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An AssetMark Company

The RIA Succession Challenge: Transforming Uncertainty into Opportunity



Start with the End in Mind

Creating a lasting legacy is about more than just financial success; it's about ensuring the sustainability and continuity of the firm you've painstakingly built. As an investment advisor, you understand the importance of preserving what you've established, not just for your own sake but for your clients, employees, and successors. Founders should start thinking about their legacy the day they launch their RIA. Start with the end in mind.

Succession planning is critical for all advisors, no matter how close you are to retirement. The earlier you prepare for the unexpected or what you plan for the future, the greater your chances are for avoiding costly mistakes that affect you and your family, your employees and your clients. You may have a vision in mind for your legacy, but that does not constitute a plan. Isn't this what you tell your clients?

The task of securing the future can be daunting and is full of challenges, including time constraints, identifying the right successors, and managing the transition without disrupting the firm's operations or clients' trust. But avoiding the task at hand can be detrimental.

We hope this e-book will light a fire for you to begin the road to protecting your legacy so that you are ready for the planned and the unplanned, What will the firm look like in the future and what resources are needed to build the right foundation to make succession easier down the road?





The Benefits of Succession Planning are Obvious - Let's Review Them as a Reminder

Succession planning proactively fortifies your firm's foundation and helps future-proof the infrastructure. A thoughtful succession plan can enhance your firm's value, nurtures trust, and secures a stable and promising horizon for stakeholders.

Client Retention and Trust

The heart of any RIA is client relationships. The transition is pivotal in preserving these relationships, ensuring that the services and advice clients have come to rely on continue without disruption. Succession planning solidifies clients' confidence in the firm's stability and future leadership, fostering a critical sense of trust. Trust reinforces client loyalty and helps to safeguard the firm's client base through transitions.

Enhanced Team Stability and Morale

A well-defined and effectively communicated succession plan can be essential for maintaining internal stability within a firm. By clearly outlining the future roles and opportunities for team members, the plan reduces uncertainty and boosts morale. Employees can visualize their career growth within the company, which fosters a sense of security and motivation. Transparency in succession planning is crucial for cultivating an engaged workforce driven to contribute to the firm's ongoing success.

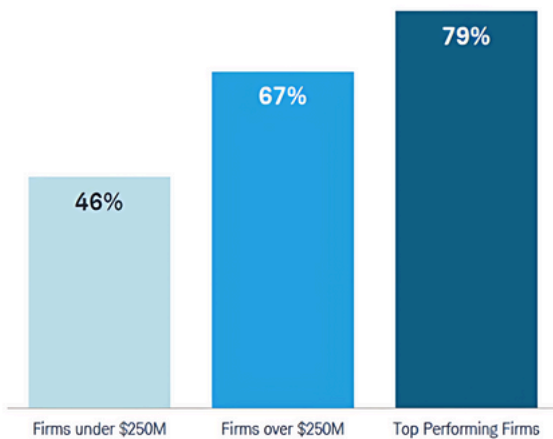


Financial Security and Value Creation

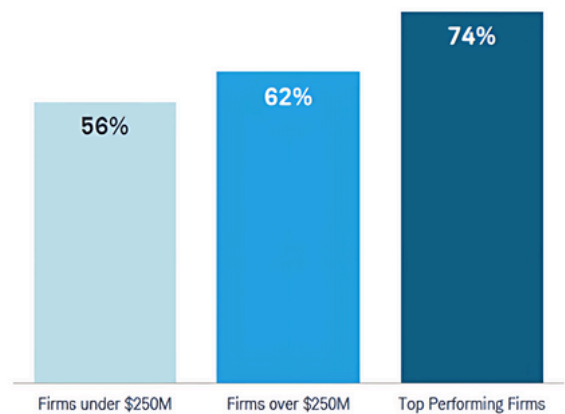
A strategic transition maintains firm continuity and significantly enhances market value, providing owners with the potential for a smoother sale or transfer of ownership under favorable conditions. By planning ahead, owners can optimize the firm's financial health, streamline operational efficiencies, and attract more lucrative opportunities. Executing a well-thought-out plan can help lead to tax-advantageous outcomes.

Strategic and succession plans support firm performance and endurance.

