ALLIANCEBERNSTEIN®

EXECUTION GUIDE

GROWTH THROUGH ACQUISITION

MANAGING THE EFFECTIVE RETIREMENT PROCESS

The financial-services industry has entered an era of significant disruption that presents emerging opportunities. This multi-decade process of expansion followed by a period of contraction has resulted in an unprecedented number of Financial Advisors (FAs) deciding they are ready to sell their practices and exit the business. Because these robust practices are filled with dozens (or even hundreds) of great clients, opportunity-conscious advisors are easily dazzled, which blinds them to the pitfalls and risks involved in purchasing these practices.

In this guide, we look at the processes that brought us to this historic time and the largely hidden challenges that accompany the decision to buy a Retiring Advisor's practice. We explore the obvious and not-so-obvious issues that Purchasing Advisors must consider when they pursue business growth through an acquisition. We also examine the obstacles associated with managing an effective retirement and offer a step-by-step exit model that can be followed by both the Retiring Advisor and the Purchasing Advisor.

AB **ADVISOR INSTITUTE**®

Ken Haman
Managing Director

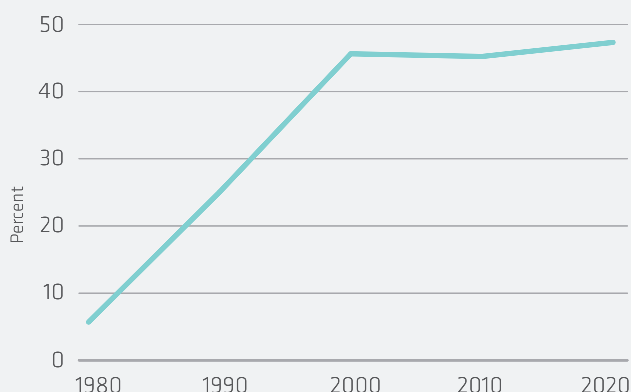
For financial representative use only. Not for inspection by, distribution or quotation to, the general public.

MANY PROVIDERS ARE CHASING A LIMITED NUMBER OF PROSPECTIVE CLIENTS IN A FULLY SERVED CULTURE.

THE GROWTH OF THE FINANCIAL-SERVICES INDUSTRY

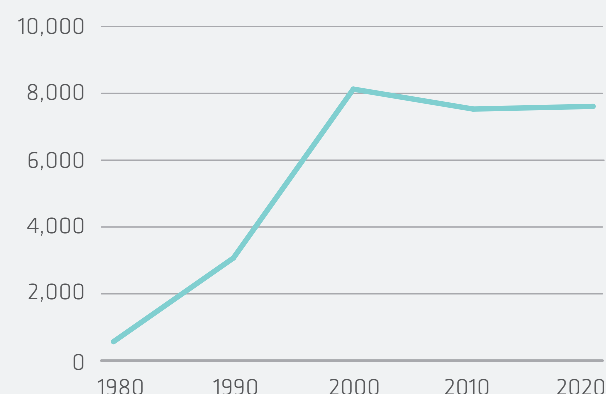
Let's start with a look at where we are today and how we got here. We can do so by understanding the trajectory of our industry over the past 30-plus years.

US HOUSEHOLDS OWNING MUTUAL FUNDS



As of December 31, 2020
Historical analysis does not guarantee future results. For illustrative purposes only.
Source: Investment Company Institute, *2021 Investment Company Fact Book*

NUMBER OF MUTUAL FUNDS



As of December 31, 2020
Historical analysis does not guarantee future results. For illustrative purposes only.
Source: Investment Company Institute, *2021 Investment Company Fact Book*

In the 1990s, the American people began embracing mutual funds. Ownership maxed out at about 46% of households by 2000 and has since stayed fairly level. In 1981, only 5.7% of US households had a mutual fund investment.[1] Interestingly, mutual funds have been available since the 1920s, but for decades they were owned by just a small percentage of the population. Suddenly and explosively in the 1990s, the culture embraced mutual fund ownership, which maxed out at about 46% of households by 2000 and has since stayed fairly level.[2]

It should come as no surprise that as ownership increased, so did the number of mutual funds. In 1981 there were fewer than 700 available, but by 2001, fund launches had exploded to more than 8,300.[3] As you may expect, the proliferation of funds peaked, reflecting the correlation between fund engagement and fund launches.

These statistics are meaningful. When you see a trend explode out of nowhere and then level off, you're looking at a significant piece of information. We need to understand why this happened so that we can ask an important question: What's going to happen next?

1 Investment Company Institute, *2021 Investment Company Fact Book*, as of December 31, 2020
2 Ibid.
3 Ibid.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

Other interesting statistics include the growth in the number of client-facing advisors, from 243,700 advisors in 1980 to more than 670,000 Registered Representatives in 2000.[4] Again, this is to be expected. As millions of Americans began to own mutual funds and became interested in the benefits of investing, the industry grew to accommodate the need.

This growth, which continued for more than 20 years and has since leveled off, may help explain why growth rates of individual practices—maybe even yours—have been far less robust in recent years. Fewer FAs survive the challenges of building a business in the current environment. “The way we’ve always done it” no longer applies, as the business-management and client-management requirements for building a successful business have increased dramatically.

There are more data that we need to consider in order to build a complete history and to forecast what is likely to happen next, but at this point we can already see that the forces and trends that comprise our industry have shifted dramatically in recent years. What started as a young, robust and growing industry has aged and now looks more like an old, established and (possibly) declining industry—declining at least from the euphoric peaks of the early 21st century. Many providers are chasing a limited number of prospective clients in a fully served culture. These big, sweeping trends impacted the American culture, touched millions of people, and created a cycle of expansion and contraction.

WHY DID THIS HAPPEN?

Another factor in the industry’s growth was the enormous success of the US markets, which enjoyed unprecedented bull markets in equities from the early 1980s to the early 2000s. This long period of strong returns led investors to expect great rewards. From 1981 to 2000, the S&P 500 Index rose almost 17.5% every year, with no significant corrections to cool off investor sentiment. Those 20 years of unprecedented investment returns stimulated a strong emotional response and help explain the explosive growth of mutual fund ownership.

By the early 2000s, the culture was awash in euphoria about the future. Anyone who invested expected to retire comfortably and early; wealthy people expected to see a magnificent expansion of their resources and established multigenerational legacies.

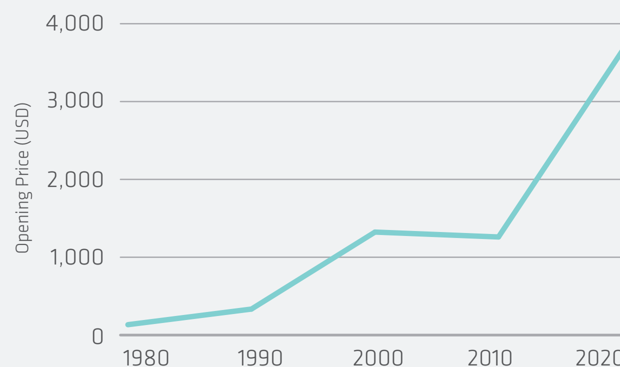
But we haven’t answered the big question: What stimulated and sustained all this activity? To find out, we need to understand the importance of Baby Boomers relative to the future of financial services—including your business.

The oldest Baby Boomer reached age 35 in 1981; a total of 3.5 million people in the US turned 35 that year, and nearly 4 million did so every year for the next two decades. This is a huge, tightly networked demographic of people whose experiences mirror and influence one another. And turning 35—considered by many FAs to be the age at which people start investing—was a significant driver of a culture-wide engagement with investing. In an important way, the Baby Boomers created the modern financial-services industry.

Baby Boomers were the first generation of people who weren’t influenced by the 1929 stock market crash, the Great Depression, the geopolitical insanity that gripped the planet for the next two decades and the terrifying events of World War II. This generation grew up with the US as a superpower and with parents who followed the new parenting advice of Dr. Benjamin Spock in an environment of modernization and change.

As they aged and began to accumulate wealth, Baby Boomers brought a positive and almost naive optimism to the task of investing. This optimism was met with powerful trends and forces within the culture and the economy and created a virtuous cycle of expectations. And the expectations were fulfilled: for almost 30 years, this cycle supported a euphoric engagement with the financial-services industry, inevitably leading to the conditions that would translate into the industry’s future.

S&P 500 RETURNS



As of December 31, 2020
Historical analysis does not guarantee future results. For illustrative purposes only.
Data reflect opening price on December 1 of each year.
Source: Yahoo Finance

4 Financial Industry Regulatory Authority, as of December 2020

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

THE OPPORTUNITIES

According to Cerulli Associates, there are about 70,000 client-facing FAs contemplating retiring from the industry over the next several years.

This brings us to the present day and the opportunities FAs have to grow their business. According to Cerulli Associates, there are about 70,000 client-facing FAs contemplating retiring from the industry over the next several years. This number is somewhat confusing, in that thinking about retirement and actually planning an exit are two different things. Nevertheless, an unprecedented number of advisors are likely to exit the industry over the next five to 10 years.

Prudent advisors can take advantage of this to grow their business by being cognizant of the dynamic interplay between each advisor's personal decision and the context in which that decision is made. Even when an FA passes the commonly accepted retirement age of 65, if his health and that of his spouse are good, and if market conditions are favorable and the policies of his firm are supportive, there may be little or no motivation to exit. This can change radically if there is a health crisis, if market conditions deteriorate, or if his firm increases compliance oversight or decreases compensation patterns.

