

CLS Advisor IQ Series

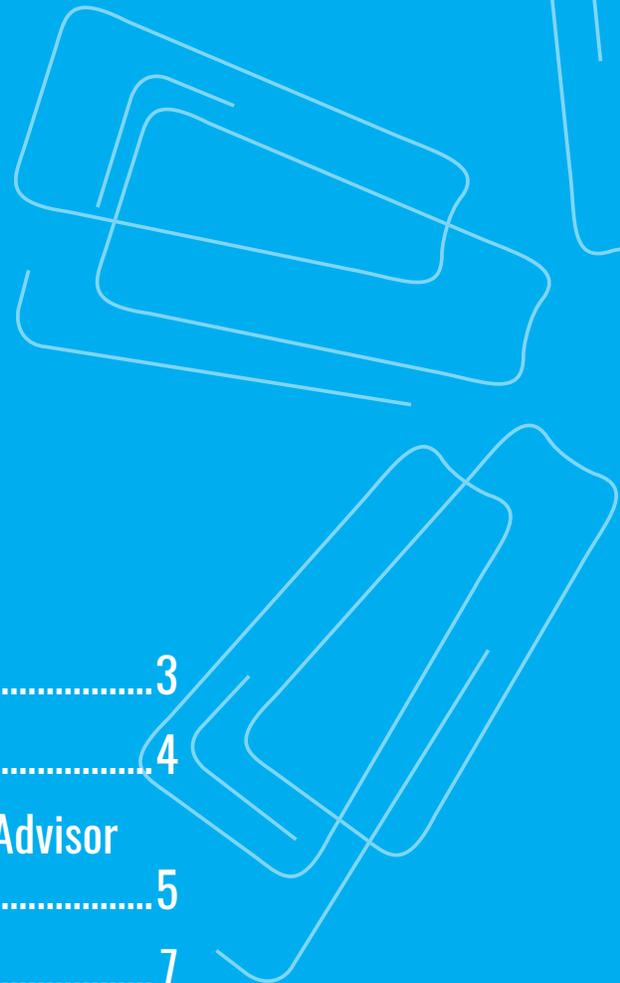


REINVENT YOUR PRACTICE:

Alternative to Traditional
Succession Planning

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Executive Summary

- CLS Investments, LLC (CLS) has researched one of the more pressing issues in the financial industry: succession planning. We have identified alternative succession planning approaches for advisors.
- There has been a lot of focus on the succession planning crisis facing the financial advisor industry. A casual search of this issue reveals hundreds of both industry and consumer articles documenting the fact that the advisor industry is aging and there is a lack of succession preparedness.
- Due to the growing “sell your practice” message being promoted by industry experts, roll-up firms, and consultants, many advisors have become convinced that their only succession option is to sell their business. However, the lack of succession readiness for the majority of the industry, along with valuation issues, makes selling a practice a difficult proposition for the majority of advisors.
- Options are emerging for succession planning beyond the typical solution of selling a practice. For many advisors, selling their businesses will not provide the financial means to fund their own retirements. In addition, selling may not be in the advisor’s best interest, or may not be what the advisor truly wants to with his or her careers.
- As an independent advisor, days are filled with the demands of advising and servicing clients while still managing the practice. Digging into the day-to-day operations can be somewhat overwhelming. Advisors should not forget the importance of partnering with third party asset managers. Given the immensity of the details in a business, hiring an industry consultant that is well-versed in the advisory industry can assist in determining the best partners to align with that will provide supportive advice as the business evolves through retirement years.
- Advisors owe it to themselves and their clients to take action now, positioning themselves with the most choices, flexibility, and options for enjoying their later years, while still ensuring that their clients are well cared for.



Introduction

CLS has researched one of the more pressing issues in the financial industry: succession planning. We have identified alternative succession planning approaches for advisors.

Due to the growing “sell your practice” message being promoted by industry experts, roll-up firms, and consultants, many advisors have become convinced that their only succession option is to sell their business. However, the lack of succession readiness for the majority of the industry, along with valuation issues, makes selling a practice a difficult proposition.

Fortunately, there are many alternative approaches advisors can pursue, such as “reinventing” themselves and their practices in order to continue working with the clients they enjoy, while streamlining their operations and practice. The reinvention option can empower advisors, in their later years, to continue doing the things they enjoy, lessen their workload, and continue to generate income to fund their retirement years.

