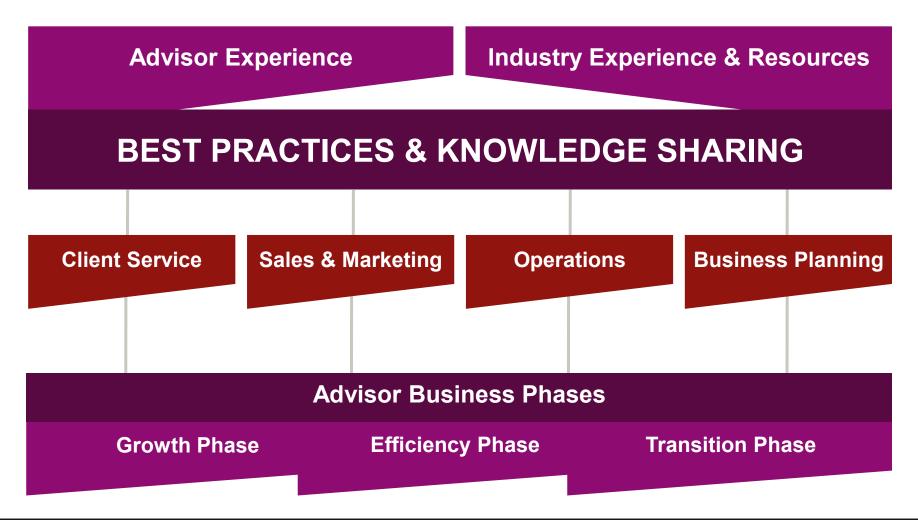
# SUCCESSION PLANNING THE NEXT GEN WAY

How younger investors can ensure your legacy and fund your retirement

John D. Anderson, Managing Director Practice Management Solutions | SEI Advisor Network 610.676.2174 | janderson@seic.com SEI Advisor Network | Our experience working with advisors



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Home	About	Meet John					
LATES	T ARTICLE	S			Search	_	
What Your Golf Game May Say About Your     May       Approach To Working on Your Business     24							
posted by John Anderson [Edit] filed under Advisor Marketing					Subscribe Enter your email address:		
/	T	Advisor Council as Scottsdale, Ar filled with half-day hilarious, fun filled	letwork recently hosted our annual "Stratu conference deep in cactus country – other izona. In the old days, this annual meeting rs of meetings and the other half with some i adventure (that's what my co-workers ca	wise known would be sort of Il my golf	Subsoribe		
game). These days, it is all business, but still a really great learning experience for both the advisors and me. The meeting brings together the best and brightest advisors from around the country to hear what's new with the SEI					Categories Advisor Branding		
Advisor Network, network with their peers and hear from industry speakers. Senior members of our Investment Management Unit also present their latest research.					Advisor Differentiation		
High on t	ne agenda was	AUM growth and ac	poll,	Advisor Marketing			
these were the main goals for this group in 2011 (No surprise). Our practice management sessions were geared to provide advisors with tools to market themselves more effectively.					Advisor Tax Management		
Matt Oed	<u>hsli was a feat</u>		; Forthose ofyou who don't know Matt – h	e is one	Client Communication		
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#### www.seic.com/practicallyspeaking

Next Gen Succession Planning | Agenda

- > The RIA Market today
- > A fresh look at the Next Generation
- > The hard facts about valuation and succession planning
- An action plan for building your firm's value via the next generation

