FirstClearing

Sustaining Your Practice and Reclaiming Your Life

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FP TRANSITIONS®

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Executive Summary

As a financial advisor, you've been there to share your clients' dreams and witness their milestones. For years, you've helped plot their paths. You helped transform their busy workweeks into a more forgiving work-life balance and advised them on how to leverage their assets in order to transition into the next phase of life, one where they have full rein. Your efforts have helped them segue smoothly into their next life stage.

What you've done for your clients you ought to be able to do for yourself. No matter what you envision for your next phase—whether total freedom from former duties (the classic American "retirement"), a new career or service to others—the question is: How can you leverage your *own* assets to support the next phase of your life? In particular, how can you best extract value from what's arguably your most prized asset—*your* business—in order to make a successful transition?

This paper discusses three variations on funding your transition:

1. Plan for the sustainability of your business; that is, make a commitment to perpetuate your business and use it to realize your next life stage.

2. Exit the business after putting a strong succession plan in place.

3. Do nothing; that is, keep going and let the business fade away.

Not one of these is the "correct" life transition strategy. One of them, however, will probably work best for you.

Because most advisor-owners fail to plan ahead, however, their choices often end up more limited than they'd like. In fact, when owners leave their financial advisory practices, the vast majority simply let the businesses fade away. Does it make sense for them to put so much effort into building a business, over so many years, then *not* use it to manifest their next dream?

What are these owners missing? They may fail to realize that sustainability, not just succession, can be the optimal way to capture the value of what they've built. They may fail to see that even by itself executing a succession plan might be a good way to preserve and protect the firm's client base—which, in turn, can help support the owner's transition. Above all, they may postpone making plans of any sort until it's too late for planning.

You have the opportunity to fund new milestones in your life by preserving and perpetuating the value of your practice. This paper presents the tools you need. It's also designed to help you weigh alternatives, then consciously choose the best transition strategy for *your* new life.

To bring you these insights, First Clearing is co-publishing this white paper with LederMark Communications, a marketing strategy and communications services provider, and drawing upon the expertise of FP Transitions, a leading provider of equity management, valuation, and succession planning for the financial services industry.

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Capturing the Value of Your Business

Your business may be the most valuable asset you own. It embodies your life's work, the relationships you've cultivated, the goals you've achieved. On a very practical level, your business is also a significant financial resource.

Financial value

When you began your work as a financial advisor, you were looking to establish a book of business that would lead to a promising career. Now you're looking at a mature practice that may not only be valuable but that can make a big difference in the next phase of your life. All the time and effort you've invested in building your book can "pay off" handsomely when you leverage the asset you've created. This is your reward, in effect. It's the fruit of your labors, your due for investing so much time and effort into building a successful business.

Statistics, however, indicate that the financial value of a practice is rarely used this way. The numbers show that the vast majority of practices simply fade away after the founder exits. Why?

Lack of a transition *plan* is one of the top reasons: Nearly 32 percent of advisors claim to have a transition plan, but only 17 percent have actually documented it.[1] That means owners who are unprepared may be forced to stay involved in their businesses longer than is optimal, if only to ensure a smooth transition.[2] Or, if they're without a plan, they may see their business go under once they leave. And if that occurs, it deprives the owner of a significant source of ongoing cash flow.

Tapping the financial value of the asset you've built takes advance planning, which is easy to neglect when you're still in the fray, running a thriving business. First comes choosing your transition strategy. This decision needs to be made early on, rather than a year or two before your projected departure, because some strategies require more time than others. Executing an internal sale to employees can take upwards of 10 years. On the other hand, an external sale to a third party may be a contingency plan that does not need a great deal of advance planning.

It's your choice. But once you're ready to leverage your firm's value, you want to make sure there's plenty of it to tap. By developing a plan, you give yourself the greatest number of options.

People "value"

Who will inherit the mantle from you, let alone from other advisors making their own transitions? If you fail to plan for succession, your business's long-term prospects are weakened, and you're less likely to move smoothly into your new life.