Combined with tools, resources, and templates to reinvent their practices, advisors can put in place the infrastructure they need to meet their ultimate goals. This report will document the issues, solutions, and approaches to making this a reality for advisors.



The Current State of Succession Planning

There has been a lot of focus on the succession planning crisis facing the financial advisor industry. A casual search of this issue reveals hundreds of both industry and consumer articles documenting the fact that the advisor industry is aging and there is a lack of succession preparedness.

According to Pershing Advisor Solutions and Moss Adams, only 28.7% of advisors have defined or implemented a succession plan. This is quickly becoming a pressing issue due to the fact that 43% of financial advisors are either approaching, or at retirement age, per the latest research from Cerulli Associates. In that study, Cerulli finds that the average age of financial advisors is about 51, with 43% of advisors being over the age of 55 and nearly one-third of all advisors falling into the 55 to 64 age range.

Consultants, roll-up firms, aggregators, and other institutions that stand to benefit are adding to a growing trend in the industry that encourages advisors to sell their businesses. For many advisors, however, selling their practice is often not in their best interest, or what they want to do.

Other industry leaders are pointing out an alternative approach to reframe the succession discussion by moving away from the outright sale of the business to finding ways to keep the advisor involved in a profession that is richly rewarding and one which they can continue into their later years.

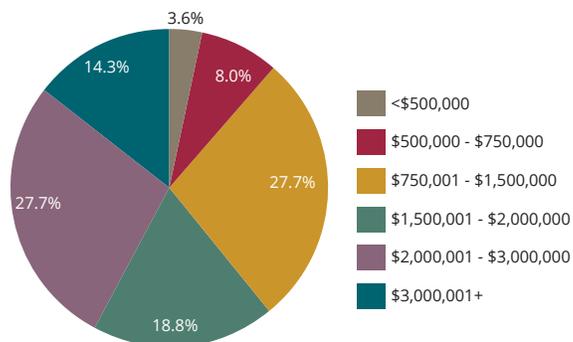
Industry observer Michael Kitces stated, *"...as the wave of Baby Boomer advisors move closer and closer to retiring, so too is the pressure building for a wave of selling of financial planning practices. Yet the reality is that the retirement wave may not be nearly as large as anticipated – in part because difficult markets have left many advisors behind on their retirement savings ... but more significantly because many advisors enjoy doing financial planning and feel capable of continuing to do it even in their later years."*

According to recent market research conducted by CLS Investments, of 117 advisors surveyed, 61% expect to need \$1.5 million or more to be able to retire comfortably, with 42% expecting to need more than \$2 million. However, when asked how prepared they are to reach their goals, only 11% said they had achieved their funding levels and 48% said that they were less than halfway there.

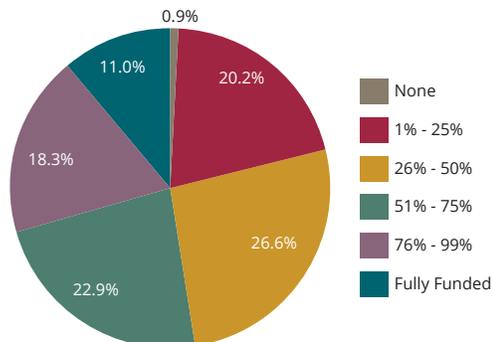


CLS Survey Results

How much retirement savings do you think you'll need to retire comfortably?



What percent of your retirement goal have you accumulated?



To accomplish the goal of continuing to work toward their retirement years, advisors can “reinvent” themselves and their practices, rather than sell their firm outright. Let’s look at what is required for an advisor to transition his or her practice while remaining involved but in a lesser role.

It is important for advisors to remember that they have options beyond just selling their practices. For example, advisors can streamline their practices by working exclusively with clients they have strong relationships with. They could also consider working part-time and outsourcing many of the day-to-day aspects of running a firm. They could even bring in junior advisors and additional staff to continue growing the firm. As a result, advisors can continue doing what they enjoy, while slowing down over time, and thus, may not need a traditional succession plan.

Kitces sums it up, “...the broader issue is that many advisors simply do not want to retire, because they enjoy what they do – especially if they can focus the practice to get rid of the job duties that are the least desirable. In other words, financial planning is a classic example of a profession that is not exactly a physically intensive business, and as long as the mind is able and the body allows for meetings with clients, planners can continue to work.”

ROBERT HARRELL, INC.

