

Success in Succession Planning

SPSFamily

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INTRODUCTION

INDEPENDENT ADVISORS MUST PLAN FOR THEMSELVES

Traditionally, the main drivers for representatives and advisors transitioning to an independent broker-dealer (BD) and/or Registered Investment Advisor (RIA) have been the promise of greater compensation and the freedom to do business in ways that best suit their investment approach and the needs of their clients.

Those drivers still apply, but advisors and representatives have also learned that independence can be the preferred route to achieving the personal and business goals they may have set aside to meet the demands of their broker-employers or current broker-dealers.

Independent representatives and advisors have the opportunity to select a BD/RIA that best matches and supports their personality, skills, business niche, and operating style, as well as their specific support requirements in the areas of technology, service, practice management, and compliance.

Many independent representatives have historically failed to plan for their own succession. They spend so much time planning for others that they often forget about planning for themselves.

In this whitepaper, we discuss creating your own succession plan as well as the important questions to ask yourself prior to selecting or changing broker-dealers.

If you have any questions about the succession planning aspects of this whitepaper, please contact SPS Family's Practice Management area (PracticeManagement@bdops.com). To discuss joining SPS Family, contact Firm Development (FD@bdops.com).

We wish you SUCCESS in Succession Planning!

SPS FAMILY – DELIVER

DELIVER is SPS Family's philosophy for back-office success – a proven, documented methodology for taking ownership of every situation. Achieving success in succession planning is one of the myriad of practice management initiatives SPS Family provides its advisors. SPS Family is pleased to share our Succession Planning research, ideas, and real-world experience.

SUCCESSION vs CONTINUITY PLANS

Succession and Continuity Plans can be mistaken as interchangeable, but advisors should be aware of important differences when protecting the future of their business. The simplest differentiator is PLANNED vs. UNPLANNED events.

Review the ideas below before creating agreements that will ultimately protect your business and the best interests of your clients as well as your family.

SUCCESSION PLAN – Planned Event (Retirement)

The long-term, controlled transition of your practice. This may be the plan that allows you to retire from your practice or, perhaps, an indicator that you intend to continue to be involved but in a lesser or different capacity from which your clients have become accustomed.

A succession plan is a written, legally binding contract used when a business owner/partner decides to retire, semi-retire, or leave the industry. The plan should be reviewed at least every other year to ensure its ongoing accuracy and relevance to the goals of the seller.

- Who is taking over the responsibility of maintaining your client relationships?
- What are the time parameters? Retiring in 1 year, 18 months, 3 years?
- How will you determine the value of the practice/multiples?
- What are terms for payment? Cash, Period Payout, Seller Note, Financing?
- In the event the advisor remains involved, how is future revenue addressed? Split commissions and fees or flat payout?
- How will clients be notified? Which clients first?
- How do you find the “right” buyer?

CONTINUITY PLAN – Unplanned Event (Death, Disability)

Allows your practice to run in the event that you should die unexpectedly, become disabled, or encounter an event that would potentially keep you from being able to perform your necessary tasks for a prolonged period.

A continuity plan is a written, legally binding contract used when a triggering event causes the business owner/partner to be unable to perform his or her duties for an extended time as they pertain to the practice. The plan should be revisited and potentially revised at least annually.

- Who is responsible for the continuation of your practice? Are they an internal advisor (already associated with your office) or an external advisor (business outside of your office)?
- What are the time parameters of this agreement? Triggered immediately, within 3 months, 6 months of event? Binding for 1 year, 2 years, 5 years?
- How are internal roles affected? Who is responsible and for what?
- In the event of disability, how is future revenue addressed? Split commissions and fees or flat payout?
- How will clients be notified? Which clients first?

Contact SPS Family’s Practice Management area to talk through these important discussion points.

WHO BENEFITS FROM SUCCESSION AND CONTINUITY AGREEMENTS?

YOUR CLIENTS

YOUR BUSINESS PARTNERS

YOUR HEALTH

YOUR STAFF

YOUR ESTATE PLAN

YOUR BUSINESS VALUATION

YOUR FAMILY

YOUR PROSPECTS

YOUR INCOME/WAGES

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SUCCESS(ION) PLANNING

How do advisors achieve success in succession planning? While that's the ultimate question, first things first. Advisors need to EMBRACE the need for it.

So many advisors find themselves in no position to retire, although much of their career was spent helping clients retire. Advisors who have always worked in the best interests of their clients need to flip the script for two compelling reasons:

1. Take care of themselves and their families
2. Take care of their clients and their staff

Succession planning may be the last ACT OF SERVICE an advisor performs for their clients. Having that plan in place is extending the "best interests of clients" principle one step further.

