

Baby Boomer Advisors Can Surf the Succession Tsunami

If you have clients in the late 50s to early 70s age range, with assets they intend to pass onto their heirs, you probably have discussed intergenerational estate planning strategies with them.



But much less likely is that you are making similarly robust preparations for your own wealth management business. After all, it's only prudent to set up and follow through on a well-designed succession plan that looks after your younger clients while also providing you with the strongest payout as you exit the practice.

The central tenet of the Great Wealth Transfer will continue unfolding for millions of Baby Boomers across the country throughout the next decade and, while you are responsibly showing them how to prepare well ahead of time, perhaps it is also time for you to begin planning as well.

Rather than get overwhelmed by it all and swept up by the succession tsunami, independent advisors can take action now and surf to retirement with the professional legacy and financial security they deserve. Whether you are just beginning to think about that transition process or are years into it, here are a few crucial factors to keep in mind.

Merger Mania

Mergers and acquisitions among advisory firms have skyrocketed in the past few years, to the advantage of sellers. Based on the numbers of RIAs registered with the Securities and Exchange Commission, 2013 saw 36 acquisitions among firms with at least \$100 million in AUM, 2017 saw 89 such deals and 2018 saw 97 deals.

However, along with consolidation, the average deal size has soared as well. In 2016, the top 10 M&A deals in the advisory space had combined AUM of \$69 billion. In 2018, the top 10 deals had a combined AUM of \$391 billion. That means large firms are dominating the field as sellers.

One reason for the surge is that, while succession planning often motivates selling advisors, the need for economies of scale among purchasing advisors who want to stay competitive is another big driver. So is the presence of private equity firms as serial purchasers. And although the latter are not wealth management entities in their own right, their demand for practices is helping sellers command higher sale prices.

Business Valuation

A practice is only as valuable as what it brings to the table, so anyone planning to sell his or her firm one day at an optimal business valuation should take the proper steps well ahead of time. This comes down to AUM, clientele, technology and processes.

Assets under management is a core factor for many potential buyers when assessing the business valuation of an acquisition target. The larger your book of business, the higher your revenue as a result of percentage of AUM fees. Given that the U.S. has enjoyed a solid decade of strong stock market performance, and that assets under management are linked to the fortunes of client portfolios, the strength of stocks cannot be ignored when it is time for you to sell.

A counterbalance to selling in challenging market environments is building up all the other business valuation factors. A firm that successfully brings on new clients in the accumulation phase of their lives and has sticky relationships with existing clients — especially wealthy multigenerational families — is positioned to retain and increase assets in the future.

Servicing and onboarding these clients at scale calls for integrated and automated technology platforms and efficient operations with clear processes that a highly trained support staff can implement. This enables lead advisors to focus on more strategic concerns, like boosting profits and securing much-needed protections for the team such as affordable group health insurance.

Deal Making

Once you have put the pieces in place for your firm to maximize its revenue, profitability and overall appeal to a potential buyer, you then must find a good deal partner and close the deal with terms that work for you while also upholding the professional legacy you have established. Finding the right deal partner can be difficult unless you have the tools for the job.

The most important tool is a digital matching service that connects potential buyers and sellers nationwide. Calculators that use a firm's key metrics to arrive at justifiable valuations and acceptable deal terms are also essential. This ensures you speak only to the most closely matched potential partners and saves you time by bubbling up those with the highest compatibility.

In addition, sellers should review a comprehensive profile of each deal partner's business — their gross annual revenue, number of accounts, average age of client, product and service mix, custodian partners, tech stack and regulatory history.

Your search likely will require you to speak with a few potential buyers, and the one who makes the cut likely will need some form of deal financing. That's why you will want the buyer to have access to a members-only model including expedited loan processing and lower rates, a simplified underwriting and expedited approval process, as well as M&A support and structure.

Surf the Tsunami

As the only member benefit organization serving all independent advisor business owners regardless of RIA or broker-dealer affiliation with a truly “unbundled” model, the Chalice Financial Network™ (CFN) supplies all of these resources in its digital marketplace, the Chalice Advisor Exchange™.

Advisors can find discounted access to industry leading third-party technology that solves for their financial and business enterprise needs while also providing access to the best group health insurance in the industry. In addition, CFN's wholly owned subsidiary Succession Link is the nation's largest digital matching and M&A service for independent advisors with more than 44,000 subscribers across the country.

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While you have many options in your journey, only one can do it all for you quickly and easily while also giving you peace of mind. Learn more about how CFN can empower you to surf the succession tsunami and enjoy a financially secure retirement after a successful career of helping clients achieve the same.