Knowledgeable advisors also pay attention to the impact of consumer activism, emerging patterns of consumer dissatisfaction driven by disruptive business models like discount brokers and robo-advisors, and the influence of negative economic narratives on client satisfaction. (If you are interested in learning more about cultural narratives, read Robert J. Shiller's book *Narrative Economics: How Stories Go Viral and Drive Major Economic Events*.) An advisor who is contemplating retirement may accelerate his decision dramatically when one or more external conditions change.

This means that the next five to 10 years will likely present a growth-oriented advisor with the opportunity to acquire new clients by facilitating a comfortable retirement for one or more FAs. By understanding the hidden challenges associated with managing a retirement process and by developing a thoughtful strategy for managing an exit, the advisor who wants to build her business can specialize in managing exits and positioning herself as an option for colleagues contemplating an exit.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

THE HIDDEN PROBLEMS

The most basic complications arise from the way the Retiring Advisor understands his commitments to himself and others. This significantly influences his behavior during the retirement process.

Before we develop a model for managing an effective exit, we need to understand more about what is likely to complicate this type of transition. Observations over the past 30 years have revealed that many FAs who are interested in purchasing a Retiring Advisor's practice overestimate the benefits they will receive and underestimate the process's challenges. Highly opportunity-conscious FAs tend to focus intensely on the obvious benefits of adding 50–100 high-quality clients to their practice. Unfortunately, in many cases, these benefits come with unexpected costs that can dramatically reduce the actual value of the acquisition over time.

The foundation of these complications is located within the Retiring Advisor's value system: the way the Retiring Advisor understands his commitments to self and others will significantly influence his behavior during the retirement process. The prudent Purchasing Advisor should work to comprehend the value system of a potential partner before solidifying the terms of the purchasing arrangement and should clearly define the commitments that she expects the Retiring Advisor to fulfill during the exit process.

THE FOUR COMMITMENTS OF THE RETIRING ADVISOR

Let's take a closer look at the commitments expected of a Retiring Advisor.

A COMMITMENT TO SELF

Every Retiring Advisor will be sensitive to his own needs and desires. This represents the first commitment: a commitment to self. This is why the retirement decision can be volatile: as external conditions shift, the satisfaction the advisor experiences from his role can diminish drastically. This activates a sense of self-protection and increases the motivation to exit. A health crisis, family dynamics or changes in the advisor's firm can also be motivating factors. For many FAs, the decision to retire is largely—and in some cases exclusively—a personal decision designed to maximize comfort and satisfaction.

Importantly, the decision to retire also profoundly affects other people. In order to manage an effective retirement process, these other stakeholders need to be taken into consideration by both the Retiring Advisor and the Purchasing Advisor. We strongly recommend that the two advisors discuss the four commitments of the Retiring Advisor in detail and come to a shared understanding of how those commitments will influence and define the Retiring Advisor's behaviors during the exit process.

A COMMITMENT TO FAMILY

The second commitment of the Retiring Advisor is the commitment to his family. Of course, close family members are emotional stakeholders in the decision to retire. In many cases, a spouse may have a set of assumptions about what life will look like in retirement. In other cases, the issue of retirement in general may have been avoided, with both parties preferring to operate as if life will stay the same and the current patterns will continue forever.

A commitment to family means that, in the ideal world, the Retiring Advisor will not simply announce a decision to retire to his family but will open a discussion that explores the meaning of the retirement for each person. In many cases, these conversations will offer few new insights. In some cases, the results of the conversations deeply impact how the Retiring Advisor navigates the exit process. This could mean accelerating the exit date dramatically or delaying the exit considerably; in either case, the Purchasing Advisor will want to understand the family's impact as early in the process as possible.

A COMMITMENT TO CLIENTS

The third commitment of the Retiring Advisor is the commitment to his clients. When clients are considered as a whole, it's easy to dehumanize the group that will be involved in the retirement process. Clients can be thought of as the assets they represent in the business model and should be considered when crafting a servicing process.

However, this cannot be the only way that clients are understood when it comes to considering retirement. Each client is an individual who has built a personal relationship with the Retiring Advisor. These relationships must be transitioned to the new partner successfully for the business transaction to fulfill its potential and for clients to transition their trust to the new advisor and *remain a productive part of the practice*. This requires the Retiring Advisor to fulfill a commitment to each client and thoughtfully help the transition to the new servicing relationship. Much of the model that we will explore later will focus on how to manage the transition of each client's experience of trust.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

A COMMITMENT TO THE PURCHASING ADVISOR

Finally, the fourth commitment of the Retiring Advisor is the commitment to his new partner, who will be taking over the business and managing the new relationships. Even though the Retiring Advisor is ending his tenure of active business life, the ending process needs to be managed intentionally in order or the Purchasing Advisor to receive the full benefit of the business that she is paying for.

Observations of FAs over 30 years have revealed two common patterns that advisors follow when they neglect this fourth commitment. In some cases, the FA continues to manage each relationship as if nothing is changing until the last few weeks, and then abruptly leaves with little or no effort to transition client trust to the new advisor. This neglects the appropriate attention required to intentionally manage the transition of trust.

In other cases, the advisor functionally ends active engagement with the practice before the actual exit. To some extent this can be a good thing, as it allows the Purchasing Advisor the freedom to build relationships with clients without being blocked by the current advisor. As we will see later, the question "Who is your advisor?" is a critical issue to address during the exit process. Unfortunately, when an advisor becomes too passive during the exit process, there's no handoff from the current relationship to the new one, and clients can feel neglected or abandoned by a person they trusted. This can have a negative impact on the working relationship with the Purchasing Advisor and may even compromise her ability to retain key clients going forward.

In the ideal world, the Retiring Advisor will be aware of and intentionally engage all four commitments, and the Purchasing Advisor will actively participate in an orderly transition of trust with each client. By paying attention to all the stakeholders, the two advisors can take the steps necessary to create a smooth transition for everyone.

THE RELUCTANT RETIREE

For successful business professionals, the process of retirement is loaded with both positive and negative emotional baggage. For many people, during their working years, retirement is considered a reward for a hard task well completed. Importantly, at the threshold of retirement, that same person can feel a sense of regret and even profound grief at the loss of a key part of his personal identity and the rewards that come with a successful career. In many professions, the challenges or requirements of the work force the person to retire. While this can be painful, it also eliminates the need to choose retirement.

However, in financial services, the advisor can make an educated choice because once he has built a robust and financially productive practice, the cost in time and effort of running the practice can be quite modest. For most FAs, the task of growing a business consumes the lion's share of effort, while running the business itself is seen as much less taxing. Because of this, once an advisor has grown a large business, the effort involved in maintaining that business and continuing to harvest rewards is quite manageable.

Even as the advisor approaches retirement or ages beyond 65 (the traditional age of retirement), the pain of maintaining the business is often less than the pain of transitioning to retirement. And not only is it less painful, but the benefits of managing the business can exceed those of achieved in retirement. To many FAs, retirement is actually seen more as a loss than a gain because of the uncertainties of the future, especially if there's a lack of definition as to the next stage of life. Many advisors find the thought of retirement much more uncomfortable than the thought of continuing to manage a business.

For the Purchasing Advisor, this represents a potent challenge. In fact, it's quite common for a Retiring Advisor to enter the exit process with a great deal of ambivalence, which expresses itself as an oscillation of feelings.

Before the exit strategy is solidified, most advisors see the transition to retirement as desirable: no more burden of responsibility and accountability to clients and the firm's management. Retirement is seen as an escape to freedom. Unfortunately, as the months pass and retirement grows closer, the advisor sees the future as a fog of uncertainty, lack of definition and discomfort. The closer he gets to the actual transition to retirement, the more discomfort he may feel.

These strong negative feelings are often expressed by resetting the exit date further into the future. It's quite common to talk to an advisor who says, "I'm going to work just four or five more years and then retire," and then says, two years later, "I'm going to work just four or five more years"—with no awareness that he just redefined his timeline. For a Purchasing Advisor, this ambivalence can play havoc on the exit process. A business plan and a personal set of assumptions based on a four-year exit process will look very different if the actual timeline is closer to six or seven years. Unfortunately, because of the intense emotional dynamics connected to this type of decision, many advisors are unable to resolve their ambivalence and to stay committed to the original plan.

In fact, this dynamic is so common and creates so much disruption in managing an effective retirement process that it deserves a deeper exploration of the emotions involved.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

THE NEW PARTNER CANNOT ELIMINATE THE PAIN OF LOSS

To understand the reluctant retiree, it's helpful to think about emotions as being on a scale that weighs various feelings at different times. Depending on what the advisor is experiencing, a different set of feelings may feel heavier.

When the advisor is still fully engaged in the practice, working hard every day and dealing with the challenges of managing clients and navigating the capital markets, the peace and quiet of a retired lifestyle may seem very attractive. The discomfort of daily work increases the attractiveness of being liberated from the effort. In this context, retirement makes perfect sense and a decision to exit can be solidified.

