Creating value and certainty within your independent advisory firm

Part II: Taking control of your future: scale, value and certainty

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Introduction

Advisors are usually not emotionally or philosophically willing to address business structure issues proactively.

The majority of independent advisors have embedded systemic business risks that may threaten their firm's long-term ability to grow, generate revenue and profits, and allow for a path to exit the business at an advisory firm owner's choosing. Many advisors decide to ignore these issues, defer addressing them or rationalize key business management concepts as either wrong or not important. Failing to plan now almost guarantees a large majority of RIAs will watch the value of their business degrade as they near their exit from their business: client demographics worsen, pressure on margins increases and succession planning options become increasingly limited. aRIA calls this scenario the "annuity trap," meaning that the advisor is running their business like an annuity or an annual ATM, rather than a business with real enterprise value that can be realized in the future.

The harsh reality is many advisory firm owners who are seeking to exit the business down the road may find their sale or transfer options to be limited, the value of their firms to be less than expected and client confidence in their business to be degraded. Many advisors went independent to reap the benefits of the better advisory model for themselves and their clients, but as the competitive landscape continues to evolve, they will find it increasingly difficult to compete and may face erosion in their business from a variety of angles. [1]

In surprising ways, independent advisors can act much like their wirehouse counterparts who choose to stay at institutions, ignoring structural issues such as bleeding market share, and have broken brands and limited alignment with clients' objectives. So why do independent advisors choose not to address key long-term structural issues in their businesses, thereby putting themselves in the annuity trap?

It's usually because the pain threshold within their business is not great enough for them to have a desire to make changes or explore alternatives. Like their counterparts in other advisory channels, their current state may not be perfect, but exploring other alternatives is uncertain and in some ways scary. It is well documented that some change – even good change – can be stressful, and advisors are usually not emotionally or philosophically willing to address business structure issues proactively.

Part I of aRIA's four-part white paper series was a futuristic view of what opportunities and challenges advisors will face strategically and how aRIA feels the competitive landscape will change. This white paper (Part II) will delve into the key challenges independent advisors face and how advisors can take control of their future. It will also address key business management challenges and how to lay the groundwork to be a part of an independent RIA that creates scale, value and certainty. The focus of this white paper will be twofold: how to best achieve scale and how to address business continuity and succession planning.

1. For context, please refer to the first aRIA white paper, "The Evolution of Value Creation," www.allianceforrias.com

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We always welcome your questions, your comments and friendly debate!

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Chapter I: Thinking through your advisory model of the future

Determining what is important to you

Most advisors think about their future in terms of growing their business, working with clients to achieve great outcomes, developing employees and achieving work/life balance. aRIA had its second meeting in October 2012 and came up with a shared point of view of what each member is striving for in their business:

1. **Enhancement**
   The ability to evolve and improve the value proposition to clients and continue to build scale within a business.

2. **Sustainability**
   Creating a systematic way to ensure the firm endures long past the founding partners' or owners' exit from the business. This also means sustaining competitiveness, so owners don't fall into the annuity trap, lose competitiveness in their market or risk client retention.

3. **Certainty**
   Thinking through "what if" solutions for owners, employees and clients in case of unforeseen events. This usually manifests itself in continuity planning for owners and clients. Certainty can also mean having certainty that your business will indeed be marketable in the future.

   Advisors can see the value of a retirement plan on a daily basis, but for advisors that are counting on their business value for retirement, it is essential to mitigate risk and hopefully grow value. Very few advisory firms will have enough scale to be a target for buyers that are willing to pay a price that represents a large multiple of a firm's cash flow.

This thought process is relevant to all advisors. Who doesn't want peace of mind by achieving enhancement, sustainability and certainty in their business? All advisors can agree that growth is important, but what is equally important is deciding the best way to achieve growth while addressing scale, building value in your business and providing certainty for all constituents.

Although advisors can choose to put their heads in the sand, deciding to do nothing is almost certain to result in eventual fee compression, erosion of margins, challenges in recruiting top talent, a below-market firm valuation, limited liquidity options and degradation of enterprise value. Conversely, firms that are growing disproportionately tend to take on a mantra of grow, innovate or combine forces with complementary

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> "If the options that exist today were available a decade ago, I'm not sure we would have built Exencial from the ground up."
>
> John Burns, President of Exencial

entities versus choosing to let change happen to them, thereby dying a slow death. In other words, what is the point of growing if an advisory firm could have its bubble burst at the end because the owner failed to address key business management issues?

As mentioned earlier, most advisors choose to not address these challenges and opportunities out of convenience. But is it a good idea to ignore building an advisory business that has certainty, is sustainable for the long haul and has an ever-improving value proposition a good idea? aRIA feels that is a recipe for a catastrophic outcome, manifesting itself in stagnant growth, risk and marginalization.

