

MANAGING YOUR PRACTICE: A DIMENSIONAL PODCAST SERIES

Buying, Selling, or Merging: Advisors' Perspectives on Mergers and Acquisitions

Catherine Williams: Hi, everyone, and thank you for joining us today. I'm Catherine Williams, head of practice management for Dimensional Fund Advisors. And today I want to talk about the idea of seeking external partners to help you either consider your succession planning or if, in fact, you're looking to continue to grow how an external partner might be a resource for you. We know from our advisor benchmark study that only about forty four percent of firms and it is good to see that number does continue to go up each year. But still only about forty four percent of firms indicate they have a succession plan in place. Likewise, for many advisors we work with they're in a place in their business where they're needing to make really crucial decisions about how they get to that next level of growth. And do they build it? Do they buy it? Do they partner with someone to help them achieve the next five, 10, 15 years of growth that they'd like to see in their own business? So it's in the spirit of really both of those veins, if you will, that the idea of engaging with an external partner, what that could look like being in that seller seat, if you will, which it certainly has been a sellers environment for a lot the last few years. What does that look like? What does that process look like? And what are some of the decisions that may need to be made along the way. To help me with this discussion, I'm really excited and looking forward to hearing the unique perspective of Susan Strasbaugh of Buckingham Strategic Wealth and Karen Keatley of Modera. Susan and Karen, it's great to have you with us today.

Susan Strasbaugh: Thanks, Catherine. It's great to be here.

Karen Keatley: Thank you.

Catherine Williams: So I'd love to start by giving our audience just an understanding of your background, a little bit about what your business look like prior to joining Buckingham and Modera and really how you think about engaging with clients. I think that tells a lot about an organization. And so as we sort of level set for each of you, Susan, I'd love to start with you, if you could, just to give us a of sense on your background and what the businesses look like.

Susan Strasbaugh: Sure, happy to do that, so I started my business in 1998. Got my CFP and my husband and I decided to make a lifestyle change, moved to Colorado to raise our daughter. At that point there weren't a lot of fee only firms around, so I decided to launch a firm from scratch not knowing any better. I just leaped in with both feet, didn't know any people in the area and just really got out in the community, got to know people. And I was fortunate enough to get connected with Dimensional. Being in Colorado Springs, we have quite a large military presence here. And so I fell into a niche working with retired officers, retired colonels primarily, who were launching a second career in their late forties, early fifties and had significant cash flow for the first time of their lives, have been good savers and built up a nest egg. So helping them through those years leading up to retirement. Also, it's a natural fit for me to be working with women. So we have a lot of women clients, both widows and executive women, breadwinner women. So those were kind of the niches we worked with. After I'd been in business for five years, we were growing really well. And so my husband left his corporate job and came and joined the business and he took care of

everything behind the scenes, H.R., technology, compliance, everything, so that I could really focus on being client facing. And that worked really well for us as we built until 2018 when we entered into the merger agreement with Buckingham.

Catherine Williams: I feel like we could probably do a whole podcast on working with spouses and family members. It's not for the faint of heart and can be a really wonderful thing.

Susan Strasbaugh: Absolutely.

Catherine Williams: Yeah, that's great.

Susan Strasbaugh: Yes, all of that is absolutely true.

Catherine Williams: Karen, tell us about your path and your background prior to joining Modera.

Karen Keatley: So it's a similar story maybe to Susan's my career started in institutional portfolio management in the New York City and then in the New York area, and I moved to Charlotte and took some time off to be home with my kids. During that period of time, my father passed away and my mother needed a financial adviser. So having an MBA and a CFA and knowing a little bit about finance, I dove in to be her quasi financial adviser. And through that process, I gained an understanding of what some people like her need and also the awareness that it really didn't exist, at least not very much of it exists in the marketplace, though. This was in the 90s and the financial advisory world was still dominated pretty much by brokerage firms, certainly in the Charlotte area it was. So at some point I decided that this was the path I wanted to go down. So I took a CFP and got started with my firm and we grew organically. I think much in the way that Susan's did. We really started in 2007. In 2012, I hired an employee, I'd been working out of my house, sort of taking clients when they came. And if I didn't have time to take a new client, I would refer them to one of my competitors. But in 2012, we hired an employee and then we moved into office space and that's when 2013 the growth really started. So from 2013 to the end of 2019, we grew very, very quickly. At the end of 2019, which was when Keatley Wealth Management merged with Modera, we were three full time and two part time people, all women, and we were managing about \$200 million in AUM, for about 100 clients. During that time I did sell a 10 percent ownership to my first employee who had been very instrumental in driving some of that growth.

