

The Leadership Cliff

The Succession Crisis Facing The
Financial Advisor Industry




PPCLOAN[®]
Financing Solutions for Investment Advisors

Introduction

According to Cerulli Associates, more than a third of financial advisors are expected to retire over the next 10 years.

A recent study by J.D. Power found that the average age of a financial advisor is 55, with more than 20% over the age of 65. Despite recent recruiting efforts, those stats have not changed much over the last five years.

The financial advisor industry is aging. Despite efforts to recruit, [FINRA statistics](#) show that for every new advisor brought into the industry an advisor leaves the industry. A lack of recruiting coupled with a lack of diversity has kept the industry a fairly closed system. With little injection of new talent, the industry not only runs the risk of having few experienced leaders to drive the industry forward, but it also makes it difficult to create a pool of advisors representative of the populations they serve.

A recent article in U.S. News discussed the [risks of an aging advisor industry](#) and raised another notable concern - the impact a lack of succession planning will have on clients. According to author Julie Pinkerton, "Clients may miss significant investment opportunities because their portfolios and financial plans are on hold awaiting a replacement advisor." There is also the danger of clients facing life changes, job transitions, and other major events while not having their trusted advisor there to guide them.

Considering the fact that less than 18% of advisors have a succession plan in place, the risk to clients is both real and great. Without a bench of qualified advisors ready to both lead

the practice and serve clients, staff may leave the industry in search of other opportunities and clients may shift to DIY solutions or worse, abandon financial management altogether.

Advisors have struggled to find worthy successors. A [2020 article in Think Advisor](#) identified the challenge. "The lack of advisors in their 40s has contributed to not only a higher average advisor age, but a dearth of qualified succession candidates from the perspective of older advisors." Founding advisors are struggling to not only find candidates with advisory experience, but also candidates with the maturity, life experience, and leadership skills necessary to both lead a practice and to relate to clients.

The Great Wealth Transfer Coupled With The Great Resignation

Two other market factors are creating both opportunities and challenges for the industry. The first is the transfer of wealth that is expected to place women at the helm of trusts and other assets. As women inherit wealth from spouses and other relatives, many will

Introduction continued

find themselves in charge of finances for the first time. Women have also steadily found themselves as the head of household either as a matter of choice or through divorce. Although women are expected to control much of the nation's wealth in the near future, [less than 24% of CFPs are female](#).

Not only is the financial advisor industry largely male, it is largely white, with at least [83% of certified financial planners identifying as Caucasian](#). These numbers are not in line with the demographics of the country, showing that the industry is not representative of the nation as a whole. The industry has made efforts to invest in and promote diversity and inclusivity, not just in terms of race and gender, but in terms of other cultural, lifestyle, and demographic identifiers. However, there is still tremendous work to be done to fill the advisor ranks with a diverse group of professionals.

Generational differences have also created staffing challenges, with each generation bringing their own perspectives and expectations to the field. As noted in [Advisors Magazine](#), older advisors bring the experience of weathering tough markets, while younger generations bring a willingness to adopt technology. Having all generations present in the practice would bring the best of what each generation has to offer and balance experience with forward-thinking. Unfortunately, the advisor industry has struggled to recruit a significant number of advisors from each generation to ensure both a diverse

perspective and a pipeline of successors ready to take the helm.

The other key trend impacting recruiting and retention efforts is what many are calling the "Great Resignation." Pandemic and market pressures have led many Americans to retire early, while others have temporarily left the labor market or changed careers in search of better compensation, benefits, work-life balance, and better "fit." According to a [2018 article on the Nerd's Eye View blog](#), practices were already struggling to fill advisor positions prior to the pandemic, with the majority of firms looking to other practices or outside the industry for talent. The current labor shortage hitting all industries has made competition more fierce, as advisors must now compete not only with each other but with other sectors for talent.

