

# The “Secret Sauce” for Advisor Succession

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**Retired Advisor Christine Timms shares her insights on the “secret sauce” of portfolio construction relating to succession planning and discusses strategies that will help ensure a successful transition—no matter which side of the transaction you’re on.**

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Read bio

## **Retiring or Acquiring – A Smooth Transition is Key**

Succession is a milestone for any Advisor. If you're retiring, it's your last act on behalf of clients that you may have known for years—an opportunity to leave them in good hands and set them up for future success. If you are acquiring a retiring Advisor's book, it's an opportunity for growth and to earn the trust of new clientele.

In my career, I had the opportunity to be on both sides of the transaction, and in each case, the experience taught me some valuable lessons.

I retired in 2016 after a 33-year career as an Investment Advisor. My book was taken over by two associates from my team, with whom I'd worked for some time and who had strong existing relationships with my clients. This familiarity proved to be a major advantage resulting in a strong retention rate to this day. My departure was a couple of years in the planning—I was aiming to retire at 60, and definite preparations began when I was 58. My clients were well-prepared for the transition, as I'd been half-jokingly telling them for years that if I was ever hit by a bus, my associates would be stepping in.

My experience acquiring a retiring Advisor's book was not quite as ideal. I was 42 at the time—18 years away from retirement. A colleague fell ill, and he couldn't return to work. As a result, there was little time for a proper transition—the doctor's orders were that he could call his clients, give them my name, and let them know I'd be getting in touch. That was it. I had no opportunity to analyze, plan, or discuss anything with the Advisor. I was told that the Advisor chose me because he trusted me to do what I thought was best for his clients. Our firm decided on the sale price, and while I'm sure the Advisor felt underpaid, I was taking a big risk. To this day I am grateful and flattered that he chose me. However, he was a stock picker—and while I was also a stock picker at the time, my investment strategy was based on very different criteria and included mutual funds. Due to the lack of overlapping service, the different approaches to investing, and the inability to explain these differences to the clients together, there was a much higher turnover in clientele than my successors experienced when I retired. Stock pickers usually have unique criteria that their clients have accepted as their secret sauce and this uniqueness inspires clients to stay with them. However, most clients did like my approach, and ultimately, we gathered more assets from the clients who stayed.

## **Making a Move to Managed Money**

The most important element when preparing for succession is compatibility. No two Advisors' business models will ever be a 100% match, but the trick is to be fully aware of the differences. Key factors that should be considered include:

- Personal compatibility—Advisor and successor like and trust each other
- Overall approach to investing—risk level, types of securities

- Communication style and frequency
- Fee structure—transactional vs. fee-based

A particularly crucial consideration is **managed money vs. stock picking**. Although fewer and fewer of today's Financial Advisors fit the old "stockbroker" model, the unique talent of picking individual stocks—call it an Advisor's "secret sauce"—is still highly valued by certain clients. But that value is hard to monetize in a client transitioning transaction. In reality, stock pickers are likely to receive less compensation for their book, even if their successor is also a stock picker. This is largely because clients' perception is (and in most cases, rightly so) that the skill is so unique to the individual that it is difficult to pass down to the successor. From the successor's point of view, retaining clientele will also be more difficult unless the successor comes from the retiring Advisor's team.

A good solution to these compatibility issues is the use of 3<sup>rd</sup> party money management. In the latter years of my career, I joined an increasing industry trend in gradually shifting from stock-picking to a more holistic financial planning model with managed money. With that approach, you still construct unique customizable portfolios, but your clients also benefit from multiple managers' expertise and greater portfolio diversification, and there is lower risk for both the client and the Advisor. And unlike individual stock selection, it's a methodology that can be easily handed down to a successor, making client retention much easier and upping your business' value.

For fee-based managed solutions to streamline your practice, see the bottom of the page.

### **More Tips to Make Sure You're Transition-Ready**

Whether acquiring a book or getting ready for retirement, these simple guidelines will help ensure a smooth succession process:

#### *3 Tips for Retiring Advisors*

1. **Deliver the News to Your Clients Early and Directly** – It's important that your clients hear the news straight from you. Be sure to have your ducks in a row—a successor prepared to articulate their business model, team member plans, and expected dates for the hand-over. Mentioning the successor as early as possible in the conversation can also help avoid unnecessary worry on the client's part.

2. **Choose the Right Time to Retire** – I’ve written extensively about the dangers of retiring too late—an increased chance of a personal or family health crisis that could affect your business; reduced capabilities that could lead to errors; potential difficulty keeping up with technology and industry changes. But there are also dangers to retiring too early. Suddenly being without responsibilities after a potentially decades-long career can be psychologically and financially painful. My suggestion is to ease into retirement by gradually taking more time off. For instance, start by taking Fridays off and go from there. That way, your “new normal” won’t be as big of a shock to you, your team, or your family.
3. **Have a Plan for Your Retirement** – Before you call it quits, it’s important to know what you’ll be doing with your newly-found free time. While playing golf every day sounds like fun, it’s perhaps not all it’s cracked up to be if you’re used to a busy, productive lifestyle. Pursuing lifelong goals—without having to worry about profitability—is wonderful. Personally, I’d always wanted to write two books: one featuring advice for Advisors and another geared towards helping individuals seek, understand and benefit from independent financial advice; I’ve accomplished the former and am working on the latter. But before taking the leap, make sure you have a solid financial plan with multiple scenarios, like what you’ll do if the market tumbles 30% in your first year of retirement. That way you will be better prepared for whatever life throws at you.

### *3 Tips for Acquiring Advisors*

1. **Get to Know the Retiring Advisor** – To maximize your chance of being selected as a successor, you need to learn about the retiree—how their business operates, what their investment philosophy is, and what they’re like on a personal level. Find out what they think will be the best business model going forward—it might be different from what they are doing now. Yes, understanding the dollars and cents of their practice is a crucial part of the succession. But just like with clients, a personality match is more important than you might think. Envision it this way—if your clients like and trust you, they’ll probably like and trust somebody you like and trust.
2. **Learn to Articulate Your Business Model** – To successfully woo a retiring Advisor, you need to be able to explain the services you offer so that they have a clear picture of what their clients will be getting. There are many components to a business model—in fact, I offer a bundle of checklists to help Advisors identify them. But for starters, ensure you have answers to questions about your fee structure, communication style, and approach to investing.

**3. Make Succession a True Partnership** – A transition is like a last will and testament—an Advisor’s final gift to their clients, with each side holding a moral and ethical responsibility to make sure everything goes as smoothly as possible. Sometimes, an Advisor will find their successor within their team, as I did. But the successor can also hire the retiree. In either case, there should be a period of overlapping service where the client knows the outgoing Advisor is still there for them while they adjust to the successor. When the successor is not part of the retiring Advisor’s team, I’d recommend at least half a year overlap—ideally a full year—being sure to cover high-service periods around tax-loss selling, tax return preparation, and RRSP contributions.

*Christine Timms is the author of three handbooks for Professional Financial Advisors, including “Transitioning Clients and the Retirement Exit Decision” (available in paperback, e-book and audiobook). Her website, [christinetimms.com](http://christinetimms.com), provides descriptions and testimonials, as well as written and audio versions of the introductions of each book and tutorial videos. Christine can be contacted through her website or via [LinkedIn](#).*

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