So what can advisors do to tackle these issues head-on? Asking yourself the following questions may be a good start:

1. What is the vision for the future? Do I (and my team) want a lifestyle practice or a sustainable business?
2. To achieve scale, would I be better off building as a standalone entity (status quo) or evaluating strategic opportunities with other entities (outsource, strategic alliance, combination, being acquired)?
3. What is my personal strength and the strength of my firm? Can I build internal competencies to effectively compete in the future?
4. What is my time horizon to exit the business? What certainty do I need to create now for my firm and my clients?
5. Has my firm hit a plateau in terms of growth? What new capabilities, people, evolution of value proposition and infrastructure are required to accelerate the next phase of growth?
6. If I maintain the status quo and do not position my firm to invest the time, energy and money required for growth, am I prepared to concede eventual erosion in my enterprise value?
7. Does each new revenue dollar added to my business expand margins? Revenue growth without expanding margins may not be accretive to value and may actually trigger an annuity trap.
8. What economic and emotional investments are my family and I willing to make to get to the next level of scale and innovation?

John Burns, President of Exencial, brought this issue to life at a recent panel discussion.

"Ten years ago when we just started ramping up, I had a lifestyle business. My main strengths were setting the vision for the firm and selling with investment acumen. The options that were available to me in terms of scaling up were very limited and I was probably undereducated on what existed. So, we decided to go it alone and build a sustainable business ourselves. If the options that exist today were available a decade ago, I'm not sure we would have built Exencial from the ground up."

Creating the virtuous growth cycle

What makes seeing long-term challenges and opportunities so elusive? It's due to the fact that growth cycles happen over extended periods of time, perhaps five to seven years in the RIA space, and advisors usually have difficulty identifying when growth cycles are over. The growth cycle usually works like this (see Figure 1 on page 5):

1. Advisors develop a new domain of expertise, knowledge or capability (in many cases, this is establishing a firm).
2. Through deliberate practice and repetition of the newfound capability, traction is gained and a virtuous cycle

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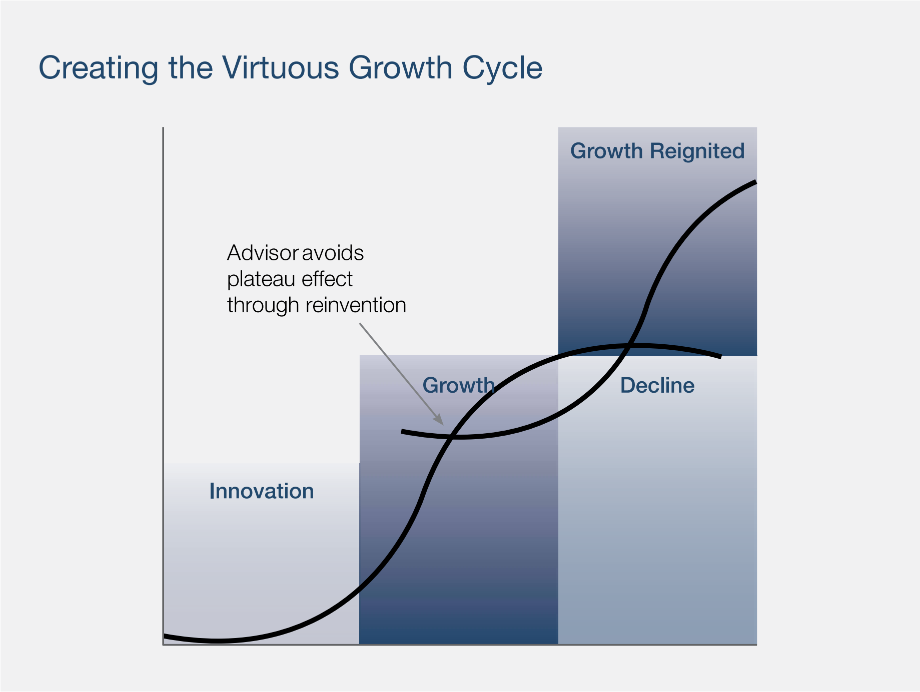

Figure 1

propels advisors into a sweet spot of competence and confidence.

3. Once “mastery” of the newfound capability is achieved, advisors may become complacent, leading to declining or limited growth.

This could be illustrated in a real-life example from the Harvard Business Review that many advisors can relate to. “Never having played 18 holes of golf, in April 2010, [Dan] McLaughlin quit his job as a commercial photographer to pursue a goal of becoming a top professional golfer through 10,000 hours of deliberate practice. During the first 18 months, improvement was slow as McLaughlin first practiced his putting, chipping and his drive. Then, as he began to put the various pieces together, improvement accelerated, consistent with [a virtuous growth cycle.] While he didn't track how quickly his handicap decreased, … 28 months into the project, he has surpassed 91% of the 26 million golfers who register a handicap with the US Golf Association (USGA) database. Not surprisingly, his rate of improvement (if measured as handicap) is slowing as he faces competition from the top 10% amateur golfers.”[2] McLaughlin's handicap was 6.2 as of October 2012.