Catherine Williams: Terrific. Susan, I meant to ask where it tell us a little bit about where your AUM was at just prior to Buckingham.

Susan Strasbaugh: Sure, I believe we were right about \$160 million with 110 clients when we merged. And if it's helpful to know we're now at about \$240 million. So we've grown pretty significantly in those two and a half years.

Catherine Williams: So, Karen, I'd love to start with you. Take us back to that, you'd grown the business to about 200 million. You know, I'm assuming you have some great clients as well. What triggered beginning to think about an external partner? What were some of the reasons or some of the things may be going on in the business that caused you to begin considering that as an option?

Karen Keatley: Started thinking about this a couple of years ago when I was sort of overwhelmed with the burdens of running the business rather than working in the business. There are things that I think I like to do and things I don't like to do. And my strategy for hiring people had always been to hire people to do things I didn't want to do. But I think there's a limit to that. I didn't like being where the buck stopped always. So as you know the compliance burden in our industry has gotten more and more onerous. The other piece of

it was I had the back of my mind that I wanted to retire someday, I didn't know when that was going to be, but I needed a pathway to make retirement a possibility for me.

Catherine Williams: We hear that a lot from advisors that are have grown their businesses nicely that are about your size and are beginning to wrestle with those things. Susan, how about for you?

Susan Strasbaugh: As I mentioned before, I had the benefit of my husband being in the business and taking care of all of those administrative duties and compliance. And we were talking more about what our future looks like. And he said, you know, I'm 50. I don't really want to end my career here. I've done this. It's been great for our family. But I want to get back to some of the things I love. I like to joke that if compliance was his passion, I probably wouldn't have been married to him. We really wanted to find the right place for our team and really allow our team more career advancement opportunities and better benefits packages and things like that that a larger firm could do and also find the right fit for our clients. I really wanted to make sure the clients were taken care of in case there was some kind of unplanned transition as the euphemism goes. In my case, if I'm hit by the beer truck, that somebody steps in and is able to really seamlessly transition the clients. And so that's what kind of started us down the path of looking at those options.

Catherine Williams: And where did you start? I mean, the landscape is certainly broadened significantly over the last 10 years. There are lots of different options out there and understanding those options, much less understanding your own strategy. And we're going to talk a little bit with both of you about what was your ultimate strategy, your goals, your deal breakers, as we often talk about. But where did you start in terms of examining your options out there?

Susan Strasbaugh: We had a built in continuity plan that we had put in place in 2014. We've done some looking at different firms at that point and decided on Buckingham. I had gotten to know Buckingham over the years, different conferences and things. And so they were a natural place to start from a continuity plan, meaning they'd be the backup if something unexpected happened. And so we flew to St. Louis to visit in early 2017 and again, our really non-negotiables were we wanted to make sure that our team was taken care of and our clients were taken care of and then it had to make financial sense for us. I wanted to stay involved afterwards and I wanted to make sure the clients and the team were in a good place.

Susan Strasbaugh: We came away, just blown away on quite honestly and thought, what? What are we missing? So I got on the phone and started talking to advisors that had merged with Buckingham and, you know, continually heard just really glowing reviews. And I wanted to ask, OK, what were the problems? Where are the issues? And time and time again, I would hear, well, you know, the profit checks aren't all mine anymore. That's one of the downsides, of course. But I will say choosing a partner is so important and making sure there's a good cultural fit, which we felt when we saw the Midwestern values. And then also just having someone that where when things aren't going right, that you can just say, hey, this doesn't feel right. This isn't working for me. And immediately they said, you're absolutely right, let's change it.

Catherine Williams: That's great, Karen, for you, relative to looking at Modera and examining your options, if you will tell us a little bit about what that process looked like for you.

Karen Keatley: In terms of considering other options, we did consider internal succession and I had sold a 10 percent ownership stake to my first employee, who I mentioned had been very instrumental in helping to grow our business. But as far as bringing in other partners, it takes a long time to find those other partners and to figure out a wonderful employee doesn't necessarily make a great owner. And we needed to figure out who those people would be. And I knew it would take too long. And then while you're taking that time to figure out who your other owners are going to be, the value of the firm is growing quickly and getting

more and more expensive. So it just takes more and more financial wherewithal to start buying slices of firms like ours that are growing in value so quickly.