"Value" isn't only financial. The people who work for you are a source of value that can either forward or hinder your life transition.

There's actually an opportunity at hand that can strengthen your prospects. The average age of advisors in the U.S. is now 50.9 years, and 43 percent of advisors in the industry are over the age of 55 years.[3] We're just 10 to15 years away from a generational shift that will redefine the industry over the next 30-plus years. But the reality is that the industry, in general, isn't prepared. Only 11 percent of our financial advisors are under the age of 35.[4]

The opportunity lies in *embracing* the generational shift. Younger financial professionals are usually more attuned to the rapid changes occurring in our world and our industry today. They can capitalize on today's new world as they work with today's clients. When you invite the "new" into your firm, you're cultivating talent that can eventually rise and prosper—and, in the process, cause your firm to thrive.

It doesn't happen overnight. Once again, it takes advance planning and time. By being proactive, you put things in place to ensure your own future while also helping the next generation of advisors strategize theirs.

Creating Your Life, Choosing Your Options

To prepare for a major life transition in the future, first define where you want to go. What do you want for your future? All too often, you help your clients map out their own next chapters and neglect your own.

Second, create a timeline for yourself.

Third, look closely at the opportunities your business represents—opportunities to make its value work for you when the day comes.

Of all the options available (see sidebar: *Goals for your transition planning*), here are three key ones. Each of them can result in vastly different outcomes. In fact, the option you choose can make a big difference in not only the life of your business, but in the life of your personal wealth.

Goals for your transiting planning

Think about what you envision for your own next phase of life. How could your business support your transition? Here are some of the more common transition-planning goals or options (one or more may apply):

- Develop a strategic growth plan that doesn't center on the founder's skills.
- Create a practical and reliable continuity plan that will protect the value and cash flows of the practice.
- Provide for income perpetuation to the owner for his or her lifetime.
- Transfer the business to a son, daughter, or other family member in a tax-efficient manner.
- Accommodate on-the-job retirement while never fully leaving the business.
- Work for another couple of years, then sell the business, and let it fade away.
- Merge with another business as a means of growing, protecting, and optimizing value.

1. **Create a sustainability plan:** *Transition your business internally, enabling your business to endure past your career and, at the same time, fund your new life.*

When people think about transitioning a business, they often envision the owner leaving through a sale (exit planning). Transitioning through a sustainability plan is different. It's about **formalizing a move forward.** You devise a formal plan for a sustainable business—an asset in which others co-invest, build equity and eventually succeed the founder, taking the business to the next level.

Do you have a business or a practice? "Sustainability" means business.

Practice – A loosely structured team of financial advisors whose members may share common resources, materials, and brand name, but who maintain separate books, revenue streams, and may occasionally split commissions. A practice is solely focused on generating income and does not assign a value to the entity beyond the current generation. A practice or business is distinct from a "job," which only exists as long as the advisor does.

Business – An organization of financial professionals working together without relying on any single individual for its service offering. The multiple owners are focused on increasing the value of the business over time. After the founder moves on, the business is meant to endure through a new generation of owners who become investors and partners as well as successors in the business.

Planning for long-term sustainability is designed to maintain assets, ensure continuity, and effect a seamless transition to the next generation of ownership. Because the business will endure past your tenure and through the lives of your clients, over time you should be able to capture the value of what you built.

Timing is critical. The best time to engage in a sustainability plan is at least a decade before your transition date. This gives you time to grow your business into a more valuable asset with proven and experienced successors. A business that's sailing along—making it attractive to buyers for its competitive position, strong brand, income and growth potential—is, of course, inherently more valuable.

Owners with sustainability plans enjoy a slew of benefits (see sidebar: *Some benefits of sustainability planning*). They don't worry about their clients because their clients will be taken care of when they leave the practice. They're generally less concerned about the timing of their actual life transition. And they know they'll have the flexibility to adjust their personal transition date if unforeseen events should occur.