The Solution

There is no question that the industry is facing a leadership cliff. Practice leaders must adopt strategies to recruit, cultivate, and retain Nextgen Advisors from all walks of life. A diverse and inclusive group of Financial Advisors are necessary to serve a diverse population. The industry needs to actively create opportunities for individuals of all ages and backgrounds to enter the field while cultivating a clear path to ownership for Nextgen Advisors. This will ensure continuity for the industry, as well as ensure that clients are receiving quality, knowledgeable advice from professionals with similar backgrounds and perspectives.

Recruiting For Diversity

Advisors have a direct and powerful impact on their client's financial future.

The best advisors are able to relate to their clients on a personal level and make recommendations from a place of deep understanding of their client's situation.

To avoid the succession cliff and ensure a steady pipeline of qualified advisors, the industry needs to create a compelling message that resonates with professionals from all sectors. This message along with strong compensation packages and professional development will position financial advisory practices as an employer of choice in a competitive marketplace. Looking beyond traditional avenues for recruiting is also necessary to create a diverse pool of advisors that can bring financial advice to a broad population of clients.

Making The Connection

One of the main drivers behind the great resignation is a search for more meaningful work. The financial advisor industry has the ability to provide people with work that is meaningful and creates a large and positive impact. This is true now more than ever as the industry has transitioned to a more comprehensive financial planning approach to serving clients. Advisors help clients secure and manage their finances in order to reach personal goals such as buying a house, planning for college, charitable giving, and planning for retirement.

According to [Kate Healy, chair for the Foundation of Financial Planning](#), this message should be at the forefront of recruiting efforts. Women, people of color, and

other underrepresented groups are especially attracted to the idea of helping other people like themselves navigate life's challenges and create financial opportunity through smart planning and investing.

Widening The Net

In order to develop a diverse database of advisors, firms need to look outside of finance and traditional college programs to attract professionals of different backgrounds and heritage. Professionals looking for a second career are especially strong candidates as they can bring maturity, business acumen, and leadership skills to the table. Life changes among these professionals can serve as a catalyst toward a career as a financial advisor. Such was the case for [Alisa Nguyen, who became financial advisor after her divorce](#). As a minority and a woman, she saw the need for financial advice among her friends who were also facing divorce, new careers, and major life changes in middle age.

Nguyen is just one example of advisors coming from unusual places. Efforts by people of color and other minority groups have also helped draw in Nextgen advisors from alternative sectors and diverse backgrounds. Recruiting at inner city colleges, professional organizations, and other centers catering to under served populations also serve as strong recruiting grounds for sourcing passionate people ready to serve clients.

Developing Talent

Provide Nextgen Advisors with the training and support they need to grow and succeed

Many advisory practices fail to provide their Nextgen Advisors with the training, mentorship, and opportunities necessary to develop into a worthy successor.

Recruiting is just the first step toward filling the advisor pipeline and hedging against the advisor cliff. Advisory practices need to actively develop their talent pool to ensure Nextgen leaders have the skills, experience, and support needed to both serve clients and lead the practice.

Mentorship At All Stages

A successful career as an advisor requires lifelong learning. For many, access to experienced advisors who can provide the guidance, knowledge, and insight they need to learn and grow is limited. This is especially true for female and minority advisors. As noted in a [February 2022 article in Wealth Management](#), "Mentorship is one way to facilitate the kind of career development that will help diverse professionals scale the ladder." Senior leaders need to take the time to mentor and train up and coming advisors both inside of their practice and across the industry. Not only does this give Nextgen advisors the guidance they need to grow, it also ensures that a transfer of knowledge occurs across generations, and across the industry.

Structured Training

In addition to informal mentorship, Nextgen advisors need to receive ongoing structured training in all areas of the business. For advisors looking to firm leadership and

ownership, training in culture development, operations and practice management, and leadership are critical. This often requires a mix of practice level programs, broker dealer initiatives, professional conferences and workshops, and support from third party consultants.

As [Angie Herbers noted](#) in a recent article, "Building a path and a process to advancement can not only instill loyalty but also develop productive advisors who ultimately will help your firm grow." Training is an investment in the advisor and the firm, and pays dividends in client experience, loyalty, and financial returns to the practice.

Firms need to invest in the development of Nextgen leadership.

