THE COBBLER'S CHILDREN HAVE NO SHOES
DON'T PUT OFF PLANNING YOUR SUCCESSION

AN aRIA CASE STUDY

BY RON CARSON
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OVERVIEW:

We pride ourselves on being the voice of fiscal reason for our clients. We take our fiduciary responsibilities seriously, advising and planning in an effort to ensure that each of our clients will be well-cared for financially. Yet when it comes to planning for our own legacy, far too many of us fail to conduct adequate planning around what is likely our single most valuable asset – our business.

All too often, I see firm principals convince themselves that they have a succession plan in place. When in fact, more often than not, what they have is more of a vague idea of what they hope will happen. We all know, however, that things don't always go according to plan. Not only do you owe it to your family to have a thoroughly mapped-out succession plan in place to ensure that the equity you've worked so hard to build over the years can be successfully extracted from the firm should something happen to you, you also owe it to your clients. Just as your fiduciary duty includes business continuity planning, it also extends to planning for the uninterrupted continuation of client service should something happen to you or one of your partners.

Successions are complex undertakings. They can be exceedingly uncomfortable. But the cold, hard facts are that NONE of us will be running our businesses forever, and we need to plan for that inevitability.

Ask yourself just one simple question:

If you went to sleep tonight and didn't wake up, would you entrust your firm with the ongoing management of your family's wealth?

If your answer isn't an immediate and resounding YES, then you have important work to do.

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KEY TAKEAWAYS:

1. **Align Your Vision and Plan** - Identify the succession strategy that best aligns with your vision for the future, and ensure that you have the appropriate human capital in place to affect the transition.

2. **Structure Your Plan** - Your plan should be a well thought-out, written agreement with appropriate and able buyers, and structured in a way that will minimize potential estate taxes.

3. **Develop Executable Action Plan** - Make sure you take time to clearly map out action steps to expedite the transfer of client information while ensuring the confidentiality of client data at all times.

4. **Communicate** - Proactively communicate your plan to key employees and all clients and prospects so they are confident in your firm's long-term viability.

INTRODUCTION & EXECUTIVE SUMMARY:

According to Moss Adams, approximately 7 percent of wealth managers report having an actionable succession plan in place should the firm principal(s) become incapacitated or die. What most advisors call an "actionable plan," however, is often merely a vague verbal agreement as to what they would like to happen. It's ironic. We put so much effort into ensuring the continuity of client services in the event of a physical disaster. We cajole our business owner clients about the need to have succession plans in place. Yet most of us fail to exercise the same diligence when it comes to the absolute inevitability of separating ourselves from our firm.

So, what's the best way to determine if what you think is a succession plan is in fact a true succession plan? If you presented it tomorrow to your advisory council (your very best clients) are you confident that it's robust enough that they would categorically say, "Yes, I would have no concern continuing to work with this firm without you being a part of it."

FAMILY FAILURES

RESOURCES:
1. Harvard Business Review Jan-Feb 2012

To arrive at the point where you have a genuinely viable plan, you'll need to analyze, assess and plan five fundamental aspects of your succession:

1. **Your Long-term Vision** – this entails developing a clear understanding of where you're currently at and what you ultimately want to happen to the firm. Your long-term vision also includes where you want to take the firm in the interim, what you most love to do (your skill sets) and whether or not the firm has the right human capital to get you where you want to go.

2. **Your Preferred Succession Strategy** – is there a logical internal successor you'd like to sell to? Is there a potential third-party buyer you trust? Or do you plan on pursuing a sale to a roll-up/aggregator firm?

3. **Funding Mechanism** – whether funding a succession through life insurance or a third-party purchase agreement, you not only need to ensure that there's funding in place for the transaction but also that there is sufficient funding to cover any estate taxes that would be generated from the sale.

4. **Detailed Documentation** – when it comes to the long-term viability of your life's work, verbal agreements are worth the paper they're printed on. You need to have detailed documentation that lays out every detail of how your business will be transitioned.

5. **A Communications Strategy** – a succession plan shouldn't be a back-room agreement that's kept quiet. For retention purposes, both your employees and your clients need to be made aware of the fact that there's a plan in place to ensure your firm's long-term viability.

To help get you started on the right path, please refer to **Exhibit 1: Succession Planning Checklist**.

PLAN IN DETAIL

You need to have detailed documentation that lays out every detail of how your business will be transitioned.

