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Sell and Stay

How To Monetize Practice Equity Ahead of Your Retirement

By Todd Doherty
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The Risk Of Waiting To Sell

Nearly half of advisors are expected to retire in the next 5 years, which will saturate the market for acquisitions and put monetization of equity at risk for advisors who wait too long to sell.

The Critical Risk Factors: Delaying selling till retirement puts many elements of the advisor's succession at risk, regardless of the market. However, current market conditions are creating additional risks that should not be ignored.

- **Shift To Buyer's Market:** The looming retirement wave will dramatically increase the supply of practices for sell. Many of the buyers from the last ten years will soon become sellers. This shift will suppress prices and negatively impact leverage among sellers.

- **Age Is An Important Number:** The average age of advisors looking to retire by 2030 is 70. This is also the average age of the clients at these practices. A client average age of 70 is a major tipping point toward a steep downward slope for practice value. It also increases the likelihood of unplanned death or disability.

- **Generation Gap:** There is a significant age gap between retiring advisors and the Nextgen (15-20 years or more). This creates a dearth of successors to take over as advisors retire.

- **Trading Equity for Income:** Many delay selling/retirement because they have not developed a plan or vision for their succession. This is often coupled with an erroneous belief that practice value is steady and that income is better than monetization of equity.

Bottom Line: An advisor's succession and retirement are not mutually exclusive. Advisors can "have their cake and eat it too," by taking equity off the table while remaining with the practice through a "sell and stay" arrangement.

The Tipping Point For Practice Value

A practice valuation serves as the basis for negotiations in deal making. Many factors impact practice value, the most important of which is average client age.

Why It Matters:
As clients age, they transition from wealth building to retirement and begin drawing down assets for their own use. They also begin to pass away - leaving all of their assets to heirs. The transition from a growing client book to a declining book happens when the average client age is 70.

Growth Is A Key Mitigation Factor:
To offset this natural transition of client assets and its impact on value, advisors must continue to grow the practice.

- Most advisors stop growing their practice when they near the last 5-10 years of their career.

- Multi-gnerational planning is critical for ensuring assets remain inside the practice, even if clients pass away.

- Without consistent growth that exceeds outflows, practice value will steadily decline.

Reduce Risk

Cashing In Chips: Taking equity off the table also takes risk off the table. Holding 100% of your practice equity until retirement is comparable to keeping clients in aggressive portfolios near or at retirement.

Tax Treatment of Equity Versus Income: Most "Sell and Stay" strategies result in better tax treatment of the asset (goodwill) that is being sold. Allocations to consulting (ordinary income) are usually not required when the selling advisor continues to receive revenue after the sale.**See "Go Deeper" Below*

Improved Practice Quality: Many "Sell and Stay" scenarios result in a better client mix, steady growth, and improvements in other key metrics that positively impact practice value. This often increases the overall value of the final tranche, resulting in greater monetization over time.

Go Deeper:
Read the article on the "Tax Implications of Buying and Selling a Practice"

Improved Work/Life Balance

Do More Of What You Love: "Sell and Stay" transactions let advisors hand off the elements of owning a practice that they don't like and shift to those they do - such as pure client service roles, COI relationships, and others.

Find Balance: Handing off unwanted roles reduces the burden on the advisor and frees up time for family, travel, or other pursuits.

Finance Bucket List Items: Equity taken out prior to retirement can be used to accomplish specific bucket list items while you are young enough to enjoy them.

Smoother Transitions

Sell and stay strategies often result in a longer transition of client relationships from seller to buyer. This results in:

1. More time for clients to build rapport and trust with your successor.
2. Less disruption due to change, leading to better client experience.
3. Less client attrition - a common risk associated with all deals.

The Value Proposition

Monetizing Equity Without Retiring

Typical Deal Strategies

Although there are no limits to the possible scenarios for a sell and stay arrangement, the majority of deals follow one of three strategies.

TRUE SELL AND STAY

This strategy is when the advisor sells 100% of the equity in their practice, with the seller staying on to service a select group of clients on behalf of the buyer. The seller will receive compensation from the buyer based on a consulting agreement. The seller's tenure in the buyer's practice is usually up to 3 years, to bridge a gap between monetizing equity and being ready to retire.

+ **PROS:** Seller able to exit gracefully while maximizing economic benefit and extending the hand-off of clients.

- **CONS:** The seller may resist or struggle to adopt the buyer's way of doing business.

DOWNSIZING

Also known as a partial client group sale, this strategy allows the seller to downsize the total client group and reclaim time to spend with family and other life pursuits. A common side benefit is creating a higher quality practice and regrowing the equity through quality rather than quantity, enhancing the value of the advisor's time. This strategy is also used to test the waters for a complete succession to a specific buyer.

+ **PROS:** Seller able to take equity out of the practice ahead of retirement, enhancing work-life balance and the value of their time, creating a succession plan.

- **CONS:** It is often difficult for the advisor to choose the right client group to sell*, and may temporarily reduce profit margins due to the reduction of revenue against fixed expenses.

PARTNERSHIPS - PARTIAL EQUITY

Partnerships are often used to facilitate the seller's succession plan, and are a hallmark example of selling partial equity. This strategy differs from a true "Sell and Stay" as the seller remains in the owner's seat and the partnership can continue for many years. The initial selling partner is often the first in line to retire. This approach lets advisors leverage different strengths of the partners to create a better practice while allowing each to operate in best fit roles.

+ **PROS:** Seller able to take equity out prior to retirement while sharing the responsibilities of ownership and creating a legacy business.

- **CONS:** The seller must the partner for long-term success and adapt to a higher-level of business management.

