Even though he's still two decades away from retiring, he's already had talks with a younger associate whom he sees will be fit to do the job. Such proactive planning has allowed Abbott, his clients and staff feel secure about their futures.

It's not unusual for an advisor Abbott's age to start thinking about retirement and the impact the transition will have on the business. More important, he needs to figure out how to extract sufficient value from the business to pay for retirement. While it's not clear how many advisors will retire in the next decade, with an average industry age of 47 (according to this magazine's third *Annual Dollars & Sense Survey*), and more than 53% of Advocis members being over the age of 55, the total will be significant. Even more alarming, the number of new recruits to the business seems to be tailing off. That should raise red flags about where the advisors of the future will come from. And it should make existing advisors concerned about who will be willing to buy their businesses.

SEEKING SUCCESSORS

IS IT 2015 YET? NOT QUITE, BUT ADVISORS PLANNING TO RETIRE IN THE NEXT DECADE SHOULD START PREPARING. By Harvey Schachter

Carl Abbott is 56, nine years away from his anticipated retirement. But he'll be prepared when that day arrives. He has a 10-year blueprint in place to hand over his Kamloops, B.C. business, Abbott Financial Services (Dundee Private Investors Inc.), to a competent successor.

Three years ago, Abbott persuaded a long-time client to enter the financial services industry for the express purpose of succeeding him. Not only has Abbott found his replacement, but that successor has already found his own.

"It's a problem, as the vast majority of people in the business are sole practitioners who haven't provided for their continuity," says Mark Tibergien, a principal with Moss Adams LLP in Seattle. Tibergien specializes in succession planning for the financial services industry. "They go far down the road and, sensing their mortality or fatigue, realize it's time to bail out. But it's too late and their options are limited."

Tibergien tracked the paths of American Express clients following the exodus of advisors who had either retired, died or left the business due to disability. Over a three-year period, he found 70% of clients had ended their relationship with American Express, a clear indication industry organizations are hard-pressed to ensure orderly successions.

But that may be difficult given the stubborn nature of advisors, Tibergien says. "If you talk to advisors, they'll say, 'I will die with my boots on.' That's a macho statement, but it's also selfish," he notes, explaining some advisors tend to develop a codependency with clients that will often culminate in outright abandonment when the client reaches his twilight years. He recommends advisors within five years of retirement seriously start thinking about their plans for their businesses and their clients.

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Photography by John Lee

UCCESSORS

Carl Abbott and heir apparent, Mark Bertoli

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Transferring Trust

Abbott was jolted into consciousness three years ago when a high-profile insurance rep in Kamloops unexpectedly died, leaving her clients scrambling for service. Worried about the futures of his own clients, and those of his staff and seven associates, Abbott decided to prepare. He talked with the children of two clients who might be good replacements, as well as some associate advisors. But his instincts told him the ideal choice—if he could land him—was Mark Bertoli, a long-time client 14 years his junior.

For 20 years, Bertoli had trusted Abbott implicitly with his net worth and the two had undertaken some real estate development deals together. Now, Bertoli was on a year-long sabbatical to be with his family, and to ponder his future after selling the heating and air conditioning business he'd owned.

Abbott invited him to attend a three-day Cartier Partners regional conference. Bertoli, who already had an interest in tax planning and trusts, was captivated. He was excited by what he learned at the seminars and the many ways advisors can make a difference in their clients' lives. It also didn't hurt when Abbott pointed out that, unlike his previous business, this one came with no inventory, no carrying costs, and an unlimited number of products.

After further discussion, Bertoli bought half of Abbott's business. He initially offered to purchase only 49%, leaving Abbott in control, but Abbott rejected the idea. "It wouldn't work. That doesn't reflect an equal partnership. Fifty-fifty does," he says, although he concedes he had considerable misgivings. "It's very hard at 56 to sell half your book to anyone. I was turning over half my revenue and half my client base," he says, adding that several of his friends were shocked by his decision, and even argued he was making a dreadful blunder. But Abbott stresses taking the risk was something he felt compelled to do, as it would have been unfair to staff and clients to delay the move until he actually retired.

It was also fairer to Abbott, because it ensured client continuity. By sticking around while his successor came on board, clients were less likely to flee, and that would undoubtedly make the value of the book higher than if it were bought on the eve of retirement, when the potential loss of clientele would be factored in.

Bertoli further soothed Abbott's concerns by suggesting they take the value of the firm's assets as of December 1, 2003, the time the deal was completed, and then set a goal to reach twice that figure within five years. Reaching the target meant Abbott's share would

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REELING THEM IN

The industry must craft ways to recruit new talent.

TO ALL EYES, it appears the number of new, young advisors entering the business is declining.

Randy Reynolds, chair of the Advocis board of directors, isn't quite sure. There are no accurate numbers but he sees it as an emerging issue, because the way people enter the business has dramatically changed.