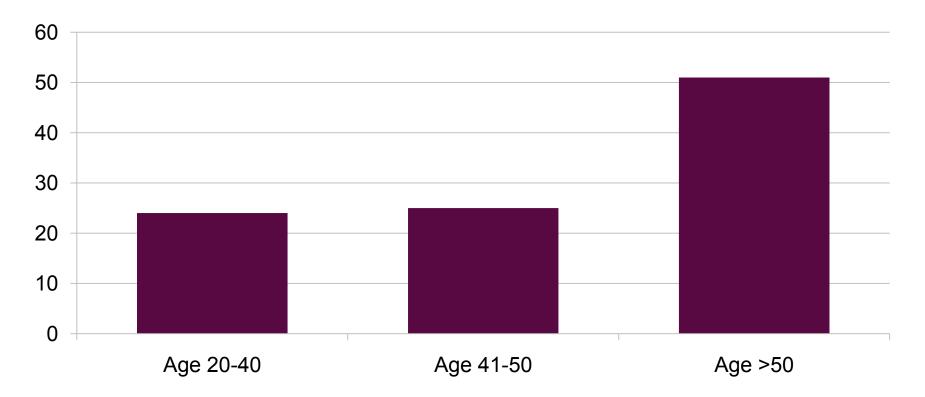
<sup>&</sup>gt; Q & A

#### Anticipating a new age in wealth management

- > Global Private Banking and Wealth Management Survey 2011
- Today's client is cautious, smart, less loyal and expects excellent service and clear value
- Regulation has become the not-so-invisible hand, increasing the cost of operations
- Greater operational efficiency and effectiveness are required, not just to compete but to survive
- Standing still is no longer an option and institutions must now quickly adapt or face being left behind

# The Advisory Business | From baby boomer to graying boomer

Percentage of independent advisors by age Discovery Database 2010



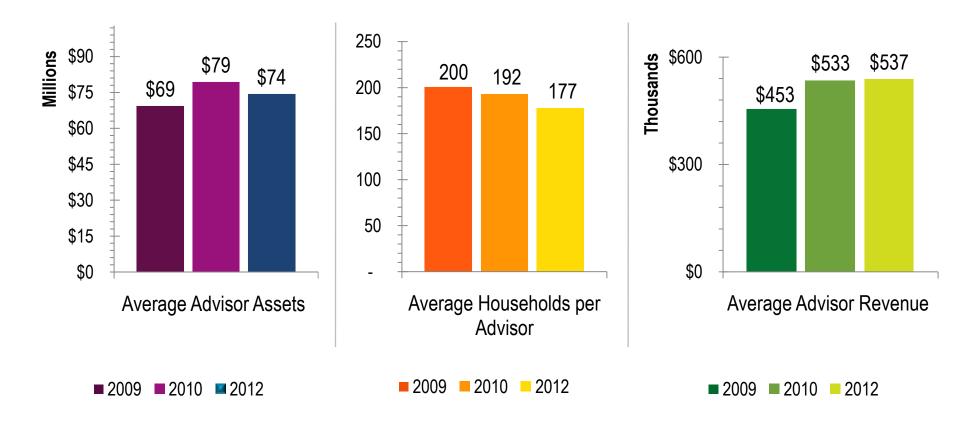
Source: Discovery Database May 2010

# Research | Influencing firm value

- Business development capability<sup>1</sup>
- > Technically skilled personnel<sup>1</sup>
- > Company culture that is aligned with the potential acquirer<sup>1</sup>
- Target markets that are well-defined<sup>1</sup>
- Relationship servicing that is collaborative and team-based<sup>1</sup>
- Operating processes that are mature, standardized, documented and supported<sup>1</sup>
- Current client demographics that will continue to drive growth in assets<sup>1</sup>
- > 2011 Average multiple paid was 2.33 (times trailing 12 months recurring revenue)<sup>2</sup>

<sup>1</sup> Source: Real Deals 2010: Definitive Information on Mergers and Acquisitions for Advisors <sup>2</sup> Source: FP Transitions Feb 29<sup>,</sup> 2012

## The Advisory Business | Challenging growth environment

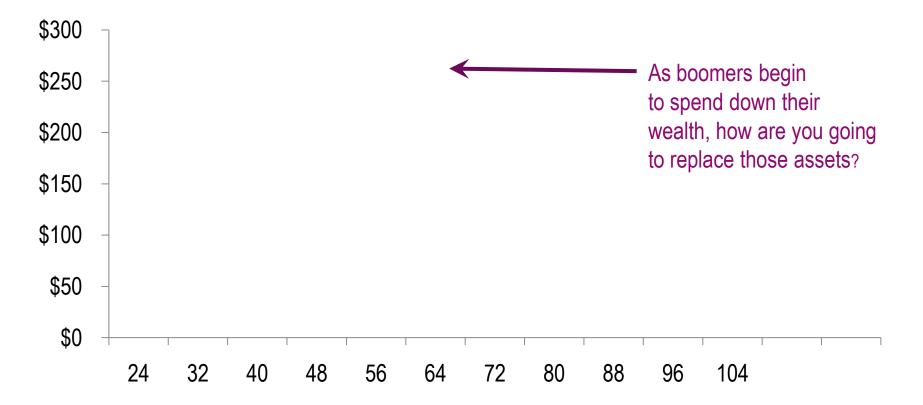


Source: PriceMetrix The State of Retail Wealth Management, February 2011

SEI New ways. New answers.®

# Next Gen Succession Planning | Building a business case

#### This is why we're here



Source: "Will the Demand for Asserts Fall When the Baby Boomers Retire?" Congressional Budget Office, September 2009, VIP Forum, Emerging Trends, Part V–Refilling the Pipeline