As time passes and the actual exit gets closer, the uncertainty of the future begins to loom as discomforting. When this happens, all the benefits of being an FA shine more brightly; compensation, a professional identity, and feelings of belonging, familiarity, status, and recognition all cease in retirement. In psychology, this kind of ambivalence is called an approach/avoidance conflict.

With feelings split into two distinct clusters, the advisor seems to change his mind from moment to moment. At first the decision to retire feels like a great relief, but then the losses of retirement begin to register and the advisor has second thoughts. In some cases, these feelings can vary from week to week; in a few cases, they can even wax and wane from hour to hour.

An advisor suffering from this ambivalence finds it very difficult to think strategically about the future and work effectively to transition the practice to the Purchasing Advisor. In severe cases, the partnership agreement itself may be compromised or abnegated. For the Purchasing Advisor, these challenges can mean months or even years of wasted time and effort and the lost opportunity to purchase another available practice. Because of these significant potential costs, it's incumbent on the Purchasing Advisor to assess the decision-making skills of the Retiring Advisor and to ensure that the partnership agreement is structured so that any potential ambivalence is controlled.

Importantly, other than clearly defining expectations for the Retiring Advisor and firmly structuring the partnership agreement, there is little the Purchasing Advisor can do to reduce the pain that the Retiring Advisor feels. When the partnership agreement has been left vague, it's common for ambivalent advisors to seek to renegotiate the timeline of the agreement to relieve themselves of the negative feelings that retirement begins to stir. In extreme cases, advisors have pushed back their retirement three or more times. In a few cases, the Retiring Advisor has sought to be retired without facing the actual reality (and pain) of the decision by cutting back time at work drastically while expecting to maintain the same level of compensation. In all of these cases, the Purchasing Advisor had become attached to the opportunity of acquiring the new clients but had neglected to solidify the structure of the agreement.

Experience over the past three decades and observations of dozens of similar situations have revealed that Purchasing Advisors should anticipate the likelihood of the Retiring Advisor experiencing strong negative feelings as he approaches retirement and should take appropriate steps to protect her interests from a (potentially) irrational partner.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

DECIDING TO PARTNER

Rational FAs are skilled at managing negative feelings and honoring agreements. Less rational FAs often rely on feelings to guide their decision-making.

One of the important steps a Purchasing Advisor can take to protect her interests is to assess the decision-making style of the Retiring Advisor. The more rational the FA is when making decisions, the better he will be at managing his negative feelings and honoring the partnership agreement. If he is less rational, he may rely on feelings to guide his decision-making and is more likely to be swayed by his own ambivalence. Because the cost of dealing with ambivalence is so high, the prudent Purchasing Advisor will assess her prospective partner's decision-making process.

THE ENDOWMENT EFFECT IMPACTS EVERY TRANSACTION

A good way to start this assessment is to discuss the impact of the endowment effect on human decision-making. The endowment effect was first described by Daniel Kahneman and Amos Tversky in their early research into human decision-making and more recently described in Kahneman's book *Thinking, Fast and Slow.* It's one of the best studied heuristics, or mental shortcuts, in the behavioral-finance lexicon and has great practical value in framing a negotiation between two potential partners.

Essentially, the endowment effect describes how human beings determine the value of an object or outcome. As with most heuristics, the brain makes some odd, nonlogical calculations when faced with decisions. Contrary to popular belief, most of the time we make decisions using heuristics, which are built-in patterns that simplify the amount of analysis and hard mental work that's required to come to a decision.

In the case of the endowment effect, the brain uses an interesting simplification: if an object is owned already, it's felt to be worth more compared to when the same object is not owned but desired. For example, if I have tickets to a concert and someone offers to buy them, I tend to desire a higher price than I would pay if I were offering to buy tickets that I did not own. This pattern has been researched a great deal in a vast number of contexts, and the disparity is consistent time after time from culture to culture.

This means that the Purchasing Advisor wants to pay *less* for the practice than it's objectively worth, while the Retiring Advisor wants to receive *more*. Because this pattern is virtually universal, it provides an excellent test of the Retiring Advisor's ability to modulate strong feelings with a rational process. The Purchasing Advisor can introduce the concept of the endowment effect as likely to be present in both of them, explain that each will either over- or underestimate the value of the practice, and suggest that it will be helpful to keep this in mind as negotiations unfold.

Advisors who are highly disciplined and rational in their decision-making are typically interested in the concept of the endowment effect and curious about how it will influence the conversation. Their rational curiosity will override their emotions, and they are likely to be flexible in their approach. Flexibility and pursuing a win-win resolution in a relationship are the features of a rational approach.

Advisors who usually succumb to their emotions and are more self-indulgent in their decision-making will be threatened by the concept and want to reject the potential that they might be less than purely rational in their thinking. Such rigidity and the absence of intellectual curiosity reveal a more fragile mind-set that is likely to be swayed by strong emotions.

By introducing the endowment effect into the conversation, the Purchasing Advisor can begin to assess how well the future partner will cope with the challenges of navigating the exit process and the emotions that transitioning to retirement are likely to stir up.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

ASSESSING THE FUTURE VALUE OF THE BUSINESS

The future value of a business tends to be measurably less than the current value.

There are several ways that the Purchasing Advisor can test the flexibility of a future partner. Just as the endowment effect is an inevitable feature that informs a negotiation, the impact of time on the value of a business model is also inevitable. It can be very revealing to explore how the Retiring Advisor feels about the *current value of the business and the trajectory of that value into the future*.

One of the reasons that ambivalent advisors are comfortable pushing their retirement date to the future is their perception that the value of the practice will remain the same over time. This means that if they delay the decision to exit, they will still expect to receive the same level of compensation.

Unfortunately, this assumption is not reflective of reality; rather, it's much more a function of wish fulfillment on the part of the Retiring Advisor who does not want to contend with negative feelings. The fact is that unless the advisor is taking actions daily to support the value of the business and to consistently add new clients, the value of the practice will inevitably decline over time.

Observations of advisor behavior have revealed that as age increases and proximity to retirement grows closer, advisors reduce their time at work and the effort they expend building and sustaining their business. Weeks of vacation increase, late arrivals and early departures become more frequent, and attempts to add new clients diminish. As a result, the future value of a business tends to be measurably less than the current value.

A Retiring Advisor's willingness to acknowledge this pattern is a powerful indicator of his ability to approach the partnership in a rational and professional way. Advisors who struggle with ambivalence about their exit often drag the negotiations out for weeks or months, confident that there's no urgency to establish an exit strategy as a way of maximizing their return on the sale of their business.

Given the fact that there are so many powerful factors working to decrease the value of a practice over time, coming to grips with the reality of the business's declining value is an important indicator that the Retiring Advisor has a good grasp of the situation. It also shows that he is more likely to solidify an exit strategy with a clearly defined and agreed-upon value assigned to the business.

13 FACTORS THAT CAN REDUCE A PRACTICE'S VALUE

The Purchasing Advisor will benefit from having a detailed understanding of the factors that impact the value of a practice. On the next page is a list of 13 factors that impact the value of a practice over time. (For a more thorough exploration of these dynamics, see the AllianceBernstein Advisor Institute's execution guide *Setting the Stage for a Smart Sale: Framework for Acquiring a Practice*.)

In addition to becoming familiar with the factors that influence the future value of a practice, it's important to recognize that *value* and *valuation* are two different concepts. *Valuation* refers to a measure of a practice's value in monetary terms and is used to create a payment process to compensate an advisor fairly for the future value of the practice. *Value* is a more dynamic term, as the elements of the business that contribute to its value may not be measurable in its valuation.

For example, a well-connected client who may refer several highly productive prospects represents a significant value to the practice that cannot be rationally measured as part of the business's valuation. In the same way, a client family that has represented a significant source of fee-based business over the past 10 years may actually represent a declining value if the wealth is likely to transfer to the children over the next several years, since those children are unlikely to continue working with the same practice. At any given moment, the valuation can be impacted by the value of variables inside and outside the business that affect the ability of the Purchasing Advisor to fulfill on the valuation agreement.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

FACTORS THAT EFFECT A PRACTICE'S VALUE

Personal
Personal Motivation
Personal Limitations
Commitments
Family Limitations
Commitments and Interests
Practice
Client Satisfaction Factors
Client Turnover Factors
Client Revenue Factors
Fee Trends
Referral/Growth Trends
Environment
Competitive Factors
Impact of Innovation
Regulatory Factors
Business Valuation Factors

Such variables are numerous, and our catalog of 13 factors is certainly not exhaustive. However, it should be obvious that the relative value of a practice will decline if there are a lot of other advisors trying to sell their practices at the same time or if the capital markets become highly volatile and managing clients becomes more challenging. The standard valuation of a business will decline if the general conditions in which the business functions become less supportive.

Additionally, the past dynamics of a business do not necessarily reflect the future of the same business. Clients get older and decide to transfer wealth; some clients die and their wealth is distributed. Experience has revealed that most adult children who receive an inheritance do not remain with their parents' advisor. Clients become dissatisfied or meet a new advisor who may be more convenient or whom they may be more comfortable with. Other clients retire and deploy their capital into less productive services. An overly simple calculation of the valuation of a business can significantly overestimate the actual value of a business when the variables that will impact the business over time are considered.

