Hiring the Right Wealth Manager for Your Transaction

The net proceeds from the sale of your business adds another layer of complexity to your financial life. That's why a wealth advisor is one of the most important people you can have on your transition team. You want someone on your side who can help you address all your private planning needs.

BUSINESS OWNER ADVISORY QUICK FACTS

Factors to Consider When Selecting a Wealth Manager:

1. Fiduciary Standards
2. Planning Experience
3. Conflicts of Interest
4. Fees

Key Takeaways:

- Understand the distinction between the fiduciary and suitability standards and advisor compensation
- Make sure the advisor is focused on financial and investment planning
- Confirm the advisory team has a transition plan for the sale proceeds
- Verify the advisor has no conflicts of interests, proprietary investment products, hidden costs, or mark-up fees
- Make sure you understand the investment solutions proposed, investment criteria and performance parameters

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Factors to Consider When Selecting a Wealth Manager

1. Fiduciary Standards

When engaging clients, advisors generally adhere to either the fiduciary or suitability standard. Understanding the distinction between the two may influence which advisory firm you select.

- **Fiduciary Standard.** By law, an advisor who serves as a fiduciary has to place the needs of their clients first, ahead of their own, so you can expect to receive holistic, needs-based advice. Advisors subject to this standard typically receive a quarterly asset-based fee that may increase or decrease in line with your investment portfolio. This compensation structure is designed to help align the advisor with your long-term goals. In general, the fiduciary standard applies to investment advisors and RIAs.
- **Suitability Standard.** This standard is sometimes referred to as the broker-dealer model. In this case, the engagement focuses on how suitable a particular product or solution is for you based on your financial objectives, age and income. Advisors are usually paid a commission that varies depending on the investment products chosen for your portfolio.

The goal of defining the two standards is not to judge whether one is better than the other, but to help you make an educated decision about which one may be right for you and your change in financial status.

2. Planning Experience

You want to work with an advisor who is well-versed in the needs of business owners. Advisors who specialize in working with family-owned businesses are familiar with the issues and challenges you may face as you prepare to receive the proceeds from the sale.

Additionally, the firm you choose should be planning-centric, meaning they can assist with:

- Financial Planning, which focuses on you and your family's needs and objectives. Services provided include retirement planning, wealth transfer strategies, charitable gifting strategies, income planning, and short- and long-term care.
- Investment Planning, which involves building and managing a diversified portfolio based on your underlying investment strategy, goals, time horizon, risk tolerance and tax strategy.
- Tax Planning, which focuses on mitigating the tax liability from the transaction and executing tax-efficient solutions for the net proceeds.

Be sure to discuss all of these issues with any potential advisor to gain a level of comfort about their services. Asking about their proposed transition strategy for the first 6-12 months is an effective way to gauge the level of support you'll receive. Before the transaction, you most likely controlled 90% of your net worth because it was tied up in your business. Now you're trusting your net worth to a person you just met or have worked with on a smaller account, and your assets are tied up in a market you can't control. The transition strategy is how the advisory firm will start investing the proceeds and is designed to help you get comfortable with your advisor and the financial markets. If the person you're considering doesn't have a transition strategy, they probably haven't worked closely with business owners.

3. Limited Conflicts of Interest

This area is one where you should trust your gut. If an advisor is talking about specific investment products without first getting to understand your short- and long-term needs, it's time to press pause. Find out why they're recommending these investments and how they're being compensated. Any product offered should align with your investment strategy. Also ask for a copy of the Investment Policy Statement (IPS) that they use. An IPS serves as a road map for all decisions related to your portfolio. It outlines many things, including your investment preferences, the types of investments that can be used, target asset allocations and any restrictions. You can also use this statement to evaluate how well your advisor is doing regarding performance, portfolio allocation and engagement protocol.

Other potential conflicts are the promotion of proprietary products, undisclosed fees, and actions that place the betterment of the advisory firm over you.

4. Fees

It's astonishing how many people don't know the actual cost of their investment portfolio. Always ask your advisor for a summary of all expenses, not just their fees. Common investment expenses include management fees, commissions, trailer fees, bond mark-ups and administrative costs.

The summary should also show if it is a one-time or ongoing fee. Once you have a clear understanding of the cost and fee structure, it's important to understand what you'll be receiving in return. If you find a great advisor, it will be money well spent. Having a great advisor who serves as the COO of your family's assets is key to growing, preserving, and protecting your wealth.

In addition to the factors described above, the wealth advisor you select should interact well with the other members of your transition team and have a documented communication plan. The more communication at the beginning of the process, the better.

Remember, the sale proceeds, in most cases, will drastically change your financial situation. If you're an aggressive investor, you may want to set up several investment accounts so that the core of your investment is not overexposed to market risk and fluctuation. Market downturns are inevitable. With the right wealth advisor and proper strategy, you can minimize the impact on your portfolio and increase the likelihood of the successful management of your family's wealth.