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## Next Gen Succession Planning | Building a business case

#### Life cycle of advisor fees



Source: "Will the Demand for Asserts Fall When the Baby Boomers Retire?" Congressional Budget Office, September 2009, VIP Forum, Emerging Trends, Part V–Refilling the Pipeline

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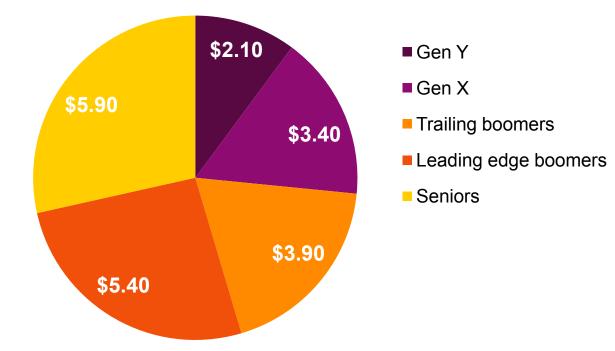
# A FRESH LOOK AT THE NEXT GENERATION

Demographic	Born	Age	% Households	% Investable Wealth*
Seniors	1945 or before	65+	30	30
Leading edge boomers	1946-1954	56-64	26	26
Trailing edge boomers	1955-1964	46-55	23	23
Generation X	1965-1976	34-45	16	16
Generation Y	1977 or after	Under 34	5	5

\* \$100,000 to \$1 million investable assets

Source: VIP Forum, Survey of Consumer Finances

#### Total investable assets: \$1million-plus (trillions)



Source: SEI Research Insights

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#### Favorable tax laws for transfer

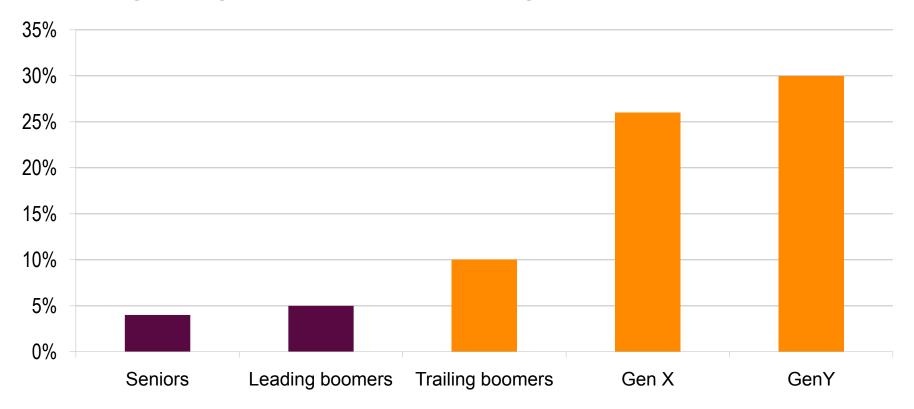
	2009		2010		2011-2012		2013	
Tax								
Gift tax on transfer during life	\$1M	45%	\$1M	35%	\$5M	35%	On Jan. 1, 2013, absent further action,	
Estate tax on transfer at death	\$3.5M	45%	\$5M	35%	\$5M	35%	<ul> <li>by congress, the</li> <li>exemptions all fall</li> <li>to \$1M and the</li> </ul>	
Generation skipping transfer tax on transfers during life or at death	\$3.5M	45%	\$5M	0%	\$5M	35%	maximum tax rate rises to 55%	

Wealth does not disappear...it transfers.

