and operate their businesses. In that spirit, we are helping them with new innovations, such as outsourced Business Solutions, digitized workflows, advisor-focused capital solutions and lead generation.

This quarter, I want to highlight the progress we've made on digitizing advisor workflows. As a reminder, we are focused on automating the 6 primary workflows where advisors spend approximately 80% of their time. At this point, we are roughly halfway through the overall initiative. A notable fourth quarter milestone was our integration of our free embedded CRM solution powered by Microsoft as well as 2 leading third-party offerings from Salesforce and Redtail. This is important because the CRM module is a foundational component of all the workflows. Together, these 3 integrated CRM offerings provide several benefits to advisors, including greater flexibility to use the best solution for their practices, the opportunity to lower costs with a free option and more effectively leveraging client data to drive efficiency across all of their workflows.

Over the past quarter, we achieved another key milestone by integrating financial planning capabilities, which are used in the workflow that turns prospects into clients. We did this by integrating 3 financial planning offerings, our free Goals-Based Planning solution and 2 leading third-party options from MoneyGuide and eMoney. Much like our CRM offering, this suite of integrated financial planning tools provides advisors with greater flexibility, lower costs and an expanded solution set to help clients invest for the goals that mean the most to them. As we continue to work to digitize the rest of the primary workflows, advisors who will be able to continue to enhance the efficiency and scalability of their practices. This, in turn, will better position them to deliver greater value to their clients and grow their businesses.

In summary, we are pleased to deliver another quarter and year of business and financial growth. We remain focused on combining strategy, execution and culture to serve our advisors, drive profitable growth and create long-term shareholder value.

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

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

All right. Thank you, Dan, and I'm glad to speak with everyone on today's call. Looking at our 2019 results, we are proud of what we accomplished within our framework for driving long-term shareholder value. Organic asset growth and recruiting reached their highest quarterly and full year levels in our history. This, combined with M&A and higher equity markets drove total assets to more than 3 quarters of a trillion dollars. We also continued to invest for growth while staying disciplined on expenses to drive operating leverage. Additionally, we increased the fixed rate portions on our ICA balances and corporate debt, which further reduced our sensitivity to short-term interest rates. At the same time, we remained active on the capital deployment front, returning over $0.5 billion to shareholders through share repurchases and dividends. Overall, we feel good about the results our strategy is driving and our positive momentum as we head into 2020.

Now let's turn to our results, starting with EPS prior to intangibles. It was $1.68 in Q4, which brought our full year total to $7.17, up 35% from a year ago. Looking at assets, we finished the quarter with total brokerage and advisory assets of $764 billion, up 6% sequentially and 22% year-over-year. Total net new assets were $8.8 billion in Q4 or a 4.9% annualized growth rate. And recruited assets were $10.6 billion in Q4, which brought our full year total to $35 billion, up 28% from a year ago.

Looking at our business mix, we continued to see positive trends this quarter. Advisory assets increased to 48% of total assets, primarily driven by advisory inflows of $9.6 billion or an 11% annualized growth rate. Within our advisory platforms, centrally managed net new assets were $2 billion or a 17% annualized growth rate.

Now let's move on to our Q4 financial results. Gross profit was $538 million, down $4 million or 1% sequentially. Looking at the components, commission and advisory fees net of payout were $134 million in Q4, up $2 million from Q3. The increase was primarily driven by higher advisory fees, partially offset by seasonally higher production bonus expense.

Moving on to asset-based revenues, sponsor revenues were $134 million in Q4, up $4 million or 3% sequentially, primarily driven by higher average asset levels and greater usage of our no transaction fee platforms.

Turning to client cash revenues, they were $155 million, down $7 million or 4% from Q3. The decline was primarily driven by lower short-term interest rates, partially offset by higher average cash sweep balances. Looking at ICA balances, they were $24.4 billion at the end of Q4, up $2.2 billion or 10% sequentially. Total fixed rate ICA balances also increased to $12.3 billion, up $3.3 billion from Q3 as we continued our duration extension program. This brought our mix of fixed rate balances to more than 50% of the ICA portfolio and into our target range of 50% to 75%.

