

10 Questions

WITH NOTEWORTHY PEOPLE

Mark Tibergien on Practice Management and Transition Planning

by Lance Ritchlin



WHO: Mark Tibergien

WHAT: CEO of Pershing Advisor Solutions, a BNY Mellon company. He also is a managing director, a member of Pershing's executive committee, and recently he has been appointed to the operating committee of BNY Mellon.

WHAT'S ON HIS MIND: "I think far too many advisers confuse succession planning and sale planning. Succession planning is a process of ensuring an orderly transition of your business to the next level of managers and client service people and rainmakers. Sale planning is the transition of ownership from one person to the other."



PODCAST: Check out our podcast with Tibergien at www.FPAnet.org/Journal/Home/

PodcastPage.

As CEO of Pershing Advisor Solutions, Mark Tibergien heads one of the nation's leading custodians for registered investment advisers and family offices. Prior to joining Pershing, he was a principal at the accounting and consulting firm Moss Adams LLP. He has worked closely with hundreds of independent registered investment advisers, broker-dealers, investment managers, insurance companies, and other financial services organizations in the United States and abroad.

A perennial fixture on national media lists of the most influential leaders in the financial industry, Tibergien also writes a regular column for *Investment Advisor* magazine. He is the author of the books *Practice Made Perfect; How to Value, Buy, or Sell a Financial Advisory Practice*; and *Practice Made (More) Perfect*. The *Journal* asked Tibergien to share his thoughts on how to effectively manage and recruit employees, and how to plan for the ultimate transition of a financial planning practice.

1. *FPA has made practice management a top priority. What's the most overlooked need for practice management information or resources? What's missing in terms of the information practitioners are receiving?*

I think that there is a lot of information. I don't know if there's a lot of clarity. If I were to say the most pressing issue impacting advisory businesses in particular and the industry in general, it would have to do with people development and recruitment. The talent shortage is acute. The commitment that owners of advisory firms have to the development of their own people is insufficient, and I think that generally, people who are founders of their own business, managers of their own business, are leaders by accident and have not developed that particular skill around people development.

2. *Many new recruits are eager to do what they consider real financial planning while the owners of those practices want them to learn gradually and may restrict newbies' face time with clients. Some frustrated new planners break away and start their own firms, even if they're not fully equipped to do so. Is there a better model for recruiting and career paths?*

One of the challenges of people who are starting their careers is that they always want to begin at the top. So, for those of us who've never started at the top, it's a little bit more humbling, right?

So the challenge here is how do they take their skills around personal

financial planning and transform them into business and operations planning? If they're going to hire people, the question is, do they have a clear idea of what success looks like in that position, both from their perspective and from the candidate's perspective? Do they have a clear plan as to how they're going to help those individuals achieve success? Are they going to be engaged in mentoring and monitoring throughout the development of the individual?

I've heard that comment before about new recruits eager to do real planning, but for one to have the wisdom to do real planning, they have to have the experience to do real living first. It's not just a mechanical exercise. I think that what the founders of practices who've lived and breathed this for so many years believe is that it takes more than a college degree or certification to make you qualified to be a financial planner. What they're hoping is that the individuals will learn the basics and the fundamentals first just like in any career.

So I think that the burden exists for the recruits to be clear about what they expect and to be patient about what the path will be, and it's important for the owners of practices to be disciplined in the development of people and also be clear about their expectations.

3. *Are there ways to serve the middle-income market that make good business sense for practitioners?*

Oh, of course. I think that businesses can be structured to serve any market. It's a misconception that the only way to make money is to serve the high net worth [market], but good businesses can serve the middle market and even the lower end of the market if they have a clear focus on who their optimal client is—if they scale their deliverable to that optimal client and they price accordingly.

If you're not clear on any of those elements, it's really hard to gain leverage. I think what happens with many advisory firms is that they are serving too many different types of clients, and so the inefficiencies come from having processes and approaches that aren't naturally leverageable because they're not doing it on a systematic basis.

I believe that there is a great opportunity in the middle-income market, particularly in the early years when [planners are] attempting to help people to achieve their goals. Frankly, it's the market that needs the help most. They have complex lives but insufficient resources to fulfill them.

4. *Many advisory firms never achieve critical mass. What do most practice owners need to address to take their firms to that next level, and where do they make their biggest mistakes?*

Well, there really are four critical elements ... strategy, structure, processes, and people. The biggest mistake that advisers make is they don't do any of those. There's a linear thought process in executing a business plan that begins with the end in mind. So, if you have a clear idea what business you're in and how you intend to achieve it, then you can structure your organization to do so, and you can create processes that are efficient so that you get to critical mass earlier.

