

One Way to a National Presence

by David J. Drucker

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After starting the Philadelphia firm of Sherman Financial in 1987, Spencer Sherman needed more. Drawn to the life planning movement, Sherman met George Kinder (by many accounts, the "father" of life planning) in the late 1990s, and he bought Kinder's advisory practice in 2000 when it was Kinder's desire was to focus more fully on teaching and writing. In one of Kinder's 1999 training sessions, Sherman met Brent Kessel, who had birthed Abacus Wealth Management in 1996 in Los Angeles.

As Sherman and Kessel continued to run into each other at NAPFA and other events, they saw through their friendship the opportunity for more: the economies of scale and national presence a merger could bring. Sherman and his staff of four would combine with Kessel and his staff of one. But how does a small East Coast firm "merge" with an even smaller West Coast firm? Very deliberately.

The first thing Sherman and Kessel did was to hire Mark Tibergien of Moss Adams in 2001 to help them structure the merger. "He also got into operational issues a bit, like paying our staff, and Brent's and my own roles in the new company," says Sherman. Even with Tibergien's help, though, Sherman and Kessel didn't jump right into the merger. They like to say their merger began unofficially in 2002 and finally yielded a single, legal entity in January 2004. That entity's name is Abacus Wealth Partners.

I suspect there are personal reasons and more public reasons behind every merger. The public ones are those very things Sherman and Kessel both name for the press--the aforementioned economies of scale, establishing a national presence, and so on. When pressed, though, Sherman characterizes the progression of their merger in more personal terms. "It was like going from initial talks, to moving in together, to getting married. I wanted a peer," he says, "someone to work with who could help me be a better person and planner. It's the same reason why I got married--my wife brings out the best part of me."

Regardless of what priority it may have had, Abacus has achieved a more national presence than either of Sherman's or Kessel's firms had before it. "We've landed some very large clients where we don't even have offices," says Sherman, "and, as we get new clients throughout the country, we can now service them." Whereas a \$1 million account would have been their minimum in the past, that's doubled and they're even landing clients in the \$30 million range--with one client over \$300 million, Kessel says.

The team hasn't needed to grow its payroll to service its large clients. Says Sherman, "Before the merger, we had five planners including me and Brent, and we have the

same number now." They have made changes to accommodate their growth, however; the changes just aren't so obvious.

First, a look at the Who We Are page on their Web site shows some names not on the Abacus payroll, such as Patricia Jennerjohn, Mike Weiner, and Charles Fisher. Jennerjohn is an established advisor in Oakland, Calif., who also operates Planning Partners, an outsource firm to assist other advisors in meeting their client loads. Weiner is also an independent financial advisor and handles a variety of tasks (client data gathering, financial planning scenario analysis, tax projections) for Sherman and Kessel.

Fisher was one of Kessel's college professors and sits on Abacus' investment committee, as well as contributing to the firm's marketing. The other tact they've taken to create capacity for their new, larger clients is to form a separate company--Kubera Portfolios. "We shifted to Kubera all of those smaller clients that we all take on when we're starting out, which allows Abacus to accept and properly service higher-level clients," says Sherman. Kubera gives the smaller clients high-quality, no-fringe portfolio management at an affordable price. Abacus' professional staff and a few newly hired administrative employees work with Kubera clients, but the team see Kubera eventually having an entirely independent staff. Kubera serves another function too.

Says Kessel, "We've been bumping into people who want to practice just pure life planning, while having their clients' investments run by another firm with similar values. So Kubera will be able to [run portfolios] for clients of these life planning advisors." The question of how they marshaled their staffs to accomplish these changes and some semblance of unification is interesting, because these things are never easy. To complicate matters further, Sherman and his family had wanted to be on the West Coast, but chose to live in Sebastopol, Calif., far north of Kessel's home territory of Los Angeles.

Abacus, therefore, has three offices with separate staff in each. "I was in Philadelphia till the beginning of 1997 and then moved to California," says Sherman, "so Abacus' home office is in Philadelphia where we have the highest number of people, but the two principals are on the West Coast." So what's been the process of getting all the staffs working together?