Catherine Williams: So how did you come across Modera and what did that look like when you determined that an internal succession was not likely to be a solution? I'm guessing at that point became critical to think about your own strategy or what was going to be most important for you and then beginning to take a look at the landscape out there, if you will. How did that part look like for you?

Karen Keatley: Well, we had informal conversations and really over the years, I would say I dated a few other firms to see if there was a good fit and just sort of figuring it out as we went. But really, the cultural fit is really important as well as the alignment of goals, alignment of my time frame and their time frame. And so Modera was a firm that I knew through their reputation. I also knew a few of the partners, although I didn't know any of them real well, and reached out to them to kind of start a conversation, not really knowing where it would go, but it seemed like the right organization, the right kind of organization in terms of what I was looking for in a partner.

Karen Keatley: We did our deal before the world of covid. So I think if we'd been in the covid world, it would've been very hard to accomplish what we did because I think that the cultural fit is incredibly important. And for us, having a sense of the integrity and just simply the niceness of the people that we are going to be working with, and there's no substitute for face to face. There's no substitute for being in one another's offices. And it was important for me, but it was also important for them. And they had to determine that I wasn't going to be a bad influence on their culture as well. We have a culture to protect and I have a culture to protect. So I think we really have to be in each other's offices to do that. An important litmus test for me in finding a partner was with this firm that I would take my mother to. I sort of started my firm years ago out of my experience, helping my mother. And I wanted to create the kind of firm that was a place of integrity, a place of kindness, a place of quality planning centric advice. And so my litmus test was, did they check those boxes? Could I leave my mother here in the hands of these people? And ultimately, the answer was yes. And one more thing I guess I would add to that is when I made this transition, I really knew I needed to be able to look at my clients in the eye and our employees in the eye and tell each one of them that their situations were going to be improved as a result of the merger.

Catherine Williams: Talk a little bit about that in terms of that client reaction, I'd love to hear from both of you. What was the conversation? What were some of the ways that you approach helping clients get comfortable? And did all clients get comfortable or some challenges with talking with clients about that? I'll start with Karen. And then Susan would love to get your perspective as well.

Karen Keatley: So the question is, how did the clients react? I think that they reacted really well. I had the expectation that they wouldn't, but I was pleasantly surprised in the opposite direction. No one likes change. I think people don't want change, especially when they don't believe that they're going to benefit from it. So I was prepared for pushback, frankly, but I would say ninety nine percent of our clients were incredibly supportive and positive. They've been asking me for years Karen what happens when you retire? And I had answers, but the answers were not great because I didn't have a great retirement plan in place yet. But when we made the announcement, everybody was really positive and generally excited. I think the only clients that had misgivings or maybe one that had joined us in the months preceding the announcement of the merger, it was a relatively new relationship for us, but I think we were able to get them comfortable. There were other things about our culture that that they were going to miss. They want to know they're still going to get chocolate at the holidays. And I think we've worked that out. I think Modera is going to send out chocolate this year. So it's all been good.

Catherine Williams: Chocolate is critical, we know that from our investor feedback survey. Beer and chocolate. So, Susan, how did it go with your clients having that conversation and introducing this new partner to the relationship?

Susan Strasbaugh: Overall, very well, extremely well, so we had a client advisory board that had been in place for several years and we met with them first. We have an annual wine tasting in January. So those were the first people that we told and got their feedback about how to relay the information to other clients. All of them expressed a little bit of, oh, you know, we've so enjoyed this small boutique firm and we're a little concerned that we're going to lose that. And I reassured them that the goal was to not have that sort of thing change, but that we could bring much more operational strength and teams behind us and, you know, an investment team that was top notch and just really talk to them about what that allowed us to do and to have better resources for our team. That whole thing about better benefits and better career path within the company and telling that story like Karen. Ninety nine percent of the clients were on board very quickly. We did have pushback from a few. One in particular was not happy, said we are here specifically because we didn't want a big national firm.

Susan Strasbaugh: He expressed that his experience with mergers had never been good. It's always good for the owners, but it's not good for the team members and it's not good for the clients. And I listened and said, I hear you. Your experience hasn't been good when you've been an employee in a firm that's merged. And so what I would like to do is just keep this conversation going and especially let's have a specific meeting in a year to talk about what's changed. And if you'll give us a year, let's just see how it's going. And in a year when I ask for that meeting and brought it up, he said, oh, I had completely forgotten about that. The only thing that's changed is the name on the door when we walked in.

