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LPLA.OQ - Q3 2022 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Co. reported 3Q22 gross profit of $838m and EPS prior to intangibles and acquisition costs of $3.13.

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PRESENTATION

Operator

Good afternoon, and thank you for joining the Third Quarter 2022 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 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 known and unknown risks and uncertainties and that may cause actual results or the timing of events to differ materially from those expressed or implied in such forward-looking statements. For more information about such risks and uncertainties, the company refers listeners to disclosures set forth under the caption Forward-Looking Statements in the earnings press release, as well as the risk factors and other disclosures contained in the company's recent filings with the Securities and Exchange Commission.

During the call, the company will also discuss certain non-GAAP financial measures. For a reconciliation of such non-GAAP financial 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, Amy, and thanks to everyone for joining our call today. Over the past quarter, amid persistent market volatility, our advisors continue to be a source of support and guidance for their clients by helping them navigate times of uncertainty. This commitment to their clients underscores the importance of our work on our mission, taking care of our advisors so they can take care of their clients.

With respect to our performance, third quarter was marked by our resilient business results, which drove solid financial outcomes as well as continued progress on our strategic plan. I'll review both of these areas, starting with our third quarter business results.

In the third quarter, total assets decreased to $1 trillion as continued solid organic growth was more than offset by lower equity markets. With respect to organic growth, the business continued to perform well despite market volatility. Third quarter net new assets were $20 billion, representing 7% annualized growth. This contributed to net new assets over the past 12 months of $101 billion, representing a 9% organic growth rate.

Looking at recruited assets, they were $13 billion in Q3, bringing our total recruited assets over the past 12 months to $84 billion. These results were driven by the ongoing enhancements to our model and our expanded addressable markets.

Looking at same-store sales against the backdrop of continued market volatility, our advisors remain focused on serving their clients and delivering a differentiated experience. As a result, our advisors are both winning new clients and expanding wallet share with existing clients, combination which drove improvement in same-store sales in the third quarter.

With respect to retention, we continue to enhance the advisor experience through the continued delivery of new capabilities and technology as well as the ongoing modernization of our service and operations functions. As a result, asset retention was approximately 98% in the third quarter, and 98% over the past 12 months.

Our third quarter business results led to solid financial outcomes of $3.13 of EPS prior to intangibles and acquisition costs, an increase of 77% from a year ago.

Let's now turn to the progress we made on our strategic plan. As a reminder, our long-term vision is to become the leader across the entire advisor-centered marketplace, which for us means being the best at empowering advisors and institutions to deliver great advice to their clients and to be great operators of their businesses.

To bring this vision to life, we are providing the capabilities and solutions that help our advisors deliver personalized advice and planning experiences to their clients. At the same time, through human-driven technology-enabled solutions and expertise, we are supporting advisors in their efforts to be extraordinary business owners. Doing this well gives us a sustainable path to industry leadership across the advisors experience, organic growth, and market share.

Now to execute on our strategy, we've organized our work into 4 strategic plays, which I'll review in turn.

Our first strategic play involves meeting advisors and institutions where they are in the evolution of their business by winning in our traditional markets while also leveraging new affiliation models, which expand our addressable market.

Our recruiting in traditional markets continue to be a source of growth in Q3 with approximately $6 billion in assets. We continue to increase our win rates and expand the depth and breadth of our pipeline despite advisor movement in the industry remaining at lower levels. Following several quarters of elevated market volatility, advisors are acclimating to the conditions and increasingly exploring new strategic alternatives for their practice. This creates a more favorable scenario for us as market-driven headwinds give way to the structural strength of our model. This should result in a solid finish to the year from a recruiting standpoint.

With respect to our new affiliation models, strategic wealth, employee and our enhanced RIA offering, we recruited over $2 billion in assets in the quarter and believe we are well positioned to drive continued growth across all 3 models.

With respect to large financial institutions, over the past 2 quarters, we onboarded 2 new clients, CUNA and People's United Bank.

We continue to learn from each experience and use these findings to drive innovation that improves the transition to LPL and in turn helps make our offering even more appealing. And as we look ahead, we continue to see our pipeline build as demand for our model grows.

Our second strategic play is focused on providing capabilities that help our advisors differentiate in the marketplace and drive efficiency in their practices. A particular area of focus is helping our advisors create a digital experience for their clients, that's personalized for their practice. As an example, this quarter, we extended the flexibility our advisors have in how they utilize their brand and the optionality of the content and features they present to their clients.