SEE EXHIBIT 1: SUCCESSION PLANNING CHECKLIST

GO TO EXHIBIT

FIRM OVERVIEW

Carson Wealth Management Group was founded in 1983 by Ron Carson with the mission to inspire clients to achieve True Wealth – all that we have that money can't buy and death can't take away – through education, communication and service, which exceeds their expectations. By focusing on core values such as professional knowledge, integrity, personalized service and teamwork, Carson Wealth Management Group quickly became one of the nation's largest independent RIA's and advises on nearly $4 billion of advisory assets, which include assets under management.*

With the successful growth of his wealth management firm, Ron became a respected leader in the industry and focused on helping other advisors serve their clients by enhancing their value proposition. He launched **Carson Institutional Alliance** to enable advisors to directly leverage disciplined investment strategies, operational efficiencies and marketing support, all while retaining full independence and control of their businesses. Driven by the dire need for enhanced transparency, lack of consumer trust and the need for simple accountability, Carson Institutional Alliance aims to operate as a true consumer advocate in an era where such advocacy is in short supply.

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CHALLENGE:

LONG-TERM PLANNING

In 2008, Scott Ford, Founder and CEO of Cornerstone Wealth Management Group, became obsessed by the "If you went to sleep tonight and didn't wake up, would you entrust your firm with the ongoing management of your family's wealth" question. It started him on a quest to be able to answer it with an emphatic yes – a quest that became his principal focus. He decided to put a moratorium on trying to grow or market the $300MM AUM business, and instead focus on putting the people, systems and processes in place that would enable Cornerstone to compete with any of the nation's elite firms.

Four years later, he had re-engineered his firm to the point where he was now confident he could deliver a superior client experience. Yet he still wasn't able to affirmatively answer that nagging question – his presence remained essential. Like many successful advisors, he had some vague ideas about succession, but no real plan.

**Please note that the amount of CWM, LLC's "Assets under Advisement" is considerably larger than the amount of the firms regulatory "Assets under Management." Assets under Advisement include regulatory Assets under Management reported in CWM, LLC's Form ADV I, in addition to assets with respect to which CWM, LLC may provide consulting and/or financial planning services, but does not have any management, execution or trading authority. CWM, LLC's regulatory Assets Under Management can be found in Item 5.F of CWM, LLC's Form ADV I, available at http://www.adviserinfo.sec.gov*

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He had a competent, capable team. But there was no clear-cut individual who fit the bill as a natural long-term internal successor. And as a strong adherent of the idea that cultural alignment is as important, if not more so, than strategic fit, Scott was reluctant to pursue a succession strategy that would require a business marriage without ever having the chance to first live together to determine compatibility. So joining an aggregator firm was culturally unappealing, as well as financially risky since a sizable part of the payout would be comprised of equity in the parent firm – the value of which he would only partially impact.

It seemed that finding a trusted partner was the only reasonable course of action available. But from Scott's perspective, he was far from ready to commit to a future sale; the idea of giving up equity in his business at this point in time was a non-starter. Yes, he wanted the security that if something should happen to him there would be a buyer ready to step in and provide seamless continuity for his business operations, but he also wanted a partner who would be willing to help him realize his growth goals.

SHORT-TERM CONTINUITY

Nancy K. Caton, Founder of Caton Financial, a $250MM AUM practice based in Marin County, faced a more accelerated succession timetable than Scott. Eight years ago, with her 59th birthday looming on the horizon, she realized she needed to do something in regards to a business continuity/succession plan.

She was about to get married. Her husband was retiring and the two of them wanted more flexibility in their life to travel. And the questions from clients and prospects had already become more commonplace: How long are you going to be here? What happens to me if something happens to you? She was the sole source of intellectual capital. If something happened to her, the broker-dealer would step in and do what they could to find an advisor for her clients, but she knew she wasn't being as responsible as she should.

Initially, she assumed she could handle it internally by hiring and training the right person to eventually succeed her. After several failed attempts, she began searching for an existing compatible, younger advisor to come onboard with the understanding that he or she would eventually take over the practice.

But that approach brought significant challenges as to how a deal would get funded. She explored establishing an ESOP. Broker-dealers

Scott's Six-Point Partnership Criteria

- *Strong alignment of culture, vision and client service approach*
- *No dilution of equity*
- *Ability to walk away without penalty*
- *Impactful administrative and operational support*
- *Clear commitment to help grow his business*
- *A well-defined valuation methodology and turnkey transition plan*

offered some help, but because her practice was relatively large, her successor would need to seek out other sources of funding. And even if financing were available, when potential acquirers looked at the cost of paying themselves, staff salaries and operating expenses, and then the addition of the annualized buyout cost and loan payments – there simply wasn't enough revenue to make a deal work.