This plateau effect is true for many advisory firms. Increasingly, the RIA channel is seeing dispersion where larger, more sophisticated entities are gaining share, while other advisory firms are stagnating. In fact, at the turn of this decade, more than 60% of all RIA assets were being managed by the top 742 RIA firms (4.5% of firms registered with the SEC).[3] The trend of larger RIAs gaining share continues to grow. Currently there

2. “Throw your life a curve,” Whitney Johnson, Harvard Business Review. www.thedanplan.com

3. 2011 Cerulli Client files

Registered Investment Advisors by Size[4]

RIA Assets Under Management	Firms	% of Total	Total AUM ($B)	Market Share
< $10M	7,113	43.0%	$15.6	0.8%
$10M to $25M	2,629	15.9%	$42.5	2.3%
$25M to $50M	2,039	12.3%	$70.9	3.8%
$50M to $100M	1,578	9.5%	$107.9	5.7%
$100M to $250M	1,742	10.5%	$259.7	13.8%
$500M to $1B	408	2.5%	$277.6	14.7%
$1B to $5B	303	1.8%	$558.2	29.7%
>$5B	31	0.2%	$309.5	16.4%

Figure 2

are 334 or more "billion-dollar" assets under management firms nationally, up from fewer than 100 five years prior (see Figure 2).

In addition, numerous industry reports from asset custodians or industry trade publications feature "best managed" firms with growth rates far beyond their peer group.

Why are certain advisory firms able to achieve best managed rates of growth, while others stagnate? aRIA feels the key distinction is effective business planning and the ability to generate people, process and investment to take a firm to the next level. Ron Carson, Founder and CEO of Carson Wealth Management Group, adds, "I reached the next level of scale and growth in my business when I looked at bringing on capable people as an *investment*, not a necessary expense. We now have an entire team that is activated and motivated to drive future growth. Carson Institutional Advisory (CIA) was born out of this investment."

Although there is nothing wrong with owning and operating an RIA that has limited growth and upside potential, advisors must also realize they are essentially opting into the annuity trap and may be creating risk for themselves and their families. Conversely, advisors that are seeking enhancement, sustainability and certainty should consider if there is a model that exists that is superior to the model they have today or will build in the future. This process is no different than the discovery process advisors coach their clients through – both are about finding out what is important. Although the beauty of today's RIA world is choice, advisors must also take stock of their actions in terms of future outcomes for their practice or business.

Although the beauty of today's RIA world is choice, advisors must also take stock of their actions in terms of future outcomes for their practice or business.

Options available to advisors

For advisors who want to reinvigorate growth within their business, there are multiple options available. aRIA suspects that most advisors will continue with the status quo, running their own independent RIA as they have done in the past. The only time most advisors will consider another path is if there is some "shock" to their business that forces

4. 2011 Cerulli Client files, SEC ADV search

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Advisors who are more growth-oriented will proactively seek alternatives to their current model.

them to consider an alternative. That event could be personal, strategic or competitive. However, advisors who are more growth-oriented will proactively seek alternatives to their current model to see if their goals could be achieved faster, more efficiently or through focusing on what they really love to do.

An example of this is an advisor who called Advisor Growth Strategies (AGS) seeking advice on how to grow their business. After an initial discovery conversation, it was determined that the owners of this firm loved managing investment portfolios and had little interest in evolving their client experience and selling. This advisor has choices to start the next stage of growth. They could:

1. Continue with the status quo and accept low to no growth.
2. Hire a rainmaker or salesperson to lead the sales function—a risky proposition, given the firm had under $2 million in revenue and a good rainmaker would cost at least $200,000 annually or 10%+ of firm revenues.

Recruit or build an alliance with advisors who valued their investment process and had sales acumen—a difficult strategy to execute.

3. Consider finding another entity to join forces with where their investment capabilities would be complementary or accretive to another firm.

Is there a right or wrong answer? Probably not, but the answer is related to the advisor's unique circumstance. For example, if the advisor needs $200,000 in cash flow to support his personal lifestyle and is unwilling to make a personal sacrifice, then option #2 above is clearly off the table. The point is that the advisor was addressing growth challenges head-on versus putting their head in the sand. This critical and broadening thinking is a better path than expecting a better future result for executing on just the status quo.

Another example of success is the opening of Beacon Pointe Wealth Advisors (BPWA) in Phoenix, AZ. Matt Cooper, president, explains, "Bruce Meyer, managing director, is a growth guy. He was part owner in an existing independent shop and realized it was becoming increasingly difficult to compete in his market due to the increased capabilities of his competition. Instead of trying to build himself, he combined his business with BPWA to free him up to grow the business. The results have been fantastic – he has seen a 35% growth rate in his first 12 months. Most of this success can be attributed to his efforts, and the support we have been able to provide with investments, consulting, operations and technology."

Advisors have similar choices when they think about growing their business. Depending on the size of the firm, preferences of the owners and where a firm is in their lifecycle, most RIAs have the following alternatives (see Figure 3 on page 8);

1. **Develop the existing firm.**
   RIAs can choose to continue to build their own firm organically. To get to the next level of growth, material investment in people, process and capability is required. Many advisors are hesitant to make material investments as it would have an adverse effect on their cash flow and therefore take-home pay. Although few advisors would admit it, investing back in the business is difficult to rationalize.