In addition, we're always looking for opportunities to arm our advisors and end clients with expanded tools, products and services to navigate markets. To that end, we continue to build out our research capabilities in terms of content and subject matter expertise. We've also increased our focus on certain products like annuities and alternative investments which are in higher demand in this market. To that end, we're working on making it easier and more efficient for our advisors to provide these products while also expanding the breadth of solutions available to meet their clients' needs.

These enhancements help advisors broaden their value proposition and enrich the offering they provide to their clients, which further contributes to the appeal of our platform, both existing and prospective advisors.

Let's next move to our third strategic play, which is focused on creating an industry-leading service experience that delights advisors and their clients, in turn, helps drive advisor recruiting and retention.

As a reminder, over the past couple of years, we've been on a journey to transform our service model into an end-to-end client care model. And we think about this journey through 2 primary lenses: transforming our service interface and reimagining the operational processing that takes place behind that interface.

Our aspiration is to provide advisors a multichannel experience across voice, chat and digital-first support, thus offering them greater flexibility for when and how they access service.

While we continue to fine-tune each of these 3 channels, we're currently focused on our digital first support. We see it as an opportunity to create an easier and more efficient experience for our advisors to access the information they need.

Now as we expand these capabilities, advisors can increasingly engage more and more digitally to resolve their requests, and many have already shared they prefer this simpler option over making a phone call. While we're still in the early innings, we believe these enhancements will have a meaningful impact to the scalability of our platform while also enhancing the client experience.

Our fourth strategic play is focused on developing a services portfolio that helps advisors and institutions run thriving businesses and deliver comprehensive advice to their clients. We're encouraged by the seasoning of this business and our value proposition continues to resonate with advisors.

4 years ago, we started our service group with a strategic goal of solving the practice level challenges advisors face so they can spend more time with their clients. Through ongoing innovation and expansion, these efforts have translated into the comprehensive portfolio of services we offer today. And as a result of growing demand, our services group subscription base continued to increase ending the period at roughly 4,200 and generating run rate revenue of $34 million.

As we work with advisors on existing services, we continue to identify and solve for new needs on their behalf. One example is the launch of our latest solution Bookkeeping services. And based on insights from CFO Solutions, we created a new service to help advisors further streamline their business decisions with accurate and timely financial reports. As a result, advisors can spend more time growing and managing their business while also tracking [profit] more closely.

Looking at our innovation pipeline for the remainder of the year, we have several services in pilot and others in the incubation phase. And as we move forward, we remain focused on enhancing and expanding our portfolio to better support our advisors and to drive growth.

In summary, in the third quarter, we continued to invest in the value proposition for advisors and their clients while driving growth and increasing our market leadership. As we look ahead, we remain focused on executing our strategy to help our advisors further differentiate and win in the marketplace. And as a result, drive 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.

In the third quarter, we remained focused on serving our advisors, growing our business and delivering shareholder value. This focus led to another quarter of solid net new assets and earnings growth. In addition, we enhanced our sweep deposit program with the launch of the client cash accounts and onboarded People's United Bank. So as we look ahead, we continue to be excited by the opportunities to help our advisors differentiate and win in the marketplace.

Now let's turn to our third quarter business results. Total advisory and brokerage assets were $1 trillion, down 2% from Q2 as continued organic growth was more than offset by lower equity markets. Total net new assets were $20 billion or a 7% annualized growth rate.

Our Q3 recruited assets were $13 billion, bringing our 12-month total to $84 billion.

As for our Q3 financial results, the combination of organic growth, rising interest rates, higher ICA balances and expenses led to EPS prior to intangibles and acquisition costs of $3.13. This was up 77% from a year ago and is the highest in our history.

Looking at our top line growth, gross profit reached a new high of $838 million, up $127 million or 18% sequentially. As for the components, commission and advisory fees net of payout were $182 million, down $23 million from Q2. The decrease was primarily driven by the seasonal uptick in production bonus expense and lower advisory fees following the Q2 equity market declines.

Our payout rate for the quarter was 87.9%, up about 90 basis points from Q2 due to typical seasonality and the onboarding of CUNA. Regarding asset-based revenue, sponsor revenue was $194 million in Q3, down $14 million sequentially. The decrease in Q3 was driven by lower average assets during the quarter as well as a nonrecurring $8 million sponsor payment in Q2.