Looking at client cash yields, our Q4 ICA yield was 222 basis points, down 19 basis points sequentially, primarily driven by the 3 Fed rate cuts in July, September and October. Looking ahead to Q1, we will have the remaining effect of the October rate cut. I would also highlight that the growth in balances in Q4 was in floating-rate contracts, which have a lower yield than our overall ICA portfolio. Given these factors, we expect our Q1 ICA yield to be around 210 basis points. This assumes no further changes in short-term rates, client deposit rates or the mix of our fixed versus floating rate balances.

Moving on to Q4 transaction and fee revenues, they were $118 million, down $3 million sequentially. The decrease was primarily driven by lower conference revenues following our national sales conference in Q3. This decline was partially offset by growth in our Business Solutions, which reached approximately 650 subscribers at the end of the year. I would also highlight that we launched our no-transaction-fee ETF platforms towards the end of the fourth quarter. So Q1 will be the first quarter with a full run rate impact of this program, which we estimate will reduce transaction revenues by $2 million to $3 million per quarter.

Now let's turn to expenses starting with Core G&A. It was $230 million in Q4, bringing our full year Core G&A to $868 million, which was within our outlook range of $860 million to $870 million.

Turning to 2020, we plan to continue to focus our investments on areas that will drive organic growth. A few of our priorities for this year are enhancing capabilities for our advisors, expanding our affiliation models and scaling Business Solutions. And as we shared last quarter, we expect to grow our investments at a slightly faster pace this year. More specifically, we are planning for 2020 Core G&A in the range of $915 million to $940 million. We will, of course, remain flexible to respond to changes in the environment, but based on what we see today, we are excited about our opportunities to invest to continue driving organic growth.

As for Q1, we expect Core G&A to be in a similar range to our fourth quarter total of $230 million as our additional growth investments will likely be offset by a sequential decline in variable compensation.

Turning back to Q4 promotional expenses, they were $51 million, down $11 million sequentially. This is driven by lower conference expenses following our national sales conference in Q3, partially offset by higher transition assistance. Looking ahead to Q1, we anticipate promotional expense will increase to around $60 million as we have 2 of our largest advisor conferences of the year in Q1.

Looking at share-based compensation expense, it was $7 million in Q4, relatively flat to Q3. Looking ahead, Q1 tends to be our highest quarter of the year, given the timing of our annual stock awards, so we anticipate this expense will increase by a few million dollars sequentially.

Turning to interest expense, it was $31 million, down slightly from Q3. The decrease was driven by lower average interest rates, mostly offset by $2 million of debt refinancing costs. As for Q1, we expect interest expense will be approximately $30 million, given our current debt balances and interest rates.

Moving on to our balance sheet, it remained strong in Q4. Cash available for corporate use was $204 million, and our leverage ratio was 2.05x. Turning to capital deployment, our priorities remain investing for organic growth first and foremost, taking advantage of M&A opportunities when appropriate and returning capital to shareholders.

Looking at organic growth, our investments are focused on recruiting new advisors, helping existing advisors grow and enhancing our technology. In addition to our investments for growth, we've returned excess capital to shareholders. This included $120 million of share repurchases in Q4, which brought us to $500 million for 2019. This drove our share count down by 7% year-over-year and kept us on track to complete our $1 billion authorization over roughly 2 years. We also returned capital through $20 million of regular quarterly dividends in Q4, which brought us to $83 million for the full year. In total, our 2019 capital returns to shareholders were $583 million or approximately $6.89 per share.

In closing, we are pleased to have delivered another quarter and year of strong business and financial results. We remained focused on growing assets and gross profit, investing to drive organic growth while staying disciplined on expenses and returning excess capital to shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Bill Katz with Citi.

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

Okay. So Matt, maybe sort of start off where you left off on expenses. Can you just sort of walk us through maybe a little more specificity about what helps define the ranges between a low and high and like what your macro framework is?