   Advisors who decide to develop their existing firm can take action to mitigate

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Achieving the Next Level Growth

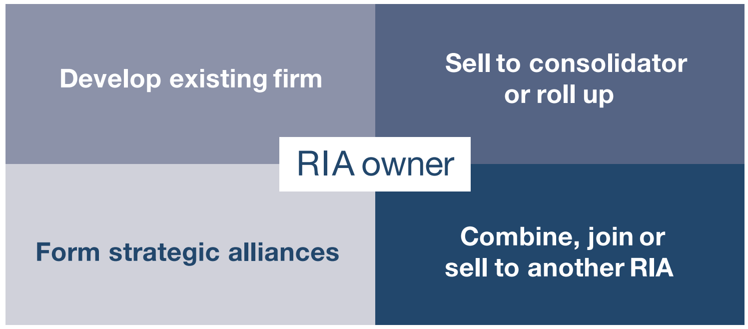

Figure 3

risk now, while thinking through how to take their firm to the next level. For example, a limited scope succession plan (i.e. buy-sell option with another local advisory firm) may be better than nothing.

2. **Form strategic alliances.**
   Instead of attempting to build a new capability, advisors can seek to build an alliance with a value-added partner that can help drive growth, while the advisor retains control and ownership of their business. There are plenty of options out there, from leveraging third-party investment platforms to building local alliances with other professional firms that can round out capabilities (such as tax, estate and other key client-experience functions).

3. **Sell to a consolidator or roll-up.**
   For many advisors, this can be an attractive alternative. These firms offer liquidity in terms of allowing advisors to sell part of their ownership to the consolidator and may provide services that the advisor perceives as value added. For example, Focus Financial lends its M&A capability to its affiliate firms to help "tuck in" smaller advisors in local markets. As with any deal, there are likely strings attached with these firms' financial models and agreements. The economics, benefits and risks of this alternative will be discussed in detail in our final report.

4. **Combine with or join an existing independent firm.**
   Instead of going it alone, the advisory firm joins forces with an existing independent firm that provides capabilities the advisor values and also may help solve for key long-term strategic issues. In addition to resolving succession planning issues, this approach may also free the advisor up to focus on client-facing activities. Oftentimes this is a very efficient and effective route to reducing risk, increasing growth rate, dialing up profit margins and solving the sustainability dilemma (and the annuity trap).

Building or finding a sustainable model

The notion of a sustainable model can simply be expressed as the ability of an RIA firm to survive, thrive and be competitive in the market looking forward. Owners should ask themselves, "If something happened to me or a key person on my team, is revenue or the client experience at risk?" The most acute risk is for solo advisory firms or advisory firms with limited professionals. This would also explain why many of these smaller firms have little to no value to an outside entity – the value is locked with the owner. The only way to unlock the value is to build out capabilities or explore combining structures with a new entity.

For advisors who decide they want to build a sustainable model, here are some helpful ideas that aRIA advisors are deploying:

- Build client-facing teams versus handling client relationships yourself.
- Decide where you want to build in-house capabilities and outsource or find strategic partners.
- Perform a personality or strength-finders assessment with your team to identify skill sets your firm has and ones you need.
- Understand the time horizon of your professional staff and owners.
- Commit to building a long-term succession plan or, at minimum, a tactical business continuity plan in case of an unforeseen event.
- Consider protecting the transfer value of your firm by purchasing key man insurance.
- Build business management discipline by aggressively managing your firm's P&L. Seek to deploy profits back into the business based on a predefined method.

When Jeff Concepcion of Stratos started his business, he wanted to build a sustainable model on day one. The first thing he did was hire a leadership team that could work with advisors and run the business. Not only did this free Jeff up to do what he loves to do – recruiting and working with advisors – but it also made Stratos bigger than him. His unique approach also won him fans within the advisors on the Stratos team. Jeff notes, "I never took a dollar out of the business in salary until we built out the infrastructure and started turning a profit. I wanted to build out capabilities for the long term. My family had a few lean years, but that initial investment in people and infrastructure is now paying huge dividends."

Chapter II: The importance of business and succession planning

"Planning is worthless – unless there is first a *strategic vision.*"

John Naisbitt, author

The importance of business and succession planning

Several recent industry studies all point to the fact that 2/3 of independent advisors continue to choose to ignore succession planning. Perhaps equally important, and less quantifiable, is how many advisors choose to ignore business planning. Is there really a point of talking about succession planning when most advisors don't have a strategic plan to start with? Without business planning, a well-laid-out succession plan will only have the effect of putting an advisory firm with limited value on life support.

AGS has worked with hundreds of advisors in the industry, and estimates the share of firms that have a fully developed and thought-out strategic plan tends to run at about 10% of all firms AGS has a relationship with. Many firms have annual planning processes, team meetings and budgets, but very few spend time thinking through a vision for the future and build a roadmap of how to get there.

Matt Cooper of BPWA notes, "We set a long-term vision for the company when we formed it, but we are in the business of constant change and evolution. Now, we have our partners from different parts of the country meet twice a year to review

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Figure 4

how we are doing against our plan and we constantly challenge ourselves to redefine the firm's direction. These meetings are not your typical partner meeting; we are trying to figure out how we can get better together and grow the business."