Some benefits of sustainability planning

- Maximizes the potential value of your business, allowing your business to grow more valuable over time.
- Enables the value of your business to fuel your future plans.
- Sets up an investment opportunity for the next generation of advisors.
- Ensures continuity of care for your clients.

Such unforeseen events, often referred to as "dismal drivers," include the death of an owner or partner, disability or health issues, and the consequences of a divorce. Dismal drivers can force the hand of a seller into selling quickly, which undermines the goal of maximizing value. A sustainable business, however, is *designed* to provide an orderly succession at a time of your choosing, so it can accommodate the unexpected, as well. A sustainable business can handle the unexpected because there are clear yet flexible models in place for everything from client service to succession, and everyone is aligned with them. (We'll look at this more in the next section, "Understanding Sustainability.")

A sustainable business can handle the unexpected because there are clear yet flexible models in place.

2. **Exit the business:** *Sell your practice and walk away, living off of the proceeds.*

Nothing is as inevitable as death and taxes. You and 100 percent of your fellow advisors will exit their businesses, either through retirement, sickness, disability or, ultimately, death. Yet despite the inevitable, there are cons as well as pros to this option.

If building and grooming the next generation of ownership (i.e., creating sustainability) requires a runway of 10 years or more, the runway for exiting the business is shorter—perhaps five years or less. That means you need to transition your clients to a new home sooner rather than later, and you need to find ways to capture your firm's value more quickly.

Here are some benefits of three popular exit-planning options:

- *Sunset program* – An exit strategy can let you transition your book of business and, over a period of time, recoup the value of your business's cash flow or your book, which can then **sustain your life transition**.
- *Internal sale* – An internal sale can be a **convenient** way to transition the book. Because internal employees/buyers may have less to invest, though, you must be prepared to finance any internal sale over an extended period of time; executing an internal sale can take upwards of 10 years. A buy-sell agreement formalizes how ownership will be redistributed in the event of the owner's death, disability, or retirement. The agreement (often funded by insurance) is designed to keep ownership in the hands of individuals responsible for managing the operations of the business, rather than in the hands of family members.
- *Selling externally* – Selling your practice can be a **quick** way to exit the business, particularly as a fallback to an internal sale. An external sale requires a match between buyer and seller, though, and may depend on business model, regional proximity, and willingness to come to terms. Book sales tend to be especially quick exit strategies, if that's important to you.

3. **Do nothing:** *Put off the decision to transition your practice internally or externally, and expect the business to die when you step away.*

Doing nothing is an option that many advisors choose, but it's often to the detriment of their personal wealth.

That's because when advisors insist they'll never stop working, they may be setting themselves up to leave value on the table. They'll cut back on their schedule, holding on long enough to end up with what's often called a "lifestyle practice." But doing nothing and neglecting a valuable book is a recipe for extinction when the advisor finally steps away. The implications can also negatively impact the business and its reputation. And whatever value the book once had is lost to inaction, dwindling away until there's nothing left to preserve.

All three of these options can be viable, in the right situation and with the right mindset. It's your choice.

We believe that the first option—creating sustainability—is the most advantageous way to achieve your personal goals. Developing a sustainability plan can maximize the value of your business and can be effective at supporting your desired life transition. It also benefits your advisors and your clients.

Understanding Sustainability

Arguably, the best way to realize the value of a life's work is to build a bigger, stronger business with a good plan and the right people. Financial advisors in their 40s and 50s, in particular, have the opportunity to build a sustainable practice that's more valuable 10, 15, or even 20 years from now. A founder who has time on his/her side can maximize the value of the business and attract ownership capital.

It's critical, however, to plan ahead—perhaps as much as 10 or 15 years ahead. To do that, you need to understand what "sustainability" is ... and is not.

It's critical, however, to plan ahead—perhaps as much as 10 or 15 years ahead.

What sustainability is ***NOT***

In most practices, growth typically occurs along these lines: An advisor builds a client book that s/he owns. The advisor brings in other partners, perhaps juniors, to share revenue through a loose affiliation or referral arrangement. The practice grows through referrals from clients, centers of influence, and other affiliations.

