The Hard Realities of Selling Your Firm

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When it comes time to sell your financial-advice business, it may help to know that your experience in assessing prospective clients gives you at least one skill that's vital for making smart deals: a nose for a good fit.

"The first thing, before you get to the numbers, has to be the relationship between the seller and the buyer," says Jeremy Kuhlen, an advisor with CapGroup Advisors in Richmond, Va. Fortunately, he adds, successful advisors become adept at spotting good potential clients. Those who can apply that instinct to vetting suitors have an advantage in what could be the most important transaction of their lives.

Kuhlen knows what he's talking about. He plays a dual role at CapGroup, which has about $1.2 billion under management, both advising clients and watching out for acquisition opportunities.

Finding the right buyer isn't just about getting the most money. Most deals call for owners to stick around for several years, often in a subservient role, so advisors who are used to calling the shots should look for buyers who understand how debilitating this transition can be, says Kuhlen. And on both sides, it helps to handle a new partner with all the diplomacy and aplomb one would bring to a challenging client relationship.

Strength in winning and retaining customers can help advisors find a good buyer for their practice. But most advisors aren't thinking only about themselves when planning their exit. They want to do a deal that puts partners, employees and above all clients in the best possible position.

Advisors' generosity comes at a price. The inherent complexity of selling advice firms calls for compromise, and these businesses rarely close mutually idealistic deals. Buyers tend to pay more, and sellers to accept less, than either side thinks perfectly reasonable.

Most RIA owners end up selling for about what brokers can get for a similar book of business, however much individual deals may differ in structure. An advisor heading into retirement from a brokerage can expect a payout over three to five years that could be as much as 50% of trailing production in Year One and as little as 10% in the last year, he says.

Unprepared

Many RIA advisors are over 50, and there's no shortage of potential buyers, from dedicated aggregators to banks and money managers. Yet a surprising number of RIA owners are unprepared to sell. Only about 25% of advisors 70 or older have succession plans in place, according to **Dan Seivert**, head of **Echelon Partners**, a Los Angeles-based investment bank that works with wealth and investment managers. Among those who do, just half have formulated what he calls "real solutions." The rest confuse succession plans with continuity plans, which are little more than business records and passwords compiled in case somebody drops dead. For **Seivert**, a firm that doesn't have a buy-sell agreement in place doesn't have a succession plan, period.

Most RIA owners end up selling to outsiders or internal partners — as a rough tally, **Seivert** reckons the split is about 45% apiece. A smaller number, around 10% in all, either refer clients out for a one-time fee or simply give them away.

Whatever the structure, having a solid agreement in place has a genuine "feel-good value," says **Seivert**. Even a firm owner with less than $50 million under management can derive meaningful satisfaction from bartering her book in exchange for keeping staffers employed and putting her clients in good hands.

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