Young Practice Owners Earn Trust Over Time

The advisory industry suffers from a shortage of new talent

By CORRIE DRIEBUSCH
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Financial adviser Jacob Kuebler has a problem--his youth.

He was fresh out of college and just 23 when he joined Folk Financial Planning in central Illinois in 2009. Two-and-a-half years later, he and firm owner Karen Folk agreed on a plan to have him take over the practice in 2016.

"There's always a little uncertainty in the back of my mind that when Karen leaves people will look at our website and expect to see someone older," Mr. Kuebler says.

"What if they don't see anyone with gray hair? Will they want to go elsewhere?"

As the transition proceeds, there are no signs of that happening. The practice has been renamed to Bluestem Financial Advisors, as Mr. Kuebler gradually pays off a business note owed to Ms. Folk, who is in her 60s. They agreed on a six-figure price.

Still, advisers in their 20s and even 30s often find their age to be a handicap in an industry where clients are often comforted by the sight of at least a few gray hairs on their adviser's head. Age may have been less of an issue years ago, when the business was dominated by brokers who focused on selling promising stocks. Now, advisers typically help clients with a range of financial and estate-planning issues, and benefit from at least the appearance of seasoning and wisdom.

The business is widely seen as suffering from a shortage of new talent. More than half of advisers now are 50 or older, according to industry research firm Cerulli Associates.

Building a new practice is daunting. About two-thirds of entrants to the training programs offered by the largest retail brokerages on Wall Street eventually drop out. Learning the ropes of wealth management and passing regulators' examinations is one challenge, but signing up clients with money to manage is an even bigger one. Many are reluctant to entrust their savings to a baby-faced rookie.

One way to jump the hurdle is to buy an already established practice, with either personal savings, a loan, or by brokering a revenue-sharing agreement. It is an increasing popular option, according to industry experts.

"We've been seeing increasing activity there," says David Canter, head of practice management and consulting at Fidelity Institutional Wealth Services. "I wouldn't call it a tidal wave, but would call it a rising sea where younger partners are seeking to buy out their older partners."

Those young buyers still must find ways to keep clients in place when their long-trusted adviser steps down.

"It's a really valid concern," says Robert Sofia, a co-founder of the financial adviser marketing and consultancy group Platinum Advisor Strategies. "The biggest thing is to not do this suddenly. You never want to bring in a younger adviser, someone without any gray hair, someone who's baby-faced, and put them in front of clients immediately."

The firm's old and new owners should move slowly, over years, with the seller helping a would-be successor gradually gain exposure to both clients and to the community, Mr. Sofia said. He suggests having the young adviser speak at client events, write a column in a local newspaper and pursue a professional designation, When they get a specialized certification, it can be celebrated with clients.

Joshua Griffin, 32, decided to buy into advisory practices after he had worked in various departments of a broker-dealer based in Ann Arbor, Mich., completed his M.B.A., and tried his hand at advising a handful of friends' and family's investment portfolios. His client base never grew very big.

He moved to Denver and, earlier this year, negotiated terms to gradually take charge of four advisers' practices over the next decade. Their combined assets under management are roughly $350 million.

He now has begun meeting the clients he expects will some day be his. For instance, one of the longtime advisers whose practice he is acquiring will introduce him to clients at a dinner at a local country club in early June.

Mr. Griffin says he is not too worried about losing clients in the transition. They are being given plenty of time to become accustomed to him, he believes. Even though some clients immediately comment on his age and ask about his experience when they meet him, he says he isn't concerned about his youthful appearance because, as he puts it, there's nothing he can do about it. He can only prove himself in conversations about investments.

As more young advisers become buyers of practices, and more older advisers prepare to retire, Fidelity has started hosting workshops in recent years on the issue of buying or selling advisory practices. Last year it formed an alliance with a bank to help provide financing for younger advisers interested in purchasing books of business from senior advisers.

Though a young-looking adviser may at first catch some clients off guard, Mr. Canter says that, at the end of the day, it shouldn't be the biggest concern.

"It's not so much a matter of age and appearance than a matter of trust," he says. "Clients are looking for a relationship and for technical expertise and understanding of investments."

Write to Corrie Driebusch at corrie.driebusch@wsj.com

http://online.wsj.com/articles/young-owners-of-advisory-firms-earn-trust-over-time-1401456367