Firms with written strategic plans



Firms with written succession plans



Top Performing Firms are those that rank in the top 20% of the Firm Performance Index. The index evaluates all firms in the study according to 15 metrics to arrive at a holistic assessment of each firm's performance across key business areas. Past performance is not an indicator of future results, 2023 RIA Benchmarking Study from Charles Schwab, fielded January to March 2023. Study contains self-reported data from 1,300 firms. Participant firms represent various sizes and business models categorized into peer groups by AUM.

2023 RIA Benchmarking Study from Charles Schwab

Peace of Mind and Legacy Building - Thrive and Grow

The most profound benefit of succession planning is peace of mind. When the firm's leadership is confident that they are well-prepared for a successful transition, they can focus on present operations without distractions. This foresight is a testament to the firm's resilience and commitment to its mission, ensuring its legacy endures through generations. A successful transition is the ultimate reflection of a firm's foundational strength, embodying the vision, values, and aspirations of its founders.

Consider the Options:

Internal Succession:

- Transitioning the business to a trusted colleague, partner, or family member within the firm.
- Mentoring and grooming junior advisors within the firm to take over the practice.
- Gradual transfer of ownership and responsibilities over time.
- Buy-Sell Agreements: establish a buy-sell agreement with partners or stakeholders in the firm to outline the terms of a potential sale or transfer of ownership in the event of retirement, disability, or death.
- Insurance Solutions: Utilize life insurance or disability insurance to provide financial protection for the advisor's family or business partners in case of unexpected events.

External Sale:

- Selling the practice to another financial advisor or advisory firm.
- Utilizing a broker or mergers and acquisitions firm to find potential buyers.

Merge with Another Firm:

- Merging your practice with another advisory firm to create a larger entity with shared resources and clients.
- Connecting with an Enterprise RIA firm with similar values and services that can enhance your business and provide continuity.

Each option has its pros and cons, and the best approach will depend on factors such as the advisor's goals, the size and structure of the practice, the client base, and the preferences of key stakeholders. Financial advisors need to start planning for succession the day they start their practice to ensure a seamless transition and preserve and increase the value of the firm.

The Blueprint for Succession Planning - Start with the End in Mind

The journey from inception to succession is full of important decisions, each with long-term implications for the firm's legacy. The path to a successful transition is not merely a series of end goals but a well-orchestrated strategy that begins with a clear vision: starting with the end in mind.

Phase One: Laying the Foundation

For RIAs contemplating the leap toward independence or those in the throes of growth, the initial stage is both critical and daunting. The transition to a new firm or merging with another demands a careful evaluation of existing contracts, and the status of clients - are they in the distribution phase or accumulation phase? The age of your book impacts your firm's valuation if your succession plan is to transfer the business.

During this sensitive time, it's crucial to focus on consistent client communication, stable fee structures, and improving the client experience by providing better technology and a wider variety of investment choices.

Success is quantitatively measured by the percentage of clients who remain with the firm post-transition. Qualitatively, it's assessed through the seamless continuation of services and the affirmation of client trust.

Regular Reviews and Proactive Communication

Establishing regular touchpoints for client reviews is an essential aspect of client engagement. These reviews are opportunities to reassess clients' financial goals in light of any life changes or shifts in the economic landscape. Coupled with proactive communication, they ensure that clients feel heard, valued, and well-informed.

Staying Informed and Educating Clients

Market trends and regulatory landscapes are continuously shifting. Staying informed isn't just about maintaining your competitive edge; it's about providing your clients with the most current and relevant advice. But beyond that, it's about educating your clients, demystifying complex financial concepts, and empowering them to make informed decisions. By providing resources such as newsletters, workshops, or one-on-one educational sessions, you deepen the client-advisor relationship.

This approach to client engagement and financial strategy is fundamental. It transforms the traditional dynamic, placing clients at the center of the advisory experience. By doing so, you not only enhance client loyalty but also build a reputation as an advisor who truly understands and adapts to the needs of the individuals you serve. It's a testament to the value you provide and is paramount in growing a practice that thrives on long-term relationships and client referrals.

