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# TradePMR sale to Robinhood sends ripples through the RIA industry both for its potential to rival big custodians and for the discount broker's potential clash with fiduciary culture

Robinhood must overcome its history of regulatory pitfalls and win the confidence of TradePMR RIAs, or see them exit to other custodians, industry insiders say.

**Author** [Oisin Breen](#) November 19, 2024 at 11:12 PM



**1 Comment**



Vlad Tenev: 'We're excited to join forces to build a category-defining advisory platform.'

***Brooke's Note: This merger is a big deal. We keep looking for the RIA custodian that will step into TD Ameritrade's shoes to keep Schwab (and Fidelity) from walking away with the RIA business. So many companies are making interesting bids. But Robinhood is a proven Schwab/Fidelity disruptor, and it's loaded with two huge pluses: Young investors and their growing assets, and the ability to build technology and user interfaces. Its CEO, Vlad Tenev, also seems determined to prove that he's no one-hit wonder and that past compliance issues were an aberration. He'll certainly get a great partner in TradePMR CEO Robb Baldwin. They'll tackle wealth management and get past the limitations of technology in serving the very wealthy. Like any Oisin Breen article, this one is deep and***

**timing of this deal. Baldwin also assured me that he has every intention of teaming with Robinhood to take away plenty of market share from \$1 trillion-plus RIA custodians in the coming years.**

TradePMR's decision to cast its fate with Robinhood Markets in a \$300 million cash and stock deal is drawing decidedly mixed reviews among RIAs, who see both dark clouds and a silver lining ahead.

Robinhood's acquisition of the RIA custodian, announced today (Nov. 19) sets the stage for the retail trading platform to transform from a pebble in Schwab's shoe into potentially the next TD Ameritrade, according to industry insiders.



Robb Baldwin: 'We needed a partner and Robinhood approached us.'

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"The TradePMR team has one of the strongest RIA networks in the industry. We're excited to join forces to build a category-defining advisory platform for the next generation," said Robinhood Chairman and CEO Vlad Tenev, in a [statement](#).

TradePMR CEO Robb Baldwin told RIABiz the "initial reaction has been positive."

"Robinhood's client base is the next generation of investors. We believe this acquisition allows us to build a multi-generational platform that will help introduce financial advisors," he said in a [statement](#).

RIABiz asked nearly a dozen industry experts and advisors to weigh in on the potential industry-shaking merger, which caught some by surprise and produced mixed reactions.

"I almost choked," George Papadopoulos, president of his eponymous financial planning firm in Novi, Mich., said when he heard the news.

"I can't imagine how crushed the TradePMR RIAs [are] by this development. I'm not buying the 'younger future clients are at Robinhood' line.

"If they can keep the RIAs from bolting... I bet all other RIA custodians are placing calls as we speak," he says.

## Qualms

Tenev faces a "Herculean task" of merging two widely disparate cultures, according to experts



Advisors in Charlotte, NC.

"Like everyone else, I was caught off guard," says Waterbury, whose firm has used TradePMR since 2010.

"I didn't immediately see the fit. Now I think it's a pretty good move."

Noah Damsky, principal of Los Angeles RIA Marina Wealth Advisors, shares Papadopoulos' qualms. See: [Robinhood allegedly implied a fiduciary duty to novice investors](#).



"It's not a natural fit. [Advisors] might be scrambling for a backup plan. Robinhood might not be the brand name they feel comfortable with when it comes to compliance and security," he says.

## Sketchy history

Indeed, Robinhood has had multiple run-ins with regulators.

In February, Robinhood paid a \$7.5 million [settlement](#) over allegations it had turned trading into a game.

It also paid a \$57 million FINRA fine – the largest in history – over "[systemic supervisory failures](#)," before its 2021 IPO. See: [Checking pre-IPO boxes, Robinhood makes quick work of FINRA with \\$70-million settlement](#).

But that was during its upstart youth. The company has matured, and its shares are on the upswing.

