Voices: Mark Avallone, on Eschewing Client-Account Minimums

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Having a younger client base can make the practice more attractive to potential buyers

Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Mark Avallone is president of Potomac Wealth Advisors, LLC in Rockville, Md.

*T*here is a huge need for financial advice for lower-net-worth individuals, usually people in their mid-20s to 40s. But the way our industry is structured—advisers getting paid based on assets under management—discourages many seasoned advisers from working with this clientele. This is a mistake. Eschew tradition and client asset minimums. Here's why:

The first reason to work with lower-net-worth individuals is that these clients or potential clients have networks of their own—family, friends and acquaintances—that you may be able to tap into as they grow to trust you. You never know what opportunities will arise through any client relationship.

For example, just recently I began working with a young gentleman with relatively few assets. Once I started working with him, I learned that he is close to the owner of the company he works for, and that company has a sizable 401(k) program. I am now looking at a $5 million 401(k) management opportunity.

The second reason to focus on this group is the potential to work with them for a long time. Since these individuals tend to be younger, you're looking at 20 to 30-year relationships, which allow you the chance to grow with them. Over the course of working with these clients, you'll likely earn back the bottom line you may have sacrificed at the start of your relationship.

While the compensation may not be what you typically charge, I have found that lower-net-worth clients are often open to an hourly planning-fee arrangement, which is beneficial to both you and the client. You get paid for the work you do, and your client easily understands and appreciates the effort and hourly-fee structure.

A third reason to work with these clients is that when it comes time to sell your practice, it'll be worth more, and it will be more attractive to potential buyers. This is because you will be able to offer a client base with a low average age that is also in an attractive stage in their investment cycles. A practice that skews heavily toward older clients in the distribution phase will be less attractive to a buyer than a practice with happy, young clients who are adding to their accounts, not withdrawing from them. After all, a buyer wants to create long-term relationships with their new clients and a client with a short life expectancy doesn't help their cause.

The biggest reason for eschewing a minimum is that we're in the business of helping people. With younger, lower-net-worth clients, we're making an investment in their future. As advisers struggle with increased paperwork and regulations, taking on younger clients who understand the value we bring can help reignite the passion we have for being in this business. They understand it is a partnership, and they appreciate the value of what we offer.