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Planners Who Don't Plan for Succession Face Unhappy Endings

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Just as the cobbler's children go without shoes, two-thirds of independent advisors ignore succession planning. Such advisors could fall into an "annuity trap," watching the value of their business degrade as they near the exit from their practice.

Avoiding such a trap requires time and effort: "A succession plan that maximizes sale value, could take more than 10 years, from beginning to end," **John Furey**, principal of **Advisor Growth Strategies**, a consulting firm in Phoenix, told *Financial Planning*.

Furey is the managing member of the Alliance for RIAs (aRIA), a study group of RIAs. A new aRIA whitepaper, sponsored by Weitz Funds, asserts that many advisors will see client demographics worsen, pressure on margins increase and succession planning options become increasingly limited.

According to aRIA, this scenario is the annuity trap, meaning the advisor is running their business like an ATM, rather than a business with enterprise value that can be realized in the future.

"In surprising ways," the paper contends, "independent advisors can act much like their wirehouse counterparts who choose to stay at institutions, ignoring structural issues such as bleeding market share, broken brands and limited alignment with clients' objectives."

Such ignorance may be due to complacency, the idea that things are going well now and there's always time to work on a succession plan. However, an advisor who waits until the last minute may not get the best future result. "The more deliberate you are, the better your chances of meeting your own objectives," aRIA member Matt Cooper, president of Beacon Pointe Wealth Advisors, Newport Beach, California, said in an interview. "We have been working on our succession plan since we started our firm in 2002."

Why does a good success plan take so long? To begin with, an advisor may take a year to evaluate options: an internal or external succession. The white paper lists developing the existing firm, forming a strategic alliance, selling to a consolidator or a roll-up, and combining with an existing firm among those options for RIAs.

After all of these tasks have been completed, an RIA will want to develop requirements in terms of liquidity, time to exit the business, and who will be responsible for clients. Of course, finding a buyer also will be necessary. “Being open-minded and looking beyond what is ‘known’ in the advisor’s current state could lead to interesting and different paths that could build additional scale, value and certainty for advisory firm owners, clients and employees,” the paper concludes.

Besides **Furey** and Cooper, the other aRIA members are Brent Brodeski, CEO of Savant Capital; John Burns, principal at Burns Advisory Group; Ron Carson, CEO of Carson Wealth Management Group; Jeff Concepcion, CEO of Stratos Wealth Planning; and Neal Simon, CEO of Highline Wealth Management.

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