This brings us to another way to test the Retiring Advisor's rational decision-making: How rationally does he address the dynamic calculations required to accurately assess a business's value? Does the advisor prefer to oversimplify the issue and appeal to a standard valuation that does not take into consideration various fragilities within the actual business? Or is he able to embrace the complexity of the many variables that contribute to making a rational decision?

The ability of the Retiring Advisor to participate in and contribute rationally to this conversation in the early stages of negotiating the partnership agreement will reveal much about that advisor's capacity to manage the exit process effectively once the partnership agreement has been reached. The prudent Purchasing Advisor will be cautious about entering into an agreement with an advisor who is unable to explore these issues comfortably and thoughtfully.

URGENCY AND THE RELUCTANT RETIREE

Another challenge that can potentially affect the future value of the business is the level of urgency that the Retiring Advisor feels to exit the business. As we explored earlier, strong feelings of ambivalence can push the advisor to delay the exit process, sometimes for years. This can be very disruptive once the partnership agreement has been formed, especially if the Purchasing Advisor plans to acquire several practices over time. The client integration and onboarding process is time-consuming, and if the Retiring Advisor shifts gears and proposes a longer exit, the process will be compromised.

Given the number of factors today that are combining to reduce the valuation of advisory practices in general, the prudent Retiring Advisor should feel the necessity to secure an exit agreement and define a mutually agreeable valuation. If the Retiring Advisor reveals an appropriate level of urgency to move forward, the Purchasing Advisor can be confident that the new partner is seeing the world rationally; the urgency reveals a rational approach to deciding to exit.

If, however, the Retiring Advisor feels confident that valuations will remain the same into the distant future or shows little or no urgency to secure an exit strategy, the Purchasing Advisor should be concerned about how rational the new partner is. An effective exit requires the Retiring Advisor to manage strong feelings of loss and uncertainty about the future while fulfilling on the process of transitioning client trust to the new advisor. An irrational and emotionally charged partner will find it difficult to fulfill that process effectively over the years.

In these cases, a lack of urgency reveals a lack of a rational thought process. Hopefully, discussing the 13 factors will stimulate clearer thinking about the urgency to move forward.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

THE PARTNERSHIP AGREEMENT AND THE EXIT PROCESS

A vague partnership agreement may allow too much flexibility for the Retiring Advisor and ultimately jeopardize the transition of the practice.

Determining the quality of the Retiring Advisor's decision-making is the first step in a longer process of negotiating a valuation and partnership agreement. The second step is articulating the partnership agreement. There are many standard models available for determining the valuation of a practice and consultants who specialize in that process, so we will not include the issue of valuations here. We will focus instead on the nature of the agreement itself once the valuation has been determined.

PARTICIPATING IN A VAGUE AGREEMENT

In their eagerness to secure the deal, Purchasing Advisors are prone to make mistakes when designing partnership agreements. The biggest and most common of these mistakes is to create a vague agreement that lacks concrete procedures and allows too much flexibility for the Retiring Advisor.

The Retiring Advisor will always prefer to maximize his self-determination and flexibility. The more flexibility there is in the partnership agreement, the less external pressure on the Retiring Advisor to face the powerful negative emotions that accompany the exit process. As we have discussed, many advisors struggle with feelings of ambivalence, and a vague agreement allows these FAs to functionally renegotiate the terms of the exit without having to negotiate with the new partner. This can be accomplished by simply announcing a delay in the exit—a very common practice among Retiring Advisors.

Importantly, even though not all advisors experience ambivalence about their exit, most will experience strong feelings of loss and feel uncomfortable about disappointing or abandoning their clients. These feelings can trigger emotional defenses such as avoidance or denial and can result in either refusing to participate actively in the transition of trust until right before the exit or being too passive, effectively abandoning clients (and the partner) after the agreement is created.

Very few advisors are emotionally prepared for the impact of retirement, and virtually all advisors enjoy an enormous amount of self-determination and discretion about the way they run their business. As they approach retirement, the desire to preserve comfort and the flexibility to avoid negative emotions will always appeal to the Retiring Advisor.

The opportunity-conscious Purchasing Advisor wishes to close the deal with the Retiring Advisor and secure the benefits of the transaction. Unfortunately, this desire can lead to a willingness to consent to a vague agreement, with the goal being to avoid any awkward or unpleasant feelings with the Retiring Advisor. Until the deal is agreed upon and committed to by both parties, the Purchasing Advisor will feel vulnerable to the potential loss of the opportunity. This can undermine rational thinking. The prudent Purchasing Advisor will be aware of these tendencies and seek to clearly define expectations.

It's helpful to consider similar negotiations to gain greater clarity about this challenge. For example, no one would enter into an agreement with a mortgage company that would allow the interest rate to be raised or new fees to be added without clearly defining what triggers the changes. We naturally and logically expect the terms to be clearly defined.

The prudent Purchasing Advisor needs to practice disciplined decision-making and avoid agreeing to a partnership at any cost. She needs to specify the terms for both parties. For example, the Purchasing Advisor will pay a price calculated via a commonly accepted algorithm over a defined period of time, and the Retiring Advisor will set a specific date upon which he will exit the business. In addition, before his exit, the Retiring Advisor will be an active and disciplined participant in a specific handoff process that facilitates the transition of clients' trust to the new partner. There can be many defined expectations, but we recommend a minimum of three to facilitate a successful exit process.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

To ensure compliance with these commitments, the Retiring Advisor should also accept a set of remedies that will be paid to the Purchasing Advisor for any noncompliance. Just as a mortgage company charges a late fee and an automobile finance company may repossess cars, the Retiring Advisor should face painful consequences for noncompliance with the terms of the agreement. The Purchasing Advisor should feel comfortable defining these expectations as a way of protecting her interests in the arrangement.

A Retiring Advisor will often find the idea of clearly defining the details of an exit strategy counterintuitive and somewhat surprising because he has enjoyed so much self-determination in the way he has managed his business as a sole practitioner. The good news is that in most cases, both partners find that explicitly detailed expectations relieve them of the uncertainty about the future and allow them to focus on creating a more effective exit.

THE TYPICAL ABRUPT EXIT PROCESS

Observations of many retirement processes have revealed that the typical exit, even one that may be conducted over several years, appears quite abrupt to clients. This generally happens when not all of the four commitments discussed earlier are met.

If the Retiring Advisor is mindful only of his commitments to himself and his family and he ignores his clients and the new partner, the opportunity for the Purchasing Advisor to build relationships with her new clients can easily be neglected. Therefore, it's important for the Retiring Advisor to embrace the responsibility to fulfill all four commitments in the exit process.

Unfortunately, the typical process consists simply of the Retiring Advisor presenting the new partner in an annual review or in one visit to a client. This is often little more than a social introduction, a vague mention of how this advisor will relate to the client in the future and perhaps a brief opportunity for the new advisor to get to know a few things about the client.

The confusion comes from the fact that during the exit process, the Retiring Advisor maintains the same role in his clients' lives and the Purchasing Advisor appears in a minor role. In some cases, the Retiring Advisor closely controls his new partner's access to clients and may even delay some introductions until very late in the process. In a few unfortunate cases, a Retiring Advisor will make an awkward introduction on a telephone call and then send a letter announcing his retirement and introducing the new advisor. In these instances, there is no effective transition of the clients' trust from the old advisor to the new provider.

Both advisors need to be aware that the transition of trust takes time and very particular types of effort. A helpful way of sensitizing the partnership to this issue is to imagine asking a client, "Who is your advisor?" Before the partnership is established, the client answers with the name of the Retiring Advisor.

In the typical exit process, even after the partnership is announced and the new advisor is introduced, the client continues to answer with the Retiring Advisor's name. Even if the client is asked the question on the day before the Retiring Advisor's exit, the answer will still be the Retiring Advisor's name. In these cases, the entire process of building a working relationship must wait until after the Retiring Advisor has left and the new advisor can navigate the relationships without the complication of the other advisor. This undermines the actual intention of the exit process and potentially puts important relationships at risk.

Remember that uniquely successful clients are aware that they can work with any advisor they choose. If they have had no chance to build a bond of trust with the new advisor, they may easily conclude, "If I'm getting a new advisor anyway, I might as well choose one myself rather than simply go along and work with this new person." Tragically, it's the most valuable clients who feel most abandoned and are likely to be aware of their freedom of choice regarding advisors. The prudent Purchasing Advisor will not put the benefits of the deal at this kind of risk; instead, she will manage a different process of transition.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

TRUST: THE EMOTIONAL BOND BETWEEN CLIENT AND ADVISOR

The fundamental issue at stake in the effective retirement process is the successful transition of trust from the Retiring Advisor to the Purchasing Advisor.

THE PROBLEMS WITH TRUST

Let's start by exploring the structure of trust in human relationships so that we can develop a model for transitioning client trust intentionally.

The first important element is that trust cannot be controlled; you cannot *cause* another person to trust you. Trust is an experience and a label that clients give to their advisor as the result of a series of experiences. Some clients find it easy to trust and may need few interactions to feel trust toward you as their advisor. Others may have many experiences yet still find it difficult to trust you. In this way, trust is deeply personal and cannot be caused; it can only be given.

Since you cannot cause a client to trust you, all you can do is be trustworthy and work hard to earn each client's trust over time. As an intentional priority, being trustworthy must be understood as more than a set of feelings of goodwill and honesty. Trustworthiness comes from behaviors designed to stimulate positive feelings of confidence and reliability. Understanding that trustworthiness is created by specific actions means that you can influence the level of trust in the relationship by what you do from day to day.