Keeping it all in the Family

Registered Investment Adviser, Robert Harrell, Inc. (RHI), was founded in 1991 by Robert Harrell. RHI began as a pension consultant firm and continues to be independently owned. As Robert has entered his 70's, many of the daily management responsibilities have been passed on to his son, Will Harrell, Senior Vice President.

While remaining a boutique firm, RHI has grown into other lines of business, including working with Trust banks. According to Will, “We’ve been very focused on traditional assets, don’t sell product, and have not been caught up in any of the exotic investments or asset classes that have derailed other firms.” As a result, Will notes that the firm’s “clean ADV” has been a valuable marketing asset as they have continued to grow the firm.

As part of the business transition they are planning, Will notes that RHI has succeeded because it has been his father’s life work and they have superior dedication to clients. “It’s been a very difficult process to find another firm that shares that same commitment to clients; thus, we’re being very deliberate in doing this internally.”

Will’s advice to other advisors is to start early. “Don’t wait until you are in your later years to begin the process,” he says. “There are so many variables that you can’t control, such as if the market corrects, and your valuation is dependent on the asset base in your firm, you could leave yourself exposed to not being able to fund your retirement. Or if you wait too long and don’t communicate with younger advisors in the firm, they may grow antsy and want to leave, perhaps taking clients with them.”

Will also strongly recommends having a communication plan in place to inform clients of your plans. “It’s important for clients to know your plans so they remain confident in the long-term viability of the firm.”



The Economic Reasons for Not Selling

There are clear reasons why an advisor may not want to outright sell his or her business and retire, including compelling financial reasons. Just like the often cited tale about the Cobbler's children not having any shoes, many advisors have also neglected to plan for themselves when it comes to retirement, despite the fact that they do this every day for their clients. As a result, many advisors will be relying on their advisory practices to fund their retirement.

According to CLS market research, over half of advisors (55%) are planning on the proceeds from the sale of their practice to fund at least half of their retirement needs. Thus, over half of the industry is banking on the idea that their practices will fetch anywhere from \$750,000 to \$1 million when they retire.

Unfortunately, due to industry valuation models, the vast majority of advisors' businesses are often worth far less than what they think. This leaves a large gap from what they will need to retire.

To provide an example of this conundrum, consider the current multiples and valuation methodologies that are driving this issue. Every advisory practice is different and industry valuations depend on many things such as AUM, transferability of clients, account sizes, location, fee vs. commission, etc. For illustration purposes, we will use a simple example:

Consider the value of a hypothetical advisory practice that has \$400,000 in annual revenues, a figure that is slightly higher than the average veteran advisor. According to industry benchmarks, roughly 40% of revenue goes to advisor salaries and 40% of revenue goes to overhead, leaving a profitability, or "free cash flow" of 20% revenue for the typical advisory firm.

In this case, the practice is generating \$80,000 in free cash flow (20% of \$400,000). According to industry valuation, cash flow multiples for smaller practices range from 2-5 times. Using an optimistic multiple of 5, this business would be valued at \$400,000.

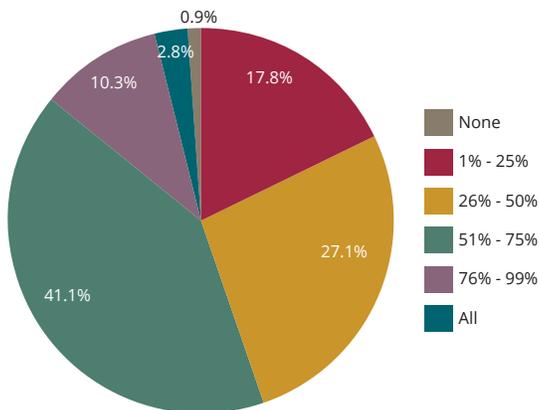
While a \$400,000 payday may seem substantial, due to the earn-out provisions that are standard industry practices, the amount received will be spread out over time, typically from 3-5 years.

Thus, after a typical 40% down payment of \$160,000, the advisor would receive only \$48,000 per year for the following five years, an annual income stream that pales in comparison to the \$160,000 annual income the advisor would have received if they stayed in the practice and did not sell. This is then compounded by the fact that after the earn-out period, the advisor is left with no asset.



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What percent of your retirement assets will the sale or transition of your practice represent?



Therefore, the true bottom line is that the majority of advisory practices will not provide the payday many advisors are anticipating, making the decision to keep working in the business pretty much a “fait de accompli” once the numbers are run and offers evaluated.