SPS Family's Practice Management area has conducted research and pulled together useful bullet points, checklists, and process descriptions to help advisors think about Success(ion) Planning and more easily break out of the freeze of procrastination. Meanwhile, our Firm Development area has assisted with multiple successions in the real world, and we have applied lessons learned.

Contact SPS Family Practice Management to discuss anything contained within this document and knowledge base.

COBBLER SYNDROME

Financial advisors are like the shoe cobbler who made shoes for everyone in the village, but his own children went to school with poor shoes. Financial advisors help hundreds, if not thousands, of people prepare for retirement and use their assets wisely in retirement. It is a noble calling. However, many financial advisors haven't taken care of themselves to prepare for their own retirement. As a result, many advisors find themselves in no position to retire.

SELLERS MARKET

- Buyers outnumber Sellers 50 to 1 (nationwide)
- This number may vary based on the area you live.
- Chicago, IL is much more saturated with buyers than Fort Wayne, IN.
- This is the ratio of "INTERESTED" buyers, not "QUALIFIED" buyers.
- When looking at QUALIFIED BUYERS...the numbers drop to a 5 to 1 ratio...still significant.

ARE YOU IN SYNC WITH YOUR SUCCESSION PARTNER? CONSIDER THESE THREE "C"s

- **CULTURE** Key elements that make up your business need to be in synch between you and the buyer. Value Proposition, Business Model, Service Model, Advice Philosophy, Investment Philosophy (Maybe even the dress code matters to you!)
- **CHARACTER** Honor & Integrity. Can the buyer be trusted to negotiate truthfully? Can they be entrusted with your most valuable clients? Many advisors consider this transition to be their last act of service. IS THE BUYER WORTHY? With many of your Top Clients...your relationship continues...it just takes on a different shape!
- **COMPETENCE** Refers to both you and your practice, including staff. Your competence must be matched or exceeded by your buyer's. You and the buyer need to communicate about this subject. You may decide to choose more than one buyer due to the competence question.

DID YOU KNOW?

- Clients ARE INTERESTED in knowing that you have an executable Continuity / Succession Plan.
- 70% of existing advisors DO NOT have an executable Continuity / Succession Plan.
- Advisors have NO sense of urgency to create an executable Continuity / Succession Plan.
- Time period to design and establish an executable Succession Plan may take 10 YEARS+.
- Referrals tend to INCREASE when you have an executable Succession Plan in place.

Source: Succession Resource Group, "Deal Structuring & Succession Trends for Advisors"

Source: InvestmentNews

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DEVELOP A MASTER IMPLEMENTATION PLAN

Creating a master implementation plan for succession planning action items is critical to ensure long-term success for the project. This master plan is used to record goals, identify who is responsible for completing them, and create a timeline of when they should be completed.

For this exercise, take some time to review the information you have considered to be important steps and critical goals to move forward on your succession plan. Assign someone to be responsible for seeing them through.

Here are a few examples of questions you can ask yourself to identify the steps and goals:

- What critical positions do I need to fill?
- What critical at-risk knowledge needs to be captured?
- Are there positions that overlap when buyer and seller companies come together?
- Are there training and development that need to be addressed?
- Are there critical designations that we need to attain?

Use this master implementation plan to guide your succession planning efforts over the next several years. Keep this master plan front of mind and use it as a tool to hold people accountable to the action steps and goals.

ACTION ITEM	RESPONSIBLE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5

SUCCESSION PLANNING PROCESS

ACTION STEPS TO CONSIDER WHEN SELLING YOUR PRACTICE

1 DECIDE ON THE TIME FRAME FOR EXITING / TRANSITIONING YOUR BUSINESS

When do you want to retire or sell your book of business? Does this timeline work within your current business model? If the transition will occur relatively soon, has everyone involved committed to the time and effort needed to complete a sale and successful transition?

2 EVALUATE YOUR BOOK OF BUSINESS

Determine and organize information about your clients and their accounts. What types of clients do you serve? What is your service model? Do client accounts also include life insurance or annuity products? Where do your clients reside? The answers can help you determine what kind of buyer would be right for you.

3 DETERMINE THE VALUE OF YOUR PRACTICE

Seek a third-party vendor to determine the actual value of your practice.

4 FIND THE RIGHT BUYER

Interview at least three potential buyers to help find the person who might be right for buying your practice. Discuss your book of business with these potential buyers. Try to identify a “match” between your businesses, your philosophies, and your approach. Consider multiple buyers to each purchase specific segments, when necessary.

5 DEFINE THE PAYMENT STRUCTURE

You have many options to discuss regarding the payment structure. You and the buyer can determine a payment plan that works best for all concerned.

6 REVIEW FINANCING OPTIONS

If the buyer needs capital to help finance the deal, multiple third-party companies specialize in working directly with financial advisors on these types of transactions.