Robinhood shares ([HOOD](#)) spent two years – 2022 and 2023 – trading at or below \$10. They closed today (Nov. 19) at 35.24, up 24 cents, or 0.69%, and added 29 cents after hours to close at \$35.53.

It has hired aggressively from TD Ameritrade to re-staff and has over 200 compliance personnel, the company said.

## Aligning cultures

Still, an exodus is a distinct possibility, said Alois Pirker, principal of Marblehead, Mass., consultancy Pirker Partners.

"It's a surprising combination. The DNA of Robinhood is so different from RIA custody that they will have to prove their love for this space, or otherwise risk seeing TradePMR's custody clients move," he said, in an email exchange.

"It will be very interesting to see if RIAs and their clients can get comfortable with Robinhood as their custodian," says Jason Wenk,



On the other hand, “Robinhood is an excellent technology company, and Vlad is a very talented CEO, especially around product development, so they are going to force everyone to get better,” Wenk says.

## Synergies

Both parties also claim the deal is awash with synergies. Robinhood wins a means to maintain longer relationships with customers, while TradePMR RIAs gain access to a whole cohort of self-directed investors largely out of reach of their peers.

Baldwin said in an RIABiz interview that Robinhood has many big accounts that need – or will need – a wealth manager.

“What’s going to happen to those assets?” Baldwin asked rhetorically in the interview.


David Himmel, an independent analyst, says Robinhood has more mature investors than people realize.

“As of a year ago, 21% to 27% of accounts/assets at RH are held by ages 43 to 58. And these are by definition financially engaged, tech-forward investors nearing advice age. I would suspect these clients have more assets held outside of Robinhood too. [Click here for info.](#)”

“There’s more alignment than folks realize in terms of technology culture between the firms and personalities of advisors and advice-age retail investors using each platform,” Himmel adds.

“This helps Robinhood retain/deepen relationships with the 21% of its accounts at/nearing advice age, and provides referrals to advisors that are likely culturally aligned with Robinhood clients.”

## Staying on brand



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Baldwin and his team will stay on at the Robinhood for an undisclosed period to help it acclimate to the RIA business – and are setting their sights high, he says.

“When you’re in our position, and you’re what the media calls a second-tier custodian, you say: How can we leapfrog to compete? We [have



2023.”

TradePMR will also retain its brand, its 175-strong headcount, and its existing 13-year clearing partnership\* with Wells Fargo, according to multiple reports. Robinhood has a staff of 2,000.



Upgrades to TradePMR will include a client portal, so advisors and clients can view managed and self-directed assets in the Robinhood app. Robinhood is also planning to offer advisors access to select Robinhood features, including wider cryptocurrency trading, according to its website.

## Clearing boon

The fact that TradePMR has yet to develop its clearing system, unlike Altruist, also likely made the deal terms more appealing to Robinhood, according to Wenk.

“Robinhood has wanted to get into the RIA custody space for a while now, and short of starting from scratch, the only firm that really made sense to purchase was TradePMR,” he says.

“They're not self-clearing, so their price is very low, relative to the upside, assuming they can keep the customers.

Robinhood developed its own custody and clearing platform for retail trading in 2018, after previously relying on Apex Clearing.

TradePMR's currently stated commitment to using Wells Fargo to clear the trades of its RIAs is similarly unlikely to last, Wenk continues.

“There's no way they keep the customers at Wells Fargo long-term, [but] they'll need to invest a couple of years building out Robinhood's clearing capabilities to support the far more advanced needs of advisors,” he says.

“To support advisors you need 50+ account types, dozens of integrations, [and] a full middle-office ... this is really, really hard – we know, because we just did this – it will all need to be built, which I'd estimate will take around two years,” he adds.



Joel Bruckenstein: ‘At first glance, [the deal] seems strange, but it makes a lot of sense.’