And then within that, can you maybe quantify how much the conference spending is in Q1?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Sure. So I think on the second point, the conference spending is the primary driver of the increase. I mean, there'll be a little bit from a transition assistance naturally, but I think the conference is the primary component of that.

I think on the spending, Bill, I think when you look at where we were spending in 2019 and the areas of capabilities and technology and service, those are really the big contributors that were helping drive organic growth. So we pivot and look towards 2020, it's really those same categories that we're focused on and a little bit more color on some of the things we're focused on from building out and developing the new affiliation models from scaling up Business Solutions and really investing in the advisory platforms. And I think when you look at the range of spending, I think there's a handful of things. There's things that drive that range like variable comp. There's things where we lay out our spending and gate the spending throughout the year. So if we see a pullback in the macro or the investments are not as compelling as we thought, we can land towards the lower end of that range. And if the macro is supportive and the investments are compelling and we have even more opportunities that could push us towards the high end of the range. So hopefully, that helps give you a little color on how we choose that.

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

Okay. That's helpful. And then maybe just as a follow-up, in terms of client behavior into the new year, sort of wondering if you could maybe speak to engagement levels, whether it'd be net buying and where trending of sort of cash balances to potentially upset the shrinkage on the yield?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes, sure. I mean, I think we'll release January metrics in February, as you know. But I think what we've -- kind of some color on what we've seen so far is, I think we've seen what you would expect in a market that's up. So we've seen strength in assets and assets increasing. We've also seen some of that customer cash or that sweep that we saw grow in December go back into the market.

I'd say, we've got a couple of days to go. But I'd say cash is, I'd call it, down slightly in January versus December. But again, I classified as we're seeing what you would expect to see in an upmarket and we'll give you the metrics in February.

Operator

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

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

So Matt, wanted to start off with a question just on the ROA outlook. You had another strong quarter of growth in centrally managed as well as advisory assets. I know that those channels have historically translated into better gross profit ROA, especially relative to some of your peers. This quarter, we saw a little bit more pressure on that line, at least relative to what we've seen recently. And I was hoping maybe unpack just what are some of the components that resulted in that contraction?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes, sure. I mean, I think when you look at gross profit year-over-year, whether the quarter year-over-year or the full year, we're seeing nice growth there, right? The quarter is up 6% versus Q4 last year. The year is up 12% year-over-year. But when you look at that metric, market movements can create some noise, right? Not all the revenue streams in there are driven by asset movements, things like transaction and fees and even the client cash revenues themselves. So when you look at what happened in Q4, I mean, the equity markets were up pretty large. They were up 9%. If you look at the full year, they were up 30%, right? So while market movements and market increases are definitely good for the business, when you look at that metric, when not all the revenue streams are driven by that, it can create some noise. Now you see the opposite effect, right? When you look at the end of 2018, when you had a drop in the markets, we saw some ROA increase there.

So I would just keep that in mind when you're looking at that particular metric that there can be noise from the market. Even when we're in a quarter, we're having all these -- the positive drivers that you've highlighted.

So maybe, Dan, I don't know if there's any color you wanted to add to that?

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

Yes. No, I think you've got the math right. And the only thing that I would add is we continue to focus with respect to our strategy on trying to create and add value to our advisors. And where we do that, you'll see these positive mix shifts. So you're seeing the value of the -- as an example, our corporate advisory platform and outsourcing the risks associated with that. Or you see, as you mentioned, the transition towards centrally managed or even advisory. And so I think that's what we continue to focus on is creating and adding value, recognizing that those trends will help drive that ROA, which is controllable, if you will, up higher.

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

Got it. And just one follow-up for me on organic growth. Now it's continued at a really healthy clip. Your IBD market share, I think, now sits north of 15%. I was hoping you could speak to the growth opportunity, how that's evolving within the IBD channel? And maybe your confidence levels in terms of your ability to sustain that mid- single-digit pace of organic growth as we look ahead to 2020?

