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COVER STORY

Graying industry, growing opportunity

Many of Greater Boston's financial planners and advisers have no formal succession plan in place. Some local firms are taking advantage of the uncertainty about the future.

TAG Advisory Services hired four millennials to train as advisers in recent months. Shown (from top left) are Gregory Killdea, Rebecca Costa, Adam Willis and Bryan Acuto. In front are TAG President Bill McCance (left) and John Cadigan, national sales manager.

BY GREG RYAN
gryan@bizjournals.com

Last year, two financial advisers with Cantella & Co. Inc., a Malden-based broker-dealer, died suddenly.

One adviser, a man in his 70s, had suffered a heart attack, according to Cantella President Jennie Devlin. His firm had a plan in place for his son to succeed him, and while his family reckoned with the tragedy, his business continued on with minimal disruption, she said.

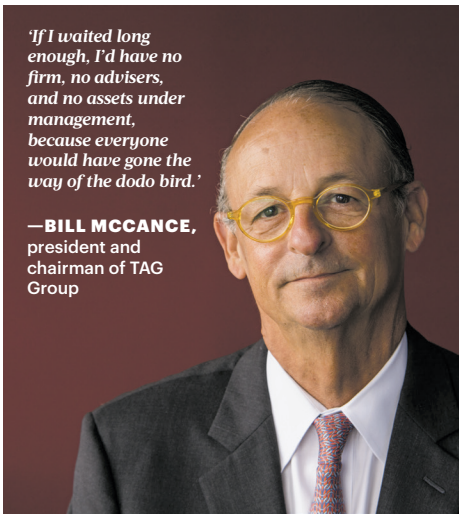
The other adviser, also in his 70s, died shortly after being diagnosed with pancreatic cancer, Devlin said. He did not have a succession plan in place, forcing Cantella to scramble to try to hand over his clients to another adviser in its network, she said. It wasn't easy.

"The clients didn't know the new adviser. They were upset," Devlin said. Most of the adviser's one-time clients soon scattered to other firms, according to Devlin. What's worse, with no plan in place, the monetary value his business may have had for his family was lost.

Cantella's experience serves as a cautionary tale to Greater Boston's financial planners and advisers. The profession is graying fast: Nearly half of assets nationwide are managed by advisers 55 and older, according to a study from Boston-based consulting firm Cerulli Associates last year. Yet less than a third of advisers have a formal succession plan in place, according to another study by the Financial Planning Association.

While the problem is a national one, it's felt especially in the Boston area, given the large number of financial advisers locally as well as a regional financial-services industry built to serve them. Massachusetts is home to thousands of individual advisers, collectively managing hundreds of billions of dollars.

For most firms, the lack of a succession plan poses an immediate threat. Clients risk being left without a trusted adviser to manage their retirement money. Advisers, should they be forced to suddenly step down, risk sending their clients and employees into a panic –



'If I waited long enough, I'd have no firm, no advisers, and no assets under management, because everyone would have gone the way of the dodo bird.'

—BILL MCCANCE, president and chairman of TAG Group

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— SUSAN KAPLAN, president of Kaplan Financial Services

and watching their hard-won book of business, built over decades, quickly lose its value. Broker-dealers and other firms that support advisers risk losing valuable revenue sources.

But where there's risk, there's opportunity. Wealth management firms in Boston and beyond are striving to benefit from the businesses that have been unwilling to plan ahead, either by acquiring them or by positioning themselves to pick up their clients once their leaders stop doling out investment advice.

Letting go is hard to do

Wealth management's succession problem isn't a new one, as consultants have been sounding the alarm for years. The issue is that, despite that alarm ringing in their ears, many advisers are still plodding along with no plan in place.

"Firms are recognizing there is this impending succession cliff. But so many advisers don't know where to start, and they prolong thinking about it until it's too late," said Marina Shtyrkov, a Cerulli analyst specializing in wealth management.

The problem is most acute for smaller shops with only a handful of advisers, and especially one-person shops. Those firms have their hands full making and monitoring investments, and it's difficult for them to find time to identify an adviser outside of the firm to one day take over their entire business – not to mention steeling themselves psychologically to walk away.

"You don't want to know the number of times I've heard, 'I'm going to die in my boots,'" Devlin said. "These advisers love working with their clients. This isn't a 9-to-5 job. It's literally their passion."

In some ways, it's easiest when a son or daughter is set to take over the business. Such is the case for Susan Kaplan and her Newton-based Kaplan Financial Services. The 71-year-old has a valuable business to protect: The 11-employee firm manages $2.1 billion in assets, and Kaplan has ranked among Forbes Magazine's top 100 wealth managers nationwide.

"In this field, you really hit your stride in your 70s. I have no intention of retiring for decades. But, things happen," Kaplan said.