In the 1970s, with 150 life insurance companies offering jobs and sales training programs to young people, there was a steady flow of newcomers who stayed in insurance or went off to other areas of financial advice. Today, only a few insurance companies are recruiting and training new agents, leaving a big gap that has been filled by the banks. They are stocking their branch networks with young people, encouraging them to take the CFP course.

But whether the numbers are the same or reduced, Advocis believes more attention has to be paid to bringing new people into the business and ensuring adequate training. Of course, that's partially based on self-interest, as Advocis' revenues are dependent on the membership fees paid by advisors. But it also reflects the need to find the replacements for the cohort of older advisors who will be taking retirement in the next decade or two.

The organization is therefore setting up a task force to gather industry players and universities in a symposium to discuss entrance to the industry. Among the ideas being considered is allowing university students to be financed by the industry while taking courses intended to lead to a financial services career. Reynolds says a key focus will be on making the career path more attractive and accessible. A young person today understands the path needed to become an accountant. But it's murkier if he wants to become a financial advisor. "We need a unified effort," he says. "Most young people make their career decision at 17 or 18. The career stream for financial advice should be loud and clear."

—H.S.

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essentially be the same as when he sold the remaining 50% of his book.

During their first six months working together, the advisors met with more than 200 clients to introduce Bertoli, and demonstrate the duo's similar approach to conservative investing. They also wanted to dispel any rumours that Abbott's departure was imminent. As Abbott explained his reasons, Bertoli would back him up by saying: "Your planner is planning."

Two advisors for the price of one meant better service for clients.

Nearly all the clients embraced the new structure, trusting it enough to work with whichever advisor was available. Some of those clients were ones Bertoli had initially referred to Abbott. A few took a wait-and-see approach, opting to stick solely with their longtime advisor.

Their success is due in large part to the fact the advisors share the same investment philosophy and the same work ethic. "Mark works the 6 a.m. to 6 p.m. shift—he's an early bird—and I work the 8 a.m. to 8 p.m. The relationship would have faltered if there was a difference in the level of commitment to the business," Abbott says.

Why Sell?

Like Abbott, Randy Reynolds has started his succession plan early. However, he doesn't expect to retire at age 65, seven years from now. He would rather continue working and controlling his business beyond that time, and extract the maximum value. Unlike Abbott, he hasn't made a deal with a successor, but has his eye on two potential candidates—his son, Tim, and a current associate—each of whom he hopes might be primed for a deal in the near future.

Reynolds, who chairs Advocis's board of directors, is also the proprietor of Financial Advisors Brokerage Group, an independent Victoria, B.C.-based advisory firm. While he sees the logic in succession planning, Reynolds feels more strongly that selling one's book isn't the sensible route, given the compensation an advisor receives through trailing commissions. "There is very little goodwill and a potential for a decline in the business if clients leave," he says, noting that an astute buyer will recognize that limitation and name a price much lower than the seller had hoped for.

Reynolds has learned the hard realities of book buying. After he purchased books from two advisors, both passed away within three months of the sale, *before* introducing Reynolds to their clients. "Each [advisor] had built up strong relationships with clients and as good as I might be, I couldn't replace them," he explains.

Reynolds forecasts that over the next few years, there will be an influx of books for sale, which will depress overall value. "I can't imagine any situation in which a book can be sold for a premium," he notes. "If you are in poor health or can't stand the business, then sell your book. But if you enjoy it and wish to maximize the value, selling shouldn't be an option."

Rather than sell the business, Reynolds will opt to maintain ownership, assuring clients he's still around if needed, while allowing somebody else to run the day-to-day affairs.

"I can be in my condominium in Palm Springs talking to a client. It doesn't matter where I am," he says. That ethos fits with both Reynolds' financial sense of what's best and his emotional sensibility: "I would dread the future if I couldn't continue doing this."

Reynolds' thinking about retirement, or to be more accurate, not-quite-retirement, was sparked three years ago when his son, Tim, entered the business. Although the two have talked about Tim taking over, Reynolds has made it clear Tim's got competition—the associate mentioned previously—should he discover Tim isn't the right fit. "Maybe in the next couple of years it could grow into a formal agreement," he ponders. However, he says it's too premature to make a deal, and for now, Reynolds is content to watch and wait.

If Reynolds does eventually hand the reins over to his son, he'll be taking the same path as Toronto's Bill Horan. The former ScotiaMcLeod investment advisor wasn't really thinking about retirement when, in 1996, his son Matt left Toronto-based Richardson-Greenshields after RBC Dominion Securities

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NEXT STEPS

Having a succession plan in place increases the value of your business.

IF YOU WANT to start planning for your future, there are three essential strategic steps to consider, according to Mark Tibergien, a succession expert at Moss Adams LLP.