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

Yes, it's a great question. And I think it's dead in the center of what our strategy is focused on. We have an aspiration and our strategy is focused on driving that organic growth upward over time. And I think -- we think about that over 3 fronts or 3 areas of which to do that. First, you've got new store sales. And here, we have good momentum, right? We've recruited $35 billion in -- of AUM in the fourth quarter -- or sorry, $35 billion over the full year, which was up over $27 billion in the prior year. So you see good growth year-on-year and we believe there is opportunity by continuing to improve and enhance the efficacy of our business development team, developing new capabilities that further help us differentiate, that just creates a more appealing model to continue to drive up -- recruiting in our traditional markets. And then you add to that the complementary broadening, our participation in the marketplace by creating these new affiliation models where now you're able to participate in a more significant way across movement of advisors and other channels. We think that combination creates opportunity to continue to enhance our overall new store sales.

The second, and I think, area of opportunity we see is in the area of retention. Our results continue to show improvement there. If you look over the last 2 years, retention has gone up from 95% to 96.5%. That's a good trend. There's good momentum there. And again, our second strategic play runs right at us continuing to improve that service experience, as reflected by the increase in our NPS score over the last couple of years. We believe if we continue to improve the service experience, along with that is going to come improved retention numbers. So this year, we're focused on adding this transformation of our new service model. You add that to the baseline work we were already doing around enhancing our technology, improving policies and procedures, you end up, we think, with an interesting opportunity of which to improve and enhance retention over time.

And then the last category you get to is same-store sales. And look, that area has been consistently steady. Over the last couple of years, we want it to be better. And we've challenged ourselves to innovate new ways of which to help our advisors increase the growth of their practices. So this is where we're focused on Business Solutions as a lever to do that, digitizing workflows. These new advisor capital solutions that we're working on, all of which we think are ways to go really deep to help advisors with tools that will help them transform, how they operate their businesses and heighten the probability they're able to grow their same-store sales. So when you put all of those multiple oars together, we're encouraged by the opportunities to continue to enhance our organic growth and improve sort of that NNA capture over time. So I hope that helps.

Operator

And our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Another follow-up around expenses. So Matt, I appreciate your comments around the nimble and I guess, responsive to the environment when it comes to expenses for 2020. But assuming you guys meet the organic growth objectives and the environment stays kind of steady the way you've described it on the macro side. Is it still reasonable to anticipate EBITDA margin expansion from you guys in 2020?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. I mean, Alex, I think there's a lot of factors that impact that. I mean, I think, when I take a step back on EBITDA margin for us. I mean, we're focused on driving value over the long term. And I think that when you look at 3, 4 years ago, our margins were in the low 30s. If you look at this year, we're in the, call it, 47%. So we had some nice expansion there. I think when we're focused on investing for organic growth. We're focused on the long term. So I think if there are a short periods of time where you take a little bit of a step back on EBITDA margin, like you saw this quarter, where we're investing for long-term growth, I think we're comfortable staying in a place where we had healthy margin. So I think our confidence is in the long-term expansion there. Near term, lots -- there's lots of different factors that could impact that. So that'd be hard to predict.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Got it. Fair enough. And then on the business side of things, either down on that. I was hoping you guys could give us an update on where some of the business service initiatives stand, I think there's been a handful of them obviously rolled out last year. I think the revenues are likely to start coming through this year. So maybe kind of help us frame how meaningful a revenue contribution that could be for LPL this year?

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

Yes. And I think you're referring to the Business Solutions. I just want to make sure that's right?

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Yes. That's right. Yes.

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

Okay, terrific. So yes. Maybe I'll start, and certainly, Matt, you can add any color you like. So to put a fine point on it. I -- look, we ended the year with 650 subscribers, which was up 500 over the year. I think we see that as a really positive trend. The key point there being that the value proposition is resonating with the advisors and the solutions are adding the value that were intended. And I think that's a really interesting opportunity we see to build from and that's what we were trying to sort of prove in our overall hypothesis and experimentation last year. I think as we move in, specifically the fourth quarter, if you drill down on that for a minute, we were still in that developmental phase where we were continuing to build the foundation and the infrastructure to scale in a really thoughtful and effective way. Think about things like automation to drive efficiency or dedicating a sales team to drive awareness and demand for the solutions. And so we think that's important to make sure that we do this well as we move to this more operational phase as we move into 2020. So I think as you look at the value that comes from these solutions. We're encouraged by the contribution of helping existing advisors, operate their practices, free up time to spend time with clients and grow their businesses. So we're seeing sort of positive trends coming from those that are using these services today. We're also seeing it help attract new advisors that these are unique solutions, and they add to the appeal of the overall model.