DAVID VAN RASK

Family Succession Success

David Van Rask has not only reinvented his family's financial advisory firm, but also his own career along the way. When Van Rask was in his early 20's, he joined his father's advisory firm to help out when his father became diagnosed with cancer. Van Rask became licensed and actively helped manage the firm with his brother while his father recovered. But as a young person, Van Rask had somewhat of a hard time convincing clients and prospects to work with him long term.

As a result, Van Rask went back to school and earned a masters degree in Psychology and Family Therapy. However, as he was starting a family, Van Rask in his own words, “quickly realized that it would be difficult to support his family's lifestyle on a social worker's income.”

So, Van Rask went to work at a large financial institution, and then ultimately rejoined his father's firm as part of a family succession plan. The ability to work side-by-side with his father for a three- to four-year period of time went a long way toward the smooth transition of client relationships. “It was really a trial by fire,” says Van Rask, alluding to the transition period that occurred during the financial crisis. “However, that period of time was very important to provide the seasoning I needed to step up and take over the business when my father retired.”

Going forward, Van Rask is focusing on growing the firm and running the business in an efficient way. As part of this strategy, Van Rask is considering bringing on a junior advisor to develop a better capacity for growth, as well as investing in CRM technology to drive more operational efficiencies. A key aspect of this approach is outsourcing the investment management component to CLS and a couple of other managed account platforms.

Additionally, Van Rask is actively networking with older advisors to see if there are merger or acquisition opportunities as part of a succession plan. “I see a big opportunity to partner with senior advisors and see if there is a fit, so that by combining firms, we can grow faster.”



As an advisor, you must constantly be thinking about your own succession plan because things change, circumstances change, plans get altered, and there is a responsibility you have to your clients to ensure they are taken care of in case something happens to you.”

- Rick Arellano



Reinvent Yourself and Your Practice

As an alternative to selling, advisors have the very real option of continuing in the business by putting in place a few business planning steps. This enables them to work with the clients they have strong relationships with, off-load operational tasks, work fewer hours, take more vacations, and generally slow down. In essence, it gives them the option of changing focus and taking on outside activities they enjoy, while still having a foot in the business.

In order to accomplish this, there are several options that offer a broad spectrum of choices, allowing advisors to “reinvent” their practice to suit their personal goals, objectives, and interests. For example, advisors can:

- Slowly wind down the practice by limiting the addition of new clients and referring current clients to partners or successors.
- Identify an advisor within their community and develop a buy-sell agreement to ensure business continuity in case of death or disability.
- Partner with a another advisory firm to merge operations and transition the bulk of clients, while keeping the core set of clients they have strong relationships with.
- Continue in the practice and outsource the day-to-day operations by working with third party money managers or a turnkey asset manager program (TAMP).
- Bring in junior advisors and staff in order to transition operational and client duties, which will provide additional infrastructure to continue growing the firm. According to industry research firm FA Insight, firms that employ junior advisors report 44% greater income and 15% asset growth versus firms that do not.
- Use any combination of the above.

There are a variety of reasons driving these decisions; however, there are some compelling issues at work that advisors should address to ensure that they are able to maximize the value of their businesses over time. Thus, rather than choosing the first option above, advisors can put in place business planning strategies to avoid ending up hostage to attrition and a dwindling asset.

According to a recent article featured on wealthmanagement.com, *“The number one exit strategy in use in the independent space today isn’t internal or external – it is attrition. The owner is married to the cash flow stream; they work it as long as they can. And by the time they’re done with it, there’s nothing left to sell. The maximum sustainable growth rates in the industry occur between ages 45 and 55 years old for a one-owner business. When the advisor is between 55 and 65 years old, growth rates plateau and begin trending downward. Little by little as their clients get older and have withdrawal events, they die off themselves, pass the money to their children; the business contracts on its own. If you don’t reinvest to build it, it just eventually becomes about a third of what it was. By that time, it’s so far in decline nobody will buy it.”*



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JOE MOYER

Starting Fresh at 66

Joe Moyer has reinvented his business, Moyer Financial Group, several times as he has progressed in his career as a financial advisor. While his model served clients well, Moyer was convinced that there was a better way to provide financial services that were more transparent and would highlight the value of the advice he was providing.