Her son, Lawrence, joined the firm more than a decade ago following a career building websites. He is now Kaplan's vice president and is set to succeed his mother as president. Five years ago, Kaplan started a revenue-sharing plan to help keep her son and three other key employees inside the firm. They now receive 25 percent of the firm's profits, she said.

But in cases where there's no family waiting in the wings, things get trickier. The pool of young advisers is limited, given the high hurdles to entering the industry. "Historically, this business has used an eat-what-you-kill model," Shtyrkov said. "You come in and you're almost immediately expected to find new clients." But some firms are starting to provide new advisers a longer on-ramp, she said.

Brokering solutions

Broker-dealers – firms that handle trades that advisers make on behalf of clients, and provide them with technology and other services – are well-positioned to help advisers with succession planning. Several local broker-dealers are getting more proactive about assisting their advisers with the issue.

Last year, Cantella hired one business development professional to help its member firms recruit new advisers, and another to help them set up succession plans. It's created three template succession-related contracts for its advisers, designed to remove much of the legal work from the process. One is most appropriate for bringing on a junior adviser to a firm, another for transferring clients to another Cantella adviser in case of an emergency, and a third for selling their business, including assistance with valuations.

Boston-based LPL Financial Holdings Inc., the nation's largest independent broker-dealer, announced last month that it was creating succession solutions for its advisers. For one, it's about to roll out a "baseline insurance" of sorts to advisers, LPL Executive Vice President Greg Cornick said. Should an adviser suddenly leave the business, LPL would, within days, sell the firm or buy the firm itself in order to sell it later. That's a process that can now take weeks or months. In many cases the longer it takes, the more value the firm loses – a bad thing for the advisers, their families, and LPL itself.

"This is a guarantee you will be monetized," Cornick said. "That's a big deal. You're eliminating massive uncertainty."

Playing offense

Bill McCance sat poolside one brisk morning last November in Las Vegas. He had traveled to Sin City three days ahead of a conference, to devote time to thinking about the future of his firm, Woburn-based Trust Advisory Group, without any distractions. He'd just reached some of his long-term goals for the business, he said, and wanted to reflect on what should come next. He was hit with a sudden realization.

"If I waited long enough," McCance said, "I'd have no firm, no advisers, and no assets under management, because everyone would have gone the way of the dodo bird."

He recognized many other firms were in the same boat. The 56-year-old's solution? Hire a squad of millennials to help older advisers transfer their clients to a new generation.

Trust Advisory Group is not a broker-dealer like LPL or Cantella, but an advisory firm itself. The transferred clients would become Trust Advisory Group's clients.

While broker-dealers have played defense, other local financial services firms have gone on the offensive, looking to grow their own businesses through others' uncertainty about their futures.

60%

Percentage of advisers nationally within five years of retirement who do not have a formal succession plan

73%

Percentage of all advisers nationally who do not have a formally documented succession place in place

87%

Percentage of firms nationally with fewer than $50 million in assets under management that do not have a formal plan

SOURCE: FINANCIAL PLANNING ASSOCIATION/JANUS HENDERSON INVESTORS, 2018

Following McCance's Vegas awakening, he hired four 20- and 30-somethings to train as advisers – part of an initiative he dubbed TAG 2.0. One turned down Goldman Sachs to join his firm, he said, while another is in the National Guard. A third came to the firm after helping immigrants process asylum applications at the Mexican border.

"(The millennials) are not just avocado-eating machines," McCance said. "They are human beings that actually care about the world, care about people."

Trust Advisory Group is offering to buy other advisers' entire book of business and kick off the transition from the original adviser to a TAG 2.0 member.

Alternatively, a TAG 2.0 member would take over part of an adviser's book, as a trial to see if the adviser finds TAG 2.0 a good match.

"Everyone ranks their clients best to worst," McCance said. "We'd offer to acquire the lesser clients from you… They're going to get full-service financial planning, and you're going to get some revenue. Then, over time, the next third, then hopefully the top third."

With the financial planning industry aging, "consolidation's the word," Shtyrkov said. "The result, and also the opportunity here, is going to be increased consolidation. Larger teams are best-positioned to meet this challenge."

Boston Private Financial Holdings Inc. and Crestwood Advisors Group are two larger firms that are being aggressive about adding significant amounts of assets. Boston-based The Colony Group, with about $10 billion under management, is another. It's completed about one merger a year since 2011.

"Just about every firm that's merged with us has listed succession planning as a reason for merging with us," Colony Group CEO Michael Nathanson said.

The firms being acquired by Colony Group are sizable firms in their own right. When it merged with the Boston law firm Mintz's wealth management arm, for instance, it gave the unit's two owners equity stakes in Colony and set up a path for its younger advisers to own Colony stakes as well, according to Nathanson.

"The fact is, there are many organizations that need a succession plan, and we offer a succession plan for them, if they're open to a merger with us," he said.