And then finally, we're starting to see, as you say, it starts to contribute to gross profit. And so as we look ahead, we've remain focused on growing out these solutions and moving from what I'll call more of a developmental phase to more of an operational phase where we're really focused on scaling. And I think we begin to make that transition in this year.

So I hope that helps.

Operator

And our next question comes from Gerry O'Hara with Jefferies.

Gerald Edward O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Really just one for me. Just kind of looking at your supplemental slide and the recruited assets, the trend has been that it has been pretty strong sequentially over the past year. Just curious if you could maybe elaborate a little bit on what some of those drivers are or what's working or what's resonating just from a general -- I guess, just from a broad perspective?

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

Yes. So maybe, let me take that from kind of a macro level. And maybe the headline is the recruiting environment itself, we find in sort of a solid state. And then we feel good about the progress that we're making and our pipeline. So let me give you, kind of, a little color on maybe both of those. From an environmental standpoint, we continue to see the trend towards independence and that remains strong and obviously creates opportunity.

Over the last year, I think the rate of advisor movement has been relatively stable. And then finally, we continue to see in the independent space, advisors in search of higher level of capabilities that will help them run their businesses. And so those trends, obviously, make up -- what we would see is, again, a pretty solid environment. When you click down and sort of look at our approach to that opportunity set, in the independent space, we continue to add more capabilities that help us differentiate and meet the needs of what those advisors are searching for. I think in addition, you have a very stable platform and so the combination of capabilities and stability is very appealing. With respect to -- also stepping into this opportunity, how could we continue to invest and automate and digitize our business development team and capabilities such that we enhance the efficacy of that group and that team and increase our win rates. And so that's part of our element strategy and we continue to make progress there. And the team has done a great job over '19 and continue to add new capabilities and new leverage tools to enrich how they do their work.

And then finally, I think we have the opportunity to think about these other channels, right? And where we haven't participated as greatly in the movement of advisors in those other channels. We see the opportunity to create new affiliation models that really cater to an appeal to advisors who are in search of an independent model coming out of these other channels. And so with respect to those affiliation models, one's in market; one, we go-to-market in the second quarter; and then one, we'll go-to-market later this year. We're receiving good feedback with respect to the value proposition associated with those programs. And we're encouraged that they will continue to contribute to our ability to expand our recruiting effort.

So in a nutshell, we feel good about the results from last year and our pipeline as we move forward.

Operator

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

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

So first one, just on -- and maybe an update on the timing behind the migration of the portfolio from floating to fixed?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes, sure, Craig. So I think if you look at -- we talked about a quarter ago, had about $6 billion of potential opportunity moving -- to move from floating to fixed over the year, we ended up moving $3.3 billion of that a little bit earlier than we had anticipated, meaning in the fourth quarter. So I think about the rest of the opportunity, I'd say another $3 billion is a good round number and a way to think about it. And it's probably more towards the second half of the year, just given most of what we moved this quarter was really acceleration of the near-term floating rate contracts that were coming up.

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

Got it. And then just a quick update on the recruiting front? And specifically, on eyeing the transition assistance, I think the amortizations were up over 20% year-over-year. And how should we model the transition assistance amortization cost for the full year?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Sure. Yes. I mean, I think from a transition assistance standpoint, Craig, the -- where we are in market really hasn't changed. So the economics that we're paying are pretty similar. The amortizations are typically in the 5-year zone, although they are -- every deal is underwritten individually. So I think that the primary driver of that's going to be just the level of recruiting itself, right? And I think we've talked a little bit about on this call already, the strength and the increase in that recruiting that built throughout the year with the fourth quarter being $10.6 billion. So that's probably the primary driver, the rates of TA and the timing of the amortization have been pretty consistent.