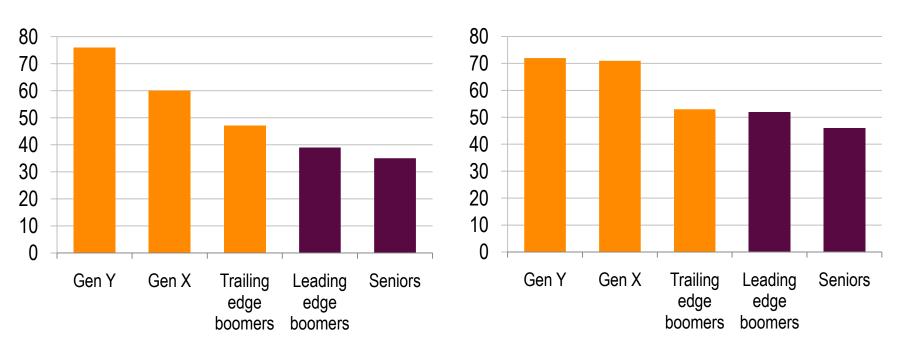
Source: VIP Forum

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#### Percentage of high-net-worth clients looking for new advisor



Source: Phoenix HNW Market Insights, August 2009

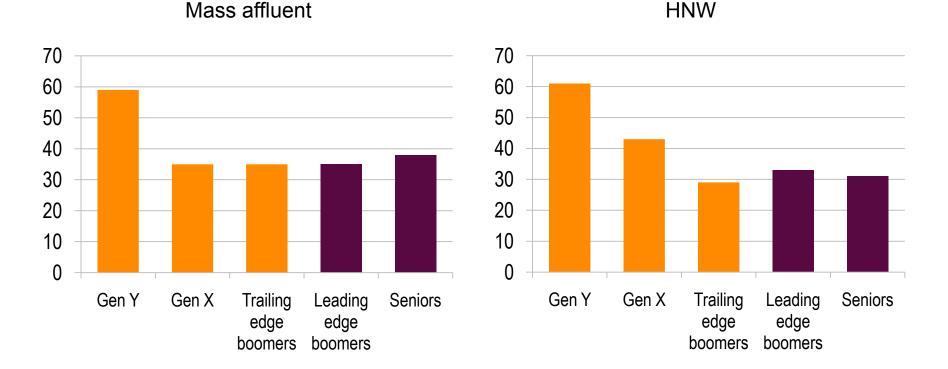


Mass affluent

**HNW** 

Percent who agree with this statement: "I am always looking for new investment opportunities."

Source: SEI Research Insights

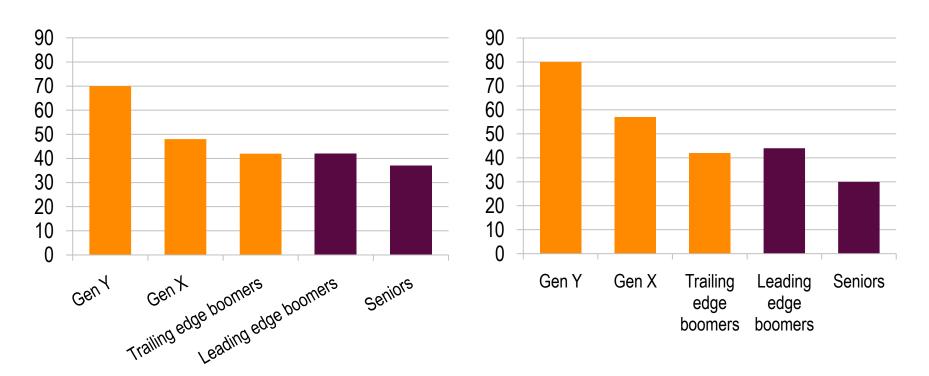


Percent who agree with this statement:

"I trust that my financial service firms are looking out for my best interests."

Source: SEI Research Insights

**HNW** 



Percent who agree with this statement: "It is important to me to have a written financial plan."