This is the second important element: trust builds over time through experiences. There is a huge difference in the level of trust between a client and an advisor who have worked together for 20 years and the trust a client feels toward an advisor that she has worked with for less than a year. You can build trust intentionally over time; the more deliberate effort you invest over a long period, the more likely that a client will consider you trustworthy. Fortunately for the Purchasing Advisor, there are specific behaviors that stimulate feelings of trust. These can be learned and executed over time as part of an intentional business model and the guiding principles of the exit strategy.

THE FOUNDATION OF TRUST: CONSISTENCY OVER TIME

It's helpful to think of an advisor-client relationship as hundreds of building blocks stacked together carefully over time. When a client sees his advisor consistently providing *goodwill and professional competency*, another block is added. We will look more closely at these two concepts in a moment. Importantly, if there's just one experience when the client doesn't feel goodwill or see professional competency, the buildup of trust can be broken and the entire relationship can be called into question. The potential for this breakdown increases dramatically if the client feels abandoned by an advisor that he has worked with for years or decades. The prudent Retiring Advisor understands that managing the transition of clients' trust to the new partner is a critically important step in ensuring that the full value of the sale of the practice is realized over time.

For the client, trust is a fragile combination of beliefs and feelings that emotionally define the relationship with his advisor. When the client says, "I trust you," it's always a conditional description of the relationship—one that's hard to build and one that can change very easily. Once the client says, "I don't trust you," it's extremely difficult to change his mind. Most often when this happens, the relationship ends. Such a breakdown of trust in the Retiring Advisor may make it impossible for the Purchasing Advisor to work with a new client.

The beliefs that cause feelings of trust in the client cannot be controlled, but they can be inspired if the advisor behaves in a trustworthy manner. This insight provides a road map for managing the relationship in a trustworthy way. Of course, the Purchasing Advisor needs to have a chance to deliver experiences of trustworthiness, which is the whole point of the extended period of transition. The good news is that when she is given the chance to work with new clients, the Purchasing Advisor can show her trustworthiness. For the sake of building an exit strategy model, here are the key concepts:

Consistency: The experiences of honesty, fair pricing, transparent fees and putting the benefit of the client first must be unbroken throughout the advisor-client relationship. One episode of inconsistency may damage the relationship permanently. In this way, trustworthiness is highly fragile but can be managed if the positive qualities that define the relationship remain unchanged.

Experience: The client must receive repeated evidence and reassurance of the advisor's trustworthiness over the duration of the relationship. These experiences provide evidence that builds up feelings of trust over time, as in the building block metaphor above.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

THE TRUST EQUATION

$$T = (C + E)\,(G + PC)\,TM$$

Trustworthiness = (Consistency + Experience) (Goodwill + Professional Competency) Time

For illustrative purposes only

Goodwill: One dimension of evidence concerns the interpersonal dynamics between the advisor and the client. The client must see that the advisor protects her interests from harm. In this case, goodwill means more than just compassion or kindness, even though these are important experiences for the new advisor to deliver; it implies vigilance about different types of dangers and how the advisor offers protection. Goodwill is experienced by the client when she sees evidence that she is treated as a real person, that she matters and that her needs will be met consistently over time. Again, this requires opportunities for the new advisor to deliver these types of experiences.

Professional Competency: Goodwill isn't enough; an advisor must also demonstrate superior skills to gain a client's trust. For the new advisor, these skills include giving rapid and warm responses, showing she is knowledgeable, and proactively advising clients about hidden dangers and possibilities. Importantly, if the advisor consistently delivers services or solves problems for the client, there will be plenty of opportunities to reveal professional competency and inspire trust.

Time: In the retirement process, time is the most limited resource but also the most important. Experienced advisors acknowledge that clients who have worked with them for at least five years tend to maintain more tenacious levels of trust than newer clients. This is because trust increases over time with the accumulation of evidence.

As we have seen, all the building blocks of trustworthiness must be present over time to inspire deep and abiding levels of trust. Keeping in mind that time is in short supply is critically important for the Purchasing Advisor, who must have as much time as possible during the transition process to work with each client in a meaningful way. A simple introduction over the telephone or even in an annual review is nowhere near enough of an experience to establish trust. In fact, it is not even enough to *begin* building trust with a client.

The task of the Purchasing Advisor is to frequently deliver meaningful experiences of goodwill and professional competency to each client *before* the Retiring Advisor leaves the practice. This means that early in the process, the Retiring Advisor should hand off every client relationship and work to ensure there are no feelings of abandonment or resentment that could interrupt the ability of the Purchasing Advisor to establish trust.

MANAGING THE INTENTIONAL TRANSITION OF TRUST AND DEPENDENCY

This brings us back to the question "Who is your advisor?" As we explored earlier, it's helpful to use this question as a guiding principle for designing the retirement process. The goal is for the Purchasing Advisor to have a lot of time and many opportunities to deliver experiences that inspire trust in the new clients before the Retiring Advisor leaves the practice. Ideally, on the day *before* the Retiring Advisor enters retirement, if a client were asked, "Who is your advisor?" the client would answer with the name of the Purchasing Advisor.

The best way to do this is for the Retiring Advisor to execute a *prescriptive handoff* of each client to the Purchasing Advisor over the first few months of the partnership. Let's take a closer look at this process.

As soon as the partnership agreement has been ratified and the new partnership announced to the clients, the process of handing off clients to the Purchasing Advisor should begin. Time is in short supply even with a three-year transition period: trust takes time to build up and requires many experiences and a lot of exposure.

The partnership agreement should include the timeline and process of the prescriptive handoffs. As part of the negotiations, the two advisors should segment the book and establish the order of the

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

handoff process. Both advisors should be aware of what is expected of them during the process.

A prescriptive handoff describes a conversation that the Retiring Advisor has with each client, which leads to an engagement between that client and the Purchasing Advisor. The Retiring Advisor calls a client and "prescribes" a service that the client needs to receive; the FA lets the client know that he has asked the new partner to provide this because "it's in her area of expertise and it will be a good way for you to get to know her."

We call this a *prescriptive* handoff because it isn't made as a suggestion or a recommendation; it's literally framed as a prescription. The actual service being prescribed can be anything that delivers value to the client or solves a problem, as long as it provides a meaningful way for the Purchasing Advisor to deliver value.

It's helpful to think about the prescribed service as a project that the new advisor completes for a client. The project should be limited in scope but must provide opportunities for the Purchasing Advisor to exhibit professional competency and for the client to receive value. Examples can include initiating or updating a financial plan, an insurance review, a document review, a beneficiary review, or a banking and balance-sheet review. The Retiring Advisor can decide on client-specific projects for more complex cases, or the advisors can agree on one or two projects that will be completed with every client in the practice. (For additional project ideas, see the AB Advisor Institute's execution guide *Using Checklists to Manage the Crisis of Skepticism*.)

The script for the call from the Retiring Advisor to each client is very simple:

"This is [name] from [firm]. As you know from the letter you received, I've recently entered into a partnership with [name of Purchasing Advisor] as a way to provide a higher quality of service to my clients." Describe the years of service and professional qualifications of the new partner.

"The reason for my call today is that I was looking at your file and it has been [amount of time] since your financial plan was updated. We think it's important to do this at least every [interval of time]. I've asked [name of Purchasing Advisor] to give you a call and perform the planning update. This is something that she has real expertise with, and it will give you a chance to get to know her. She will call you within the next day or two to set up a time to get together."

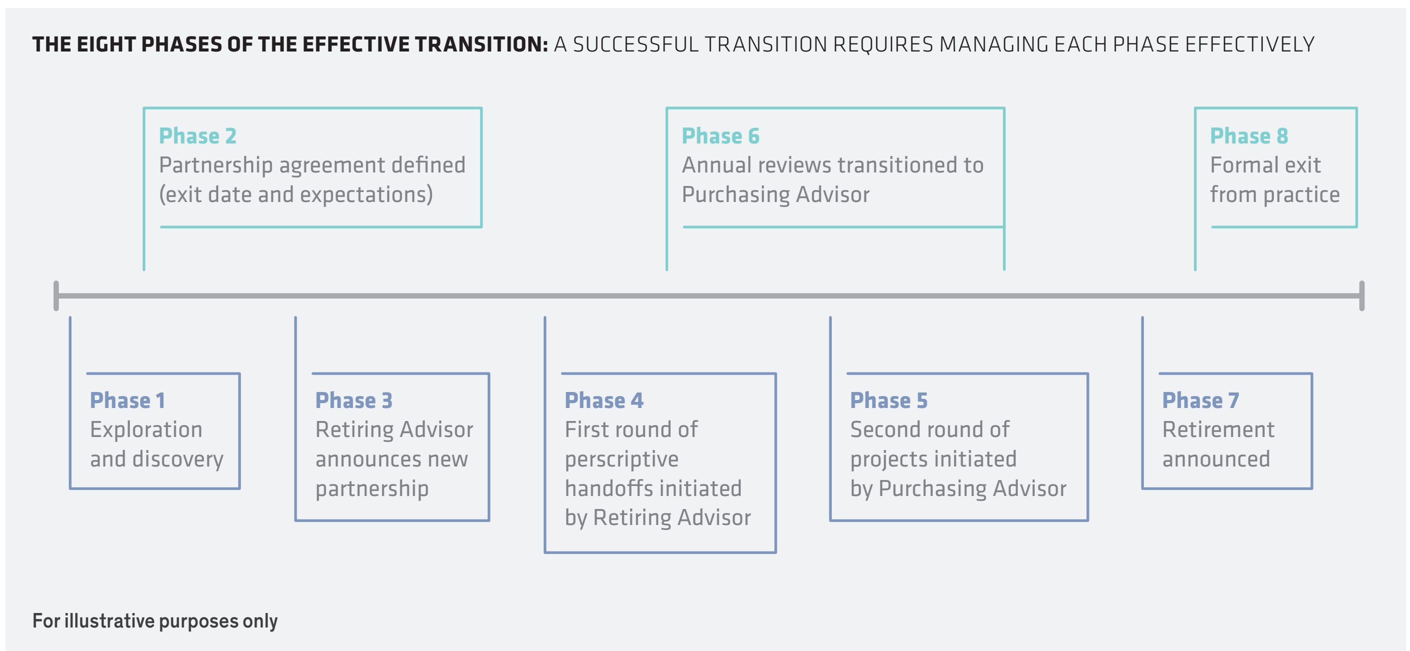
The expectation now is for the Purchasing Advisor to make the contact, set up the meeting and proceed with updating the financial plan. It's important to notice that the Retiring Advisor did not suggest or recommend that this project be completed; he prescribed it as a service necessary for the client's well-being.