Operator

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

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

So you talked about a few conferences that are affecting their promotional expense in the first quarter. Shouldn't there be some revenue that offsets that expense? And if there is, can you quantify that for us? That's part 1 of the question. And part 2, will there be another large conference in the third quarter of this year or has that been pulled forward to Q1?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. So Chris, when we think about our conference, our largest conference of the year is almost always in the third quarter. There's no change to that. Our number 2 and 3 typically happen, one happens in Q1 and the other happens in Q2. Those 2 just both happen to be in Q1. That conference in Q3 is the one that typically has the most revenue associated with it, meaning the transactions and fees, so there might be a little bit associated with the 2 that are happened in Q1, but not much.

Operator

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

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

Most have been asked. I just wanted to ask one on client cash. You guys had a nice step-up in the year-end. We've seen that from some others as well. But just curious, now that we're beyond year-end, does it feel like that was kind of typical behavior where kind of money typically flows back just once the calendar year starts? Or I guess, what are you seeing there? And net buying still seems reasonable. So just try to kind of unpack that a little bit given that it's obviously a positive trend.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. Sure, Devin. So I think what we've seen so far in January is what you would expect in an upmarket. So I think with respect to cash, you're starting to see some of that cash go back into the market. I'd say headline is cash so far is down slightly. There's still a couple -- or 1 or 2 days of data left to get. But cash balances are just down slightly so far in January.

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

Okay, terrific. And then just maybe a quick follow-up. In terms of the various affiliation options, when you're talking to advisors, are you presenting the firm now as kind of open to allow them to affiliate in any option they would like or typically our advisors approaching LPL or you're approaching them for one specific affiliation option? I understand that it will probably evolve as some of the newer affiliation options increase. But I'm just curious kind of how you're going to position that moving forward?

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

Yes, we see that is actually an advantage to be able to have the flexibility to offer them different ways of which to think about their affiliation that would work best for them. And that can be when you recruit them new to the firm or that could be while they're here and something changes within their business, which allows them to continue to think about evolving their business in a way that's much easier and much more efficient by staying on this platform. So our whole mantra is, we have to meet them where they are in the evolution of their practices and the flexibility of our solutions and alternatives should be available to them and they can decide which one is best for them. So that's how we see it.

Operator

And our next question comes from Ken Worthington with JPMorgan.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

We're hearing and seeing more consolidation in the wealth management space broadly. A couple of things. Maybe one, are you seeing valuations from wealth management companies, firm further, say, over the last couple of quarters. I think maybe more interestingly, is this flowing through at all to increase your recruiting costs at the broker or advisor level?

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

Yes. So let me start, and then Matt, you add any color. So I think, definitely, we've seen an upweight in activity as you describe out in the marketplace. And with respect to valuations, I think that we've seen them, I might say, pretty steady over the last year as we think about it in the different places and opportunities where we explore. Our discipline, as you know, is to always go in and look at a deal and make sure that it makes sense from a strategic, operational and a financial standpoint. And so we tend to take a good sustained rigor around how we think about those things. And what does that mean relative to the M&A activity that occurs within the marketplace, I think there are places where we still find some really interesting value, where an acquisition strategy makes a lot of sense across those 3 lines. There's other places where it may not. And I think we will stay disciplined where we find that opportunity. We are and continue to look for opportunities relative to acquisition from what we would call a growth acquisition like an Allen & Co solution that we did as well as things that will accelerate and advance our capabilities like the AdvisoryWorld transaction. So we think you've got to be selective and you've got to look and you've got to be proactive in exploring those opportunities, but we think that they're out there.

Relative to the recruiting front, we don't really see any correlation or any tie relative to the cost of acquisition on the recruiting front with respect to the acquisition approach. I think there is a fair consideration down at the individual advisory level if you are a practice -- an advisor practice acquiring another practice, how you might think about that and value that, but we don't see it necessarily correlated up at the higher macro level.

