Wealth Managers Need to Take Own Advice on Succession

FINANCE: Planning Is A Must for Their Own And Their Clients' Sakes By **MICHAEL LIPKIN** Originally published April 7, 2016 at 2:03 p.m., updated April 7, 2016 at 2:03 p.m.

San Diego — For years, wealth managers Bob and Peg Eddy had a letter ready for their clients with important advice.

If you're receiving this, then we have passed away, it said, before offering recommendations for another firm their clients could work with.

Peg Eddy

The Eddys, who incorporated Creative Capital Management Inc. in 1980, said they initially had a standing agreement with another firm to absorb their clients if Bob and Peg died. Creative Capital eventually outgrew that firm's capacity and turned to Dowling & Yahnke about 12 years ago with a similar arrangement. Peg Eddy said her experience guiding clients through succession plans made her keenly aware of the disarray that could follow the couple's deaths without preparation.

"We take vacations together — what happens if our plane crashes?" she said. "Who will take care of our clients? We know what happens when no planning is done. It can be catastrophic."

But the Eddys are outliers in an industry that readily admits it should know better. While roughly 80 percent of small businesses lack succession plans, 64 percent of independent registered investment advisors (RIAs) don't have a plan in place. It's a frequent topic of discussion at industry events as the average advisor age is at least 50, according to various surveys.

"The cobbler's kids in this industry will go shoeless," HoyleCohen CEO Mark Delfino said. "The same statistics apply to our business. We're not immune to the same forces."

Small Practices

Advisors, just like their clients, can be reluctant to consider what could happen to their business without them and face similar pressures on their time that can make succession planning an afterthought. But the wealth management industry has some unique challenges. The move toward a fee-only model in the '80s and '90s was driven by a wave of independent advisors who left large brokerages, where one advisor's death was less important to the business. Many of those RIAs have remained solo practitioners or part of small practices.

Alois Pirker

"A lot of the issues weren't around 20 years ago because there weren't many firms around," Dowling & Yahnke founding partner Dale Yahnke said.

The lack of succession planning and the relatively high advisor age has led to an increase in mid-level rollups, according to Aite Group research director Alois Pirker. Recruiting and training younger, internal replacements can take up to 10 years, he said, while an external sale can take less time.

"When you don't have (a succession plan), you need to start thinking about selling the practice wholesale to somebody," Pirker said.


Mark Delfino

National firms such as Focus Financial Partners and United Capital have been growing by acquiring larger RIAs and then merging smaller firms into them, he said. Focus began issuing standing offers to some smaller firms several years ago to buy their practices, probably at a sub-market rate, Pirker said. Advisors are free to sell to anyone else they wanted at any time, but the offer serves as a backstop in case of a sudden need for a sale, he said.

HoyleCohen became part of the Focus network in 2006, and founders Kevin Hoyle and Joe Cohen hired Delfino to take over day-to-day management a year later. Delfino said solo practitioners interested in joining Focus or another national firm would be merged into a firm like HoyleCohen.


Bob Eddy

"That's the challenge of being a solo," he said. "You really need to find someone else, or an entity that knows how to do transition well. If they can do it, and you're open to it, then you're going to command a pretty good premium."

Conversation About Retirement

Neil Hokanson, founder of Hokanson Associates, merged his practice with Aspiriant late last year, becoming a principal and director of wealth management. Hokanson said that while succession planning was not the main reason for the merger, by moving from five shareholders to 50, he now has greater freedom to work as long as he likes without worrying about succession.

"A lot of people continue doing this fairly effectively into their later years. It's not like shoeing horses," he said. "On the other hand, at some point you're not serving your clients. The older generation has to have a conversation about retirement."

Hokanson added that he had buy/sell agreements with his Hokanson Associate shareholders funded by life insurance policies. If he died, the firm would use the money to buy his share in the company from his estate.

"But I had to die for that to work,' he said. "And I thought that was narrowing my options."

Grooming Replacements

The Eddys at Creative Capital Management have known for more than a decade that they wanted to retire on April 30, 2017. Even after having a memo of understanding with Dowling & Yahnke, the couple began looking for younger advisors they could hire and groom as their eventual replacements.

They hired two new financial planners in 2006 and 2010 and signed a letter of intent with them last year, letting Dowling & Yahnke know they had found other successors. Yahnke said Creative Capital's clients were in good hands.

"A lot of people don't want to face the inevitability," Yahnke said. "It's like facing an estates lawyer. Most firms don't go to that level of care and thought."