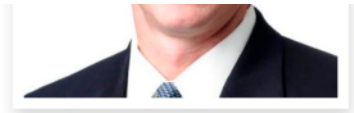
## Referral bonanza

The plan is for Robinhood, which has 24 million accounts and \$160 billion of AUA, to funnel large, maturing accounts to TradePMR RIAs.

The potential of a Robinhood referral scheme is vast, given the firm boasts 24 million funded customer accounts, and 75% of its users are millennials or Gen-Z.



Andrew Besheer, principal at Besheer & Associates, says the referral scheme could work well, assuming the execution is done correctly.



But he cautions, "Never entirely believe the hype."

"There's a long history of combining self-directed business models with RIA custody. From a maturity, size, and demographics perspective, these two firms are actually a pretty fair match," he says.

"From a TradePMR perspective, Robinhood seems like a good fit in terms of size, breadth of clients, and potential for enough of them to have reached a level of needs where a referral program could be effective," he adds.

## Looking past risks

Other analysts and legal sources say RIAs – naturally more conservative around planning and execution – might teach Robinhood executives the value of moving slowly.

"Maybe that's exactly why this is a good fit ... [RIAs] might serve a voice of reason to a company that has a history of throwing caution to the wind," says Ari Sonneberg, a partner in Wagner Law Group in Boston, via email.



Ari Sonneberg:  
'Robinhood's reputation  
is no secret.'

"Robinhood's reputation is no secret, so one has to believe that TradePMR took that into consideration," he adds.

"Either that or this deal is so good for the executives in the short term, that they were willing to take an enormous risk that this acquisition will eventually be the end of their company."

Joel Bruckenstein, founder of the T3 Conferences, cautions that Robinhood the custodian will be a very different proposition to Robinhood the discount brokerage, and that the lure of millennial and gen-Z referrals is very real.

"At first glance, [the deal] seems strange, but it makes a lot of sense. Robinhood wants to get into the advisor business, TradePMR advisors want to reach the next generation of investors," he says, via email.

"[RIAs] will salivate at the opportunity to engage with the Robinhood demographic ... [they] might reach a new audience that is not being served by the advisor community today.

"Are the cultures different? Yes, that's why Robinhood needs someone like [Baldwin] and his team to navigate the RIA space," he concludes.

## New competition phase



## 'cannibalization' of full-service brokerage

TradePMR, which had used Wells for clearing, was always like the megabank's adopted child. Wells shared wealth management referrals, and Wells was presumed to be TradePMR's ultimate suitor, one RIA told RIABiz.

Robinhood's acquisition of TradePMR also marks a new phase of competition in the lower end of the market, after several firms – Goldman Sachs, Altruist, Apex, and TradePMR – bet on benefiting from a TDA exodus.

“There isn't as huge a growth path as some thought from capturing unhappy smaller [ex-TDA] RIAs,” says Besheer.

“[This] may have driven a rethink of strategy on the [TradePMR] side, and, on the [Robinhood side], it might [be] a case of this is clearly the best property that we can aspire to in this space, [so] we should move before someone else does,” he adds

## Exodus bust

The deal for the 26-year-old, Gainesville, Fla., custodian instantly catapulted Robinhood into a group of start-ups and small RIA custodians aiming to fill the market niche for small-to-mid-sized advisors filled by TD Ameritrade (TDA), before its 2019 sale to Schwab.

But the anticipated TDA exodus of RIAs from Schwab never materialized and now smaller-to-mid-sized custodians – each of which spent heavily on a mix of acquisitions and hires to capitalize – are trying to cope.

“The boom was always over-hyped ... [and] the process of adding a new custodian for an established advisory business is a slow, one-by-one affair,” says Doug Fritz, co-founder and CEO of Chicago, Ill. consultancy, F2 Strategy, via email.

But “glaciers carve massive valleys and the longer-term outlook for these firms is still positive and transformative. It may take ten-to-15 years to get there, but the impact will be real,” he adds.