In 2000, Moyer transitioned his business to a fee-based model, utilizing third party money managers to complement his financial planning approach. "Clients know that they are paying for expert advice in a fee-based model," notes Moyer. "Additionally, by working with CLS, I'm able to spend more time with my clients and develop better relationships."

Now in his fourth decade with the Moyer Financial Group, he is seeking to reinvent his practice for a second time. At 66, Moyer is thinking about the future of his business, particularly now that he has a young son at home.

"I really enjoy the business and working with clients, so I don't plan on retiring anytime soon," Moyer says. "I figure I have about a 10-year window to reinvent how everything is done."

Moyer's plan is to focus on increasing assets under management, while looking for ways to continue to grow his business. In addition, he is working on a continuity plan in case something happens to him or the firm.

Moyer acknowledges that this has been hard to do, as he desires to work with an advisor that matches his style and has the same broker-dealer. According to Julie Weekley, his wife and business partner, "We haven't had the best experience in bringing in partners. It is very difficult to find someone that thinks about clients and serving them the same way we do. We've built very good relationships with our clients and really want to make sure that any transition will be a good one for everyone involved."

As a result, Moyer and Weekley are focusing on simplifying their back-office by streamlining processes so that they are able to create operational efficiencies, enabling them to spend more time away from the business, traveling, and enjoying their young son.

Human Capital

JOB DESCRIPTIONS

One of the best exercises an advisor can go through is to develop formal job descriptions for themselves and each staff member. Since each advisor's practice is different, documenting the current environment is a critical first step in planning what job requirements will be needed as the practice is transitioned to its new structure. Job descriptions should include the purpose of the job, its essential functions, knowledge, skills, abilities, and experience required.

IDENTIFYING TALENT/RECRUITING

One of the benefits of having pre-existing job descriptions is that it can expedite the search for a new employee if a current employee should depart the firm. Once the job needs have been clearly determined and documented in the descriptions, the advisor can go about the task of finding the right person(s) for the required positions. Understanding the job requirements will make it easier to communicate the need effectively and efficiently.

There are many ways to find talent, but the most effective way by far is through networking. Acquiring talent is not unlike acquiring assets. Advisors should contact people they have a relationship with and trust. Let those trusted sources know of the need and ask for referrals. Referrals are usually very good candidates since they have already been somewhat vetted by a trusted source.

Other ways to find talent are through job boards (e.g., DICE, CareerLink, CareerBuilder, Monster) and social media (e.g., LinkedIn, Facebook, Twitter). Recruiting firms can also be helpful for difficult-to-fill positions; however, they can be expensive, often charging 15-25% of the first year's annual salary. For entry level jobs or positions requiring little experience, mentoring high potential candidates from universities can be effective.

COMPENSATION PLANS

Once the right candidate has been found, it is important to close the deal as soon as possible. One of the best ways to do this is to be clear about how the individual will be compensated. Compensation includes salary, bonuses, and benefits. All are important and need to be clearly understood by both the advisor and the new hire. Benefits are usually unambiguous since documents are provided by insurance companies, 401(k) providers, etc. Compensation for junior level positions that are paid a base rate (either hourly or salary) should also be straightforward and can be covered in a standard offer letter. Sales positions or other senior positions, however, should be spelled out in writing in a separate document to avoid any misunderstanding. Any time there is a change in the method of compensation it should be communicated in writing to the employee. Obtaining the employee's signature on the compensation plan is the best way to verify that he or she agrees with and understands the plan.

TRAINING/DEVELOPMENT

Once the right candidate has been found and he or she agrees to the employment terms, it is important to get the person up to speed as quickly as possible. If the person is to assume increasing responsibility, the advisor will need to consider how to develop this person for the long term, which can include executive programs offered at universities and/or executive coaching. Once the advisor is confident they have the right person to allow them to begin to step away, investing in the new hire's continual growth and development should become a high priority.

IMPLEMENTATION STEPS – HOW TO REINVENT YOUR FIRM

In order to transition to the next phase of a firm, and create the infrastructure, methodologies, and approaches to have the most options, advisors can focus on three key areas:

- *Human Capital*
- *Operational Management*
- *Legal Agreements*

RON MURPHY

Opportunistic Succession Planning

Over the years, Ron Murphy of Larkspur Financial Advisors has grown his practice to over \$200 million in AUM, with five staff members in addition to advisor Rick Arellano (see profile on page 13).

