6 THINGS TO CONSIDER BEFORE TAKING UPFRONT MONEY TO CHANGE BROKER-DEALERS/RIA

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As a financial professional, you might be offered a considerable upfront sum of money to work with a new firm. Before you take the money, here are 6 key things to consider that many professionals do not. By properly understanding and evaluating each, it can help you be intentional about making a decision that aligns with the goals of you and your clients in both the short and long run.

1. **Structure of Promised Upfront Money** – Understand the specifics of how the promised upfront money is earned. Is it a bonus, forgivable loan, repayable loan, or combination of these things? The only way to get clarity on the specific terms and conditions necessary to qualify for the bonus or loan forgiveness is to get the actual documents you will be asked to sign. Many producers make the mistake of taking the promise of recruiters at face value or an initial non-binding term sheet at face value. Only after they are way down the road on their transition and see the actual terms do they realize what they will receive is far less than what was originally promised. Ask specific questions in writing about which products and services you are permitted to use and what platforms are required and what will count towards reaching their bogeys. Truly understand how much of the money is guaranteed vs. a projection of what you might earn if certain results are achieved.

2. **Culture and Stability** – Evaluate the culture of the firm. What is their reputation in the market and media, with clients, and/or other advisors? Consider whether the firm aligns with your values. Will the firm permit and support you to practice financial advice in a manner consistent with your own beliefs and goals? Who owns the firm? Are they building something long-term that you can confidently build your business around, or are they looking to sell the firm to new owners in the near future, potentially introducing you to a variety of unknowns as a business owner? Ask if your spouse, children, or parents would be proud to know that you are working with this firm if they knew everything about it.

3. **Simple vs. Complex Payout Grids** – Clarify what your payout will be on an ongoing basis. Many firms like to talk about payout rates of 85% or 95% for example. However, the actual payout rate at some firms varies widely depending on the products sold or services provided. It is important to get clarity on exactly what your effective payout rate will be when it comes to your specific practice, considering the specific clients you serve and the specific mix of solutions you use.

4. **Gross vs. Net Income** – Consider your top and bottom line. Many financial advisors think of their business in terms of production, revenue, or assets under management. This is the common framework for how upfront payments are determined and ongoing grid payouts are calculated. However, as a financial professional, you are a business owner. Profits matter more than revenues; it's not just how much revenue you make, but rather how much profit you keep that matters most as a business owner. Therefore, it is important to understand how the new firm will help you manage your expenses, outsource select services, uncover operational efficiencies, and a variety of other value adds that increase your bottom line and not just your top line.

5. **Present vs. Future Business** – Much analysis goes into things such as upfront money, payout rates, and projected income as a financial advisor. But most of this analysis assumes your business as it exists today. It's more important to evaluate what your business has the potential to become. Ask yourself which firm will most help you grow your business in the future? Ask how they will help you get new clients, offer new services, expand capabilities, and solve client problems in ways that enable your business to grow and flourish? In short, focus on long-term value over short-term results of your business.

6. **What is Best for Clients** – Assess what option will enable you to most independently and objectively do what is in the best interest of your clients. This includes evaluating the process for transitioning clients to a new firm, providing the most appropriate solutions that meet their individual needs and goals, and managing these solutions ongoing. Any decision about upfront money must at its core answer the question yes to being in the best interest of your clients if it is going to be the right decision long term.