Ownership of a custodian also affords it the opportunity of grabbing a share of an RIA market with managed assets now over \$8.5 trillion, according to Cerulli data.

## Well-worn path

The deal borrows from a very established precedent, says Pirker in a



Doug Fritz: ‘The boom was always over-hyped...’

Investments and Charles Schwab, where RIA custody has sat alongside self-directed retail trading for decades.

“Additional scale can be generated for the core online brokerage business that's characterized by razor-thin margins. It would also not be surprising if Robinhood will start routing TradePMR trades through its payment-for-order-flow setup,” he says.



Marshall Smith, managing director of Arlington, Texas VC shop First Rate Ventures concurs in the same LinkedIn thread, describing the deal as a “pure copycat play on Schwab.”

“It was a good opportunity for both firms,” says Bruckenstein.

“Robinhood needs to move beyond its current base, and TradePMR can accelerate growth and get access to a modern technology stack,” he says.

## Friends reunited

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The Robinhood purchase of TradePMR also reunites Quirk, who is widely credited with the success of the TDA thinkorswim platform, with a number of his former colleagues. See: [Robinhood gets 'brilliant' upper manager -- and a spare CEO](#).

TradePMR hired former TDA managing director for technology product management Jon Patullo – one of the key architects of the firm's popular RIA platform, Veo – in May, appointing him TradePMR's chief product officer, following his surprising dismissal by Apex. See: [Apex eliminates Jon Patullo's position](#).



Jon Patullo: Key architect of TDA's VEO platform.

It followed up that hire with the appointment of Marcel Tsai – again from Apex, and again a key Veo architect – in August. See: [TradePMR brings on four more ex-TDA Apex executives – not least Marcel Tsai](#).

TradePMR also employs former TDA digital product designer, Laura Villanueva, as its senior product designer; former TDA Veo Institutional product manager, and Rob Deguzman, now TradePMR's integration guru responsible for its recently [upgraded](#) Fusion 'platform.' See: [TradePMR scores Jon Patullo in lightning 'coup'](#).

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The fact that Robinhood will gain access to a deep bench of legacy TDA experience is a real boon, says



How, or if Robinhood deploys its legacy TDA staff will play a major part in how successful it will be, says Pirker.

“TradePMR has hired great people recently, [but] time will tell if those folks will get the necessary attention within Robinhood to take the RIA custody business to the next level.”

## Timeline

Robinhood's acquisition bumps assets under its custody and administration by 25% to \$200 billion, including \$40 billion custodied by TradePMR on behalf of 350 RIAs, and the \$160 billion of retail assets administered by Robinhood.

Today, Schwab manages \$4.6 trillion of RIA assets and \$9.92 trillion overall. Fidelity, which does not disclose RIA assets, administers \$15 trillion overall. See: [Fidelity Investments surges past \\$15 trillion](#)

Robinhood expects to close its purchase before June 2025. TradePMR-custodied RIAs can expect big improvements to their technology and referral pipeline 12 months after closing, the company said.

Baldwin says his firm was always second-tier, but he always harbored first-tier ambitions.

“I've always had that in the back of my mind.”

What people don't realize, he says, is how big a deal it is that Robinhood built its own back office technology, because it can be applied on behalf of wealth managers, Baldwin adds.

“We're going to look back in five years and say, 'That's why we succeeded.'”

*\* In 2019, TradePMR also agreed to provide custody for Wells Fargo advisors setting up as an RIA. See: [Wells Fargo finally gives its 600 hiring managers an RIA channel to sell but still with the Trade-PMR brand.](#)*

Dublin-native and Edinburgh-based Oisín Breen has spent seven years writing about finance, including five whirlwind years diving into the advisor world for RIABiz. A widely published and well regarded poet with two full collections under his belt, Breen is also an academic in English Literature with a deep fondness for his Scottish rabbit, Hessell. [@Breen](#)

*Brooke Southall and Keith Girard contributed to the editing of this article.*

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