With respect to client cash revenue, it was $304 million, up $147 million from Q2, driven by higher average short-term interest rates as well as higher ICA balances.

Looking at overall client cash balances, they ended the quarter at $67 billion, down $3 billion sequentially driven by client net buying activity of $20 billion, which is the highest quarterly level we have ever seen. Within our ICA portfolio, we added capacity in Q3 as we saw further improvements in bank deposit demand, leading to an increase in balances of $7 billion. And I would highlight that $5 billion of that increase was in new fixed rate contracts.

Looking more closely at our ICA yield, it was 212 basis points in Q3, up 78 basis points from Q2, primarily driven by the increase in short-term rates during the quarter. As we look ahead to Q4, we expect our ICA yield to continue to increase. Based on where interest rates are today, we expect our Q4 ICA yield to increase to approximately 265 basis points.

As for service and fee revenue, it was $122 million in Q3, up $9 million from Q2, driven by revenues from our national advisor conference and IRA fees. Within our Services Group, we ended the quarter with roughly 4,200 subscriptions, which is up about 300 from last quarter. Our Services Group now generates roughly $34 million of annual revenue, while also contributing to organic growth by helping drive recruiting, same-store sales and retention.

Looking ahead to Q4 results, we do not have any large advisor conferences in the quarter. So we expect service and fee revenue to decline by roughly $5 million sequentially.

Regarding Q3 transaction revenue, it was $43 million, down $1 million sequentially as trading volume declined. As we look ahead to Q4, we have seen an increase in trading activity in October. That said, I would note there is 1 less trading day. So that would likely offset that increase. So based on what we have seen to date, we would expect transaction revenue to be relatively flat with Q3.

Turning now to expenses, Core G&A was $298 million in Q3, up $12 million sequentially. Looking ahead, we continue to see opportunities to invest to drive growth. So while we expect to be within our full year 2022 core G&A outlook range, we expect to be towards the higher end. As a result, we are tightening the outlook to a range of $1.185 billion to $1.195 billion.

On Q3 promotional expense, it was $99 million, up $15 million sequentially, primarily driven by higher conference expense as we hosted our largest advisor conference of the year, which returned to an in-person format for the first time in 3 years.

Looking ahead to Q4, we expect lower conference spend, partially offset by continued growth in recruiting transition assistance. As a result, we expect promotional expense will decrease by approximately $15 million sequentially.

With respect to depreciation and amortization, it was $52 million in Q3, up $3 million sequentially. Looking ahead to Q4, we expect depreciation and amortization to increase by a few million sequentially. As for interest expense, it was $33 million in Q3, up $4 million sequentially as higher LIBOR rates increased the cost of our floating rate debt. Looking ahead to Q4, given where LIBOR rates are today, we expect interest expense to increase to approximately $36 million.

Regarding capital management, our balance sheet remained strong in Q3 with corporate cash at $424 million, up $183 million from Q2. Our leverage ratio was 1.7x, down from 2.1x in Q2. This decline was driven by a combination of our continued growth and a higher interest rate environment, both of which have meaningfully improved our earnings power.

As we look at our leverage ratio going forward, our balance sheet strategy is unchanged. Our focus is to maintain a strong balance sheet that can absorb a market downturn, while at the same time, having the capacity to invest for growth. With our improved earnings power, we are updating our leverage target to a range of 1.5 to 2.5x, which we believe positions us well to operate over a range of economic cycles and strikes the right balance between preserving balance sheet strength and investing for growth.

As for capital deployment, our framework remains focused on allocating capital aligned with the returns we generate: investing in organic growth first and foremost, pursuing M&A where appropriate and returning excess capital to shareholders. In Q3, we allocated capital to both organic growth and share repurchases buying back $75 million of our shares. As we look ahead to Q4, we plan to increase share repurchases to approximately $150 million. This will complete our existing authorization of $1 billion that we established at the end of 2018.

Looking to 2023, we worked to put in place a new share repurchase authorization. Our focus was on an amount that we'd be in a position to execute against over roughly 2 years. With that framing in mind, we established a new authorization of $2 billion, which we expect to begin executing in the first quarter of 2023. As always, we will retain the flexibility to adjust the pace of repurchases as the environment warrants or as other capital allocation opportunities across organic growth and M&A emerge.