Source: SEI Research Insights

Mass affluent

**HNW** 

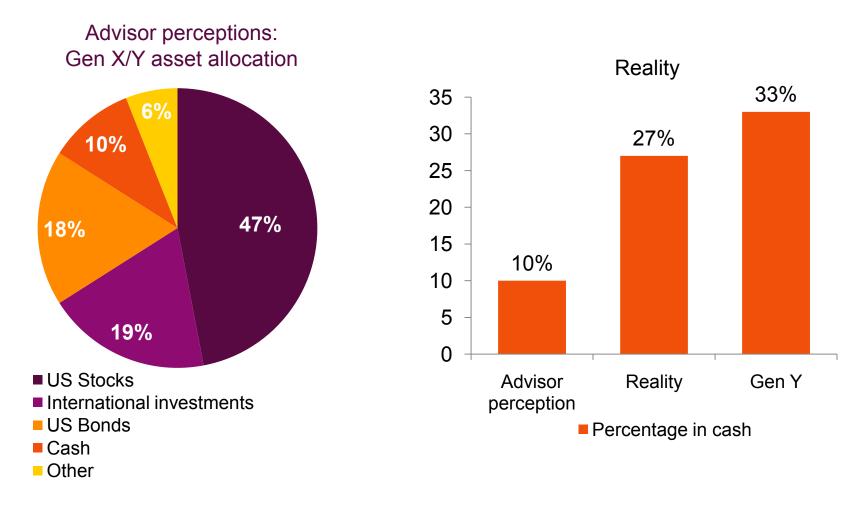
Mass affluent

80 80 70 70 60 60 50 50 40 40 30 30 20 20 10 10 0 0 Gen Y Gen Y Gen X Trailing Leading Seniors Gen X Trailing Seniors Leading edge edge edge edge boomers boomers boomers boomers

"I am willing to pay for advice regarding my investments."

Source: SEI Research Insights

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Source: MFS Investment Management

#### What do we know for sure?

It all adds up to a compelling market opportunity

- > The assets are there
- > They're looking for or are willing to switch advisors
- > They're looking for investment opportunities
- > There's a huge wealth transfer opportunity
- > They trust you're making their interests primary
- > They value a financial plan
- > They're willing to pay for advice
- > They need your help

#### **Question:**

How can I leverage this opportunity into a higher multiple at transition time?

# BUILDING "ENTERPRISE VALUE"

SE New ways.

The succession challenge

- > Market correction takes its toll
- Difficult to create material opportunity for successors
- Close client/advisor relationships may not be transferable
- Few firms have potential for real enterprise value

Hard fact:

Fewer than 2% of the 18,000 advisory firms have or possess the potential to build material enterprise value.

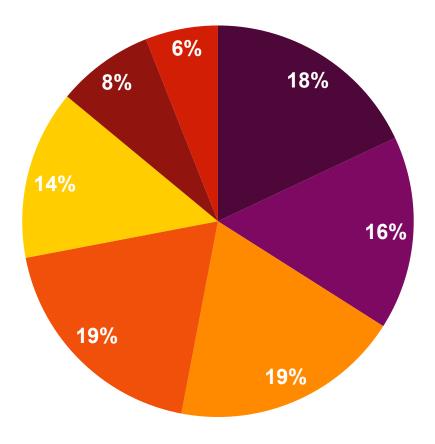
#### **Enterprise value:**

The economic value that an investor captures from owning the equity of a company

Source: Fiduciary Network 2010

## Next Gen Succession Planning | Succession plan readiness

#### Few firms have adequate succession plans



Source: FA Insights Study of Advisory Firms: People and Pay 2011

New ways.