"I've gone through multiple transitions with our firm over the years," says Murphy, who is in his early 60's. "Right now we are working on a number of initiatives, including finalizing a buy-sell agreement, and bringing on a younger advisor as part of a succession plan, while enhancing our operational capabilities."

As part of the buy-sell agreement negotiations, Murphy and Arellano are working to modify the retirement clause to select a specific date. Once that has been determined, Murphy and Arellano will work to transition Arellano's clients to a new advisor who will be joining the firm from a large wirehouse.

Succession planning has been at the top of Murphy's goals for quite a while because he sees the value that can be realized, as well as the opportunity it presents. Through some trial and error, Murphy has made about four attempts to find a successor over the years, but is now strategically focused on investing in his firm to position himself with the most options.

A key aspect for the success and growth of Murphy's firm over the years has been his focus on developing staff and investing in technology to create infrastructure. This operational leverage has positioned him to be able to bring on retiring advisors, absorbing their clients, while growing the firm. Additionally, his staff has become experienced, so much so, that they can manage a majority of the day-to-day business, freeing-up Murphy to focus on his affiliated broker-dealer and travel for extended periods of time.

As an example, Murphy was able to travel to Argentina for an extended period of time, and still manage his responsibilities by accessing key documents and managing compliance requirements through a cloud-based system.

Going forward, Murphy's goal is to groom his new advisor to take over the management of the firm, and start to cut back, working mainly with his "A clients." "Looking back, one of the smartest things I did was to have a long-term focus on business transition, while developing a great staff and infrastructure. Those assets have provided me with choice, flexibility, and multiple options for how I will continue to reinvent my career."

Operational Management

BUSINESS ANALYSIS

For many financial advisors, the value of their business may be the single largest asset they own. Oftentimes, business owners do not have an accurate valuation to determine the fair market value of their practice.

While planning a reinvention strategy, advisors should consider hiring a qualified business appraiser to help determine the fair market value of the practice. The best time to obtain a professional business valuation is at the start of the planning process. Knowing precisely what the practice is worth will help in setting up a well planned buy-sell agreement that will best meet personal and professional needs. A proper valuation will leave little question about the true value of their retirement asset (their practice), when discussing succession arrangements with junior staff or potential buyers.

Once the value of the business has been identified, the next step in performing a thorough business analysis is to detail the management of the transition in a sustainable way. By focusing on identifying specific business practices, from both an ownership and operational standpoint. How is the business organized? Is it a corporation, a partnership, or perhaps a sole proprietorship? This answer may help identify the best organization, team, or individual to offer business continuity for the business practice to flourish in the next generation of operation.

Next, advisors should focus on the operational details of the practice. Begin to review, and if needed, create well-written policies and procedures to help the eventual successor better understand the day-to-day operational capabilities to ensure that client needs are not disrupted.

Another important factor is selecting business partners to work with who can assist in providing clients the best financial planning services and solutions available. Service partners may range from various custodians, broker-dealers, and clearing firms, estate planning attorneys, bankers, CPA's, and third party money managers. Outlining these relationships will ease any anxieties for the advisor and clients by understanding where assets are located and who the business partners are, as the transition begins.

CONSULTING

As an independent advisor, days are filled with the demands of advising and servicing clients while still managing the practice. Digging into the day-to-day operations can be somewhat overwhelming. There are client meetings to conduct, servicing phone calls to return, new account paperwork to complete, trades to place, and for some, staff to manage. Advisors should not forget the importance of partnering with third party asset managers, and attaining the best technology to provide asset aggregation and performance reporting for clients. Given the immensity of the details in a business, hiring an industry consultant that is well-versed in the advisory industry can assist in determining the best partners to align with, and will provide supportive advice as the business evolves through retirement years.

Aspects to consider:

- *Business Analysis*
- *Consulting*
- *CLS Transition Team*
- *Segmented Client Base*
- *Technology Efficiencies*
- *Partnering with Broker-Dealers and Identifying Non-CLS Assets*

CLS TRANSITION TEAM

Sizable emphasis should be placed on how to achieve a successful transition. Having the support of experienced professionals is important in developing a customizable strategy that will fit the individual time frame. Aligning an advisor's interests with their clients' is paramount for a transition to be the least disruptive as possible. Advisory practices are not "one size fits all", and CLS realizes there are many details to work through and can help advisors through the process.