Other potential suitors, including a local bank and a major wirehouse offered very lucrative deals, but never really felt like a good cultural fit for her and her clients. She simply couldn't imagine walking away from the business at some point and leaving her clients there.

For both Scott and Nancy, the definition of a great partner was not only someone they could implicitly trust, but someone who could help make their businesses better overnight – providing a much needed critical path to succession, but also the human capital to allow them to offload many of their administrative functions in order to focus on business development and relationship management. And ideally, a partner who would bring a commitment to helping drive the future value of their firms.

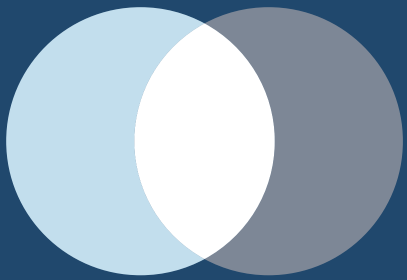
SOLUTION:

CORNERSTONE: SUPPORTED INDEPENDENCE

Scott approached Ron Carson about his growth ambitions as well as his long-term succession concerns. He had met Ron several years earlier through work they had done together in conjunction with Peak Advisor Alliance, and after learning about Carson Institutional Alliance, Scott saw how his vision and goals aligned perfectly with the culture of Ron's firm. In practically no time, the two were able to develop a succession plan for Scott's business that met every single one of his primary objectives.

Scott became a Carson Institutional Alliance partner while maintaining his firm's distinct brand and identity, and more importantly, retaining 100% of the equity in his firm. But he now would have the ability to monetize all or part of that equity in the future, whenever he felt the time was right. He could stay "all in," take some chips off the table, or cash out. The choice would be his and his alone. And as a good partner, Carson Institutional Alliance would be able to help him grow his firm, not only by leveraging the firm's scale and operational efficiency to free up more of Scott's time, but also by more direct means. Since aligning the two firms, Carson Institutional Alliance has been able to deliver a steady stream of new retail clients

POSITIVE ALIGNMENT



Since aligning the two firms, Carson Institutional Alliance has been able to deliver a steady stream of new retail clients to Cornerstone, as well as identifying advisors with strong business synergies that they were able to tuck into Scott's firm.

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CATON: A GRADUAL TRANSITION

After eight years of effort to identify a successor and begin a gradual transition, Nancy felt the clock ticking. She had first met Ron at a talk he gave more than 18 years ago, but the two hit it off and maintained a long-standing professional friendship. During a conversation one day, the subject of Carson Institutional Alliance came up, and as the two talked they quickly realized that culturally this would be an absolutely perfect marriage.

Not only was Nancy comfortable that her staff would be well-cared for given all their years of hard work, but that the depth of resources and support that Carson Institutional Alliance could bring to her business would also be a win for her clients. And financially, they were able to structure a deal that was good for both parties – perhaps not as lucrative as what she could have extracted from a wirehouse, but the synergies between the two firms were terrific.

A KEY INDICATOR OF PRACTICE VALUE

	REVENUE PER PRINCIPAL	INCREASE IN REVENUE
No formal written succession plan	$483,548	—
A written plan in place	$634,158	31%
A written plan with identified successor and fully funded	$785,270	62%

SOURCE: BUSINESS HEALTH PTY LTD., NOVEMBER 2011

RESULTS:

CORNERSTONE WEALTH

In the case of Cornerstone, since partnering with Carson Institutional Alliance, Scott is finally secure in the knowledge that he has the people, systems and processes in place to go head-to-head with any other firm in the country when it comes to servicing his clients. That's allowed him to shift his attention back to growing the business – both in order to give the high-caliber people on his team a growth trajectory that will incent and encourage them to stay, as well as to generate revenues that can be reinvested into continued business improvement.

His long-term goal is to grow the firm by 20% annually. And just three-quarters of the way through the first year, they have already easily exceeded their goal.

But growth isn't the only partnership benefit. Before joining forces with Carson Institutional Alliance, Cornerstone had two principal investment strategies that they managed and allocated to. Now, in addition to those two, they have access to thirteen new, unique strategies, along with sophisticated wealth planning capabilities that empower them to dive more deeply into client relationships where complex wealth management challenges exist.

