

## Case study: Smooth Transition

Steve J. built a very successful investment advisory practice in Denver, CO from scratch, eventually selling it to his employees on his terms and timing for a very nice valuation, freeing him up to pursue the next chapter in his life.

What did he do that is different from most advisors? He started with a plan. He knew all along that he wanted to maintain the independence of his business and ensure that his clients and employees would be well taken care of in the long term.

In order to do that, Steve realized early on that he needed to create an organization with continuity that could eventually be run without him. As an added incentive, Steve knew that the less dependent a business is on the owner, the much more valuable and easier to transfer it is.

Building upon this idea from day one, Steve's very first client was a young, motivated, intelligent and enthusiastic professional. Steve recognized these qualities as highly desirable in an employee and set about making his first client become his first staff member. Steve spent the next 10 years gradually building up the skills, experience and financial means of this gentleman so that when the time came, his first client who became his first employee became the next owner of his business.

Steve used an innovative approach to prepare his successor financially to be able to purchase the firm when he was ready to move on. He established a deferred compensation plan where he "held back" a portion of his employee's bonus each year.

This money was invested in an account that was owned by the firm in the name of the employee, who had discretion over how the money was invested. Over time (10 years), this account became quite substantial and was used as the down-payment to buy the firm. Not only did Steve create an additional option for his exit strategy, but also "golden handcuffs" to keep his employee interested and motivated in the long-term success of the firm.

Bottom line, planning ahead is key to creating options for advisory firm owners and if your goals are to ensure the continuity of your business for generations to come, identifying successors early on and taking the time to invest in their skills and financial means can be a very effective way to do it. In Steve's case, he was fortunate to find a talented individual that he could groom to become his successor. Many advisors who do not have an identified successor in their firm can find experienced talent by recruiting from the industry.

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