For the Purchasing Advisor, this is the first opportunity to deliver an experience that inspires trust. Note that while completing the first project, the Purchasing Advisor should *find a second project that needs to be executed*, then proceed to prescribe and complete that as well. Later in this guide, we'll explore other ways for the Purchasing Advisor to deliver experiences that inspire trust during the retirement process.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

THE EIGHT PHASES OF THE EFFECTIVE TRANSITION

The transition process should be long enough to allow clients to transfer their trust from the Retiring Advisor to the Purchasing Advisor.



Let's look at the big picture of the transition. There are eight phases that need to be managed successfully.

Phase 1: The Purchasing Advisor meets with the Retiring Advisor to explore the quality of the business and the motivation, urgency, and ability of the Retiring Advisor to manage uncomfortable decisions and processes rationally.

Phase 2: The two advisors agree to move forward in a partnership that will facilitate the retirement process. The agreement specifies the valuation of the practice being purchased, how payments will be made, and specific expectations that the Retiring Advisor will fulfill during the transition process, including remedies for noncompliance.

Phase 3: The partnership agreement is formally announced to the Retiring Advisor's clients (and to the Purchasing Advisor's clients, if desired). The announcement should happen as quickly as possible so that the advisors can execute the next phase and manage the scarce resource of time.

Phase 4: The Retiring Advisor begins to systematically execute the prescriptive handoffs of clients to the Purchasing Advisor. This should happen according to a schedule that the two advisors developed and memorialized in the partnership agreement.

Phase 5: The Purchasing Advisor begins to prescribe the second project for each of her new clients.

Phase 6: The Retiring Advisor brings the Purchasing Advisor into quarterly or annual reviews. This overlaps the previous two phases. In the first meeting with each client, both advisors share the leadership of the meeting, with each delivering part of the content. In this first

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

review, it's helpful for the Retiring Advisor to spend time exploring some of the nuances of the case with the Purchasing Advisor, who should be active in that conversation, demonstrating professional skill that inspires trust.

In the next review, the Purchasing Advisor takes over the bulk of the meeting, with the Retiring Advisor providing very little leadership. The Retiring Advisor can attend the first part of the meeting and then excuse himself or arrange to be called out of the meeting by a support staff person so that the Purchasing Advisor can manage the rest of the meeting. Each of these encounters should be intentionally designed to give the Purchasing Advisor another opportunity to demonstrate goodwill and professional competency.

Phase 7: The Retiring Advisor sends a letter to his clients announcing his retirement. This should happen no sooner than three or four months before the exit is scheduled to take place. There should be no formal retirement party or recognition of the transition; to the extent possible, the design is for the exit to be a non-event for the majority of clients.

Phase 8: The Retiring Advisor retires.

Remember that the purpose of the transition process is to allow clients time to transfer their trust from the Retiring Advisor to the Purchasing Advisor. If this is done successfully, most won't be upset that their old advisor has left the business. Use your judgment about having a postretirement recognition event. If the transition process went smoothly, it may be appropriate to have an event three to six months after the Retiring Advisor has exited with those clients he is especially close to. Each case will be different, and the point is to focus all available energy and activity on managing the transition of trust to the new advisor.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

THREE MANAGEMENT CHALLENGES OF THE NEW PARTNER

Self-interest is the motivation for both advisors to execute the prescriptive handoffs and manage the transition of trust to the new advisor.

Both advisors are motivated to effectively perform the prescriptive handoffs: the Retiring Advisor seeks to ensure that the full value of the sale of the practice is realized over time, while the Purchasing Advisor wants to realize the full benefit of buying the practice. Therefore, the Purchasing Advisor must manage activities within three relationships:

1. In relationship with the Retiring Advisor, the Purchasing Advisor must manage the smooth and regular flow of prescriptive handoffs of client relationships according to the agreed-upon schedule. It's during this process that ambivalence and the reluctant retiree can show up. Rely on the details of the partnership agreement to support the successful fulfillment of this part of the transition process.
2. In relationship with the support staff, the Purchasing Advisor must manage the execution of the telephone strategy by the staff. We will explore this strategy later.
3. In relationships with the new clients, the Purchasing Advisor must manage the experiences of goodwill and professional competency that inspire trust.

Everyone on the team must take the process seriously. It will take time for each client to build trust with the new advisor, and the clock starts ticking the moment the partnership agreement is signed and the exit date is scheduled.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

THE EXPERIENCES THAT BUILD TRUST

There are seven fundamental questions that advisors can explore to create and sustain higher levels of client satisfaction.

Let's look at some of the more granular elements of the strategies for transitioning trust from the Retiring Advisor to the Purchasing Advisor. A helpful way to approach these strategies is to assume that every client has the same questions about the advisor's skills and services. This assumption motivates the advisor to intentionally provide experiences that answer the questions for the client.

It will become obvious as we explore them that if a client ever needs to ask one of these questions, the relationship is in grave disrepair and the client is likely to leave the practice.

Use these questions as guiding principles for effective relationship management with all clients. By intentionally delivering experiences that proactively answer these questions, you will inoculate your practice against clients leaving the firm.

1. DO I MATTER TO YOU?

This is an essential question in any relationship. If you discover that the other person doesn't care—that you don't matter to her—you know something very important about the relationship: there is no relationship. In fact, you are potentially in danger from that person. Having an emotional connection to someone inhibits bad behavior. If that inhibition is removed, then the uncaring person is liberated to serve only her own needs.

This is especially problematic in the commercial advisor-client relationship. When there's a fee being paid, the client is aware that, to some degree, the advisor is acting out of self-interest. If the client believes his own emotional and financial interests are balanced with the advisor's self-interest, the advisor is deemed trustworthy. In a healthy relationship, both parties act to fulfill their own interests while remaining sensitive to and aware of the other person's needs.

Today's clients have become skeptical and concerned that their interests may not be your overarching motivation. Your goal is to provide evidence that every client matters. On a regular basis, check in with phone calls to demonstrate to each client that he is important and that you keep track of the big events that impact his life. This shows that you know how various events have emotional impact. Recognizing milestones beyond just birthdays and holidays shows your level of personal engagement with and awareness of each client.

2. DO YOU *GET* ME?

Checking in regularly also helps you answer the client's second question. Although this is harder, it provides a great benefit to the advisor who addresses it. By showing you truly *get* a person, you fulfill her ultimate goal of being seen, known and appreciated. Importantly, the desire to be known and valued is universal among human beings.

As a prudent advisor, when you become aware of this universal need to be seen and valued, you can begin building powerful bonds with your clients. Since most people report that only a handful of others see them accurately and truly appreciate them, by taking these steps, you become hugely important to your client. For an advisor who wants to build stable and dynamic relationships, delivering this need is a key element in solidifying client connections.

3. ARE YOU PAYING ATTENTION?

It's important to recognize the built-in emotional patterns that influence the way clients think about the services they receive. As discussed earlier, behavioral scientists call these patterns heuristics and have discovered dozens of ways that clients can unconsciously react to events in the world and the advisor's work. Research has shown that many heuristics are triggered automatically. Advisors need to anticipate these triggers and manage relationships so that they can avoid having the client's rational thinking change to irrational patterns.

The "rudderless ship reaction" is an example of a common heuristic. This is the tendency for a client to observe losses in his portfolio—or even disappointing positive results—and feel that his advisor was not paying attention and allowed such a loss through laziness or negligence. Often, these feelings can be strong. It's actually very easy for the human brain to look backward in time, see how the pattern of loss unfolded and make a leap of assumption that "this should have been avoided; anyone could have seen this coming."

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

It's also important for you to be aware that much of the work you do on behalf of clients is done quietly, outside the client's awareness. All the logistical tasks of building and managing a portfolio happen without the client being aware of those tasks. Unless you provide commentary about the work you do and evidence that you pay attention to the events of the day, it's easy for the client to come to false conclusions about your focus.