Revenue sharing is embedded in this model. But, by its very nature, revenue sharing tends to undermine the goal of sustainability.

How? An inherently competitive structure, revenue sharing is a self-generated form of compensation. The traditional "eat-what-you-kill" compensation method attracts self-starters and rewards individual effort. It's the key to the entrepreneurial spirit of the industry. As such, you're essentially training those high-earning junior partners you recruited to think and act like entrepreneurs.

What will keep them from leaving your business to build their own practices? Unless they can visualize a career path to ownership, you end up taking on the risk. The result: The business isn't sustainable.

By its very nature, revenue sharing tends to undermine the goal of sustainability.

What sustainability *IS*

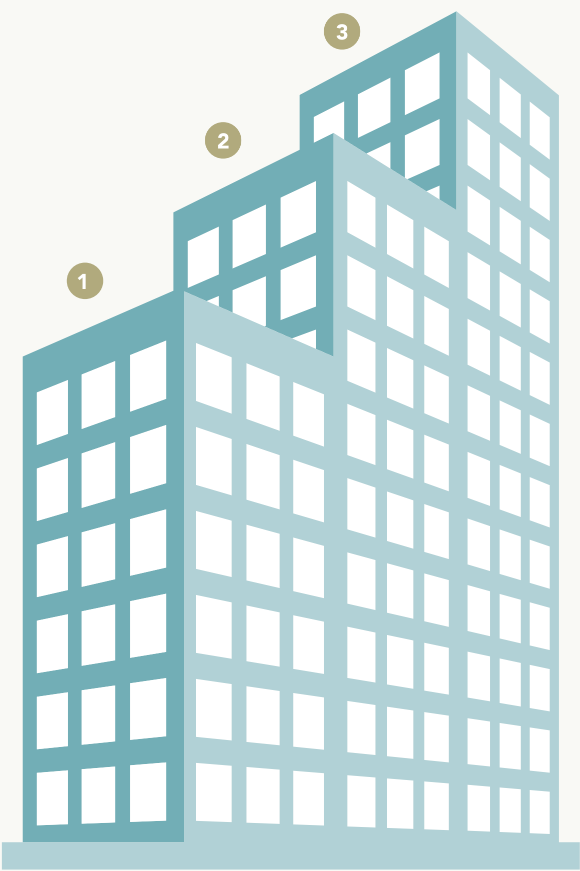
A sustainable business is composed of owners and employees whose interests are *aligned*. While traditionally an advisor owns his/her client book, in a sustainable business model no single individual can do well unless the firm does well as a whole. Many times, the people who can eventually take over your business are already sitting in your office, learning from you and growing the business alongside you.

In other words, a sustainable business does not depend on any specific person but relies on the collective capabilities of everyone in the business. For any one individual to do well—whether you or your junior partners—the firm must be organized to create optimal experiences for both employees and clients.

The optimal employee experience

Next-generation advisors will move on and build their own practices if they derive no enduring value from the practice. But a sustainability plan builds on collaboration between the founder and next-generation colleagues, which changes the conversation and the outcome.

To create the optimal experience, there are three critical changes the firm must embrace, and each builds upon the next:



1. ***Compensation*** Establish a salary/bonus structure for all employees, including you, that grows at a restrained rate in order to create a net income stream from the business. A proper compensation structure results in profits to the firm, which then is distributed to those who become equity partners.

2. ***Equity*** Equity comes from having a profitable business. In other words, equity is the value of the firm as a result of a profitable enterprise; thus, equity becomes the mechanism for realizing value. Transferring equity in a gradual and professional manner to successors shifts the focus away from individual books of business to the long-term goals of the enterprise. Increasing the value of the equity stake for each of the stakeholders also increases the funds available for your transition.