In closing, we delivered another quarter of strong business and financial results. As we look forward, we remain excited about the opportunities we see to continue investing to serve our advisors, grow our business and create long-term shareholder value.

With that, I will ask our operator, Amy, to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Steven Chubak with Wolfe Research.

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

So I wanted to start off with a question, Matt, just on the buyback and the adjusted leverage target range. So certainly pleased to see or hear both. I was hoping you could frame the timing or cadence for executing that $2 billion buyback authorization.

And just given the meaningful step up, you should see in EBITDA and leverage likely to fall below the low end of that target range in the coming quarters. Just in the absence of any opportunities around M&A, how should we think about your willingness or appetite to optimize buybacks and stay within that leverage target range over the long term?

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

Sure. I mean I think the core of it, as I talked a little bit about in the prepared remarks, is making sure that we're balancing having a strong balance sheet with deploying capital to drive growth. And I think when we think through the prioritization of that, it is focused on organic growth first, M&A second and then returning capital to shareholders third.

And I think what you hear us saying on the $2 billion over 2 years that we think around $250 million. And I would emphasize roughly, right, roughly $250 million a quarter is that right allocation. Now if we get through a period of time over that 2 years, where interest rates are elevated for an extended period of time or there's just fewer opportunities to deploy capital towards organic growth or M&A, I would expect that pace to increase and for us to execute against faster.

And I'd highlight, if the opposite occurs, we see more opportunities for organic growth and more opportunities for M&A that would expect it to slow down. So it's really just about the opportunities that we see, and we'll make those judgments along the way.

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

That's great. And maybe for my follow-up, a question for Dan on the M&A landscape, certainly, higher rates bolsters your relative competitive position versus peers, particularly those that aren't self-clearing. I was hoping you could speak to the environment for deal activity, how active you expect to be on the M&A front? And just the willingness of any targets to engage just given the pressures that they've been feeling in terms of equity market declines without the similar benefit or the offsetting benefit from higher rates?

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

Yes. So Steven, thanks for the question. And as Matt said, when you think about that allocation of capital, we obviously prioritize that to organic growth. And then we look to M&A as a complement to that organic growth.

And I think as we've said before, there's 2 key areas we continue to explore and look to the M&A marketplace for: and that's to enhance or speed up capabilities that we deliver and make available to our advisors, and/or one that contributes to our overall growth.

And I think with respect to that second category, we continue to look through the entire ecosystem from smaller growth-oriented deals like the Boenning & Scattergood example that you saw us do in the second quarter. All the way up to if there were a more opportunistic opportunity to create value, deploy our capital in a way that makes sense relative to other options and alternatives that operationally, we can consume that acquisition and execute on it well, fits inside our strategy, then we would be interested in certainly exploring those opportunities in. So I don't think our posture has changed at all relative to our strategy and how we think about using and leveraging M&A.

Certainly, we get your point around how the market -- conditions in the market -- may change that may make those acquisition opportunities more ripe or available. And again, we stay consistent in our exploration of the market, looking at where we can complement our organic growth strategy. So I hope that helps.

Operator

Your next question comes from Alexander Blostein with Goldman Sachs.

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

So maybe I could start with also a bit of a strategic question. Along similar lines to Steven's question around M&A. But your cash flow characteristics is obviously improving, meaning from the level, but also the visibility as you're starting to extend more. So from an organic perspective, if you were to think about areas where you'd want to invest more in to accelerate organic growth from here. What are the products? Or what are the channels where you think there could be the best opportunity to accelerate investment in order to capture a higher share of the organic growth opportunity?

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

Yes. Let me start and then Matt, you can add to that or complement that and thanks for the question. It's a great question. So I think, look, we would look across 2 different obvious landscapes. One would be how do we continue to create capabilities that help our advisors differentiate and win in the marketplace. Think about anything across the spectrum of our wealth management platforms and offerings, the more that we can automate the advisory platforms expand the content in terms of investment options, alternatives.

We continue to invest significantly in our centrally managed platform, turning that into a really interesting and competitive UMA platform. Those are examples where we would think about added capabilities that I think continue to help our advisors differentiate and win. Other great examples of that are in our financial planning capabilities, that's where the pure planning comes in, tax planning overlays, et cetera. Or again, other places we believe the advisors can show up in the marketplace with a broadening and compelling value proposition. So that's just one example of where we would focus.