"It's been a work in progress creating sameness in protocol and administrative procedures," says Sherman. "We're about 95% there now, with some minor, regional differences in how the offices operate." Says Kessel, "If you look at differences between East Coast and West Coast planning, in general, I think what you find is that we tend to be more on the cutting edge in certain planning approaches, while you see more conservatism back East.

You might say there's more of a banker approach to planning there and more of a healer approach to planning here." Is that reflected in the financial planning or investment approach taken within Abacus, with one partner being a California native

and other having migrated from the East Coast? "No," says Kessel, "if we looked at a random client portfolio, they'd look identical since take an investment committee approach for all the firm's clients, with similar protocols for advice areas, as well."

Of course, getting three different, geographically diverse staffs to work well together is as much a cultural phenomenon as it is a technological one. "For Brent and me, there was a give-up of control and power in becoming 50% owners," says Sherman. "Then there were some cultural differences in that I'd had a staff of five, while Brent just had one assistant. Then there were some value differences. Brent didn't just want to help wealthy people get wealthier, and I shared that vision as well, but my East Coast staff was a bit hesitant to fully embrace this vision. The fact that Brent and I shared these values made it easier to get the staff in agreement."

One thing that helped was doing team retreats before the merger. "We brought in a therapist-type person to assist the 12 of us in coming up with a name for the new company and discussing the roles each of us would have," says Sherman. "We created an organization chart and, in the process, ironed out some personality conflicts among certain staff."

They also had a few people who "weaned" themselves from the new firm as it moved in a direction that seemed much more distant to these employees. Says Sherman, "No one left immediately, but the merger and the retreat forced us to be explicit in saying to employees, 'This is who we are and what we intend to do.' For example, it became clearer that life planning would be a big part of our service to clients. Some employees liked that, and others didn't."

Sherman and Kessel found out they each had different styles of planning, as well. Interestingly, Kessel, strongly influenced by thinking from the worlds of psychology, yoga and life planning, tended to do more detailed planning than Sherman. "I delegate [the planning] more," says Sherman, "while Brent liked doing things more on his own." "I had to learn to deal with other people doing things in ways differently than I might have done them," says Kessel. "I had a typical 'e-myth' problem trying to do everything my way," he adds.

Following the retreat process, and settling into day-to-day operations with the new firm, Sherman and Kessel keep everything coordinated with teleconferences and a virtual private network (VPN). "Brent and I do scheduled calls with each other, with our advisors and with all the employees," says Sherman. "Otherwise, most communication happens by e-mail."

How do they handle clients? Says Kessel, "Every client has a relationship with at least two people in the firm, and it's not unusual to have staff from two different offices working on the same client." There's usually a lead advisor--a person the client calls first on most matters. When the client's quarterly meetings are held, both advisors are present, either in person, or one might be on speakerphone, Sherman explains.

While they use a VPN and ACT! client relationship management software to tie things together technologically, Sherman and Kessel lament that, as a small company, their Achilles heel is still not being able to implement more sophisticated technology solutions. "ACT! is supposed to synchronize across the VPN that ties together our three offices," says Sherman. "The VPN is fine, but we have server issues with our e-mail, and ACT! doesn't always work the way it's supposed to."

Nonetheless, they're both pleased with the results they've achieved. Says Sherman, "While it's not the primary reason for merging, my income has gone up. But more importantly, we now take sabbaticals. Brent and I each have the opportunity to take off three months at a time once every three years." And Kessel adds, "There were pros and cons to what we did. The cons have been our technology and operations. It's been much more difficult to find simple solutions to problems than we thought it would be. We're always trying different things and running into the different limitations. However, the pros have been being able to go after bigger clients. Now, we can appeal to more sophisticated clients who want a 'real' firm as opposed to just a solo planner. We're at a size where we can have intimate relationships with clients as well as a built-in succession plan."

"How do you put a price tag on that?" asks Sherman.