Custodian Buyer's Guide

Everything You Need to Know about Custodians in 8 Minutes or Less

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For independent financial advisors, custodians have traditionally occupied the gray area between crucial vendor and occasional competitor. For the sake of your business building efforts, it’s worth shedding some light on the black box nature of their operations and how their practices affect your firm, your fiduciary obligation, and your clients. The timing couldn’t be better considering that the SEC’s proposed (at the time of writing) Outsourcing Rule requires that you perform some amount of due diligence on your custodian.

Our aim is not just to simplify this due diligence process for you — by the way, you can get Altruist’s latest Due Diligence packet by reaching out to our support team — but also to arm you with the insights needed for both short and longterm strategic thinking.

Recent T3 survey results indicate a significant number of advisors are contemplating a custodian change within the next 18 months. The choice of custodian is not just about today’s convenience but about the kind of partner you want by your side. In this guide, we’ll delve into what custodians do, how they make money, and how their business practices affect you, your employees, and your clients.

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What Self-Clearing Custodians Actually Do

In other words: what makes a custodian, a custodian? First, some terminology. “Self-clearing custodian” refers to a broker dealer that handles both the submission of trades and their settlement. This dual capability distinguishes them from models where an introducing broker-dealer submits trades, but a separate clearing (or carrying) broker is responsible for settlement.

Self-clearing firms manage both the frontend and backend of the trading process. Schwab and Altruist are both self-clearing custodians. Overseeing both sides of the transaction can allow for quicker adjustments to services and potentially better control over client experiences.

The responsibilities of a self-clearing custodian are broad and critical for the integrity of the financial system. These include:

Safekeeping Accounts

Custodians are entrusted with holding and safeguarding client accounts, ensuring that assets are accurately accounted for and protected.

Settling Trades

They manage the behind-the-scenes processes to ensure trades, including the subsequent transfer of securities and money between buyer and seller, are settled efficiently and correctly.

Staying Compliant

A cornerstone of a custodian's role is adherence to regulatory requirements, such as Rule 15c3-3, which mandates the protection of customer assets. This rule is designed to prevent firms from using client deposits for their investments and ensures that high-risk investments are not funded by client cash without their explicit consent. Custodians can face severe consequences for violating FINRA and SEC rules.

Providing Assurances

Beyond the fundamentals of trade settlement and account safeguarding, self-clearing custodians offer layers of protection and assurance to their clients. This includes insurance coverage, cybersecurity measures, and asset protection guarantees.

You can find additional details about Altruist's security, stability, and protective measures here.

How Custodians Make Money

Ranked (approximately) from highest source of revenue to lowest. Specifics will vary by custodian.

Net Interest on Cash Deposits

Custodians earn interest on the cash deposits held in clients' accounts. They often sweep uninvested cash to FDIC-insured partner banks where they earn the spread between what our partner banks pay and what is paid out to clients. This practice requires balancing profitability for the business with providing competitive interest rates for clients.

A high yield cash product was one of the most highly requested features by Altruist advisors – we're proud to now offer a yield that 9x the national average*. You can read more about Altruist's Cash Management products here.

The national average interest rate for savings accounts as posted on FDIC.gov, as of May 2025. Legacy custodians considered include Fidelity Investments, Charles Schwab, and Pershing as of May 2025.

Margin Interest

When clients buy securities on margin, custodians lend them the funds, charging interest on the borrowed amount. This interest can be a significant revenue source. Custodians must ensure rates are reasonable and clients are aware of the associated risks.

Fully Paid Securities Lending

Custodians lend out securities owned outright by their clients to other traders or institutions. The custodian earns lending fees from this service, while the borrower provides collateral and pays interest. The end clients, whose securities are lent out, typically receive a portion of the lending fees, providing them with an additional source of income on their fully paid securities. This arrangement can be particularly beneficial for clients as it allows them to earn extra returns without selling their assets. Of course, there are risks associated with the practice and it’s important that investors are made aware prior to participating in a securities lending program.

You can learn more about Altruist’s fully paid lending program here.

Payment for Order Flow

Custodians receive compensation from market makers for directing orders to them. This practice generates revenue based on the volume of trades executed. With many firms eliminating commission fees, there's been an increase in both regulatory scrutiny and general discussions surrounding the practice of PFOF in recent years. Although the practice is common, there are considerations that should be made regarding how the practice could potentially impact execution prices. It's important for advisors to understand how their custodian handles trade execution and PFOF.

You can learn more about Altruist execution quality and philosophy here.