Again, the second one would be in this area of how do we help them run better businesses. And anything that we can do that makes them more effective at making better decisions and really understanding what's happening in their businesses. So using data turned into analytics to create better decision-making, creating leverage points and expertise, whether that be our CMO marketing solution, as an example, our CFO Solution. Those are examples of where we would continue to invest in capabilities and services.

So you take that combination of technology and services combined all for the purpose of helping them deliver better advice and differentiated advice so that they win more and then ultimately to help them operate and run better businesses. That's where you should think about us accelerating and enhancing their overall spend level.

I think at the same time, look, we continue to explore how do we expand and evolve our affiliation model such that you extend your addressable market, you actually create more and more flexibility and optionality for how that advisor may plug into our platform or may evolve how they use our platform over time, we think are really compelling and interesting places to continue to invest.

So those are just a couple of examples of how we might think about deploying into our overall capability set that would drive new store sales, same-store sales, and retention -- all of which would obviously contribute towards the end. Of course, I don't know if you want to add anything?

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

No, you covered it up, mostly.

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

Great. And my quick follow-up is just for Matt. Clearly, the dynamics in the broker sweep channel have changed quite rapidly here in the last 3 months even, with banks starting to see more deposit outflows. How are you thinking about the spread on the ICA portfolio, obviously, on the variable piece, the fixed, I don't think has a spread on it. But -- are you starting to see competition get into a point where spreads could actually start to increase over the last couple of quarters? And kind of how would you think about the book ends of where that could ultimately go?

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

Yes. We're definitely seeing demand lead into those spreads. So maybe just to walk back kind of pre-COVID, I think we landed in a zone where we'd typically be able to get Fed funds plus 20, maybe 25. And then during COVID, if you're lucky enough to get it is usually Fed funds minus. And then -- and I think we lived in a place of around Fed funds flat as we -- probably the last year or so.

And then I think what we're seeing right now and even the new variable contracts that we're putting in place right now are at a spread of plus 5 to 10 right? So you're starting to see things come back. And I think I don't see anything to think that the book end of where we were with pre-COVID that plus 20 to 25. I think that's a good place to point to on where we think it could go. But I think the trend is a positive one. And we're seeing it each quarter, including this quarter with that plus 5 to 10.

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 a question on the bank mandates. We saw the People's United come through in the quarter. Can you just remind us how much, if any, is there still outstanding to come through from a funding standpoint on that or CUNA or others as we kind of look through the rest of the year and into next year in terms of remaining balances to come through?

And then if you could just maybe more broadly update us on the pipeline and the conversations that you're having with banks regarding outsourcing arrangements. And would you be surprised if there were no additional announcements on that front over the next 12 months?

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

Yes. Let me take that. Or Matt, do you want to start with just what's outstanding in terms of the balances to transition with maybe People's United and CUNA and then I'll pick up.

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

Yes. Yes, it sounds good. I think it's mostly onboarded between the 2 of those. I'd call it in the $1.5 billion zone that's still on that left to come onboard. And that's on the direct side. So that takes a little bit longer for that process for those come over, but $1.5 billion would be the right number.

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

And then maybe for the second part of your question. So look, we continue to see these financial institutions as an affiliation model that we believe has ongoing growth opportunity. And I think we collectively added roughly $65 billion, $70 billion in large financial institution assets over the last couple of years and continue to see strong momentum in the demand for the solution or the offering, which really just sort of introduced a new concept into an outsourcing model, which sort of scale into the marketplace, right?

So all the value proposition that we've talked about originally, everything from the risk management profile shift all the way to better client experiences, attracting better advisor, better financial results all still hold. And I think what we've done over the last couple of years is as we've added these larger institutions, we continue to innovate both in terms of how we support them day in and day out. And also just as importantly how you transition them over. That's a pretty big change management effort as you could imagine.

And I think given that over the last couple of years, we continue to make our model more and more appealing. So as we talk to future prospects, I think we're able to continue to expand the value, which we provide and deliver for them, the quality at which we do it and simplify the change management effort in the overall transition. So with that momentum that we have, matched with the improvement in enhancing value proposition, we believe and are still very optimistic in the sort of growing durability around the growth opportunity and have a good solid pipeline. And though these deals are a little bit harder to predict in terms of the timing because they're longer sales cycle, feel good that we have opportunity to continue the momentum.