Defining your vision for the future

When they start thinking about the future, owners should consider their professional life, but also their personal objectives. For example, an advisor may decide they want to slow down their business activity for a few years to spend time with family or have flexibility to do a lifestyle-type activity they have been putting off for years. This type of decision will have a direct impact to business planning, ongoing operations and future growth. Firm owners who don't marry personal and business objectives usually find themselves having to recalibrate goals down the line. The chart above shows how advisors should think about strategic planning (see Figure 4). Once established, it is a constant and evolving process.

The notion of horizon planning

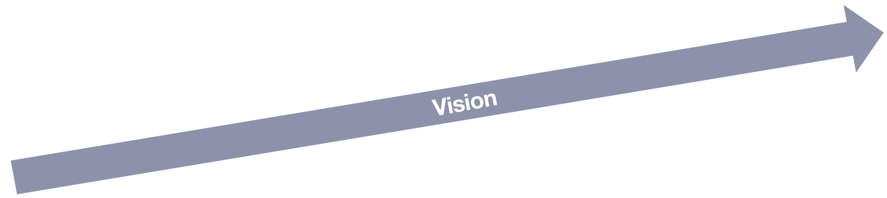
Along with establishing a vision, advisors should also look to the future and make long-term stretch goals or BHAGs (Big, Hairy, Audacious Goals) to expand their thinking of their current and potential future state. By thinking in longer-term horizons, advisors will tend to be more aggressive with their aspirations (see Figure 5 on page 11). For example, aRIA member firms are already building a long-term "horizon" plan to get to the next level of growth – which for many of them is breaking the $10 billion AUM barrier. That is a BHAG and also requires scale to achieve it.

Advisors can leverage a horizon planning process that has its origins from McKinsey and other world-class consulting firms. The concept is to build a long-term vision and work back in long-term, medium-term and short-term horizons. The plan is created and treated as a living document. All advisory firms can benefit from this approach, and there are industry reports available from every asset custodian that go deep on this topic. Advisors can also hire a coaching or consulting firm or form a study group (just as aRIA did) to work on these issues.

Are you better off going it alone or finding a new model or partner?

At some point, advisors who decide to build a true ongoing business concern (versus a lifestyle practice) make a decision to add true business management capabilities in addition to ongoing sales and advisory competencies. To get to the next level of scale and sustainability, advisory firms must be willing to make the necessary investments to achieve the next level of growth, sometimes at the expense of compensation and time. These investments include:

1. **Hiring the right talent.**
   The best managed firms and sustainable businesses hire talent beyond just advisors – including full-time business managers. Any industry report or book will tell you large advisory firms have dedicated operations, finance, technology and HR functional departments. Bringing in full-time business managers helps transform a practice into the business.



Horizon #1 (This year)

Address near term performance

- Focus on immediate impact items
- Tactical execution
- Focus on immediate opportunities

Horizon #2 (Y2 & Y3)

Opportunities that will drive profit in 3-5 years

- Usually includes future growth priorities
- Projects and investments you would like to fund in the future

Horizon #3 (Y4 & Y5)

Options that could drive future growth

- State your longer-term financial and business goals
- These tend to be aspirational – BHAGs!

Source: McKinsey Growth Map

Figure 5

In addition, hiring advisory talent is not only difficult today, but may become increasingly difficult in the future. Advisory firms should ask themselves, “Why would an advisor join my firm versus all alternatives available to the professional?” If advisors do not have a good answer to this question, the firm will find it difficult to find meaningful levels of scale given the inability to attract the right human capital.

2. **Becoming a business manager in addition to being a great advisor.**
The skill set of the typical founder of an advisory firm revolves around selling, advising and relationship management – not business skills. To get to the next level, advisory firm owners should ask themselves if they have business acumen or whether they would be better off hiring or partnering with an entity that does. A path some advisors have found is hiring a President or COO from outside their firm to help with strategy and business planning versus going it alone, freeing them up to continue to focus on selling and advising.

3. **Building scalable systems and processes.**
Most advisory entities usually choose to take a less-than-strategic approach to building scalable systems and processes in their business. As the firm grows, most firms continue to allow advisors within their team to do it “their way.” However, institutionalizing processes throughout the firm drives scale, improves the client experience and usually increases profitability. Most firms that achieve the next level of sustainability note that building and getting people to buy into repeatable processes is difficult. The question is, are advisors better off building themselves?

Without a well-thought-out vision for the future, it is impossible to know how to get there or evaluate options available to you. For example, Exencial’s vision is “To become the leading wealth management firm in the southwest with regional offices in each major market.” Although the vision is clear, John Burns is open to how he gets there.

As mentioned earlier, John has made the decision to go it alone and build his capability, but he is always keeping his options open. John explains, “We combined with a firm in Dallas in 2011 that materially increased the size of our business and increased our capability. Going through that experience, we

Advisors realize the importance of succession planning, but usually choose to ignore it.

realized we didn't know what we didn't know and there are people out there that are just as smart or smarter than us. This new mindset is opening a bunch of doors for us."