You place people in positions that they're going to succeed at. I think what generally happens is, planning firms tend to hire people based on their pedigree—where they went to school, where they worked previously—and don't think about whether or not they're matched properly to the job or whether they have the motivation and interest to sustain a focus on the job that they're hired for.

As an example, there is a tremendous difference in the type of people that

you'd hire if your business was focused on 401(k) plans versus dealing with the high-net-worth individual. The way in which they communicate, the way in which they work, the types of work that they have to do vary. That's one reason why it's helpful to understand what business you're in and who you regard is your optimal client.

5. *We hear from some planners that they simply want to operate a more balanced lifestyle business. Is growth an imperative?*

Growth is not an imperative, but if you are holding yourself to a fiduciary standard, you have to think about what the implications of your position are. There was an article that appeared recently about this adviser who doesn't even live on land anymore. He's been sailing for two years around the world. What's interesting is that the comments to the article received an unbelievable positive response.

I'm thinking if I were that guy's client, I'd feel a lot differently about that because you can't be totally disengaged, and you can't confuse the balanced life with having more time off than time on. A balance literally means balance.

So the question then is, if you choose not to grow your business beyond you, what happens to your client if something happens to you? And do you have some obligation to ensure that your clients are tended to? Forget the fact that you might die. What if you get disabled and you can't pay attention to them for six months, or that you may not have a system of checks and balances where you might be developing a recommendation based on some complex idea but you have nobody to bounce it off of because you don't have other people in your organization, or you don't have somebody to double check what your deliverable is going to be, or to keep you honest in how you approach things.

I have absolutely no objection to those who choose not to grow and to have a lifestyle practice, but one has to be careful not to ignore what the implications are for how they deliver to their clients. That would ultimately be the question of the potential client ... all things considered, does that adviser have the same wisdom, knowledge, and access to the best solutions as the firm with multiple practitioners and better processes? If the answer is no, my inclination would be go to another firm.

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6. *What aspects of practice valuation are most commonly misunderstood, and what are some of the keys to building value into a practice and ensuring a viable succession plan?*

I think that the most common aspects of valuation that are most misunderstood are the mistaken beliefs that value is a function of the past and that value is a function of revenue. Neither one of those is true. Ultimately, value is a function of the future—investors don't make buying decisions based on what something will do but rather what they hope it will do or what they expect it

will do. When you extrapolate the past, you're assuming the past will continue, and in many cases that won't happen.

As an example, if you have an old client base that is withdrawing money, not adding to it, the future looks a whole lot different than a practice made up of young clients who are accumulators.

With respect to the revenue question, the underlying economics of every practice is so different that if you apply the standard rule of thumb we hear based on a multiple of revenue, then

you're assuming all practices are equal. The reality is that you can have practices that are losing money but if you apply a multiple of revenue, you'd say that they were worth something.

In the end, the question is what's the net? What is available to the shareholders or the investors after fair compensation, and after reasonable overhead expense? ... We're all blinded by self-interests. It's human nature that we would be. Frankly, as long as you have people promoting the idea that they can command a higher value, why wouldn't you accept it?

The burden isn't on them to prove but the burden is on the buyer to make sure they're not overpaying, which really goes to ... the other part of your question about what are the keys to ensuring a viable succession plan.

I think far too many advisers confuse succession planning and sale planning. Succession planning is a process of ensuring an orderly transition of your business to the next level of managers and client service people and rainmakers. Sale planning is the transition of ownership from one person to the other. You could sell the ownership stake of the business, as people do when they sell to consolidators, but it doesn't

necessarily mean that you've created a business to last. If you don't address those other people issues then you have failed at succession planning.

7. *You've repeatedly been named one of the most influential people in the financial services industry by various national media. If you were to put together your own list of the most influential people in the profession, who'd be on it?*

First of all, I would say the heads of my three competitors: Bernie Clark, Mike Durbin, and Tom Nally. I would say Tom Bradley, but now Tom Nally, who's new to the position. I think Bradley I would say was the most influential, but I think Tom Nally will certainly get there.

I think Brian Shea, who is the CEO of Pershing, which is the largest clearing firm in the U.S.—and he's a key executive in BNY Mellon—would be another influential person. I think innovators like Jack Bogle of Vanguard and David Booth of DFA (Dimensional Fund Advisors) would clearly be there. I think heads of broker-dealers like Valerie Brown of Cetera and Mark Casady of LPL and Chet Helck of Raymond James would definitely be on that list.