Catherine Williams: What a fantastic suggestion as a way to counter that barrier, that resistance to say let's keep this conversation going, let's continue to talk about it, sit down in a very specified period of time. I think that's a fantastic idea to help overcome some of that resistance because change is hard, right. As we've already talked about today. Karen, how long did the total process take for you?

Karen Keatley: We had our first conversation in June of 2018, and we just agreed to talk. We tried to flesh out early, but what the deal breakers might be, but we just talked. Folks from Modera came and visited us at our offices and met with every member of our team individually to really get to know us. And my partner and I were able to travel to a number of different Modera offices and spend time. And we spent time with people in all different parts of the organization from the top to the bottom and all sides. So we really felt that we were able to get a good read on one another. So the conversation started June of 2018. We had a letter of intent, I think, by the end of September of 2019, and then we closed at the end of 2019.

Catherine Williams: When you look back, was there anything that you originally thought this is going to be really, really critical or would at least was high on the list that in the end didn't necessarily factor in, so to speak, did anything change about your what you were looking at or your criteria?

Karen Keatley: You know, I don't think so, I think some of the things that we really liked about our culture we didn't want to let go of. So I think of a pleasant surprise for all of us was how willing Modera was to sort of embrace our culture and embrace our ideas. They told us they would be. But you always think, well, everybody sort of says that. But is that really going to happen? Modera certainly every possibility of saying, why should we listen to you? You all were this little firm. You were a tenth the size of Modera. What could you all possibly bring to the table? But that has not been our experience. I was invited to sit on the Modera board of directors and to be part of two other important committees. And my partner is part of two other important decision making committees. So we've really had a voice in helping set the direction of Modera in

a number of different ways. I think I had concerns about some of that. But it's turned out better than my concerns and really been quite fun.

Catherine Williams: Well, I think you make a really interesting point in an area that we know for many advisers there, it is top of mind, and that is in a post transaction environment. How much influence may I have? I may not have even been a medium sized fish, so to speak, coming into the pond. So building confidence and having confidence that you'll still be a place, if you will, in terms of having input, being part of the strategic planning of the organization. So I think that's a really interesting point. And I would say it's one where for advisers to think about how important that is as they began looking at their different options, because in some situations that may not be the case, they may become more of an employee. They're running their book of clients, so to speak. And that's the extent. Whereas in other situations, much like yours, there's a seat at the leadership table in some fashion. Susan, what has been the impact on you and your business since choosing an external partner?

Susan Strasbaugh: Well, some of the big things I would point out, and this was a surprise early on in the first year after we joined Buckingham, my two key employees, our associate, well I had two associate wealth advisers, support advisers on the team. Each one got pregnant. Luckily, not exactly at the same time. So one was out for three months and then she came back in about two weeks later the other was out for three months. That would have been really rough for me as a small firm. And so having the backup and the help from Buckingham, we were able to plug in another associate wealth adviser that was kind of a floater for the firm and was able to plug right in and actually really helped us get up to speed on a lot of the Buckingham systems, too, since she was already so adept in those. And then she was a part time team member for us for those six months. And also merging with a larger firm. I didn't think about this ahead of time, but there was an integration team who was on the ground taking care of everything, helping get our systems set up. We closed on a Thursday evening and were open on Monday morning with everything rolled over and brand new phones.

Susan Strasbaugh: And just also in terms of just helping us get set up on software and everything else, I don't think it would have been possible to do something like that with a merger of equals. And the impact now is I feel like myself and my team really just get to focus on the clients and high client care. And so that's really what I was hoping for. And that's happened that I could focus on the part of the business that I really love. I'm also getting the opportunity to take more of a leadership role in terms of mentoring younger advisers.

Catherine Williams: As you think about any additional perspectives or insights, particularly for an adviser that might be listening today and thinking about looking at external partners to solve for succession or to help them achieve that next level of growth, anything in particular come to mind?