Once you have your vision set, you can more effectively understand if you are better going it alone or looking at structural alternatives. For example, if your vision includes trying to expand your business line into the foundation and endowment market, the barriers to entry may be steep and you could be better off finding a partner or combining with a firm that knows how to service that capability. Or you may want to focus on selling and serving your clients. If that is the case, you may want to hire a business manager, outsource more or find a firm with a scalable model that allows you to focus on what you do best.

One thing is certain: There is no shortage of independent advisory firms that are seeking to add advisors through recruiting or mergers and acquisitions. Much of this interest has been generated by the breakaway advisor trend and the success advisors see with consolidators or transactions they read about in trade publications. Seems like a great strategy to deploy – build scale, value and certainty by adding advisors. Unfortunately, very few firms have the knowledge, value proposition, passion or commitment to make it happen. A key question to ask is, "If I'm going to try to attract new talent, what makes my firm so compelling versus other alternatives?"

On the other hand, should advisors consider how merging with another firm could accomplish their vision more readily than adding staff? Conceptually this may be logical; however, most advisory firm owners are emotionally wedded to their firm and would rather retain control versus combining with a firm that has significantly greater capabilities and may be able to achieve the vision faster. aRIA encourages advisors to consider all of their options.

Succession-planning red flags advisors usually fail to consider

Advisors realize the importance of succession planning, but usually choose to ignore it. It goes back to the pain factor mentioned earlier in this paper. Many advisors may think, "I'm not going to retire for five to 10 years, so I'll worry about succession planning when I'm ready to sell my business." This type of mentality creates tremendous risk to advisors. Advisors must think in much longer time frames to effectively plan and execute a plan that hopefully maximizes business value and also allows for the advisor to exit the business on their terms.

A succession plan (and subsequent exit from the business) could take more than 10 years to conceptualize, define, execute and realize. If you are considering exiting the business between now and the next five years, you are probably behind the curve. Why? Most firm owners will take about a year to evaluate options – an internal succession or external succession. Once that process is completed, the owner will want to develop requirements in terms of liquidity, time to exit the business, who will be responsible for clients, etc. Once the foundation is set, the advisor will need to find a suitor. It is not uncommon for this process to take years if the decision is an external succession.

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Strategic Succession Plan Timeline

Figure 6

Once the right succession solution is found and selected, it may take three to five years for the terms of an agreement to be fulfilled, whether it is an employee-led buyout of the owner or, for external sales, an earnout where the advisor needs to stay on to achieve the terms of the deal and make sure clients and employees stay and the business continues to grow (see Figure 6).

Conclusion

Too many independent advisors may be stuck in the present and could put greater emphasis on taking control of the future. Although there may be no trigger event that forces an advisor to take a more proactive stance in defining their model of the future and focusing on a strategic business and succession plan, advisory firms would almost certainly be strengthened by doing so. Advisors who fail to plan for the future or decide to do nothing are almost certain to realize eventual fee compression, erosion of margins, challenges in recruiting top talent, a below-market firm valuation, limited liquidity options and degradation of enterprise value. aRIA encourages all independent advisors to proactively explore the options for future growth available to them. Being open-minded and looking beyond what is known in the advisor's current state could lead to interesting and different paths that could build additional scale, value and certainty for advisory firm owners, clients and employees.

Our next two aRIA white papers will focus on understanding the drivers of business value and go into greater detail of the salient benefits, risks, value proposition and economic models (and pitfalls) of the alternatives described in this paper (e.g. develop your firm, join a firm, etc.).

Highline Assets Under Management Growth

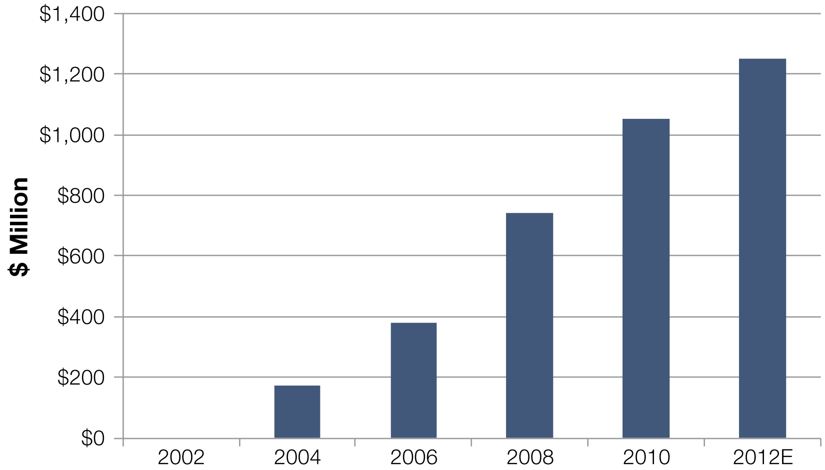

Figure 7

Case Studies

HIGHLINE
WEALTH MANAGEMENT

Charting a vision for $10B in assets via organic and inorganic growth

Highline has experienced a sensational decade of growth since its formation in 2002 (see Figure 7). Neal Simon, founder and CEO, attributes much of the firm's success to its commitment to business and growth planning. "When I founded the company, I quickly realized the benefits of scale. Each new organic client and corresponding revenue dollar drove in more incremental cash flow. In our early days, we knew we had to grow quickly, and that is why we built and committed to executing against a business plan."