At CLS, there are various departments focused solely on the detailed operational aspects of running a successful advisory practice. CLS's dedicated teams have years of industry experience, backed by a strong working knowledge of custodial relationships, an understanding of the importance of exceptional client service, and a team that is well-versed in paperwork requirements among some of the largest custodians, such as TD Ameritrade, Charles Schwab, Fidelity, and many well-known variable annuity companies. CLS has built relationships with both the investment advisory and broker-dealer channels throughout the country, enabling us to better understand individual practices.

SEGMENTED CLIENT BASE

Advisors should put together an action plan to help segment clients so they can determine the overall time spent in nurturing the relationships, what the cost and benefits are, and the total value brought to the practice. Many advisors may not consider offering various levels of service paired with cost-effective segmented service models.

Communication is another aspect that may vary based on age and personal preference of each client. Identifying the top 20% of clients is important, since this is where the majority of AUM and revenue is generated. Clients in this category are who advisors should want to stay in close and continuous communication with in order to provide that high-touch experience that can drive asset retention. It is also important to let them know of the changes to come as the advisor begins to enter the retirement years.

Recognizing the age range of the client base is also helpful. This important demographic will help advisors recognize where to set account minimums and where to target new business opportunities so the age group is diversified, and not everyone is retiring at the same time.

Understanding the diversity of the client base will also help determine who the advisor would like to continue working with and who can be introduced to the successor.

TECHNOLOGY EFFICIENCIES (ORION ADVISOR SERVICES)

Many advisors lack the tools needed to meet client needs and remain competitive amongst larger firms offering the latest and greatest technology support. Offering a comprehensive technology solution, CLS's sister company, Orion, provides outsourcing solutions to broker-dealers and investment advisors. Orion's portfolio management system can also offer various customizable solutions to fit an individual's needs, without breaking the budget.



Clients know that they are paying for expert advice in a fee-based model," notes Moyer. "Additionally, by working with CLS I'm able to spend more time with my clients and develop better relationships."
-Joe Moyer

PARTNERING WITH BROKER-DEALERS AND IDENTIFYING NON-CLS ASSETS

Searching for or retaining the ideal broker-dealer partner requires careful consideration. These partners will need to fit the advisor's needs now and possibly 20 years from now, as the business transition begins. Advisors should make certain the platforms are flexible enough to fit client needs and offer the ability to easily transition new junior brokers in order to fully support succession into retirement on the advisor's own terms.

CLS has relationships with various broker-dealers and can partner with advisors to make certain each client's assets are managed with timely and active asset allocations so the advisor has time to focus on building meaningful relationships. Because CLS partners with more than 2,500 financial advisors and 1,300 qualified plan sponsors to manage more than 35,000 client portfolios, we have relationships with custodians that may offer a more competitive pricing structure for accounts than what an advisor is able to obtain on their own.

RICK ARELLANO

80+ and Thriving

Rick Arellano has had a long and productive career as a financial advisor. So much so, that he doesn't want to stop. At 81, Arellano has seen it all in the financial planning and investment management industry, "I've forgotten more about the business than most people know," Arellano quips.

Currently, Arellano is affiliated with Larkspur Financial Advisors (LFA) and principal Ron Murphy (see profile on page 10). "I don't want to retire," says Arellano. "I still enjoy what I'm doing and I guess I'm afraid of the inactivity that comes with retiring. I've always been active my entire life and enjoy the freedom that being a financial advisor provides."

Because LFA has an efficient staff and infrastructure, Arellano is able to maintain a home office and continue to work with his clients on his terms and timetable. "I have everything I need to manage my practice, and if I do take some time off, I'm able to rely on the team at LFA to ensure that client needs are taken care of." Outsourcing the investment allocations to CLS provides comfort to him and his clients, knowing that professionals are managing their portfolios.

Prior to joining LFA, Arellano had a succession plan in place with his former partner; however, that partner passed away. "As an advisor, you must constantly be thinking about your own succession plan because things change, circumstances change, plans get altered, and there is a responsibility you have to your clients to ensure they are taken care of in case something happens to you," Arellano advises.

Arellano and Murphy have had a buy-sell agreement in case of death, disability, or retirement in place for a number of years. What the agreement is missing, however, is a specific date for retirement. As a result, Murphy and Arellano are negotiating those terms.

For Arellano, retiring and hanging up his shingle brings uncertainty. "What if I live to be 100 or more?" he asks rhetorically. "I really like my lifestyle and don't particularly want to change it. As long as my mind is still strong, I want to continue working with my clients. Being a financial advisor is a great profession."