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

Okay. And just a follow-up question on the technology portfolio spend. I think you guys are expecting a little over $200 million or so this year. Can you just remind us what portion of that goes through the P&L versus what's capitalized? How you see that evolving? And then on the P&L, we see D&A continues to drift higher, what sort of growth rate can we expect there on depreciation and amortization relative to the 24% growth that we saw in the quarter on a year-on-year basis?

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

Yes. On that growth rate, I mean, I think when you look at the last few quarters there's been a few million a quarter on that depreciation and amortization growth, and that's primarily the tech portfolio, the capitalized piece that goes there. So I think that's a good framing to think about that. On the tech portfolio, the capitalization versus expense rate, it moves around depending on the type of work that we're doing in that particular quarter. But I think a good rule of thumb is 70% capitalized, 30% expense.

Operator

Our next question comes from Brennan Hawken with UBS.

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

I'd like to start, we've heard from some other wealth management firms that they've seen a shift and more growth on the brokerage side, driven by investor demand to go and find yield and buy more interest and bonds and whatnot. Are you seeing that as well? And should we maybe tweak our expectations for your mix of growth in the near term?

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

Yes. So short answer is we are seeing some mix. I think you're right in assessing that it's very much sort of environmentally driven by the macro market conditions. Fixed income is a good example of that. I think you're also seeing it in the alts space and in annuities. And those drive up a higher mix of perhaps deploying capital to new solutions in a kind of a time-bound way relative to the market conditions.

I think we've also seen it show up in a bit of a slowdown in some of the transition from brokerage to advisory, in the short run as well. We think that structural trend still makes sense and still expect that to continue. I just think you have a little bit of that sort of environmental noise that's overlaying, so I think those are the right way to think about slight mix.

If you look at our overall macro trend, we still expect to see much more assets deployed to advisory for all the structural reasons that we've talked about before. And I think you'll see that we still sit in sort of that 52% to 53% range of assets now in advisory, and that probably hasn't continued to trend up as much as we would have expected, a little bit because of the macro, probably more because of some of the larger bank or enterprise solutions that we've brought on, just have a higher mix of brokerage assets than typically independent advisors that we recruit do. But we do expect once they get on to our platform and have new capabilities and access to perhaps better advisory tools, they typically begin to also see a trend or a transition of their books over time from brokerage to advisory sort of path.

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

So I hope that color helps. You've got kind of the structural trend towards advisory that still exists to a little bit of an environmental influence over the top.

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

Sure, little mix of cyclical and with the secular. That makes a lot of sense.

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

Yes. You got it.

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

Okay, great. And then for my second question, I know it's early, but do -- and it will be impacted by a lot of factors that will come out and play out in the next several months. But any sense about how we should be thinking about expense growth for 2023? We've seen as the benefits of interest rates provide some tailwind that you have been driving a little bit of incremental investment in the platform. Should we assume that that would continue along with a rate forecast that we might be using? Or -- and is there any reason to think that some of the expense growth or trajectory would slow for any reason at some point?

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

Sure, Brennan. I'll give -- it's a little early. I'll give you some color. I mean, I think when we think about -- to your point on interest rates and how that impacts our financials, when we do those economics, just building from the start of the cycle, right, early in the cycle, we were focused on that, the benefit from those increases falling to the bottom line and really improving margin, right? And then as we got deeper into the cycle, really pivoting to our capital allocation framework and allocating that capital across the 3 primary areas that we look at.

And I think investments to drive and support organic growth is the primary category, the first category that we look at. And as you highlighted a bit when we look at this year, right, we've been accelerating investments to drive growth and support our advisors. And just looking at core G&A, we've typically been in the mid- to single -- mid-single-digit growth rates in the past. And this year, we'll be in the 12% to 13% range, right? And part of that increase is coming from those incremental earnings from rates that we're really deploying to improve our value proposition.

Now when we look across the other options, right, we see opportunities potentially in M&A, right? We see opportunities in returning capital to shareholders that we've talked about today, increasing the buyback in Q4 at $150 million and then pivoting to a $250 million -- roughly $250 million per quarter next year.

Now on the level of investments next year, I think if the interest rate environment does play out like it's predicted, I think we're going to be in a position to have opportunities to invest and drive growth, and we'll apply the same framework on the capital allocation front that we always use to guide us. And I'll share a bit more color at Investor Day in a few weeks, and then we'll finalize those plans as we normally do and share them on our year-end earnings call.