CATON FINANCIAL

Six months after joining Carson Institutional Alliance as a Carson Wealth office, Nancy has been able to transition over 99% of her clients. Any transition that requires a broker-dealer conversion will inevitably have challenges, but the fact that the two firms have such similar approaches to client service, transparency and accountability make those attendant issues minor inconveniences.

In negotiating an agreement, Ron asked Nancy what her ideal transition timetable would look like. At age 65, she wanted to gradually phase herself out over the next five years, and then retain a small handful of personal clients going forward. In turn they structured a payout over five years. This window will allow Nancy to gradually diminish her role in the firm.

And with a good part of compensation based on percentage of growth, Nancy will be able to focus on what she enjoys most – mentoring new advisors and forging new relationships. Although they haven't yet identified a successor or two to come in, Ron and Nancy plan to grow the firm to 3-5 advisors and have communicated the "merger" of the two firms and allaying any client fears that Nancy would retire.

CONCLUSION:

In reality, Scott and Nancy were two of the fortunate advisors who not only understood the importance of ensuring a smooth succession for their business, but also acted on that knowledge early on. For most, the action either comes so late that many of the potential avenues are closed off, or it never comes at all – often leaving their families helpless as they stand by and watch the dissolution of the business their loved one worked so hard to build.

If your clients haven't yet questioned you about your plan, you can count on it happening. And from a new business perspective, more and more large opportunities are starting to request details surrounding

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You have both a fiduciary and a personal responsibility to do it right - to create a succession plan that's comprehensive, efficient, and transparent.

succession planning as part of their due diligence. The preparations you undertake now will determine whether the issue becomes your firm's Achilles heel or a vital component of your value proposition and a key competitive differentiator for your firm.

An insufficient or non-existent succession plan is not only a disservice to your clients, it represents a critical risk to the value of your single largest asset and consequently the financial well-being of your family should something happen to you. You have both a fiduciary and a personal responsibility to do it right – to create a succession plan that's comprehensive, efficient, and transparent.

BEST PRACTICES:

- Identify the succession strategy that best aligns with your vision for the future of your firm.
- Ensure that you have the appropriate human capital in place to affect the transition.
- Make certain that your plan is a well thought-out, written agreement with appropriate and able buyers.
- Be careful to structure the deal correctly in order to minimize potential estate taxes.
- Clearly map out action steps to expedite the transfer of client information while ensuring the confidentiality of client data at all times.
- Proactively share your plan with key employees and clients to assuage any concerns they may be harboring. At some point we all have to turn over the reins. Whether your successor is a family member, one or more current employees, another firm or a consolidator, you owe it to all parties, including yourself, to make sure it's an orderly transition. When you look your clients in the eye and tell them that they can trust you to do the right thing for them, ensuring the continuity of your services needs to be near the top of the list.

Imagine the shock I received in May of 2000 when my advisory council told me, in no uncertain terms, that without me, they would leave the firm that I spent my life building. Thirteen years later, I have re-engineered the firm and implemented a plan so that every single employee and client knows exactly how continuity of service will be maintained in the event of my death or disability. It takes some effort, but it's well worth it; much like your clients' financial plans.

Don't make the mistake of waiting until it's too late, or assuming that the loose arrangements you've made will come to fruition. Take a cold, hard look and make an honest assessment of your "plan." Do you really have the capable human capital, the right financial resources, and clearly-defined and repeatable processes in place to ensure that the experiences your clients and your family have when you're gone will be equal to or greater than the experiences they have today?

EXHIBIT 1: SUCCESSION PLANNING CHECKLIST

✓ 1. At what lifecycle is your practice?

☐ Startup ☐ Growth ☐ Mature

✓ 2. Do you have a clearly defined mission, vision and Client Bill of Rights?

☐ Yes ☐ No

a. Do your key stakeholders' goals align with the goals of your firm?

☐ Yes ☐ No

✓ 3. Do you have a clearly defined organizational structure with empowered decision-makers?

☐ Yes ☐ No

✓ 4. Do you have documented management and operational processes and procedures in place?

☐ Yes ☐ No

✓ 5. If you died tomorrow, are you confident that your clients and family would receive the same level of service from your firm?

☐ Yes ☐ No ☐ Maybe

✓ 6. To what degree does the firm's future success rely on you?

☐ Highly Dependent ☐ Dependent ☐ Limited Dependence

a. What percentage of new revenue are you responsible for?

☐ Less than 25% ☐ 26-50% ☐ 51-75%
☐ More than 75%

b. What percentage of ongoing revenue are you responsible for?