I think that there are industry pundits and teachers and media professionals like Deena Katz and Michael Kitces and Bob Veres who are certainly there. I think people who are influential in the regulatory scheme like Mary Schapiro at the SEC and Rick Ketchum at FINRA and Dale Brown at the FSI, which is the major lobbying group for broker-dealers, would definitely be there.

I think Don Phillips of Morningstar and Jud Bergman of Envestnet would certainly be there. ... I think Charles Goldman, who just started this new group Advizent [and] is influential on CFP Board, would definitely be there. Alex Armstrong ... the past president of the IAFP [a predecessor of FPA],

has been extraordinarily impactful in the Foundation for Financial Planning. I think Mark Hurley through his provocation of his new ideas and the way in which he's helping to shape other adviser firms should definitely be there.

8. *You've been tracking RIA mergers and acquisitions for quite a while. What trends are you seeing and where do you think M&A activity is headed? To put it another way, what will the RIA landscape look like in the future?*

I believe that we are about to go through a period of consolidation. I think that the firms will still be regarded as small businesses but they will be much bigger than what they are. My view of the landscape is it will look a lot like the accounting profession, which today has a Big Four and then what they call the Group B accounting firm, which is a mid-tier, regional firm like my previous firm Moss Adams was.

Then I think there will be local firms of some size and then solo practitioners. So I kind of envision ... striations of advisory firms. The growth-minded firms that are actively merging adviser to adviser, which is where I see most of the activity, it's a way for them to build capacity and build market dominance and build brand, but I see [it] happening quite naturally.

And part of this is driven by the demographics of the advisory profession, but an even bigger element is the economics of the advisory profession. The cost of compliance, the cost of hiring new people, the cost of keeping pace with change, and the burden of having to do that while attempting to serve your clients really is causing many firms to examine whether operating alone is such a good idea.

It's been at a reasonable clip. It isn't overwhelming, but I would expect to see more mergers than acquisitions happening over the next 10 years.

9. *You're part of the Alpha Group, a 19-member peer group—some of the biggest names in financial planning and investment. What value does that group provide? Do you recommend planning professionals participate in study groups or peer groups?*

My participation in the Alpha Group has been a profound experience for me. For different reasons, I think I get something out of it that the advisory firms who are in it don't. I get tremendous insight. I get counsel on not just my business but how I conduct my business. I learn from the wisdom of the participants who've been in the business for a long time. Even though they've been in the business for a long time, they tend to be quite innovative.

I get brutal honesty. If it doesn't pass the smell test, they are quite willing to share their opinion of that. The friendships are really terrific, too. These are people who not only do I respect but I like so much that it's a very fulfilling experience from that standpoint. Would I recommend other professionals participating? Absolutely.

10. *You were once a general assignment newspaper and radio reporter. How have those skills translated into what you're doing now? And if a new planner came to you with a blank slate, what kind of career path would you recommend to enter the business today?*

I think in terms of skills, probably communication and curiosity. Those are the things I probably derived from my reporting days more than anything. I think also a view of the world that is beyond me. It's so easy when you're young and starting out that you believe ... that everything revolves around you. You are the sun, right? But the reality is that you get exposed to other people's lives, to their joys,

to their pains, their trials, and their triumphs. I think you just develop a different sense of what's important by virtue of being there. You also develop a sense of cynicism but it depends [on] what you take away from it.

Your other question was what would I recommend to other people? That's such a difficult one because you look at this business and the truly successful advisers seem to have come from so many walks of life, and many of them didn't come from the advisory profession. They came from something else. They started as teachers or accountants or lawyers.... I think that if you want to be a really good adviser that somehow you have to think about how you develop your life experiences.

If you learn the nuances before you think you're an expert, more people will think you're an expert. I think that it's helpful for people to find a mentor in what they're doing.... I'd be open to hiring people who did not come from the advisory business but who have a set of characteristics that I think would make them excellent advisers.

Curiosity would be one. High emotional quotient would be another. Ability to listen more than the ability to speak would be key. An analytical mind would be characteristic. So if people want to be successful in this business, part of it is to do a personal inventory of what they have and think about how they can translate that. And then ultimately, obviously, getting relevant education like a CFP [certification] or CFA if you choose to go the investment management route.



Lance Ritchlin is editor of the Journal of Financial Planning.