7 ENGAGE THIRD-PARTY PROFESSIONALS AND CREATE A BUY/SELL AGREEMENT

When you decide to sell your business, we strongly recommend seeking the assistance of third-party experts, including legal, tax, and accounting professionals. We also suggest obtaining broker-dealer input and approval of your Buy/Sell Agreement(s) to protect the interests of all parties, including your clients, and especially your family.

8 TRANSITION YOUR CLIENTS

Communicate with your clients to let them know you are following a documented succession plan as you exit the business. Be as transparent as is reasonable. Let them know you care about them and fully intend to provide continuing service excellence. Introduce them to the new advisor(s) and staff. Retention will be important for your valuation.

PRE-SUCCESSION PLANNING CHECKLIST



DOCUMENT CURRENT ORGANIZATIONAL STRUCTURE

What is your organizational structure? Have you created and documented an accountability chart? This is important for any company or organization, as it provides clarity of roles and reporting relationships.

DOCUMENT FUTURE ORGANIZATIONAL STRUCTURE

In 5 years, what will your organizational structure look like? What about your accountability chart? Are you aware of staff members retiring or moving on? For key roles, show any position that will be vacant. Consider your future goals. If you are selling, which staff members would you advocate to the buyer? If buying, what positions will you need to augment or bring over from the purchased firm?



DOCUMENT AND UPDATE JOB DESCRIPTIONS

Job descriptions are a basic, yet important and often overlooked piece of documentation. They assist employees understand their roles, are critical for hiring purposes, and serve as the basis for any training documentation.

ATTAIN LEADERSHIP AND STAFF BUY-IN

Getting buy-in from key employees and staff before moving forward is critical. Is everyone onboard? Does everyone understand that changes are inevitable? Ensure everyone understands the importance of succession planning, and what's involved.



ASSIGN A PROCESS CHAMPION

Having one person responsible for ensuring overall success of these succession planning efforts is wise. This person will hold people accountable for their action items on the master implementation plan.

CHOOSING A BROKER-DEALER

How to Determine Which BD is Right for You

As Director of Firm Development at Sigma Financial Corporation, Parkland Securities, LLC., and Sigma Planning Corporation (now known collectively as SPS Family), Jennifer Bacarella has helped hundreds of advisors transition to independence as well as change their broker-dealer affiliation over the past 25 years. She is also an advisor herself.

When thinking about going independent or changing broker-dealers, Jenny recommends that advisors ask the following questions of any firm they are considering:

Will the transition process be easy or tough?

In a sense, this is a trick question, because it measures the forthrightness of the prospective broker-dealer.

“There’s no getting around the simple truth that transitions are a lot of hard work. But many advisors don’t want to hear that answer so many recruiters won’t tell advisors the truth for fear of losing them,” said Jenny, noting that the repapering of accounts is the hardest part of the transition even with today’s automated tools.

THE TAKEAWAY No matter what is promised, don’t be lulled into believing that the move will be quick or easy.

Which clearing firm does the broker-dealer use?

A broker-dealer’s clearing platform is an important determinant of whether the BD is the right choice for an advisor, since clearing firms play such a central role in the products, services, and client interfaces that the advisor will use.

The best transitions tend to occur when an advisor is happy with a clearing firm’s offerings and moves to another broker-dealer that uses the same clearing firm. In such cases, transitions are significantly smoother than they might otherwise be.

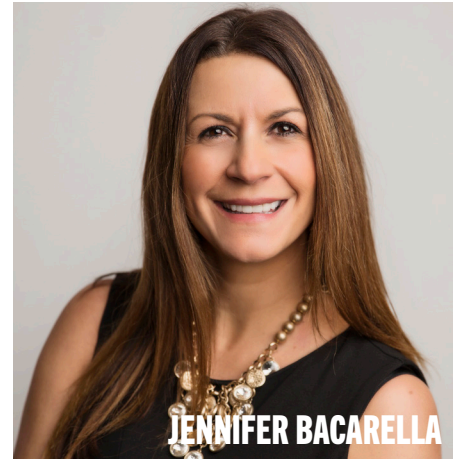
“Not only is the paperwork easier, but advisors and their staff members don’t have to learn new trading systems or different procedures,” Jenny said.

If a new clearing firm is in the cards, make sure it offers the products and services that support your current business. One important strategy is to ask other advisors who have made a change to that clearing firm what to watch out for.

THE TAKEAWAY If you’re happy with the clearing firm your current broker-dealer uses, try to select a BD that uses the same firm. If you can’t, check out whether the new clearing firm supports the kinds of business you conduct.

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“Regardless of how well-prepared you are or how much help the new firm provides, it usually takes at least 60 days for an advisor to feel that a transition is complete,” Jenny said. “I tell advisors that they will probably hate the transition process and wonder why they ever started, but after the hard work is done, advisors are always happy they made the change.”