☐ Less than 25% ☐ 26-50% ☐ 51-75%
☐ More than 75%

(CONTINUED ON NEXT PAGE)

EXHIBIT 1: SUCCESSION PLANNING CHECKLIST *(CONTINUED)*

✓ 7. Are you willing to give up some equity in and/or control over your business as part of your succession plan?
- ☐ Yes
- ☐ No
- ☐ Maybe

✓ 8. Do you have and keep current financials?
- ☐ Yes
- ☐ No

✓ 9. Do you have a realistic current market value of your practice?
- ☐ Yes
- ☐ No

a. Is value based upon:
- ☐ Current Offer
- ☐ Multiple
- ☐ Discounted cash flow
- ☐ Other

✓ 10. If you were to die unexpectedly, do documents clearly identify ongoing continuity and leadership of your practice?
- ☐ Yes
- ☐ No

a. Type of successor:
- ☐ Family
- ☐ Internal
- ☐ External
- ☐ N/A

✓ 11. If you have partners:

a. Will they pay your family a fair price for your business interests if you should die?
- ☐ Yes
- ☐ No
- ☐ N/A

b. How will that price be determined?
- ☐ Formula
- ☐ Negotiation
- ☐ Pre-Determined Price
- ☐ 3rd Party Valuation

c. Do you have an executed buy-sell agreement?
- ☐ Yes
- ☐ No

(CONTINUED ON NEXT PAGE)

EXHIBIT 1: SUCCESSION PLANNING CHECKLIST *(CONTINUED)*

d. Is your buy-sell agreement funded and does it cover multiple triggering events (death, disability, bankruptcy, retirement)?
☐ Yes ☐ No ☐ N/A

✓ 12. If selling internally, how will the purchase be funded?
☐ Cash ☐ Installment sale ☐ Life insurance policy
☐ Private annuity ☐ Other

✓ 13. Will your succession plan ensure sufficient income and liquidity when you retire?
☐ Yes ☐ No

a. Do you have the ability to continue to raise assets and be compensated for it?
☐ Yes ☐ No

✓ 14. Have you accounted for estate taxes in your succession plan?
☐ Yes ☐ No

✓ 15. Do all of your key stakeholders, clients, staff and family know your succession plan?
☐ Yes ☐ No

a. Are your key employees committed and retained through the transition?
☐ Yes ☐ No

b. Are the clients on your advisory council comfortable and committed to stay with your firm?
☐ Yes ☐ No

ABOUT CARSON INSTITUTIONAL ALLIANCE

Carson Institutional Alliance offers a customized partnership for growth-minded, client-centric, solutions-focused advisors serving high net worth investors. You can focus on building new and existing client relationships while Carson Institutional Alliance helps deliver trust, transparency and accountability through:

Marketing and PR – Increases your brand recognition and provides straightforward communications to clients
Business Development – Provides local inbound lead opportunities and proven conversion assistance
Operations – Implements detailed systems and processes using innovative technology and scalable support
Compliance – Manages the detailed compliance process to help you offload much of the regulatory heavy-lifting
Wealth Management – Utilizes a proven, time-tested investment management process to help you develop holistic wealth plans
Succession Solution – Delivers peace of mind and security for you, your family, clients and employees

In addition to these turnkey solutions, enhance your value proposition with the added depth of one of the nation's best advisory teams (ranked #7 among Barron's 2013 Top 100 Financial Advisors). Our resources enable you to simplify and grow your business, all without sacrificing either your autonomy or your equity.

To learn more about Carson Institutional Alliance, visit www.carsoninstitutional.com, or call us at 888-321-0808.

ABOUT aRIA

aRIA, the alliance for RIAs, is a think tank study group composed of six elite RIA firms that collectively manage more than $20 billion in client assets, and Advisor Growth Strategies, a leading consulting firm serving the wealth management industry. The group offers insight for advisors considering ways to enhance their firms' enterprise value.

Members include Brent Brodeski, CEO of Savant Capital; John Burns, Principal at Exencial Wealth Advisors; Ron Carson, CEO of Carson Wealth Management Group; Jeff Concepcion, CEO of Stratos Wealth Partners; Matt Cooper, President of Beacon Pointe Advisors; Neal Simon, CEO of Highline Wealth Management; and John Furey, Principal of Advisor Growth Strategies, LLC. The group meets regularly, releasing thought leadership pieces of interest to both independent and wirehouse advisors interested in exploring long-term growth strategies.

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