3. ***Ownership culture*** Once you have equity, you can begin to increase it by enabling more people to acquire equity. That, in turn, creates an ownership culture: The owners benefit when the business thrives, so everyone is vested in the success of the business. This is truly a foundational change, one that sparks continued growth. Behaviors change. Mindsets shift. People are united behind one goal: building the value of the firm.

To summarize: The three requisite components of a sustainability plan build on each other. Creating a profit-driven compensation system results in profits. Profits create equity. Establishing a pathway for employees to gain equity creates a culture of ownership. The result is a sustainable business, where the interests of owners and employees are *aligned*.

The difference between a traditional practice and a sustainable one is this: Income is what advisors work for; equity is what owners invest in.

Ultimately, each advisor is empowered by his/her shared interest in the business's profitability. A sustainability plan can perpetuate income while gradually realizing equity value (which is taxed at long-term capital gains rates) as next-generation advisors invest and buy into your business.

So the difference between a traditional practice and a sustainable one is this: Income is what advisors work for; equity is what owners invest in.

The optimal client experience

Another characteristic of a sustainable practice is great client service. Enduring businesses compete on service, innovation, and/or operational efficiency. It's best to be outstanding at one—preferably service—and deliver reasonably well on the other two.

A sophisticated client-service experience is one that's backed by a team of professionals working together for the good of the clients. The client experience cannot be sustained by any individual, but is based on consistent, repeatable behaviors and a firm-wide collaborative approach. A business that focuses on this kind of service is called an "ensemble firm"—a multi-professional, team-based firm that operates as a sustainable business with a clear vision of *shared stewardship* of client relationships.[5]

In fact, creating a service culture that is not dependent on you, personally, is essential. The finest companies that are known for exceptional service—whether they're world-class in size and brand, like Ritz Carlton, or renowned among fine inns, such as the Inn at Little Washington in Virginia—strive to continuously create remarkable moments for their clients. These moments simply cannot be created by chance or by a single professional, no matter how extraordinary.

When you involve every member of the team in creating an exceptional service offering and operationalize your client communications and standards, each member of the team contributes to excellent service. At the same time, the service culture continues when you step away for a week, a month—or longer.

Taking Steps Toward Sustainability

If the formula for sustainability were simple or could be accomplished in one sitting, everyone would have a sustainability plan. Again, the goal is to build an enduring business that can provide an income stream for life through a team of internal successors under your leadership and mentoring. Gradually, your internal partners will gain increasing ownership of the business, and you, in turn, will be able to meet the goals you've set for the rest of your life.

The formula consists of two parts: your personal vision and your plan for the business.

1. Your personal vision

How do you envision your next phase of life? Do you want to work forever, eventually cutting back to three days a week? Will you leave the business entirely? And if you leave, when will that take place—in 10 years? 15? Because the owner's personal timeline also affects the business, start planning with the end in mind.

Enduring businesses compete on service, innovation, and/or operational efficiency.

Many firm owners find it challenging to plan for big life changes. This isn't the logical, objective business planning you're accustomed to; rather, as the owner, and possibly founder, your emotions are inevitably involved. In fact, the growing field of neuroeconomics (the study of how human beings make financial decisions) contends that all humans exhibit an array of brain-based "tendencies" or behaviors that can undermine sound decision-making. [6]

One such tendency is, quite simply, **emotional decision-making**. A substantial body of research indicates that the more important a decision is to a person, and the more complex a decision becomes, the more strongly it's lodged in the emotional regions of the human brain. And, of course, decisions about money can be both important and complex. Just think about how your clients have reacted when faced with difficult financial choices around their own life transitions. You probably witnessed emotion, coupled with efforts to be rational. What happens when emotion and rational thought collide? According to neuroeconomics, emotion generally wins.

Now put yourself in a client's shoes. After years devoted to building a client base and a profitable practice, you face the prospect of letting go. You might feel reluctant to relinquish control. Or you might put off succession planning because you can't visualize what you'd do without work—and for many people, a loss of work equates to a loss of identity.