Community Involvement

In order to source and develop a diverse pool of talent, advisors need to engage in the broader community. Many people do not understand what a financial advisor does, and the impact they have on their clients. Educating the public on an advisor's role and value goes a long way to recruiting new blood into the field, as well as engaging new populations in need of financial advice.

Creating a Path to Ownership

The ultimate way to ensure retention

Nextgen Advisors are more committed when they are able to work toward an equity stake in the practice. This creates a win-win-win situation for everyone.

Succession Planning Should Start Early

Advisors should know better than anyone to plan for the unexpected. A succession plan serves as a safeguard for the advisor, their family, their staff, and their clients against unforeseen circumstances such as death or disability. The value of many solo advisor practices declines as they age, largely because their clients are also aging, often drawing down assets in retirement or transferring wealth to heirs that are not clients. Having that succession plan in place and communicating it to clients gives them peace of mind that no matter what, someone they know and trust will be there to manage their finances and care for their heirs. Phased successions in particular have emerged as a path to not only transitioning the firm, but to maintain and even grow the value of the practice and the client relationship.

Phased Successions Create A Win-Win-Win

There are many benefits to having a succession plan and executing it in phases. One benefit not always discussed is the monetary benefit of a succession plan, especially one that uses a phased approach for an internal succession. This approach can be executed with low risk and high returns to both the founding advisor and his or her successor(s). Phased successions also create

a smoother transition for clients by allowing them to build a relationship and trust with the successor long before the founding advisor leaves. Clients who know a practice will continue even after the founder exits the business are more likely to remain clients, as well as to refer family and friends. This helps stabilize and grow the firm's value over time.

Also, advisors and staff who have an ownership stake in the firm will behave differently, often working harder and creating additional growth opportunities. The Junior Advisor helps to grow the practice and profits of the firm, which in turn improves the value of the firm. The increase in value results in bigger payouts over time as additional equity is transferred from the Founder to the Junior Advisor. This creates a proverbial win-win-win situation for all parties.

Phased successions are especially suited for advisory practices that are \$100MM in AUM and larger, have 1 or more owners nearing retirement, and that currently employ the future owners of the firm. However, practices of any size can use this approach to transition the practice.

Equity Purchases Have Become More Affordable

Phased successions coupled with flexible lending solutions from specialty lenders allow the founder to sell the practice without

Creating a path continued

having to serve as financier. Sellers are more willing to sell equity when they don't need to provide seller financing and when they can secure more cash at the close of each tranche sale. By selling a partial equity interest in the firm, the next generation is better positioned for the eventual buy-out of the owner or retiring advisors while they build equity over a period of time. This is because a phased succession improves cash-flow for the Junior Advisor both in the short-term and long-term as they are better able to manage debt payments by financing a lesser amount for their initial purchase. As the Junior Advisor pays down debt and earns more opportunities

to acquire equity, they are able to take on more debt for future purchases. This gives them the opportunity to create wealth by way of increased income and building a debt free equity position in the practice. This also puts them in a better position with third-party lenders who will see the Junior Advisor as more qualified with an equity stake and improved income to support debt repayment.

The example below demonstrates a phased succession. For the first phase of the sale, the founder transferred 45% of their ownership to three Junior Advisors.

Phase 1: Buy-In & Equity Purchase

The founding partner is selling 45% of their ownership interest to 3 minority owners

RIA Overview

AUM	\$250,000,000
Revenue	\$2,000,000
Valuation	\$6,000,000

Deal Structure

Bank Financing	\$2,700,000
Seller Financing	\$0
Buyer's Injection	\$0
Bank Loan Term	10 years

Ownership

	Pre-Sale	Post Sale
Founder	100%	55%
Minority Owner 1	0%	15%
Minority Owner 2	0%	15%
Minority Owner 3	0%	15%

Created a liquidity event for the Founder without having to sell out completely.

NOTES

The Founder received all cash at closing and was not required to sign a personal guarantee

Each Minority Partner provided a personal guarantee in conjunction with a corporate guarantee from the RIA

PPC LOAN funded 3 separate loans in the amount of \$900,000 allowing each Minority Partner to manage the repayment of their individual loan at their desired pace.

