Surviving the Three Psychological Stages of an RIA Sale

"You're not only selling your firm, but your identity is changing."

by Hazel Sheffield for RIAIntel

Steven W. Kaye shares a story about one of his most difficult clients. It was the 1970s and this man owned 13 dry cleaning stores in what were then three dangerous cities: Jersey City, Hoboken, and Bayonne. He wore a gun in his store every day. He had no partner or manager. He died at 57 and left his widow with four kids, no business continuation plan or education funds.

"That man was my father," Kaye says. At the same time as he started looking after finances for his family, Kaye put himself through an accounting degree at college, working part-time in a life insurance job he disliked. By the time he graduated he had started a business that would become the American Economic Planning Group (AEPG) in 1980, a one-stop shop for financial planning advice. "These are some of the things that drove my passion for planning. I was doing comprehensive wealth management before the term was invented."

After three decades building up his business, Kaye had mixed feelings about selling it in 2019 to Wealth Enhancement Group, a Minneapolis-based wealth management firm that oversees $17 billion in client assets. He took a deeply practical approach, not realizing that the transition would be fraught with emotions. "To warn people: it's going to be tedious, more involved, more detailed, perhaps than people expect. But [now I have] tremendous peace of mind," he says. "If I get hit by a bus, I don't have to worry about my clients or my staff – and it gives me a great deal of financial security. It is the conclusion to a great accomplishment."

There are three phases to the psychology of succession, according to Tim Kochis, a career chief executive who joined DeVoe & Co. as a special advisor for succession planning in 2017. First: bewilderment. Kochis founded the firm Kochis Fitz Tracy Fitzhugh & Gott Inc. in San Francisco in 1991. In 2008, he became the chief executive of Aspirant when his firm merged with the family firm Quintile Wealth Management, based in Los Angeles, at a time when the two companies each had $2.5 billion under management.

In 2009, Kochis announced that he would step down from his position as chief executive of Aspirant, and take a six month sabbatical to “manage the psychology of the situation” before returning as chairman.

On the eve of his sabbatical, Kochis sent a message to all the constituents and clients of the firm informing them that he was going to cut off his email and voicemail for a time. It was a bold move – and one that exacerbated the shock that one day he was the boss and the next, he wasn’t able to communicate with anyone. “It took a little while to get to grips with that,” he says.

Brandon Kawal says this is typical of many chief executives who start from a place of fierce independence. Every year, Kawal and his firm Advisor Growth Strategies help a handful of firms complete mergers and acquisitions. Kawal recommends that chief executives have someone in their corner to talk to about their feelings during the process.

“Have someone that understands the process in your corner and can take you through it,” Kawal says. “Things that sellers view as small can be very big, and things they think are big are sometimes not as big as they think. Having someone to say, ‘This is normal,’ can be very helpful.”

For Kochis, the initial bewilderment was followed by a second phase: excitement. “I continued to travel, pursued some hobbies, and was able to devote a little more time and attention to my wife, my friends. That was the high point,” he says. As the time drew nearer for him to return to the office, he began to enter the third stage: anxiousness. He knew he would no longer be leading the company, but he wasn’t sure exactly what he would be doing instead: “It became anxiety-producing to come back to a new and ill-defined role.”

Kochis has two pieces of advice for chief executives planning to return in another role: create some initial space, then make the new role well defined. “Clarity around the returned role is really crucial,” he says. In the end, he wishes he had gone away for more than six months. “It didn’t give me time to take care of the three-stage emotional transition, nor did it give my successor time to adjust to his new role.”

David DeVoe, chief executive of DeVoe & Co., says not preparing properly can be fatal to a deal. One of the first deals he worked on fell apart at the last minute because the seller was not psychologically prepared to give up the firm. “Everything was done, the agreements were drafted. It was a $600 million-plus deal and it fell apart,” DeVoe remembers. “For sellers, you’re not only selling your firm, but your identity is changing. That can go down a slippery slope to contemplating your own mortality.” These days, even when DeVoe is representing the buyer, his firm builds a relationship with the seller to help them emotionally prepare.

Succession can also be emotional for the second generation, who might have their own fears about whether they will be able to lead the company, and what financial constraints they will face. “It’s like a dance,” Kochis says. While the first generation needs to act first when it comes to making the transition work, they need to have people on the other side who are willing and eager to participate.

Kaye agrees that the first six months of the transition from chief executive to employee are particularly tough. But when he spoke to *RIA Intel*, four months in, he was optimistic about the upside: “They have started sending me leads,” he says. “They don’t just send me leads, sometimes they just go right into my calendar and book them! That’s a beautiful thing – that I never had in my career.”