As a business owner, it's important to acknowledge that you, like all human beings, may resist significant decisions for reasons that aren't entirely logical. By taking natural human reactions into account, you can still move forward. The next step is to develop a plan that will complement your unique personal vision—a plan that will *grow the practice* until a date of your choosing.

Develop a plan that will complement your unique personal vision.

2. Your plan for the business

This will be an individual blueprint, based on your specific personal goals, which means the formula for creating sustainability varies with the person and the firm. Your plan, however, should address the three components mentioned earlier, each of which builds upon the one before.

Compensation—First, it's necessary to change the compensation structure to transform your practice and bring on partners. This is particularly true if your practice comprises a group of advisors connected primarily by sharing revenues, as noted previously.

In a sustainable business, **compensation of salary-bonus ensures that no individual will do well unless the organization succeeds as a whole.** Would you rather own 100 percent of what you have ("x") or a smaller percentage of the value of your entire organization ("2x") that leads to succession? A salary and bonus structure builds net income from the growth of the business, and each year the business shares the profits with the partners proportionate to their ownership, which ultimately helps create an ownership culture.

Equity—Equity is what separates one-generation practices from more valuable and enduring businesses. Equity is the value of the business separate and apart from cash flow and compensation paid for work performed.

A word of caution: Beware of addiction to cash flow. Advisors who focus only on maximizing cash flow do so at the detriment of capturing equity value. **To perpetuate the business well into the future, the founder or owner of the practice must share the equity with successors and junior partners.** There are different options with varying tax treatments, depending on what you'd like to accomplish.

Ownership culture—Equity is also a powerful motivator for people to "own" the business. It fosters their desire to grow the business collaboratively, which leads to the third critical component of a sustainable business: a culture of ownership.

As you bring individuals into the owner's circle from within the firm, and possibly onboard people from outside, you need to clearly define how the "culture" functions. Do so by providing everyone you invite in as partners with a formal process to buy-in and buy-out. As a rule of thumb, new partners will be invited to invest their own funds at a discount. In return, they will receive a seller-financed opportunity to become partners in the firm.

The above three components are the most commonly used ones when determining the value of a business (see sidebar: *What is your practice worth?*) and developing a sustainability plan. They comprise the general formula that will lead to a greater level of common interest and shared vision. The process leads to a very gradual reduction of your time spent in the business. Over time, the reins of leadership are earned and transitioned to the next generation of leadership.

What is your practice worth?

Understanding how valuation is determined may help you to develop a more sustainable business. FP Transitions, a leading valuation and succession-planning provider, suggests a three-step system to determine the value of an advisory practice:

1. ***Assessment of transition risk.*** Several factors are considered, including: client tenure, age of the practice, willingness of the seller to offer assistance, and use of noncompete and nonsolicitation agreements.

2. ***Strength of the revenues and cash flow.*** The quality of the revenue stream is one of the key components of value. This can be determined from client demographics, asset concentrations, revenue growth, and new client growth and expenses.

3. ***Marketplace demand.*** A market-driven capitalization rate is applied to the adjusted gross revenue. In this way, valuation is linked to the type of practice, size, geography, and region.

Case Study

What happens to my practice, employees, and clients when I'm gone?

According to FP Transitions, every transition story is very different. Whether the issue is inexperienced junior partners or family members or some other wrinkle, the variables unique to each situation must be considered within the context of sustainability.

Consider Mark Duncan, founder of Capital Management Partners, LLC (CMP), who realizes that one day he will want to reduce his work schedule so he can move on to another stage in his life.[7] In this case study, FP Transitions shows how a successful practice can capture the value of his business to fund his new lifestyle.

> When Mark developed a transition plan for his wealth management practice, he thought he was ahead of the curve. After all, how many advisors draw up formal transition plans?
>
> At 58, Mark was ready to scale back his hours and think beyond his career as a financial advisor and business owner. He realized it was time to plan for his future. To ensure his transition to the next phase of life, he thought he could leverage the value of the practice he had built. But to do so, he needed to make sure the business would carry on without him.
>
> Mark had founded his fee-based practice 24 years ago. With the help of an independent broker-dealer, two credentialed junior advisors (whom he recruited and trained), and a small staff of experienced financial assistants, Mark aspired to provide comprehensive wealth management solutions to his high-net-worth clients.
>
> On a personal level, his clients meant the world to him, and so did his staff. Indeed, he was generous in seeding their practices with his inactive clients and occasional referrals. It's all in the family, he reasoned.