Revenue Share Agreements with Mutual Funds (12b-1 Fees)

Custodians may have agreements with mutual fund companies, earning a portion of the 12b-1 fees charged by these funds for marketing and distribution expenses. However, if custodians create incentives for advisors to use funds offering higher 12b-1 fees, it could create bias in the investment selection process, with the potential to negatively impact clients.

Altruist is committed to fee transparency, our fee schedules and pricing info can be found on altruist.com/legal.

Platform Fees

For offering various trading and investment platforms, custodians may charge platform fees (which can be based on the assets under management or a fixed subscription fee). In a perfect world, platform fees are transparent and justified by the value provided. This is not always the case.

Altruist doesn't have platform fees or advisor minimums.

Ticket Charges and Trading Fees

Custodians charge fees for processing trades or transactions, known as ticket charges. They may also impose other trading fees depending on the type and volume of the trade. Advisors should expect transparent and reasonable trading fees, but unfortunately, hidden fees are not uncommon.

At Altruist, you have access to commission-free trading (including fractional shares) of individual securities, ETFs, and warrants. We recently launched a new fee schedule that fully represents our commitment to offering advisors and their clients the simplest, most transparent, and competitive pricing in the industry. You can view that here.

How Your Custodian Will Impact Your Firm

The influence of your custodian on your firm extends beyond the custody of assets and settlement of trades. It touches multiple facets of your operations, from the technology at your disposal to the user experience that you and your clients encounter. Understanding these factors is crucial for evaluating a custodian's fit with your firm's needs and goals.

Tools and Technology

A custodian's technology stack is foundational to how effectively and efficiently you can manage your clients' portfolios and your firm's operations. The offerings can be categorized into:

Native Apps
These are proprietary tools developed by the custodian, designed to be fully integrated into their system – Some examples of proprietary solutions at Altruist include fee billing, performance reporting, rebalancing, onboarding, tax management, and cash management solutions. Their effectiveness largely depends on how well they align with your firm's needs and the custodian's understanding of those needs. In spite of having all the critical data, many custodians don't offer native apps — forcing RIAs to pay for add-on tech.

Integrations
A custodian platform's ability to seamlessly connect with third-party applications is a major driver of efficient operations. This functionality reduces data reconciliation, data reentry, data compilation, redundancies, and manual data entry risk. Platforms like VEO were highly valued for their robust integration capabilities.

Learn more about Altruist's growing suite of integrations here.

APIs
Application Programming Interfaces enable your firm to customize and extend the functionality of the custodian's platform, tailoring solutions to fit specific operational needs or to create a unique client experience. This is a powerful offering for firms that have development resources at their disposal.

Performance

Whether advisors are aware of this or not, certain custodian business practices may impact their clients' portfolio performance. This includes:

Investment Bias
Some custodians might have arrangements that could bias investment selections, such as the aforementioned mutual fund revenue-sharing agreements (12b-1 fees) or differential ticket charges that could influence product recommendations.

Performance Enhancements
Look for custodians that provide tools or features that inherently boost portfolio performance, like offering fractional shares (to reduce cash drag), automatic tax loss harvesting, and tax-sensitive rebalancing. These can be significant differentiators in fulfilling your fiduciary obligations by optimizing client returns and minimizing tax liabilities.

User Experience

The look, feel, and efficacy of the tools and support that custodians offer advisors and end-clients can vary drastically. Advisors should be on the lookout for applications and interfaces that are intuitive, simple, and effective.

Interface
The design and functionality of both the advisor and client portals are critical, impacting daily operations and client satisfaction.

Ease-of-Use and Speed
How quickly and efficiently tasks can be accomplished within the custodian's system directly affects your firm's productivity and client service. For examples of what this looks like in action, you can learn how Steward reduced client onboarding time – account opening, funding, rebalancing in a tax-aware manner, and setting up reporting and billing – by 91%*.

This testimonial was given by a current client or investor. Neither Altruist nor its affiliates paid for this testimonial, but we do earn revenue from advisors and on assets in accounts. This testimonial may not represent the experience of others and it is not a guarantee of results.

Service Quality, Responsiveness, and Communication

The level of support and communication provided by the custodian can vary significantly. The attitude of legacy custodians often reflects a "it's your pleasure to do business with us" stance, which can be a source of frustration, especially during transitional phases.

How to Decide?

In choosing a custodian, we encourage you to weigh these aspects carefully. The right custodian should offer technology that enhances your firm's operations, supports your fiduciary duties through performance-enhancing tools, and provides an intuitive, efficient user experience for both advisors and clients. This choice is not merely about the custody of assets but about selecting a partner that aligns with and supports the strategic direction and values of your firm.

To learn more about Altruist as a custodian and long term partner, we encourage you to connect with our team.

See if you're a fit

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