Operator

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

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst*

I want to start with a question just on advisor recruiting. In volatile markets, typically, we see advisor appetite to move slow or go away. So good to hear the comment on the strong recruiting pipeline. So I'd like to just maybe dig in a little bit around kind of where you're seeing momentum across what channels, expectations on actually executing on that pipeline.

And then I'm just curious, like maybe there's a little bit of a coiled spring building. So I'm assuming that natural conversions has slowed a bit, but maybe the actual conversations and what's in the pipeline is expanding. So I'd just love to get more color there.

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

Yes. Devin, you said it, and we've talked about it, the macro conditions certainly can create some headwinds across new store sales or recruiting as we've talked about, right, the complexity in the marketplace drives focus on serving and supporting their clients in the short term, rightfully so and sometimes then delay more strategic considerations. So I think we saw certainly a pickup in the third quarter as we talked about some of those market-driven headwinds beginning to give way to the structural desire of an advisor to improve their practice or their programs.

And so we feel great about our pipeline across all of the different affiliation models that we have, certainly are traditional one as well as then new models that we've created. And so as we go forward, we feel like, certainly, as these advisors pivot back to focusing on structurally enhancing the programs, if that aligns well with the feel and capabilities of our model sets up well for a good, strong finish to the year from a recruiting standpoint.

And again, I think you've seen it over the RIA channel, the employee channel and the strategic wealth channel, right, those new models, we've consistently recruited a little over $2 billion each of the last 3 quarters. And so we feel good about the growing appeal and positioning in the marketplace for those as a great complement to our traditional markets. And then when you overlay the financial institution market over the top, it sets up for continued interesting evolution of our new store sales. And we continue to focus on trying to drive that higher as we go forward.

I think if you look at the trailing 12, we've got about $84 billion in recruited results and outcomes, and we continue to work both on our efficacy to execute better, met with more appealing model met with the breadth of affiliation models to continue to drive that path. Hope that helps.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst*

Yes. Great color. As a follow-up, on customer cash, you appreciate it's primarily operational of LPL, and that's different than some others in the wealth space. But I just want to think about kind of the ranges of kind of where cash has trended. 6.4% of assets today, you're kind of at the higher end. I think the average from 2016 is like 5.3%. And in the low. In 2019, was about 4%.

So I just love any help thinking about kind of where we are in that range (inaudible) know we're in the higher end, but is 5.3% average, maybe where we get back to if sentiment in the market improves and gets back to something more normal, the denominator also matters quite a bit here. So just love to think about that range a little more to you and how you guys are thinking about maybe where cash could trend given that it is operational.

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

Yes. Yes. It's definitely operational. I think that the best things to look at are the history, the empirical data that you were referring to. I think an average of 5% is where we've been. So you think of that as maybe a market neutral position, and the lows have gone down closer to 4%. But keep in mind, our mix of assets were different back then. They were more in brokerage than they are today, and advisory in general, will have a higher amount of cash to facilitate and rebalance.

So maybe that low end -- would that mix change, that low end feels more like 4.5% given that mix change. And I think you're right, where we're sitting today in that 6.5% zone is certainly towards the upper end. So that's the range that I would have.

Operator

And our next question comes from Bill Katz with Credit Suisse.

William Raymond Katz - *Citigroup Inc., Research Division - Former MD & Global Head of Diversified Financials Sector*

So just maybe picking up on that last line of questioning. Just given where you are, I wonder if you could update us on your thinking of sort of fixed to float relative to the 50% to 75% range. I see you sort of added 15 percentage points in the quarter. Is there any reason to think that you could take that number higher, all else being equal? And then how should we think about maybe the pacing to get back into the target range?

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

Yes, Bill, and good to hear. Good to hear from you again. Welcome back. I think our target range remains at 50% to 75% in a rolling portfolio. So we're minimizing that interest rate volatility. And I think we're in periods of low rates, we'd want to stay closer to that 50% in periods of higher rates like we're getting into now, where there's also some steepness to the curve, I think we'd want to be closer to 75%, and our ability to do that really is subject to the demand in the market, right?

So maybe just a little bit of color on what we're seeing there is demand does continue to return, right? On ICA overall, right. We added $7 billion of balances in Q3, the majority of that $5 billion in fixed, and that brings the amount we've been able to add this year of new fixed to $9 billion, right? And that's the most we've been able to add in a single year ever, meaning even pre-COVID.