Phase Two: Growth and Expansion

Following the stabilization of client relationships and operations, the focus shifts toward growth and the pursuit of new assets. Growth & Stabilization is characterized by a strategic pivot toward expanding the firm's footprint, both in terms of client base and services. Stabilization creates an opportunity for RIAs to breathe and realign their focus toward net new assets, fueled by the excitement of shaping the business according to their vision.

This phase is not just about broadening the client base but also about enhancing the firm's value proposition. Incorporating additional services, such as in-house CPAs or expanded investment options, attracts new clients while retaining existing ones. The key to success here lies in the strategic selection of services that complement the firm's core competencies, ensuring that any expansion aligns with the firm's long-term vision and client expectations.

Phase Three: Achieving Scale through Strategic Outsourcing

As firms transition from growth to scale, the emphasis shifts toward optimizing operations and maximizing efficiency. Outsourcing can help businesses scale effectively. Outsourcing allows RIAs to redirect resources to client satisfaction and business growth. By outsourcing functions, like investment management, firms can maintain or even enhance their services without the added burden of increased overheads. Outsourcing also helps protect your legacy. If your CIO leaves abruptly, you have a back-up through your third-party asset management firm.

Strategic outsourcing is not solely a cost-saving measure but can be a growth accelerator that enables RIAs to focus on providing personalized and high-value services to their clients. The decision to outsource should be guided by a clear understanding of the firm's core competencies and the long-term goals outlined in the initial vision.

By segmenting the journey into distinct phases—each with its objectives, strategies, and metrics for success—RIAs can create a structured plan that not only facilitates a smooth transition but also positions the firm for sustained growth and success.

Succession Planning Mistakes to Avoid

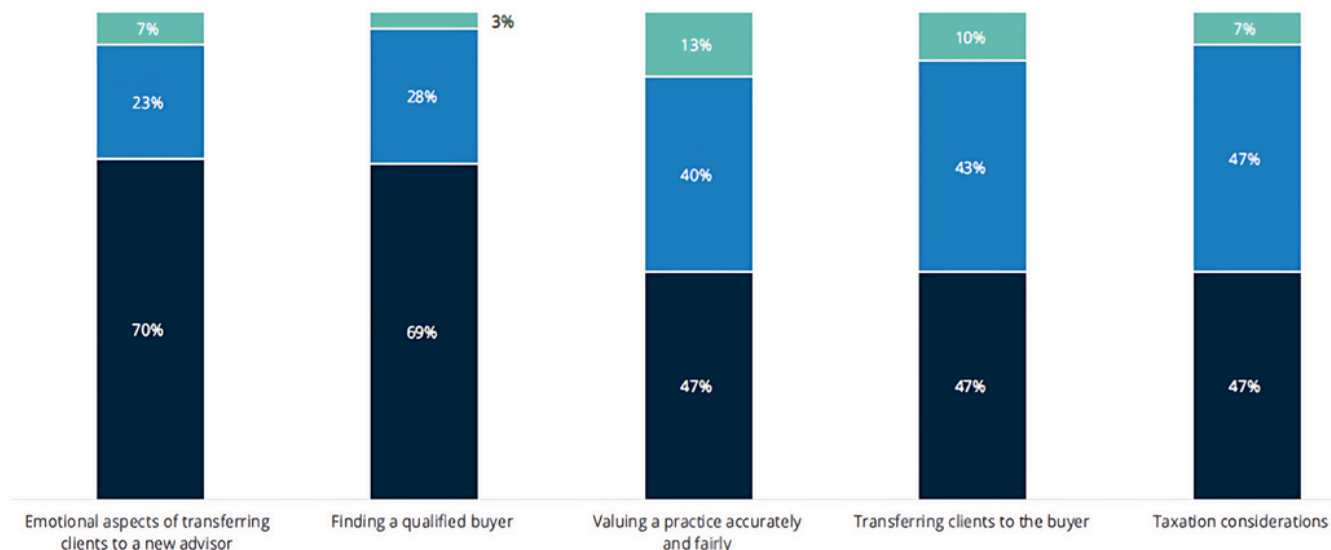
Succession planning is complicated, but by avoiding a few common pitfalls, you can set your firm up for success. Here are some common missteps to avoid.

Succession Preparation Challenges, 2023

Source: Cerulli Associates | Analyst Note: Responses are from practice management professionals.