Purchase Price: \$900,000 for each 15%

Creating a path continued

In the second phase of the succession plan (~7 years later), the owner transferred the remaining shares at a much higher valuation. This is the result of strong year-over-year growth which increased the overall value of the firm between Phase 1 and Phase 2.

Phase 2: Buy-Out

The founding partner is selling the remaining 55% of their ownership interest to 3 minority owners

RIA Overview	
AUM	\$550,000,000
Revenue	\$3,750,000
Valuation	\$11,250,000

Deal Structure	
Bank Financing	\$6,187,500
Seller Financing	\$0
Buyer's Injection	\$0
Bank Loan Term	7-10 years

Ownership	Pre-Sale	Post Sale
Founder	55%	0%
Minority Owner 1	15%	33.333%
Minority Owner 2	15%	33.333%
Minority Owner 3	15%	33.333%

NOTES
 The Founder received all cash at closing
 One loan funded to the company with the guarantees of the 3 remaining partners
 Borrowers are much more qualified when considering their personal financial strength (they now own debt free equity) and cash-flows.

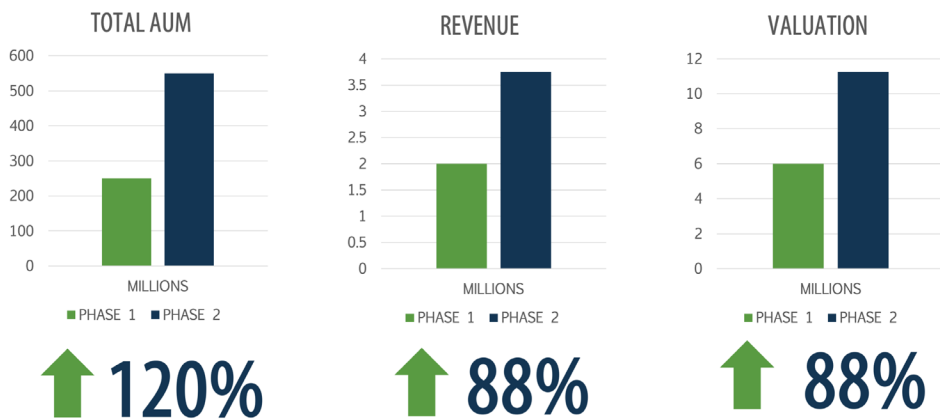
Purchase Price: \$2,062,500 for each 18.333%



Affordability of Internal Successions

In the end, the practice saw tremendous growth thanks to the NextGen leadership. This resulted in a better final payout for the Founder, while maintaining affordability for the minority owners.

Performance Comparison



Affordability of Internal Successions

Case Study

Phasing In To Ownership

Learn how Financial Synergies Wealth Advisors used a phased succession approach to create opportunities for their Nextgen Advisors and a profitable succession for the founding advisor.



For more than thirty years, Financial Synergies Wealth Advisors has served the financial needs of individuals, families, and businesses from around the world. Many of the advisors “grew up” in the business, joining founder Mike Booker as interns in college and eventually transitioning to full-fledged advisors capable of helping Mike lead the firm. After ten years with the firm, Heath Hightower and his colleagues were able to earn ownership in the firm through bonus compensation. But as the firm grew, so did the capital requirements necessary to continue transferring equity ownership to the junior partners.

Need For Capital

As Hightower explains, “In order to purchase the next percentage of the business, we would have to borrow.” But Hightower and his colleagues came against an issue that many advisors face. “Because our value

was in our client relationships, we didn’t have business collateral or assets you would normally use to secure a loan. So we couldn’t go to a traditional lender.” They spoke with colleagues they trusted, who directed them to PPC LOAN.

Partner Who “Gets It”

“PPC recognized the stability of a business like ours,” says Hightower. “We had revenue and we had clients that were sticky.” PPC LOAN’s experience working with financial advisors allowed them to see the value in the firm and structure loan terms that made sense. “We did speak to another lender,” adds Hightower, “but PPC LOAN was able to offer us a 10 year term while the other lender could only offer us 7. We thought that would give us better flexibility.” Hightower explained how the longer loan term “helped with the payments so much so that we could remain cash flow positive on the note day one. It’s nice to start off in a place where you’re slightly positive.”