Adequate plan; implementation underway

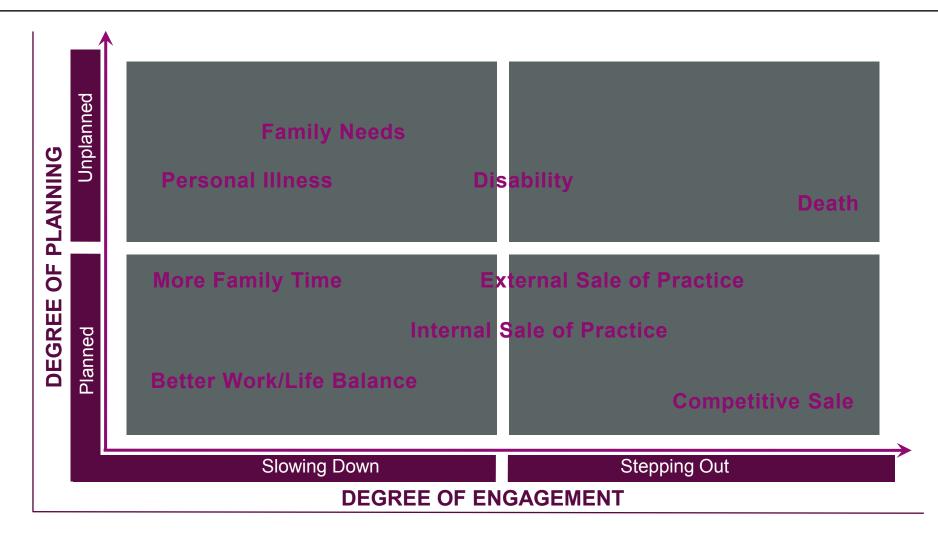
Adequate plan; awaits implementation

- No Plans, not preparing one
- No Plans, but preparing one
- Plan lacks suitable successor
- Plan lacks buy-in financing
- Plan is inadequate for other reason

### Why plan?

It's not always about retirement...

- Ensure your heir apparent has the greatest chance of success
- Obtain the highest possible value for your practice
- Continue the business culture you've spent a lifetime developing
- Give employees an opportunity to buy some or all of the firm
- Planning makes for a good marriage when merging practices
- Protect your business and estate from your untimely death or disability
- Allowing to step out of a practice over time



### The benefits

- > Preserving the interest of all parties...
- > Ensure best interests of owners and estate are served
- > Perpetuate the life and culture of the business
- > Ensure the success of new management
- > Ensure continuity and confidence for clients
- > Ensure owner and beneficiaries realize full value
- > Ensure orderly transition and avoid fire sale
  - Insurance against untimely death or disability

#### Top five reasons advisors state why they don't have a formal plan:

- > No clear successor identified—53%
- Succession planning is not important at this stage in my career—34%
- > Lack of time to develop a plan—21%
- > The business has no value—9%
- > Not sure where to start—7%

Source: TD Ameritrade Institutional, Jun 2010. Survey of 500 registered investment advisors.

#### What do we know for sure?

Plan succession or fail to succeed

- > Advisors are aging too
- > Many are deluding themselves about true value of practice
- > Any excuse will do
- > Fortunately advisors are getting the message

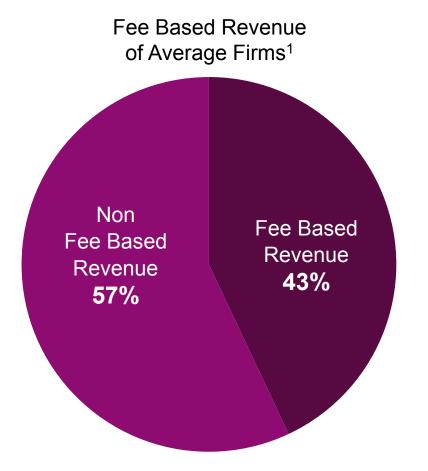
#### **Question:**

What marketing and business strategies will translate into more enterprise value and a higher multiple?

# THE NEXT GEN ACTION PLAN— MOVING THE VALUE METER

### **Factors that lower valuation**

- > Non-recurring revenues
- Processes for investment management and client service are customized for client and driven by advisor
- Systems and back office are self-managed
- High number of relationships based on investment performance
- Outstanding compliance or client complaints



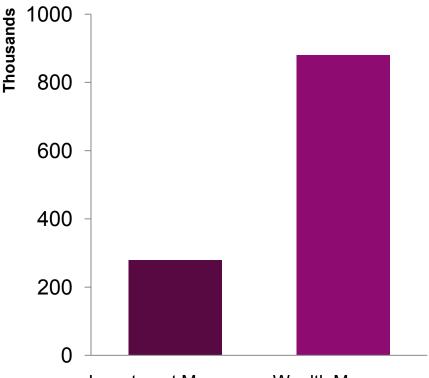
Source: PriceMetrix The State of Retail Wealth Management 2012

#### Factors that lower valuation continued

- > Forced sale due to death or disability
- > Declining profitability
- > High percentage of unprofitable clients
- > High percentage of aging clients drawing down assets
- > Buyer more prepared than the seller for transition
- > Perception your practice cannot run without you

#### **Factors that increase valuation**

- Practice run as a business and not sole practitioner
- Majority of relationships involve wealth management
- Strong ratio of fee-only clients to commission income
- > Majority of clients profitable
- Track record of long-term profitability
- > Well-established processes



Annual Net Income by Business Model

Investment Managers Wealth Managers

Source: CEG Worldwide, February 11, 2009, N = 2,094 financial advisors.