So the environment is certainly improving. And then when you look at from this point forward, it does feel like that it's set up for demand to continue to be strong. Right, from the Fed side of raising rates and really shrinking their balance sheet to the banks themselves, where consumer spending continues to remain healthy. Loan balances are growing, and those are all the things that would lead to additional demand.

Now whether that's fixed or not becomes more about those banks and what their asset liability management is and their interest in fixed. So it becomes a little bit more challenging to take all that information and say that there'll be more fixed demand, but I feel confident overall that the environment is conducive to banks needing more ICA. And what we've seen so far has been an improvement. So we'll keep monitoring. But I think if the demand is there, we'll want to manage that 50% to 75% range we've talked through, which even though we've improved, we're still below the low end of that today.

William Raymond Katz - *Citigroup Inc., Research Division - Former MD & Global Head of Diversified Financials Sector*

Okay thanks. And just a follow-up. Just coming back to your commentary and perhaps I heard this incorrectly, I apologize if that's the case. I heard you say that sort of the new target leverage ratio would be 1.5 to 2.5 and I'm looking at your supplement correctly. It was previously 2 to 2 and 3 quarters turn. Why now to reduce it? It feels like the franchise has probably never been in better shape. The earnings power certainly cyclically has a significant step function in front of them for the next couple of years. What is it about the messaging of bringing that down? Is this a point of conservatism, is it may be less leverage opportunities going forward? I'm just trying to understand why bring it down.

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

Yes. Yes, of course. So I think when we look at our strategy, right, which is unchanged, right? It's really focused on a combination of maintaining a strong balance sheet and having capacity to invest for growth. And the driver of the decline in the leverage ratio has really been our earnings power improving, right? Our growth, combined with the interest rate environment, has driven the leverage ratio down. So given that and given -- and thinking about what our target leverage ratio should be, we wanted to solve for 2 things, making sure we're positioning ourselves to be able to consistently support our advisors even when the macro declines, so the economic cycle wains.

And then second, just making sure we're striking the right balance between preserving that balance sheet strength and investing for growth. right? In our perspective in solving for those things, we think 1.5 to 2.5x leverage is really something that positions us all to achieve those objectives. So that was the driver.

Operator

Our next question comes from the line of Kyle Voigt with KBW.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Most of mine have been answered already, but I just had a couple of follow-ups. Maybe one on the betas, in terms of incremental betas, I know those increased to 20% over the last 75 basis points. But just wondering if you could provide some updated thoughts there on the trend for incremental betas as the Fed is now set to more -- to move more meaningfully above the peak of last cycle?

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

Yes, Kyle. I mean I think the betas so far have been coming in favorable, right, as you highlighted. And the most recent hike, we're at 20%. When you look at the last cycle, that would have peaked around 25% for us. They are coming in a little bit better. Our approach, though, here is -- and we'll continue to monitor it -- is to remain competitive, right? We've got a product that we want to be competitive in the marketplace. And I think that's what drives those betas. So I think we'll continue to price that way. I would say, just looking at the marketplace, we don't see anything pointing to a meaningful change in the price sensitivity of this particular product. So I think we'd be surprised if betas ended up being materially different than last time.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And then just a follow-up on the leverage conversation just really more so on corporate cash. You built up your corporate cash balances to just over $400 million in the third quarter. And even when accounting for higher repurchases in 4Q, you're still very likely to build cash into the end of the year.

I'm just wondering if there's a near-term preference to maintain higher cash balances than you have historically, say over the last 4 or 5 years, in order to maintain kind of maximum flexibility on opportunistic M&A, is that a part of the decision-making there for running with higher cash balances?

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

Well, I think it's back to our capital allocation framework. It's all about being prepared to take advantage of opportunities to invest in organic growth first, M&A second, and returning capital to shareholders third. And I think the time with which each of those things emerges can be different, right?

So I think what you see there is there's no -- nothing to infer about that cash balance build other than our economics improved pretty materially in the quarter, and we're going to allocate it the same way we have before. And our target for corporate cash hasn't changed at $200 million. So we're above that right now, but our target and objective will be to deploy it across our capital allocation framework.

Operator

(Operator Instructions) I'm showing no further questions at this time. I would now like to turn the conference back to Mr. Arnold for closing remarks.

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

Thanks everyone, for taking the time to join us this afternoon. And as a reminder, we're holding our Investor and Analyst Day in New York on November 16. We look forward to speaking with you then as we discuss our business in greater depths. Hope you have a great day.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