The Process

Hightower and his colleagues engaged with PPC LOAN, who requested tax returns, background information, and other key documents. Due to the nature of the transaction, they also had to involve the firm’s founder, Mike Booker. “They were good to him,” notes Hightower, “and answered all of his questions.”

Case study continued

It was a sizeable loan and for many advisory firms, traditional banks or local lenders are not an option as they lack the understanding of how these businesses are operated and valued. Furthermore, the absence of tangible assets available for collateral is typically the largest hurdle to overcome if you aren't working with a specialty lender.

Fortunately, "PPC LOAN knew exactly what needed to be done and they made it happen," adds Hightower. "And that's what we needed was someone who understood our business and would do everything possible." When thinking about how the loan has impacted the practice, Hightower says, "Its really gotten us to the next stage."

"I'll tell you as an owner, you definitely think differently."

Opportunities Available For Young Advisors

Hightower shared the opportunities available to young advisors looking to buy an ownership stake in their firm. "When it comes to ownership structure, compensation, everyone is really different." Hightower and his colleagues were able to earn ownership in the firm, but as the firm grew, so did the cost to purchase the remaining shares. "You don't always need to do financing," notes

Hightower. "But this worked really well for us because it made the transaction really clean. Mike was paid once and didn't have to worry about a pay-out over time."

Having an ownership stake in the business changed the game for Hightower and his colleagues. "I'll tell you as an owner, you definitely think differently. Once we had some skin in the game we've gotten more aggressive with our marketing and prospecting. Now our prospect list is several pages long."

Looking To The Next Generation of Nextgen Advisors

"This continues to be a big part of our business plan," shares Hightower. Having experienced the value of coming up in the business and earning ownership opportunities, Hightower and his colleagues look to create those same opportunities for future generations of advisors. Hightower stated, "We will eventually transition to junior partners and other key employees. So we have a more complicated transaction ahead of us." When asked how they plan to handle future transitions, Hightower states, "I will be calling PPC LOAN to help us with that next level transaction."

Financial Synergies Wealth Advisors is a fee-only Financial Advisor in Houston, TX. They specialize in wealth management services, including comprehensive financial planning and investment management. To learn more about them visit finsyn.com.

Looking for a Nextgen Loan?

Are you considering buying an equity interest or acquiring more equity in your investment advisory firm?

Whether you're an employee or part-owner of the firm, financing for equity purchases can equip you with the flexibility to increase ownership in the business without becoming strapped for cash. PPC LOAN's **NextGen Loans™** allow you to grow your stake in the firm while maintaining a strong financial base.

Our team works with you to design a personalized solution that complements your purchase goals - be it partial equity or a complete partner buy-out. So if you are looking at a one-time equity purchase or have ongoing needs for future equity purchases, we can be the capital partner you can count on.

"This is the second time my firm sought financing for a partner's share buyout through PPC LOAN. PPC is thorough, thoughtful, detail oriented, and has good financing structures and deals. Highly recommend PPC!"

- Evor V.

Faster path to financing

We strive to get you funding quickly. Our investment advisor funding experts have the knowledge and experience to help you acquire the equity you need.

Tailored approach

Traditional banks rarely understand an advisor's business. But at PPC LOAN, we understand your business and can tailor a financing package to suit your specific needs.

Reasonable rates and flexible loan terms

We offer competitive rates paired with flexible loan terms designed to meet the unique needs of your firm and the deal.

Learn more and apply by visiting

<https://investment-advisors.ppcloan.com/service-offered/internal-equity/>

About PPC LOAN

PPC LOAN has been serving financial advisors since 2007. We offer competitive rates and flexible financing for a variety of needs. We are committed to your firm's success, which is why our specialists ensure the quality of your financing option is second-to-none. Transparency underpins every interaction you have with PPC LOAN. We're upfront with you about any concerns or issues that might emerge, because we value the trust you place in us. Let us be your lending partner and help your practice grow.



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