#### Factors that increase valuation continued

- > Systems and back office administration outsourced
- > Client service and marketing practices defined
- > Depth of staff, including designated heir apparent
- > Perception your practice will run well without you
- > Clients perceive transition positively, consistent with their best interests

#### Moving the value meter

- 1. Understand younger investors
- 2. Build enterprise value
- 3. Recruit, train and retain younger advisors
- 4. Create a Next Gen education program
- 5. Rethink Standard Operating Procedures (SOP)
- 6. Manage wealth not assets

# **Understanding Younger Investors**

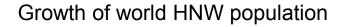
- > Skewed perspective on investing
- > Haven't experienced full market cycle
- > Risk averse
- > Little faith in financial institutions
- > Accept responsibility for their financial future

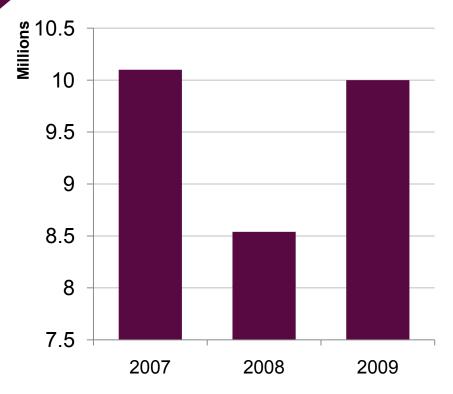
# Build Enterprise Value | 7 Steps to a Higher Multiple

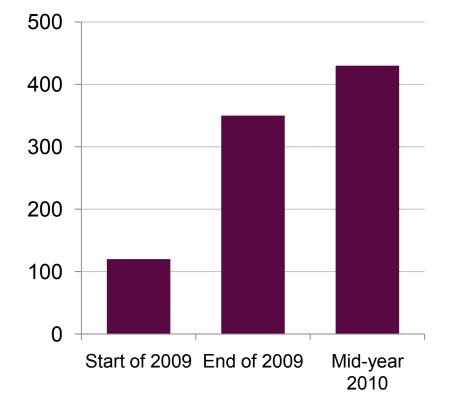
- 1. Recruit next generation advisors
- 2. Institutionalize client relationships
- 3. Build diverse base of clients
- 4. Institutionalize marketing
- 5. Evolve management and governance
- 6. Create culture of compliance
- 7. Reinvest in business

STEP

# Recruit, Train and Retain Younger Advisors







WealthCareers.com job postings

Source: VIP Forum

# Create a Next Gen Education Program

- > Investors hungry for information
  - Survey of 600 employees in higher education
  - Describe themselves as conservative investors—49%
  - Most younger employees using same allocation as older counterparts
     50% stocks, 35% bonds/annuities, 15% cash
  - Concerned they won't be able to retire comfortably-60%
- > Education tactics
  - Focus on investing basics, and market perspectives
  - Train advisors on specialized topics, like tax or estate planning
  - Work through current clients to gain access to their heirs

Source: Fidelity.com 2011

# **Rethink Standard Operating Procedures**

- > Review service practices
- > Be flexible with investment minimums
- > Streamline services for smaller accounts
- > Invest in technology to connect with the connected
- > Enhance transparency to build trust

Fundamentals of a viable wealth management firm

- > Operate a repeatable and consistent client service model
- > Outsource administration and back office
- > Enjoy deep, trusted relationships with clients
- > Garner a steady stream of recurring fee income

# Succession Planning | Wrapping it up: what do we know for sure?

What kind of practice would you want to buy?

- > Sole practitioner or comprehensive business?
- > An investment-focused firm or wealth management firm?
- > A back office that's run internally or outsourced platform?
- > Ad hoc client service or established client service experience?
- > One-person show or a deep team of talented professionals?
- > Book of commissions or steady flow of recurring fee income?
- Book of older clients with declining wealth or younger clients building wealth

# **QUESTIONS & ANSWERS**

# Appendix | Disclosures

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice. This information is for educational purposes only.

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