One way to show professional competency is to talk about capital-market patterns. Another way is to design the portfolio so that *the client can see strategic actions being taken regularly*. When activity is built in to the portfolio's basic design and the client is taught to look for those actions regularly, it's much harder for the feelings to devolve into "I'm on a rudderless ship."

4. WHAT AM I MISSING? DO YOU KNOW THINGS THAT I DON'T KNOW?

Uniquely successful investors usually have high levels of self-esteem and confidence in their intelligence. This type of client is likely knowledgeable about some of the tasks associated with investing. Some prefer to pay a fee and outsource the tasks to a professional; others prefer a more collaborative engagement and want to participate in many of the decisions.

Importantly, because a fee is paid, these clients expect that the professional is more knowledgeable than they are about some of the complexity the advisor is managing. The prudent advisor knows the importance of solidifying his expert status and frequently revisits issues that these clients are unfamiliar with.

Before a client has achieved financial security, her primary pain or anxiety is focused on answering the question "Will I be okay?" She believes, "I will pay you a fee so that I'll have greater confidence that I will eventually be okay."

As wealth accumulates, a small number of individuals and families gain some relief from their basic anxiety about financial security. This anxiety never completely goes away, but accumulating enough resources reduces it to a very low level. As resources increase, a new anxiety takes over. The threat to the client's peace of mind shifts from not having enough resources to having those resources threatened by legal action, tax consequences or mismanagement: "What am I missing that could hurt me or take away my security?" This is because as wealth increases, so does a person's dependency on that wealth to ensure well-being. Therefore, the advisor's work changes from creating a foundation of basic financial security to *maintaining a larger scope of security* for the client's financial life. To accomplish this, the FA includes risk management, tax management, wealth-transfer strategies and documentation management in his list of services provided.

The original concerns about financial security and portfolio performance still must be included in your servicing model, but these basic services need to be balanced by a greater concern about what dangers to avoid and what protections to put in place. Ultimately, the design of your business model should provide meaningful evidence to the client that all these issues are being effectively addressed.

5. ARE YOU GREAT AT WHAT YOU DO?

This question gives the advisor the opportunity to provide evidence of professional competency. A client pays a fee to receive a value, and that value must be connected to the cost. Today's skeptical clients are being actively educated to question that cost and to compare your fee to the fees that other providers charge.

To continue valuing you, the client needs to understand that your services are superior and are of great importance to his well-being. To sustain the client's perception and appreciation of value today, you must provide evidence of superior skills. Fortunately, the work you do on your client's behalf most likely provides the opportunity to reveal your skills and outstanding professional competency. If you're actively engaged in building portfolios and managing money, the opportunities are numerous. Even if you outsource asset management to someone else's model, take time to interpret the activities within the model that benefit the client. Such interpretations reassure the client that the choice of the model itself continues to be a unique value. Of course, there are always opportunities to reveal other evidence of great skill in the areas of wealth-management advice and even in periodic updates on the capital markets.

6. DO I HAVE REASON TO BE CONFIDENT THAT THE FUTURE I DESIRE IS THE FUTURE I WILL GET?

This question looks to the future. Historically, advisors have tried to maximize returns or achieve clearly defined objectives. This is still true, but with today's more skeptical clients, you and your client must agree on both what the desired outcomes are and that achieving those outcomes is what you're being hired to accomplish.

Sometimes a client's desired outcomes don't require investments to outperform their relative benchmarks. In fact, it isn't uncommon for a client with clearly defined goals to desire less risk and be satisfied

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

with a more muted annual return. In a powerful way, the shift from the expectation to deliver relative performance to the focus on achieving specific outcomes is a radical transformation of understanding between you and your client. Of course, any advisor who is delivering technically on this expectation must also capitalize on this emotionally. You can do so by providing regular evidence of your work.

7. AM I GETTING A GOOD DEAL?

Today's highly skeptical clients may wonder how the fees they're paying and the services they're receiving compare to those provided by other advisors. While some clients are easily satisfied by relative performance and a positive working relationship, others are harder to convince. In some cases, a very skeptical client may never become totally convinced about the value of your services and will constantly need to be managed.

Recognize that one way the human brain makes decisions about value is by comparing one thing with another. For most of us, it's hard to judge when something is expensive or a great deal without comparing one price with that of a similar object or service. Give comparisons of your fees and services against what similar providers are charging and providing. This doesn't mean you need to steeply discount services below a level that is sustainable for your business; it means that you need to demonstrate that the client is getting a great value for what she is paying.

Another important dimension is the need to build trust with a client: if the client ever suspects that the price she is paying is unfair or out of scale with the reasonable, customary and widespread price for similar services, trust will be destroyed. This is because the client experiences the advisor who charges an unfair price as revealing that he is putting his interests before the client's.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

ANNOUNCING THE NEW PARTNERSHIP

The retirement process starts long before the exit is announced. This provides enough time for the transition of trust and starts with the announcement of the new partnership to clients.

The announcement, which should be communicated by letter to all of the Retiring Advisor's clients as soon as the partnership agreement is ratified, should not mention the future retirement of the advisor. Most clients are aware that their advisor is getting older and is nearing retirement age (unless the Retiring Advisor is executing an early exit), but announcing a retirement creates anxiety and the anticipation of a painful loss, even though the exit may be several years in the future.

It's important for the Retiring Advisor to be cognizant that he is likely a very significant character in the narrative of his clients' lives. Even though they may see him only once or twice a year, if there has been a long tenure of working together, he has taken on an emotionally significant role to his clients. Managing the process thoughtfully and transitioning trust intentionally are big parts of how the Retiring Advisor will ensure continuity of care.

The announcement should highlight the larger team and all the benefits that will give to clients. The Retiring Advisor should explain the reasons for the improved business model, and the language should be positive and focused on the design of the new model. The new partner should also be introduced in positive terms, with emphasis on her length of tenure and professional credentials. This helps to set up the prescriptive handoffs.

The way in which the reason for the partnership is framed will go a long way toward influencing how clients experience the announcement. Change is frightening for most people, and for a few, even a small change in familiar patterns can feel dreadful and disruptive. The announcement should use language intended to reduce those negative feelings and set up a positive anticipation in the minds and emotions of the Retiring Advisor's clients.

Framing the new partnership as enhancing or improving what was already a good model reduces the anxiety that can accompany change. By implying that everything will stay mostly the same—and that there will be additional benefits with the larger staff and a new, highly competent provider—the message can set up a smooth process of prescriptive handoffs.

TELEPHONE PROTOCOL FOR SUPPORT STAFF

Before we provide the script for handling phone calls, remember that managing the transition of trust requires that the new advisor deliver as many experiences of goodwill and professional competency as possible during the transition period. The prescriptive handoff of each client starts that process, with the Retiring Advisor releasing the care of the client to the Purchasing Advisor one project at a time.

Importantly, for much of the transition period, clients will still automatically turn to the Retiring Advisor for advice, support and specific services. In the typical exit, the Retiring Advisor continues to respond to these requests even after the new advisor has been introduced. In such cases, these are missed opportunities for the Purchasing Advisor.

The goal of prescriptive handoffs is for the Purchasing Advisor to effectively take over the care of clients as soon as the prescribed project has been introduced to each client. It is critical to recognize that the transition should *not* be announced to the client as, "From now on, I will be taking care of you. Call me when you need anything." This would feel abrupt and stimulate anxiety in many clients, who would suspect that they are being abandoned to a stranger by the Retiring Advisor. By seeing the handoff process as an opportunity to carefully and deliberately transition clients' trust, these negative emotions can be avoided.

Instead of announcing that the Purchasing Advisor will now be the primary relationship manager, simply function as if this has already happened. When a call comes in for the Retiring Advisor, the support staff receives it and, whenever possible, tells the client that the advisor is busy and may not be available: "Hello, [client's name]. How can I help you today? Oh, I'm sorry; [Retiring Advisor's name] is in the middle of something, and I'm not sure he can be interrupted. Hold on a minute and let me check."

Once the client is on hold, the support staff contacts the *Purchasing Advisor* and lets her know the client is waiting. This allows the new advisor to pick up the phone and say, "Hi, [name]. I'm sorry but

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

[Retiring Advisor's name] can't come to the phone right now. How can I help you?" The key aspect is to see each incoming call as another opportunity for the Purchasing Advisor to deliver an experience that builds one more brick of trust in to that relationship.

Some clients will be reluctant to work with the new advisor and may prefer to wait for "their advisor" to become available. Both advisors should note this reaction, as these clients will likely need more time and effort extended by the Purchasing Advisor to build trust. If a client is clear that he doesn't want the Purchasing Advisor to handle the request, it is best for the Purchasing Advisor to try again: "I totally understand, and I will have [Retiring Advisor's name] return your call as soon as he can. I know he will want to know what the request is about. Let me take a few notes so that I can pass along the right information to him."

If the client provides enough information for the Purchasing Advisor to take action, she can say, "I will definitely have [Retiring Advisor's name] call you as soon as possible. In the meantime, I'll [describe an action]."

When the Purchasing Advisor cannot take an action, the Retiring Advisor can support the transition process when he calls the client back by discussing the issue and then saying, "I'm going to ask [Purchasing Advisor's name] to do this for you. I want you to get to know her, and this will be a good way to do that."

