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Flying Solo

By Donna Mitchell

Two banks approached Jean Dorrell, the principal of Senior Financial Security, about buying her solo practice several years ago. She specializes in estate planning, insurance and tax planning for elderly and retired people, and the institutions wanted to incorporate her expertise into their offerings. The banks also wanted Dorrell to move her practice inside their buildings for a transition period of about two years, in which she would turn the business over to them entirely. She decided she was not ready and declined both offers.

"I find it rewarding," Dorrell says of heading up a solo practice. "I cannot imagine myself working for a corporation." Senior Security, based in Summerfield, Fla., is in its 21st year, and Dorrell is still expanding her client base.

Her determination to lead a solo practice is putting Senior Financial Security in small and shrinking company, judging by current industry trends. Industry professionals define solo practices as firms with one lead advisor, who makes all of the planning decisions for the client base and who also functions as the business owner and principal.

This solo business model is rapidly evolving. Solo practices are selling out to larger firms and combining with one another, driven by heightened client demands on advisors' time, complex and time-consuming compliance issues, and the drive to maintain state-of-the-art support technology.

In its annual advisor survey from last year, research firm Aite Group asked firm principals how many professionals help them with their core responsibility of dispensing advice, and only 32% said no one. "The trend is going to the multi-advisor practice," says Alois Pirker, principal of research at Aite. "The single person as a business model can hardly meet client and practice demands anymore."

That is not just Aite Group's opinion. Cerulli Associates also found that solo practices comprised 32% of all RIA business models; 41% of all independent broker-dealer advisors and 25% of dually registered advisor firms, according to a 2011 study comparing advisor business models. When broken down by practice type, sole practitioners accounted for 40% of financial planning firms, and 39% of all business models overall.

Meanwhile, mergers have been continuing apace. Last year, Schwab Advisor Services counted 57 transactions involving RIAs, and the deals totaled $44 billion in transfers of client assets under management. That followed on the heels of an even busier year for mergers in 2010, when there were 70 deals, adding up to $63 billion in assets under management, Schwab found.

GOING IT ALONE

If some advisors are committed to going it alone and maintaining their independence in the fullest sense of the word, industry observers say they will have to implement smart planning for their own practices. "This is still a relatively unconsolidated business," says Peter McGratty, vice president of business development at Pinnacle Advisor Services, a division of Columbia, Md.-based wealth management firm Pinnacle Advisor Group.

Launched last June, Pinnacle Advisor Services offers practice management advice to smaller firms. "It was a business model that was prevalent in the 1970s and 1980s. It did not require economies of scale," McGratty says.

Efficiency was also less of a concern during sustained bull markets, he adds. Lately, though, volatility has defined the markets, and the customer service requirement has gone up, he says.

"Their house is worth less, their neighbors are out of work. People don't want to take the same risks," he says. "Clients decided that they wanted a more risk-focused strategy."

With such high stakes, advisors who want to keep their clients happy and their practices intact must work efficiently, industry professionals say. The first step is to develop core competencies and carry them out smoothly, says John Hill, CEO of Pinnacle Advisor Services and a senior partner of Pinnacle Advisor Group.

Advisors need to "determine where they want to be engaged in their practice and where they don't," Hill says. "If they are

Senior Financial Security, Inc.

excellent planners and relationship managers, then they should focus their efforts there." A wide range of functions can be outsourced, like investment services, performance reporting and billing, Hill explains.

Advisors need to adjust their mindsets for the good of the practice, in other words. "They need to be ruthlessly efficient with how they operate their business models," says Richard Whitworth, senior manager of practice management at TD Ameritrade Institutional. "They need to understand how to divvy up their time and take advantage of outsourcing capabilities." Solo practices can be very successful with $30 million to $150 million in client AUM - if the principal structures the business carefully and applies professional management to the firm, Whitworth says.

Advisors don't necessarily have to shed all ancillary functions to outside firms. There are a handful of marketing functions, for instance, that they can handle themselves, if done well.

Dorrell says she generates 60% of her business from referrals and the rest from educational seminars. She doesn't pitch specific products at the educational events, and has set up a referral reward system for those clients who help spread the word about her firm.

Whitworth says advisors can carry out a lot of effective marketing using online tools. Constant Contact, the popular email marketing service provider, can let advisors raise important personal planning topics with their clients consistently. And they should be comfortable using social media. "That is where you have to have a multifaceted approach," Whitworth says. "There really is no magic bullet to it."

TAPPING TECHNOLOGY

Technology vendors typically promise to relieve advisors of the headaches and minutiae of running a practice. Often, they can, says Brian Hamburger, founder and managing director of MarketCounsel, a compliance and consulting firm in Englewood, N.J.

"Everything has become completely scalable," Hamburger says. CRM firms like Salesforce.com have built such efficient service platforms that the costs of getting one user up and running and adding multiple users are very close. "I don't think people give that phenomenon the credit it deserves," he says.

Advisors are focused on acquiring technology that allows various software packages to work together seamlessly. Yet they should choose their tools carefully, experts say. "Advisors tend to overbuy software," a process that can be time consuming, Hill says.

Principals should get consultants to help them select, implement and maintain software for their firms, Hill says. They should also be willing to share resources with others. "There is no reason two or three small firms should not share a technology person to help them manage their offices," he adds.

Succession planning is critical for solo practices, industry professionals say. So-called roll-up firms often target practices with AUMs of $100 million or less because the premium to buy them is smaller. Yet solo practitioners who are ready to retire should not count on buyouts, McGratty says. Deals often fall through because the bid-ask spread is too wide, especially if an advisor has not built enough value into the practice separate from the advisor himself. If "there is no business without that advisor," McGratty says, that will heavily impact a firm's sale price.

Dorrell says she might be open to a buyout when she decides it's time to retire. For now, her clients' needs still come first, she says, and a buyer would have to be someone who will take good care of them.