Legal Agreements

BUY/SELL AGREEMENTS AND TRANSITION DOCUMENTS

For advisors seeking to transition all or a portion of their business to a family member or other advisor, involving an attorney early in the process can aid the transition and help ensure the advisor's interests, as well as the interests of the clients, are protected. An attorney that is familiar with the Advisers Act and other applicable securities laws can help ensure that all regulatory concerns are addressed, and can draft a "Buy-Sell Agreement," as well as any other transition documents.

In drafting the Buy-Sell Agreement, care should be given to identifying and describing the business or particular assets being transferred, the timing of such transition, retention of control (if any) over the business, the purchase price, and mechanism for the purchase. Regarding the purchase price, an attorney can assist in structuring the Buy-Sell Agreement to take into account existing and future income needs through a lump sum purchase price, or a steady payment stream well into the future. An attorney can also help identify and plan for the tax implications of the transition. Finally, the advisor will also want the attorney to review existing vendor agreements so that there will not be any disruptions in service following the transfer.

CLIENT AGREEMENTS AND DISCLOSURES

One of the benefits of working with a third party money manager like CLS is that during the transition, the management of clients' accounts will not be affected. This stability will help clients become more comfortable with their new advisor and as a result, can help with client retention. However, as discussed above regarding attorneys, advisors should include their third party money manager in the early discussions regarding the transition. By including them early, the third party money manager can assist in identifying any required documentation and can help develop a plan to minimize the burden of obtaining any necessary client consents to such transition. As part of any well thought out transition, it is important to introduce clients to the eventual successor. By coordinating with a third party money manager ahead of time, advisors can ensure that these meetings are productive and that all required paperwork is completed in a timely and efficient manner.



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HUBER FINANCIAL ADVISORS

Building Value from Within

Dave Huber founded Huber Financial advisors in 1988. He was a solo shop in the beginning; however, he quickly realized that if he was to create any business value that he could monetize down the road, he would need to invest in his practice. Looking to build the critical infrastructure necessary to create a sustainable business, he decided to hire his first employee.

"I was able to get the firm to about \$60 million on my own, but in order to really make a difference, I made my first key hire in 2000 of an up and coming advisor, Rob Morrison," says Huber. "It was a scary decision, but one that definitely paid off as now Rob has grown into becoming the President of the firm and runs the day to day operation. Our assets are just shy of \$800 million."

Huber, 57, has also brought his son, 28, into the firm, along with Morrison, 42, Huber has a compelling story to tell his clients about the long-term vision of the firm. "It is definitely a competitive advantage to be able to show to new clients that you have stability and a strategic plan to continue the firm, particularly as many advisors don't," Huber notes.

Huber's focus on an internal succession plan was validated by his own admitted mistake of selling his firm to a financial buyer in 2007. This firm ended up having financial difficulties and Huber was forced to step back in and get his stock back. "Selling to an aggregator or other large organization is a very difficult thing to do, given the many different styles, cultures and approaches independent firms have," Huber explains. "Don't get deceived by the perceived upside of these deals or the economies of scale promised, you really need to do your due diligence and if anything is amiss, walk away."

As Huber is moving into the next stage of his career, he notes that having a team in place has done wonders for his lifestyle. "I don't plan on retiring anytime soon, yet because we have such a smooth transition, I'm able to travel and take extended trips without having to talk to the office at all."

Huber's advice to other advisors in his age-band is that, "if you want to pull the blood, sweat and tears out of your business and get paid for that, you really need to build out and invest in your firm so that you have an entity that is worth something. In the final analysis, you'll want to do what's best for your clients, your employees, and your family. That's what ultimately matters."

Conclusion

As the advisor industry continues to age, options are emerging for succession planning beyond the typical solution of selling a practice. For many advisors, selling their businesses won't provide the financial means to fund their own retirements. In addition, selling may not be in the advisor's best interest, or may not be what the advisor truly wants to with his or her careers.

As a result, advisors need to consider putting in place business planning strategies that will provide continuity of the firm, with the option of continuing to stay involved in the practice while stepping back and taking a lesser role. This process of "reinventing" an advisory practice requires a focused effort on establishing legal agreements, creating operational efficiencies, and potentially bringing in junior staff; however, the benefits are many.

Advisors owe it to themselves and their clients to take action now, positioning themselves with the most choices, flexibility, and options for enjoying their later years, while ensuring that their clients are well cared for.



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