As with all aRIA members, Highline is aggressively growing enterprise value. Neal feels to the extent cash flow is expanded and scale is created, additional enterprise value is created to the benefit of owners, employees and clients. Tactically, the firm is expanding margins by collaborating and creating consistent and systematic processes for partners and professionals. Neal explains, "Highline is not a culture of advisor fiefdoms. Instead, we created a culture that takes advantage of scale through combined business management, trading, investment philosophy and brand. We allow flexibility, but we are not about individuals."

Highline has also found success by combining with advisors who buy into the Highline philosophy. Since 2008, Highline has added three partners, all with books of business. Unlike other industry models to add advisors, Highline takes a flexible approach. Neal notes, "I have personally spoken to hundreds of advisors over the past few years about joining forces. The interest is there. The challenge is finding the right fit; we usually find culture and investment philosophy to be the biggest barriers." Neal notes real long-term value is achieved by combining with advisors, expanding margins and accelerating growth. "Advisors have created

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Highline Growth and Evolution

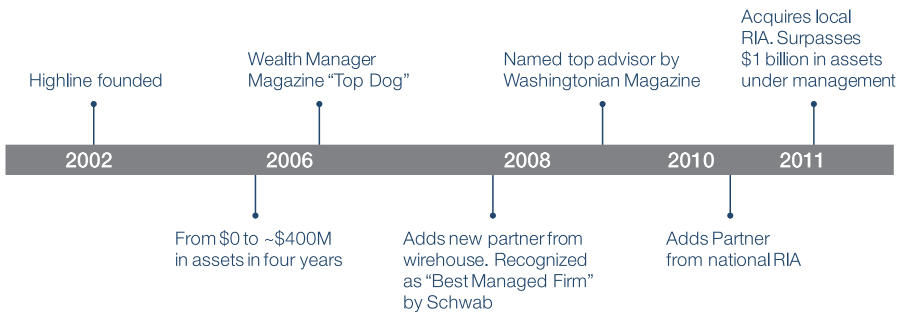

Figure 8

tremendous value for themselves just by combining with us."

What makes Highline unique is their approach to combinations. "First, we are not in the acquisition business. We want combinations with advisors that have an interest in expanding our regional footprint (from Washington, D.C. to New York) and fit with our culture and investment philosophy." (see Figure 8.) Highline offers advisors a compelling four-prong economic proposition. Advisors have four economic levers available to them – up-front cash, ongoing cash compensation, revenue sharing and ownership. Highline has a formula-based approach that allows advisors the flexibility to be paid and take on ownership responsibility based on their preferences.

Highline's success can be validated given the fact that they have combined with multiple types of advisors, including a wirehouse advisor, an existing independent RIA and an advisor who left an independent advisory firm to join Highline. Each advisor who has joined Highline makes significant contribution to the firm's intellectual capital and contributes to economies of scale. The firm's goal is to have a flexible capital structure now and in the future.

Neal has embarked on a new vision for the future. He feels that that iteration of growth will transform Highline from a $1 billion firm to the next level of scale and innovation. Neal notes, "Within five years, there will numerous RIAs with $10 billion+ in client assets. Our vision is to get Highline at that next level of scale." Highline expects to achieve the vision through growing the business organically and through continuing to add wealth advisors that are a good match for the firm.

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Creating certainty for owners and a 10x value proposition for advisors

Founded in 1986, Savant Capital Management is currently one of the largest and fastest-growing RIAs in the industry. With almost $3 billion in client assets, ~90 employees and thousands of clients, Savant is a recognized leader in the wealth management industry. Savant's commitment to growth and scale has lead to a best-in-class average compound annual organic growth rate of ~16% (not including market gains), more than double the growth rate of the RIA market as a whole.[5]

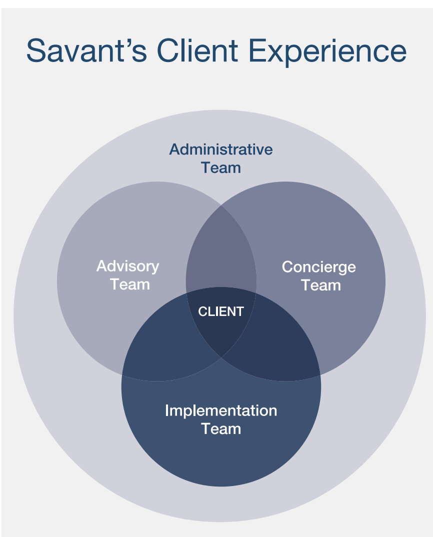

Figure 9

Savant has a passion for building ideal futures for its clients, team and the community it serves (see Figure 9). It does this by fiduciary standards, growth and managing their business. The firm's mission statement reinforces their goal: "To deliver the highest-quality integrated wealth management services to financially established individuals and institutions, as fiduciaries, and in a consultative manner." Brent Brodeski, CEO and Principal, notes, "Our success has been driven in large part by our commitment to creating repeatable processes that work and building a collaborative environment. This includes key areas such as investment management, planning, sales, client relationship management and operations."