Susan Strasbaugh: Yeah, I think it's really important to conduct a self-examination like Karen talked about and figure out what your non-negotiables are. So mine, where is this going to negatively impact my client experience or my team's experience? And so I really focused on that as things came up, because there's going to be a lot of things that come up. And you know, this was my baby. I built this company over 20 years. And so you have to be willing to let go of some control, especially in a merger with a larger firm. And so when the little things came up, I would just examine them and let them go. If it was something that was going to negatively impact the client experience. For instance, Buckingham suggested a change in software. They used a different software than we did for retirement planning. And we got under the hood and looked at it and just said, this doesn't do what we need it to do. And they came back and said, that's fine, stick with what you have for a year and we'll re-evaluate. Well, in the course of that year, they ended up moving to the software we were using. So having a partner who is really willing to listen and be open to

suggestions about how to do things better, I found that just very refreshing. And again, there's going to be just the myriad little things that came up that I had to give up control over.

Susan Strasbaugh: But having that top of mind to say, OK, is this going to affect my non-negotiables? And if the answer was no, then I let it go. And so I think that's really key. And to be self reflective and know that it's going to be different, you're not going to be the one making every decision. And there are challenges with that at times. We lost a key team member recently. She's hopefully coming back before too long, but she's on an unexpected medical leave and has been out for about two months now. And so in the past, I would have just immediately hired a temp to take care of the admin work. Well, that's more complex when you're dealing with a larger firm. You can't immediately do that. Plus, we're in the midst of covid. So that complicates things. But I have a partner willing to work with us and we've figured out other solutions. We've got people with capacity because of working from home. And so we've plugged in a few different people to handle different parts of her position. So just knowing that it's going to be different, but it can be better than ever if you find the right partner.

Catherine Williams: And you make an interesting point. We see this in our advisor benchmarks study when we ask about deal breakers, the strategy for pursuing in what is, in essence, the M&A. Right. Some sort of merger activity behavior. The majority of firms do not have a defined strategy about that. And I think you and I would both agree there is an opportunistic nature to M&A. But when you're really thinking about a true partner and what is most important for you, you make such a great point in terms of absolutely identify that. Be willing to use that as the filter through which decisions are made is absolutely characteristic for firms that are successful, either on the sell or the buy side. They've really built that up. So I really appreciate you commenting on that. We see that loud and clear in our study. We also see that the top two reasons why a deal either doesn't succeed or fails on the other side, lack of investment philosophy alignment and lack of cultural fit. And I would say the culture also even gets to experience your clients are having. So we it's absolutely key areas. And to your point, identify what you need that to look like, what needs to stay the same, what needs to get enhanced and use those as your guideposts when you're making your decisions. Those are excellent points on your part.

Susan Strasbaugh: You bring up a couple of other really good points. I mean, we went in knowing the investment philosophy had to be the same, and Buckingham shared our investment philosophy, working with Dimensional and belief in evidence based investing and then the cultural fit. That's what we really nailed down, I think, when we were able to visit the office in St. Louis. And to Karen's point, it is more difficult right now in the midst of covid, you can't show up somewhere and just walk around and talk to people. And so it may be the process is going to take longer. You're going to be doing a lot of Zoom meetings and talking to individuals and gathering information, but I think it still can go forward in the midst of these challenging times we find ourselves in. It's just going to take a different approach.

Catherine Williams: Agree, and in fact, we are absolutely seeing activity happening on both the buy on the sell side in this environment and it's absolutely been critical for organizations to pivot and where they can't get together face to face, break bread, meet people, all those things that help you identify that they're finding other ways to do it. And you're right, it's a little bit longer process. Lots of Zoom calls, but also getting creative and finding ways to get to know not just the leadership of an organization, but the folks that you would be engaging with day to day. We're definitely seeing organizations figure that out in this covid environment for sure.

Well, Susan and Karen, I want to thank you for joining us today. Really appreciate your very unique perspectives around what an external partner can provide in terms of succession planning, in terms of resources to allow you to focus on the areas of the business that you most want to be engaged around to help you achieve the growth and value you're looking for. Just really appreciate your time. And I would

encourage our audience. They can find both Susan and Karen on LinkedIn if they'd like to reach out for any follow up questions. And of course, welcome to reach out to Dimensional as well. Thank you, everyone.

Thank you for joining us today for Dimensional Fund Advisors Practice Management Podcast. For more information, please visit www.dimensional.com.

Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

All expressions of opinion are subject to change. This podcast is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Please consult with qualified legal or tax professionals regarding your individual circumstances.

Investing involves risks. Risks include loss of principal and fluctuating value.

Dimensional Fund Advisors LP receives compensation in the form of investment management fees from clients who invest in Dimensional funds recommended or offered by Buckingham and Modera.

Dimensional makes no representation as to the suitability of any advisor, and we do not endorse, recommend, or guarantee the services of any advisor.