As always, the idea is to give the Purchasing Advisor an opportunity to deliver an experience to a client that builds trust. Gently pushing a client toward working with the new advisor is an important way the Retiring Advisor can actively support the transition process.

ANNOUNCING THE RETIREMENT THREE MONTHS BEFORE EXIT

The ideal transition process should take as long as possible to execute, up to three years. This provides plenty of opportunities for the Purchasing Advisor to take over client relationships and build enough trust for clients to accept the retirement of their old advisor with the least amount of distress possible.

When the partnership agreement is constructed, the Retiring Advisor specifies the exact date on which he will exit. Three months before that date, the Retiring Advisor's clients should receive a letter announcing the exit. Careful framing of this letter is important so that it can reduce client anxiety and avoid feelings of abandonment among more sensitive clients. Let's take a closer look at how to deliver this message.

Some advisors will want to reassure clients that everything will be fine after they leave and that the new advisor will take good care of her clients. It may sound counterintuitive, but offering reassurance is more likely to stimulate anxiety and questions such as "Why is he reassuring me about this?" and "Is there some reason I should be worried?" Sensitive clients may start vigilantly wondering why there is a need to reassure them.

A better approach is to design the letter with positive, upbeat language and frame the message as a way for the Retiring Advisor to talk matter-of-factly about all the things he is looking forward to in retirement. The more the message reveals that the Retiring Advisor is focused on the future and has no concerns about leaving the practice, the more the clients will pick up on that theme as they make sense of what they are reading.

The letter should start with a celebration of the new partnership and a brief commentary on the expanded services and support that the larger team has made possible. The message can then point out that the success of the new team has made it comfortable for the advisor to consider retirement. This allows the narrative to shift from the practice to some reflections on the Retiring Advisor's plans for retirement and how much he is looking forward to new challenges and a different pace of life. The letter can close with a sentence or two of appreciation for the trust his clients have given over the years and of confidence that things will be very much the same in the practice going forward.

While it's appropriate for the team to have a party for the Retiring Advisor, the practice should avoid holding a big client event to acknowledge his exit. Making the exit a non-event is another way to signal "no big deal" to clients about the transition process. It may be appropriate for the Retiring Advisor to acknowledge the exit with a few long-standing clients, but this should be done privately and more as a social event than a recognition.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

The idea is to give clients as few reasons as possible to experience a loss or feel as if things around them are changing. If the transition process goes well, by the time the Retiring Advisor exits, he will have worked all of the way out of his old job. The last six months of the process should be pretty boring for the Retiring Advisor, as the Purchasing Advisor should take over the bulk of the servicing tasks.

MANAGING THE RELUCTANT CLIENT

A few clients will be hesitant to work with the Purchasing Advisor and may represent the potential for regretted attrition from the practice. This can happen because they find it difficult to build trust with a new person or because the style of the new advisor is very different from the person they are used to working with. Some people are very flexible and find it easy to adapt to a new relationship. Others can feel very uncomfortable and even overtly resist the process. These clients will be easy to identify and should receive some additional attention during the transition process.

If the advisors are concerned about a client's relationship with the new advisor, after the retirement has been announced but before the end of the transition process, the Retiring Advisor can stabilize the client's connection to the practice after he exits. Here is a script the Retiring Advisor can use with a reluctant client:

"I understand you're uncomfortable with [Purchasing Advisor's name] and with my transition to retirement. I want to reassure you that I put a lot of effort into selecting my successor that has been very much with your well-being in mind. I have total confidence in [Purchasing Advisor's name]'s capabilities and professionalism, and I know you'll be well taken care of. With this in mind, and because I know it can sometimes take time to get used to a new person as your advisor, I'd like to ask a personal favor: please give [Purchasing Advisor's name] a full two years to prove herself to you before you decide to make any changes. Give her a chance to show how well she can do for you."

By asking a personal favor, the Retiring Advisor fulfills on his commitment to both the new partner and the client. In many cases, this will give the Purchasing Advisor additional time to earn the trust of the reluctant client. In other cases, the client may not be willing to stay because the transition is uncomfortable. A prudent advisor will accept some regretted attrition as a result of retirement. It's a disruption that a client has to cope with, and some clients don't cope well with change.

RESOURCES

As we have seen, the key to managing an effective retirement process is to provide clients with as many experiences of goodwill and professional competency as possible during the transition process. The AB Advisor Institute has developed numerous tools to help advisors execute the prescriptive handoff strategy with various projects that deliver value to clients as well as opportunities for the Purchasing Advisor to deliver an expanded range of services.

Advisory teams can take advantage of our age-triggered checklists as the framework for a series of projects. Each checklist is designed to introduce a broader range of services to clients as they transition to a new decade of life:

+ The Early Accumulator Financial Checklist consists of more than 40 investment- and wealth-management issues that are common for clients in their 40s.
+ The Midlife Financial Preparedness Checklist tackles more than 40 issues that are common for clients in their 50s.
+ The Preretirement Preparedness Checklist addresses more than 50 issues that are common for clients in their 60s who are heading into retirement.
+ The Eldercare Checklist is designed for clients in their 70s who are thinking about legacy, wealth-transfer and end-of-life issues.

Each of these checklists represents a potential project that the Retiring Advisor can prescribe to clients and that the Purchasing Advisor can execute to demonstrate goodwill and professional competency.

Advisors can also take advantage of our series of situational checklists that address various common life events that have significant financial challenges associated with them: the Premarital Preparedness Checklist, the New Parent Preparedness Checklist, the Pre-Divorce Preparedness Checklist, and the New Widow/Widower Financial Checklist. These can be used by the Retiring Advisor as prescriptive handoffs or by the Purchasing Advisor when a client encounters one of these events.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

The AB Advisor Institute also offers our omnibus Wealth-Management Checklist, which catalogs more than 200 wealth-management issues that uniquely successful families may encounter. An advisor can search the checklist for clusters of issues that represent projects; insurance reviews, portfolio reviews, documentation and guidance reviews, and beneficiary and titling reviews are all potential projects that can be built out of the list of issues organized in the Wealth-Management Checklist.

Your AllianceBernstein Regional Manager can provide various analytical tools that advisors can use as the foundation for projects. Examples include a municipal bond analysis, an equity factor analysis and a commentary on investing in the late stage of the economic cycle.

CONCLUSION

Managing an effective retirement process can seem daunting at first, given the number of steps, messages and activities that must be successfully executed. The good news is that the benefits are equally robust. Obviously, transitioning trust with as many clients as possible enables the Purchasing Advisor to maximize the value of the purchase. In addition, projects represent opportunities to discover held-away assets and additional revenue streams from expanded services. Intentionally delivering experiences of goodwill and professional competency will revitalize relationships and increase referability. While completing these projects takes time and effort, the benefits of successfully purchasing another practice and effectively integrating the clients far outweigh the efforts.

For financial representative use only.
Not for inspection by, distribution or quotation to, the general public.

As an advisor, your ultimate goal is to build better outcomes for your clients. At AllianceBernstein, we share your commitment. We've put our research to work for our clients around the world:

- **Exploring the opportunities and risks of the world's capital markets and the innovations that can reshape them**
- **Helping investors overcome their emotions and keep their portfolios on track**
- **Defining the importance of investment planning and portfolio construction in determining investment success**
- **Providing tools to help advisors build deeper relationships that benefit their clients and their practices**

Our research insights are a foundation to help you serve your clients. Speak to your AB relationship team to find out how we can help you.

LEARN MORE

(800) 227 4618 | ALLIANCEBERNSTEIN.COM

This material was created for informational purposes only. It is important to note that not all Financial Advisors are consultants or investment managers; consulting and investment management are advisory activities, not brokerage activities, and are governed by different securities laws and also by different firm procedures and guidelines. For some clients, only brokerage functions can be performed for a client, unless the client utilizes one or more advisory products. Further, Financial Advisors must follow their firm's internal policies and procedures with respect to certain activities (e.g., advisory, financial planning) or when dealing with certain types of clients (e.g., trusts, foundations). In addition, it is important to remember that any outside business activity including referral networks be conducted in accordance with your firm's policies and procedures. Contact your branch manager and/or compliance department with any questions regarding your business practices, creating a value proposition or any other activities (including referral networks).

It is important to remember that (i) all planning services must be completed in accordance with your firm's internal policies and procedures; (ii) you may only use approved tools, software and forms in the performance of planning services; and (iii) only Financial Advisors who are properly licensed may engage in financial planning.

The views and opinions expressed are not necessarily those of the broker/dealer; or any affiliates. Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules, and guidelines.

Note to Readers in Canada: This publication has been provided by AllianceBernstein Canada, Inc. or Sanford C. Bernstein & Co., LLC and is for general information purposes only. It should not be construed as advice as to the investing in or the buying or selling of securities, or as an activity in furtherance of a trade in securities. Neither AllianceBernstein Institutional Investments nor AllianceBernstein L.P. provides investment advice or deals in securities in Canada.

For financial representative use only. Not for inspection by, distribution or quotation to, the general public.

The [A/B] logo is a registered service mark of AllianceBernstein and AllianceBernstein® is a registered service mark used by permission of the owner, AllianceBernstein L.P.

© 2021 AllianceBernstein L.P.

SS-89625-2019-11-25
TAI-7905-1021