The plan

So it was with great anticipation that Mark put pen to paper and crafted a formal transition plan. With professional guidance, he laid out a strategy centered on "durability" and not necessarily retirement—a concept he could not yet fully envision.

The plan detailed the value of his practice: $3.2 million. It included specifics on how he would slowly scale back his office hours but still stay involved in the business. He itemized his expenses, including payroll, marketing costs, operating outlays and IT charges. He also outlined a "seller-financed" discount to his two advisors that enabled each of them to become partners in the firm. At the time, each of his two advisors (1099 contractors) were paid on a revenue-sharing arrangement, which enabled them to focus on production. And the two had proven very successful, each managing a substantial book of business. Mark now wanted to reward them through a career-length investment in the firm.

Mark's Business Goals

- Build a sustainable practice that would survive well past his retirement.
- Reduce daily work load but continue working indefinitely.
- Internally transition ownership to younger advisors with already established books of business.
- Provide a path to ownership and an opportunity for junior advisors to buy into the business.
- Professionalize the client-service model to address clients' expectations for long-term advice and service continuity.

By all accounts, the practice was flourishing. In addition to substantial equity value, the firm grew at an annual rate of 14 percent and expended only 42 percent of revenues.

The light bulb

Despite Mark's forethought and detailed planning, he remained uneasy. His transition plan did not go far enough to ensure the sustainability he desired. In fact, when he approached his junior advisors about buying into the practice, they pushed back.

Although Mark trained and mentored each of them, and they had generated strong cash flow streams, his discounted offer to acquire 20 percent ownership in CMP was met with dismay. The advisors wondered why they would want to become minority owners and take responsibility for the liabilities and risks of a full-fledged business when they could just take their clients and their clients' assets and leave. Inadvertently, Mark had created two potential competitors rather than two potential partners.

To remedy the situation, Mark needed to restructure the compensation plan. It would underscore ownership of a business rather than individual production. Collaborating with his advisors, Mark proceeded to convert his original revenue-sharing compensation agreement to a salary-bonus compensation system. His junior advisors were now on a path to 20 percent ownership in the firm, which provided equity, profitability and sustainability in a business in which they had a stake. Further, the plan was rewritten as a 20-year agreement with regular intervals for buy-in opportunities funded by the profit sharing.

In the end, Mark achieved his objective. He cut back on work and transitioned to a lifestyle that allows him to travel and enjoy time with his family. He discovered that transition planning was just the starting point to sustainability. He was able to bring his vision to reality by providing opportunities for the next generation of advisors. And he ensured the firm's legacy with the help of two young, hard-working and motivated partners.

Conclusion

You have a choice: What will you do with your business that can free you to live your next phase of life as you desire?

Today, many a successful practice has enabled its owners to reach their financial goals and continue earning an income, while simultaneously giving them the chance to do other things. Even if the life you want doesn't look like the traditional "retirement" but is a combination of work and favorite activities, it can be accomplished. And your clients can continue to get the service they deserve without interruption when you're away from the office.

Whatever you choose, it makes sense to make an affirmative decision. Doing nothing usually means that you miss the opportunity to finance the next stage of your life.

If you choose sustainability, you and your partners will be incented to work together to build a firm of next-generation leadership—one that isn't dependent on the founder and that benefits your clients and your colleagues alike. And *you* get to use the value of the business you've built to enjoy the next phase of your life.

Glossary of Key Terms

Buy-sell agreement – A legal document that specifies how a privately held company or its owners will redistribute ownership in the event that one of the owners voluntarily or by death or disability leaves the business.