**Client group sales should be a vertical slice of the client group with a mix of clients from each segment and not a means for only selling lower end clients. A Succession Coach can assist with selecting a client mix that will appeal to a buyer and still meet the selling advisor's goals.*

Its Time To Sell

The Market Is Still Hot For Practice Sales

The market for practice sales has steadily increased over the last 10 years. Moving into 2025 is the best market we have seen to date, with demand still high among buyers. Couple with growing access to capital and strong practice valuations, sellers who act now can maximize the monetization of the equity the have built over the last several decades.

Inaction Is The Greatest Risk

Many advisors delay planning for their succession due to the hold of the "Five Year Myth." This myth of assuming retirement will occur in five years allows advisors to feel as if they have acknowledged the pending milestone without actually committing to doing the work of planning their succession. This false assumption is what leads advisors to stop investing in growth activities and to ignore the impact of client age and slowed or negative growth on their practice value and eventual monetization of equity.

Peace Of Mind Comes From Planning

The value of succession planning and sell and stay strategies does not only lie in the monetary reward, but in the peace of mind of knowing you have a plan, you've reduced your risk, and you have a competent successor ready for your retirement.

You Wouldn't Let Your Clients Go It Alone - You Shouldn't Either

Just as your clients can't make a financial plan on their own and need to leverage your advice and expertise, advisors must also recognize the need to leverage an experienced Succession Planning consultant to help them plan for and manage their

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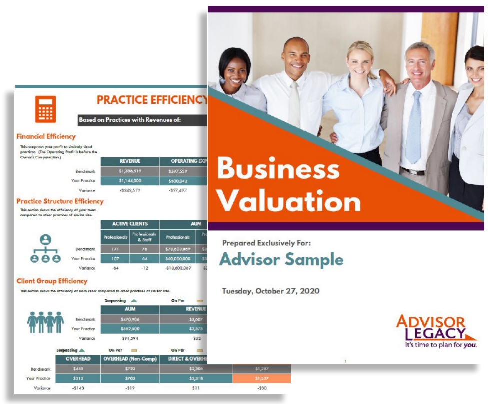
Next Steps - Get Help

Whether you're looking to buy or sell, we have a full suite of services designed to help you get the best deal possible.

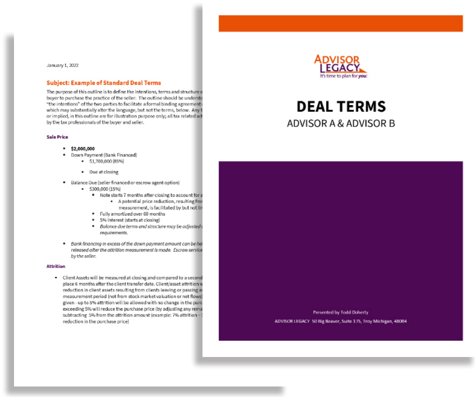
Practice Valuation

Our award-winning practice valuation is used both as a basis for negotiating a deal and for securing bank financing.



Turnkey Deal Support

Three different options for completing closed deals and Nextgen successions. All three include legal agreements and term sheets, along with various levels of M&A coaching and support.



Advisor Legacy Sales Marketplace

A quality platform for buyers and sellers to find each other. Designed for open market deals both within and outside of a specific Broker Dealers. Keep it in the family, or cast a wide net across the industry.

"Working with Advisor Legacy is like having a set of binoculars to see the future and a magnifying glass to not miss any details.They guided me through each step, advised me on each decision, and helped me select a trustworthy and knowledgable buyer that gave me the freedom I desired and gave my clients and team a great advisor and leader. "

- Derrick Kinney, Former Advisor , Author, and Speaker

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About The Author

Todd Doherty, Vice President of M&A at Advisor Legacy

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Todd Doherty serves as Vice President for Advisor Legacy, where he helps advisors navigate the entire M&A process from start to finish. With over 15 years of senior leadership experience in financial advisor firms, Todd knows first-hand what it takes to grow a successful practice and stays at the forefront of critical trends impacting the financial advisor industry.

His specialties include growing practice value, succession and acquisition strategy and planning, business valuation analysis, and operations. Todd works closely with his team of executive coaches and analysts to help advisors make smart decisions and successfully execute practice sales and acquisitions.

Among his many accomplishments, Todd was the driving force behind the development of our valuation methodology and practice sales process. As the market has evolved, Todd has continued to enhance our services to match the needs of the industry. This includes the development of our MaxVal Predictor™ tool and our revamped Turnkey Deal Support and NextGen Deal Support services. Todd also publishes a growing body of thought leadership on equity management and M&A through Advisor Legacy and noted industry publications including *Wealth Management* and *Advisor Perspectives*.

"Understanding this was my one shot to do it right, Advisor Legacy guided me on a path towards an eventual sale that exceeded my expectations, both in the selling price realized, and the smooth, efficient process they incorporated to get me there. I can't imagine any advisor NOT wanting to utilize Advisor Legacy if they really want to obtain the best fit and price for this critical decision. Thank you Tony, Todd, Vickie, and the rest of your team!."

- Scott Akers

You wouldn't leave your client's legacy to chance.

Why leave yours?

Advisor Legacy is **dedicated to helping financial advisors build, live, and and leave a legacy.** With over 150 years of combined experience in the financial services industry, the firm understands that an advisor's practice is more than a business —it's a legacy built on decades of client trust and relationships.

We help advisors across The Advisor Curve™ break through hurdles by providing timely services to fit their unique needs - and only what they need. From starting their career as an associate or solo advisor, all the way through to their succession, we provide strategic consulting and coaching paired with proven processes and tactics to turn strategy and "good ideas" into consistent, repeatable action.

Recognized By

Our Brand Promise

We will provide you with what you need, when you need it - no over-sized packages, long-term commitments, or services you don't need.

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