■ Major challenge ■ Moderate challenge ■ Not a challenge

Top-Five Greatest Challenges for Advisors Preparing for Succession



- Practice management professionals view the emotional aspects of transferring clients to a new advisor (70%) and finding a qualified buyer (69%) to be the top-two major challenges associated with succession preparation.
- Valuing a practice accurately and fairly is considered at least a moderate challenge for 87% of practice management professionals.

Mistake #1: Procrastination

The day-to-day demands of running an RIA firm can often push long-term planning, like succession, to the back burner. However, delaying succession planning leaves the firm vulnerable to unexpected transitions and rushed decisions that may not be in its best interests. Starting the planning process early allows ample time to identify and prepare successors, address the complexities of the transition, and take a thoughtful, strategic approach to leadership change.

Mistake #2: Failing to Develop Successors

Many firms overlook the importance of developing internal talent when succession planning. To ensure a smooth transition, firms should identify potential successors and provide them with the experiences, mentorship, and knowledge needed to uphold the firm's values and drive its vision forward. Simply pinpointing a future leader is not enough. Firms that fail to cultivate their internal talent pool may struggle to maintain continuity and could disrupt client and employee confidence during the transition.

Mistake #3: Poor Communication

Clear and consistent communication with clients and staff is vital throughout the succession planning process. Ambiguity or secrecy can breed uncertainty, fear, and mistrust among the firm's most valuable assets—its people and its clients. Open dialogues about the firm's future, the rationale behind succession decisions, and what changes to expect can help mitigate concerns and reinforce trust. Ensuring everyone is informed and on board with the transition plan fosters a collaborative and supportive environment during times of change.

Client Transition Planning:

- Educate clients about the succession plan well in advance to ensure a smooth transition.
- Introduce the successor advisor to clients gradually to build trust and rapport.

Consulting or Advisory Role:

- Transition into a consulting or advisory role within the firm after retirement to provide guidance and support to the new leadership team and maintain consistency for the clients.

Mistake #4: Ignoring Financial and Legal Considerations

The valuation of an RIA firm and the structuring of the succession from a financial and legal standpoint are complex but crucial elements of the planning process.

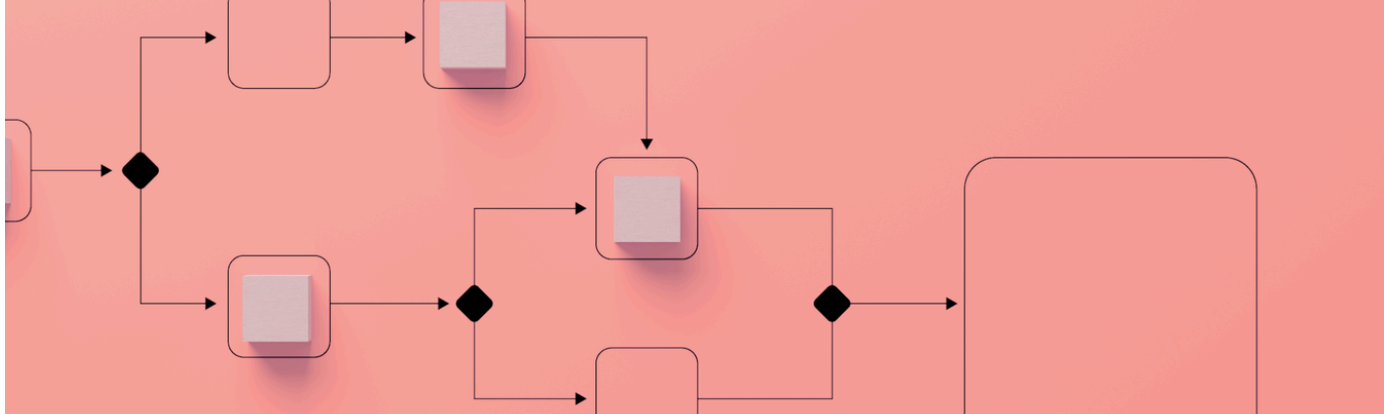
Neglecting these aspects can lead to unfavorable outcomes for all parties involved.