How involved should my staff be in the transition process?

An advisor’s operations manager or administrative assistant plays a critical role in the success of any advisory practice.

If an advisor transitions to a new broker-dealer, the best approach involves the assistant in every stage of the move — right from the start.

“Having a strong assistant is a huge help, since they handle much of the paperwork and the details involved in the transition,” Jenny said.

Asking for the assistant’s input and advice is as important as asking them to take on the extra work of the transition. Assistants often know more about the intricacies and nuances of advisory operations than the advisors themselves. An assistant’s insights into how current practices need to be modified or adapted are essential. And, if an assistant has reservations about a proposed move, advisors should listen to their rationale and, if sound, heed their advice.

THE TAKEAWAY Involve your assistant or operations manager early in any moves toward independence or a new broker-dealer and listen to all suggestions — and warnings — they offer.

CHOOSING A BROKER-DEALER

How to Determine Which BD is Right for You

What's the broker-dealer's compliance culture?

Broker-dealer and advisory rules are the rules, whether from the Financial Industry Regulatory Authority (FINRA) or the Securities and Exchange Commission (SEC). But while all broker-dealers have to follow the same rules, many of those rules are open to interpretation and each BD tends to interpret the requirements in their own way.

"Interpretation can be really difficult, and since no one focuses on it, most advisors assume every broker-dealer operates the same way," Jenny said, adding that firms interpret rules differently, but not in the sense that some are stricter and others more lax.

"Rather than just saying 'yes' or 'no' about an advisor's website material, for example, we'll spend time working with the advisor to get the material into the best shape possible so it can be approved easily and quickly," Jenny said. "We think of our Compliance area as Consultative."

THE TAKEAWAY Separate from how rigorous their compliance efforts are, every broker-dealer has a compliance culture that can be adversarial or supportive. Investigate the firm's approach.

How is the broker-dealer's transition team organized?

At many broker-dealers, a recruiter is responsible for the initial outreach to a prospective advisor, developing the relationship, and eventually persuading the advisor to affiliate with the firm. At that point, a transition team takes over, helping the advisor with the move. Because the recruiter is incentivized to attract advisors, there can be a disconnect between the "wooing phase" and the "onboarding phase" of the relationship.

"At SPS Family, we don't have a separate recruiting function," Jenny said. "We have representatives of our firm development department maintain ties to an advisor throughout the process. The person who talks to the advisor initially is the one who moves them over and works with them throughout the transition. This keeps the entire process honest so that we're not selling something that doesn't fit what actually happens. We believe that we're picking the right advisors as much as they're picking the right firm for them, so we want to be able to walk them through the entire process with the same people, gauge the advisor's reactions, and see if we'll ultimately be a good fit for each other."

THE TAKEAWAY Everyone enjoys being wooed. Make sure you understand what happens after the wooing process ends.

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Will I be a name or a number?

There are advantages of scale in any business, and in the broker-dealer world, larger firms can provide a wider array of services and offer other advantages to advisors. At the same time, serving large numbers of advisors can mean a significant reduction in personalized service resulting from the standardization that occurs in giant organizations as well as their bureaucratic structure. At many broker-dealers, therefore, advisors often wind up feeling more like a number than a person.

"As a firm, we've decided to stay mid-size, with about 1,000 advisors, so that we can provide a full range of services yet still know all our advisors, take care of them, and provide friendly support," Jenny said. "Our back-office staff members know advisors by name, which often shocks advisors coming from other firms where they tell us they joked about having to use their 'dog-tag' numbers."

When investigating a prospective broker-dealer, therefore, ask to see advisor-service operations in action and talk with other reps about their service experiences before joining.

"At our firm," Jenny said, "we have instilled a DELIVER service model, where every call is answered by a person, advisors are directed to appropriate staff for assistance, and the staff member who receives the call is empowered to take action and solve whatever situation the advisor faces."

THE TAKEAWAY Service levels at broker-dealers vary. If personalized service is important to you, make sure it actually exists at the prospective BD.

We wish you success in your succession planning as well as aligning yourself with the best broker-dealer for you. Contact us in Firm Development for more information about affiliating with the SPS Family! Email FD@bdops.com to indicate your interest. Let's have a conversation!

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ABOUT SPS FAMILY

The SPS Family consists of two broker-dealers, Sigma Financial Corporation and Parkland Securities, LLC; a Registered Investment Advisory firm, Sigma Planning Corporation; and a back office, known as BD Ops, LLC. The companies, based in Ann Arbor, Michigan, are under common ownership and led by an experienced executive team. The SPS Family prides itself on personal service to independent registered representatives and investment adviser representatives from across the United States. We consider our representatives family as we strive every day to provide them “Independence. DELIVERED.”

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