Continuity plan – An emergency plan established to assure a seamless transfer of control and responsibility in the event of a sudden departure from the practice or business by any of the owners.

Eat-what-you-kill model – The production-based approach to remuneration linking an advisor's compensation to the revenue or profit he/she brings into the firm. This reward system focuses on the *individual* and not on the sustainability of the overall business.

Ensemble practice – An "ensemble firm" is a multi-professional, team-based firm that operates as a sustainable business with a clear vision of shared stewardship of client relationships.[8]

Equity vs. cash flow – The two types of value that make up an independent practice. Equity is the value of the business distinct from the cash flow and compensation paid to the employee. Cash flow is the revenue generated from the products advisors sell and the services they provide.

Enterprise strength – The strength of the legal and organizational foundation of the business; its infrastructure.

Succession plan or transition plan – A written plan designed to build *on top* of an existing practice or business. This plan is intended to detail the seamless transition of ownership and leadership internally to the next generation of advisors.

Exit plan – A plan to bring a business to a close quickly, which may include selling one's practice internally or externally.

Sustainability plan – A commitment that goes beyond a succession plan, made with the complete understanding that one's *business* should be built to endure beyond the lives of people who own it. Recognizing the value, vitality and consistency of an enterprise for the long term.

Endnotes

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5 Philip Palaveev, "The Ensemble Practice," Bloomberg Press, October 2013.

6 "The Silent Value: Advice for the 21st Century," a white paper from First Clearing and Cannon Financial Institute, July 2014, available at www.firstclearing.com.

7 Fictionalized client composite from FP Transitions.

8 Philip Palaveev, Op. cit.

About First Clearing

FP TRANSITIONS®

Empowering Quality Firms and Advisors to Help Their Clients Succeed Financially

Now in our fourth decade of service to quality, independently owned broker-dealers, First Clearing maintains a leading position in empowering firms, their leaders, and their advisors to compete successfully—to help their clients succeed financially.

Our team of experienced professionals offers some of the industry's best thought leadership and innovative approaches to business advancement. Because of our affiliation with Wells Fargo Advisors, one of the nation's largest brokerage firms, and our parent company Wells Fargo & Company, one of the world's most admired financial services firms and valued brands, we support multiple business models. Our clients enjoy access to vast resources, including a full range of investment, advisory and banking products; industry-leading research; alternative investments; fixed income, lending, retirement, and trust services; advanced advisor workstation and workflow technologies; risk-management and compliance support; and advisor recruiting services. Financial professionals with our client firms have exclusive access to First Clearing's Growth Accelerator®—a professional-development and practice-consulting program designed to take an advisor's practice to the next level.

Headquartered in St. Louis, MO, First Clearing is a member of the New York Stock Exchange, NASDAQ, and other major exchanges.

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About FP Transitions

FP Transitions is the nation's leading provider of equity management, valuation and succession planning for the financial services industry. By developing strategies that rethink common compensation models and transition structures, our thought leaders help advisors create businesses of enduring and transferrable value.

Our consultants have facilitated more ownership transfers than any other consulting firm or business brokerage in the industry, both to the next generation of professionals within an existing business and through the open marketplace, which we established in 1999. FP Transitions' analysts have valued over 7,000 independent businesses, giving our team exclusive insight on the intangibles that make a financial services practice unique and valuable.

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About LederMark Communications

LederMark Communications provides marketing strategy and communications services to the firms that offer financial advice. LederMark consults with investment firms to reach financial advisors and designs and executes integrated marketing strategies for financial advisory firms.

LederMark develops practice management content for brand names in asset management and financial services through their value-added programs on topics ranging from family office to business development and the financial implications of aging. LederMark has created a thought leadership series to enhance financial advisory firms' communications with their clients.

LederMark's connection with advisors and firms that offer financial advice is at the heart of the firm's success.

The world of financial services is always changing. The firms that rely on the focus and productivity of financial advisors look to LederMark to decipher the marketing trends and turn knowledge into higher productivity for their advisors and their firms.

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