Savant recently addressed key long-term corporate governance structure challenges surrounding how owners enter and exit the business. This was done in conjunction with the recent combination of The Monitor Group, Inc. adding ~$500 million in client assets, expanding the firm's market to McLean, VA, and adding several new owners to the firm.

The combination provided each of the founding members with a structured plan to address the succession need of the firm's founders and laid the groundwork for future combinations and additions of owners. Brent comments, "The beauty of Savant now is we have the ability to add new owners and our founders have a clear path to financial security. The best part is we are all so jazzed about growth, our team is 'all in' for growing the business at a rapid pace for another 10 years or more."

Savant is now seeking to expand its footprint on a regional basis and nationally and combine with or hire advisors that share the firm's philosophy and culture. Savant went through a strategic process to define their ideal candidate who will be accretive to the firm's growth efforts and create a win-win for Savant and advisors who may be interested in joining (see Figure 10 on page 17). Brent comments, "The good news is that unlike the various consolidators and financial buyers, we don't actually have to do anything outside of just successfully growing our business organically, but would love to work with more advisors that share our vision, values and beliefs." Savant is seeking advisors who share culture, investment philosophy and growth alignment. "The fact that we are successful first and foremost as a top advisory firm allows us to be super picky in selecting future partners. This enhances our likelihood of success."

5. Average 3-year compound annual growth rate equals 7.8%, including market gains and losses. Cerulli Client files, 2011

Savant's Advisor Experience

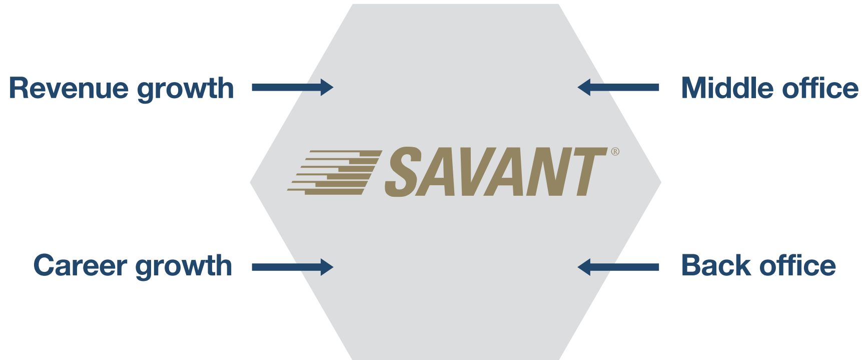

Figure 10

Savant's long-term growth engine is built around common processes for the firm, a truly homogenous platform to leverage. The firm feels many advisors tend to wear too many hats and Savant can be an alternative to free advisors to do what they do best – sell, convey wisdom to clients and manage client relationships. Brent continues, "We feel Savant advisors have the opportunity to gain a 10x advantage. This is due to the fact they can get 3x the value through our scale and support (resulting in far more clients), deliver 2x the value to these clients via more effective relationship management and robust capabilities, and get another four-plus times multiplier by focusing on what they love to do – being an advisor." According to Brent, "The beauty of being a Savant advisor is that you don't need to deal with all the time-consuming and frustrating non-advisory aspects of running an advisory practice such as compliance and HR matters. Our team provides extreme support to our advisors, allowing them to avoid getting distracted and instead focus almost exclusively on helping clients and providing advice."

The future of Savant is to grow the business through organic means and through combination with other advisors as it makes sense. In addition, Savant is also finding ways to leverage its "engine" to adjacent and related markets. The firm expects to ramp up an online subsidiary, provide investment services similar to Turnkey Asset Management Platform (TAMP), expand participation in the 401K market and continue its efforts to segment clients to deliver the most effective business model. Brent concludes, "Our chairman, Tom Muldowney, likes to jokingly refer to us achieving world domination, but growing and retaining our position as a leading growth firm in our industry works, too!"

Acknowledgements

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. On the Web at: **www.allianceforrias.com**

About Advisor Growth Strategies

Advisor Growth Strategies, LLC (AGS) is a leading consulting firm serving the wealth management industry. AGS provides customized business management solutions for independent firms seeking to aggressively grow their business and for financial advisors in transition. Our services include strategic planning, recruiting and acquisition programming; compensation design; and succession planning. We serve established independent advisors, large breakaway advisor teams and institutional-level corporations. On the Web at: **www.advisorgrowthllc.com**

About Weitz Funds

Wallace R. Weitz & Company was started in 1983 with about $11 million under management. Over the years, the firm has followed a common-sense formula: own a group of strong businesses with deeply discounted stock prices. By staying true to this philosophy – and sticking to industries it understands – Weitz Funds has been able to pursue solid returns for investors. Today the firm, a registered investment advisor, manages approximately $4.4 billion for the Weitz Funds, individuals, corporations, pension plans, foundations and endowments. Learn more about Weitz Funds at **www.weitzfunds.com**

This white paper was sponsored by Weitz Funds.

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