Engage with legal and financial advisors early on to navigate the intricacies of tax planning, valuation methodologies, and legal requirements. These professionals can provide invaluable guidance on structuring the transition in a way that aligns with the firm's financial health and long-term goals.

Mistake #5: Lack of Industry Regulatory and Technology Changes

The RIA landscape constantly evolves due to regulatory changes, market dynamics, and technological advancements. A succession plan that ignores these critical external factors will quickly become outdated and misaligned with the industry's trajectory. To ensure that the succession plan remains relevant and effective, firms must stay informed about current trends and potential shifts in the regulatory environment. This awareness also enables firms to proactively adapt to changes, maintaining their competitive edge and long-term viability.

To avoid these mistakes, firms must exercise diligence, foresight, and a commitment to their future. By proactively addressing these areas, RIA firms can develop a robust succession plan that safeguards their legacy and positions them for continued success and growth.



Streamline Succession Planning With Outsourcing

Strategic outsourcing emerges as a pivotal solution for RIAs poised at the nexus of growth, efficiency, and succession planning. By engaging with comprehensive support platforms, advisors unlock the potential to refine their focus on crafting and executing robust succession plans.

Key Advantages of Outsourcing

- **Increased Efficiency:** Free up time for strategic activities like succession planning by joining an RIA Enterprise firm that provides scalable support as the firm grows.
- Investment within a scalable and flexible UMA platform.
- **Reduced Operational Risk:** Minimize compliance and operational risks through experienced back-office support and compliance oversight.
- **Investment Management:** Access to a scalable and flexible investment solution allows advisors to delegate investment management, focusing on client relationships and succession planning.

How Outsourcing Supports Succession Planning

- **Built-in Infrastructure:** Access to comprehensive back-office support and a sophisticated tech stack helps stabilize internal operations, making the transition smoother.
- **Operational Efficiency:** Streamlining administrative tasks such as trading, reporting, and compliance, thus allowing advisors to concentrate on the future.
- **Investment and Compliance Support:** Leveraging in-depth research, due diligence, and compliance expertise from Enterprise firms to make informed decisions without the overhead of managing these functions in-house.

Outsourcing empowers advisors with the freedom to manage their firms effectively while focusing on the future. RIAs can ensure their legacy thrives, backed by a solid foundation supporting current needs and future aspirations.

Streamlining Succession with Adhesion

RIAs face balancing daily operational demands with the forward-thinking strategy required for a smooth transition. Adhesion is one solution to the RIA's succession planning needs. The program introduces advisors in pursuit of growth, efficiency, and the desire to elevate their practices to our carefully selected RIA Enterprise solution providers.

Let Adhesion Make the Connection and Simplify Succession Planning

Adhesion provides RIAs with a way to simplify the approach to succession by connecting RIAs with a network of resources as well as by empowering RIAs to explore Outsourced Investment Management. Adhesion's support system enhances efficiency, allowing advisors to focus on the crucial aspects of succession planning. This support spans several areas:

- **Investment Management Solutions:** The Adhesion UMA platform provides a scalable solution that frees up advisors to focus on relationship building and strategic planning, rather than getting bogged down by investment management details.
- **Succession and Continuity Planning:** Adhesion Connect resources are tailored to support advisors, whether they are looking to retire, establish a continuity plan, or implement an emergency backup strategy.
- **Back-Office Support:** Built-in infrastructure of our Connect RIA Enterprise firms supports compliance, and a state-of-the-art tech stack helps stabilize internal operations.



When Your Client Asks If You Have a Plan - Are You Ready to Tell Them Yes?

The path to a prosperous succession is clear: it requires planning, strategic foresight, and the right strategic relationships. Whether you're at the beginning of considering your succession plan or looking to refine your strategy, Adhesion Wealth is ready to assist.

- **Streamline Your Succession Planning:** Let Adhesion take care of your investment management needs so you can focus on what's most important—preparing your firm for a successful transition.
- **Maximize Operational Efficiency:** Utilize Adhesion's robust support system to enhance your firm's operational efficiency, freeing up valuable time for strategic succession initiatives.
- **Secure Your Firm's Future:** Begin the journey to secure your firm's legacy by leveraging Adhesion's comprehensive outsourced investment management solutions.

Contact us to get started and secure the future of your firm today.

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