Client Transition: To ensure continuity for your clients, prepare a written agreement in which you give instructions to your executor that if something happens to you, you've nominated a friend who has the capacity to serve clients effectively as your interim successor. The better option is to develop an internal successor who can help you co-manage the client relationships until retirement. "This is more common and more comfortable. There isn't the shock of clients having to become acquainted with somebody new. There is continuity," he says.

Management: If you want your business to continue, you need to decide who is capable of managing it. That involves finding an administrative successor, who may or may not be the same person designated to manage client relationships. "The faster you can reduce dependency on you as the owner, the faster you will increase the value of your business," he advises.

Ownership: Who will own the business after you leave? Again, this relates to the other decisions but it is a separate strategic consideration, particularly if there isn't an insider ready to take over. The options are finding a strategic or financial buyer, such as an advisory firm or an industry consolidator, or even an individual buyer in your community. A key question is: Are you trying to maximize value or optimize value? "If you want to optimize value, make sure you sell it to somebody with a shared belief, who will take care of the staff and clients, but keep your name on the door," he says.

Tibergien notes when you sell to an outsider, you should remember this adage: "Sellers of practices are like fish and relatives. After a couple of days, the buyer wants them out of there." —*H.S.*

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took over. They talked about teaming up. Although Matt had a few options, he was intrigued by the thought of working with his father, and that forced Bill to face up to the reality he wasn't going to be in the business forever.

Tag Team

The father and son team worked together for six years, before Bill, prodded by health concerns, retired. Bill's original half of the book was more than compensated for as the pair had grown it by 150%. Apparently, working together for all those years had instilled client trust. By the time Bill retired, only two or three clients had actually departed.

For the Horans, working together meant sharing the same office and the same investment advice. If one of them couldn't answer a client's call, the other would pick up the phone immediately, rather than leaving it for an assistant. The setup was primarily designed to be interchangeable and for most clients it was, although some still had their advisor preferences.

Bill remembers one long-term client calling shortly after Matt came on board. Fumbling his words the client sheepishly asked: "Do you mind if I talk to Matt?" Rather than being offended, Bill was delighted. "It showed me the potential of this transition if we worked it slowly," he says.

Before Bill retired, that potential grew three-fold. Clients were assured they would have an advisor they could trust, and given Matt's age, the duo could successfully target clients who were the children of some of Bill's long-term clients. Effectively, two advisors for the price of one meant better service for clients. To ensure the advisors were on the same investment page, they both came in at 7:30 a.m. and spent the first 15 to 30 minutes chatting animatedly about the markets and their preferences.

Although both were interested in blue-chip stocks, each came at it a different way. Matt, a statistics graduate of the University of Western Ontario, enjoyed fundamental analysis, while Bill had a veteran's feel for the market's moods. In the first few years, Matt would often defer to Bill when the two were at investment odds, but that shifted with time. "This business is constantly evolving and it's a young man's business," says Bill. "I grew up with high inflation when interest rates were key. Now the key is global growth. There's a time for new approaches to be taken."

Not that the quarrels were huge. In most cases, they were simply batting around different views in order to understand the best direction. Only about a dozen times in the six years did one of them tell the other he couldn't greenlight an approach, and the other listened with respect, before opting for a different strategy.

At the start, Bill and Matt's split on the book was reflective of Matt's junior position. For Bill, the key was not simply to praise Matt's work, but to show him with remuneration, which he says was driven by Matt's contribution to the business. Every six months to a year, Bill would increase the remuneration until within a few years they were sharing equally in the proceeds. "There was a fair amount of trust between us," says Matt. "We didn't work it out in advance. My Dad was proactive and usually did it faster than I expected."

When Bill decided to leave, Matt bought out his share of the business since Bill never saw the value in advisors that stayed on part-time after retirement. "It's like a hockey player. They hit the pinnacle of their career and hang on and hang on when they should go," he explains. "The Achilles heel in these arrangements is when the guy who is head honcho doesn't say, 'I'm out of here, you're in charge.' People in our business are self-starters. The younger person doesn't want to play second fiddle until the older advisor is 95."

Given that the advisors deal in direct investments rather than managed products or mutual funds, each has to be fully engaged in the portfolio process. Initially, Bill had to cut back his work to four days a week, and after that to three days, as his health faltered. But he felt any further reduction would be a disservice to his clients as he wouldn't be as immersed in the stock market.

Perhaps the most important factor in this arrangement (as with any partnership) is that the Horans got along well. If a retiring advisor doesn't intend to sell his book to an external party but plans to smooth the path for his clients—and maximize the value of his business—he or she needs to find a compatible partner. Otherwise the transfer will be troublesome, with clients sensing the differences. The smooth and long-term transfers that Carl Abbott, Randy Reynolds and Bill Horan have each prepared show the value in advance planning, and point the way for the many advisors who are facing retirement in the next decade. AE

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