Operator

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

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

Just curious to get your thoughts on how you're thinking about what might be an opportunity set for the pure RIA space given some of the M&A that's happening in the industry that could put some RIAs and RIA assets in motion? And what, in your view, would be the key value proposition that LPL could potentially offer to attract some of those advisors versus some of the larger RIA custodians?

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

Yes. So one, I do think that we acknowledge there's opportunity in that pure advisory space. One of the affiliation models that we're creating right now is a solution that is focused just 100% on an RIA-only firm and we see opportunity to differentiate relative to providing what I might call, the capabilities that we're building in our strategic play number three, where you're building and supporting more capabilities down inside the practice, everything from digitized workflows, capital to support that practice all the way to our Business Solutions. I think the second opportunity we have is that we can provide a solution that allows them to outsource that risk to us and be an RIA-only or be their own RIA. So the flexibility and optionality to choose how they think about investing in their own infrastructure to manage risk versus outsourcing that to us is another place that we believe we can differentiate. And then as we continue to innovate on our advisory platforms, creating certain solutions that are fully integrated inside our overall platform, leveraging the vertical integration that we would make available to those types of advisors, we think is an advantage. And what

I mean by vertical integration is being able to support both the RIA itself as well as being the custodian and having technology that crosses both of those, we think, creates some differentiated options. So those would be the primary areas.

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

Great. And just maybe on the ICA yield guidance, I think you said 200 basis points for the first quarter. Just curious how you're thinking about that trending through the rest of the year, maybe assuming stable rates? And then just curious around what are the fixed and floating yields today, broadly speaking, and the reinvestment rates on the fixed or new extensions?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. I mean, I think the guidance for Q1 at 210 basis points. That's just driven by where you get the full quarter effect of the October rate cut as well as kind of where floating rates are currently. And you kind of see Fed funds sitting in the 155 zone right now, just kind of on the low end of their range and you typically see, I'd call it, around a 20 basis point premium on that in the market.

On the fixed side, I think you've -- we've seen the curve flatten out and even inverted a few points. So I think on the fixed rate side, you're probably at that level or actually lower on any given day. We've typically put our deposits in the 5-year point on the curve. And those would be a little bit lower. I think guidance for the rest of the year, I think we'll take that one quarter at a time. Just given the number of things that can move that, but 210 is our review for the first quarter.

Operator

And we have a question from Chris Shutler with William Blair.

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

A follow-up on the ROA segment. I was curious, how -- I know it's early, but how should we think about the economics to LPL in that affiliation model?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes, Chris, definitely early. I mean, I think when you get back to -- I mean when you think about our ROAs, that's obviously going to be primarily on the advisory side. And it all depends on the affiliation there. So I think it's probably a little bit earlier, but the advisory returns are the key area to focus on.

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

Okay. And then, let's see, on the gross profit ROA, Matt, is there any way to give us a sense what the gross profit ROA looks like today for advisors brought on to the platform. In recent quarters versus advisors brought on a couple of years ago before the big ramp in recruiting asset -- recruited assets and advisor loans really began?

Just trying to get a sense comparing those 2 tranches using a similar time frame.

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Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Sure. I mean, I think the big driver is going to be mix, right? So it depends on the asset mix they have and the platforms that they use. I think the best way to think about it is, with brokerage dollars are in the low 20 basis point range, advisory dollars are in the low 30 basis point range and advisory dollar that's on a centrally managed platform is going to be in the low 40 basis point range, right?

And then you start to -- folks that are using our Business Solutions, you can so you're using all 4 of them, you can even add up to 5 basis points from there. So it really depends on all the mix of the services that they use. And if you go back a long time ago, I think, where the asset mix was more brokerage versus advisory, I think that gives you a sense as to how it's changed over time.

Operator

And I'm showing no further questions at this time. I'd like to turn the call back to Dan for any closing remarks.

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

Yes. Thanks, Catherine, and 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, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.
