BRIDGEMARK STRATEGIES

THE EQUITY OFFER:

WHAT FINANCIAL ADVISORS MUST KNOW BEFORE CHANGING FIRMS

EXECUTIVE SUMMARY

Financial advisors evaluating a transition - — whether to a new broker-dealer, an independent RIA, a W-2 platform, or a private equity-backed firm - —are increasingly presented with equity as part of the value proposition or transition. Equity is often positioned as the differentiator: a wealth-building opportunity beyond cash compensation, enhanced support, or technology.

However, equity in the wealth management industry is far from uniform. It varies widely in structure, tax treatment, valuation methodology, liquidity, governance rights, and risk. In many cases, advisors are asked to make long-term, often irreversible decisions based on equity narratives that are complex, opaque, or dependent on future events outside their control.

This white paper examines the major forms of equity available to financial advisors today, outlines their respective advantages and limitations, and provides a practical framework for evaluating equity when considering a professional transition. The objective is not to advocate for or against equity, but to help advisors ask better questions and make more informed decisions.

1. EQUITY IN AN ADVISOR'S OWN PRACTICE

1099 MODELS: FULL ECONOMIC OWNERSHIP

Advisors operating under a 1099 model typically retain full economic ownership of their practices. This ownership is primarily reflected in control over the client base and the ability to monetize that goodwill through a sale. In most transactions, buyers acquire the assets of the business - primarily client relationships and recurring revenue - rather than the legal entity itself.

For additional information on what drives price, please reference our white paper titled "Maximizing the Value of Your Financial Advisory Business: Understanding What Drives P.R.I.C.E.".

These transactions are usually structured as asset purchases rather than stock purchases, allowing the seller to benefit from capital gains treatment on goodwill while shielding the buyer from potential legacy liabilities.

W-2 MODELS: AMBIGUITY OF OWNERSHIP

In W-2 environments, the concept of ownership becomes less clear. While some W-2 advisors may generate transferable goodwill, others operate within frameworks where e client ownership is disputed or contractually restricted. In non-protocol firms especially, the ability to sell a client base may be challenged.

As a result, the valuation of a W-2 advisor's business, and whether that value can be realized, depends heavily on firm policies, contractual language, and transaction structure.

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2. EXTERNAL EQUITY OPPORTUNITIES IN THE MARKETPLACE

As advisors consider transitions, they increasingly encounter firms offering equity as part of the deal. These firms generally fall into several categories:

- Publicly traded wealth management firms
- Roll-ups and aggregators
- Strategic acquirers and integrators
- Platform RIAs

Each category introduces distinct equity dynamics.

PUBLICLY TRADED EQUITY

Equity in publicly traded firms is highly liquid and transparently valued. Because market prices are readily available, these firms rarely discount stock as part of advisor deals, instead emphasizing cash compensation or bonuses.

PRIVATE EQUITY AND INSTITUTIONAL INVESTOR BACKED PLATFORMS

Most advisor-facing equity today is found in private companies, particularly PE-backed RIAs. While these structures can offer meaningful upside, they also introduce complexity around valuation, control, and liquidity.

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3. FORMS OF EQUITY: UNDERSTANDING WHAT YOU'RE ACTUALLY GETTING

PHANTOM EQUITY

Phantom equity does not represent true ownership. It is a contractual right to participate in future value under specific conditions, often taxed as ordinary income. Phantom equity typically carries no voting rights and may be subject to unilateral modification or elimination by firm owners.

A common form of phantom equity is Stock Appreciation Rights (SARs), which can also have provisions where liquidity is only achieved when a sale happens.

STOCK OPTIONS

Stock options grant the right to purchase equity at a future price. Their value depends on future valuation events and may trigger alternative minimum tax (AMT) considerations. Like phantom equity, options do not guarantee liquidity.

REAL EQUITY OWNERSHIP

True equity ownership may include voting or non-voting shares and multiple share classes. While non-voting shares are common, advisors must confirm whether these shares are economically identical to those held by founders or investors.

Key variables include:

- Dividend rights
- Distribution priorities
- Participation in future transactions
- Conversion rights

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4. SHARE CLASSES, CONTROL, AND GOVERNANCE

In many PE-backed structures, advisors receive a different share class than institutional investors. These differences may affect dividend eligibility, liquidation preferences, and access to future liquidity.

It is critical to understand whether non-voting shares are merely non-governance instruments or represent a fundamentally different economic position.

5. LIQUIDITY: WHEN AND HOW EQUITY BECOMES REAL

Liquidity is often the most misunderstood aspect of equity.

Common liquidity constraints include: - Partial liquidity tied to firm-level transactions - Restrictions on the percentage of equity that can be sold - Internal markets with discounted pricing - Redemption provisions based on book value rather than market value.

Advisors should also examine provisions related to retirement, death, disability, and voluntary departure.

6. VALUATION: PAST TRANSACTIONS VS. FUTURE PROMISES

Equity valuation is frequently anchored to the most recent transaction. However, in venture-backed and some PE-backed firms, valuations may be based on future revenue or profitability assumptions rather than current performance.

In these scenarios, advisor equity may sit behind investor capital, meaning value is only realized after specific return thresholds are met. Advisors must understand whether their equity participates immediately in growth or only after preferred returns are satisfied.

7. GROWTH, DEBT, AND SUSTAINABILITY

The value of equity is influenced by several drivers:

- Organic growth rates
- Inorganic growth through acquisitions
- Operating efficiencies
- Profit margins
- Capital structure and debt load

High growth does not always translate into near-term value, particularly if profitability lags or leverage increases risk. The amount of debt a company carries can be a risk factor that isn't properly evaluated when considering true equity value on privately held companies.

8. TIMING A SALE OR TRANSITION

The optimal time to monetize a practice is rarely during decline or extreme growth. Shrinking businesses typically command lower valuations, while high-growth firms may suffer from lagging revenue and elevated expenses that depress profitability metrics. However, firms that are declining may not have a choice as they are at a stage where they need to sell. In contrast, firms that are investing heavily in growth, may want to wait until they have grown into are well into the next level of investment before looking to sell.

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8. TIMING A SALE OR TRANSITION, CONT.

In some cases, a sale can be looked at in the same way financial advisors manage clients' portfolios:, selling a stock that isn't growing for a stock that is growing in a typical rebalance. Advisors that are experiencing moderate growth can consider exchanging equity in their firm, albeit a slower-growing firm for equity in a higher-growth platform. Selling a business and getting a faster growing stock and some cash as a mechanism for monetizing and reducing some risk may be strategically sound.

There are cautions in every strategy. A watch-out on this last strategy is to attempt to look in to the future to determine if the growth is sustainable for the new firm that you are joining and the equity terms are understood.

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9. SUPPORT, ECONOMICS, AND LONG-TERM ALIGNMENT

Equity should never be evaluated in isolation. Advisors must also consider:

- The firm's support model
- How support scales with profitability
- Whether margin expansion could reduce advisor resources over time

History suggests that firms under pressure to maximize margins often reduce service ratios, regardless of equity narratives.

CONCLUSION:
ASKING BETTER QUESTIONS ABOUT EQUITY

Equity can be a powerful wealth-building tool—but only when its structure, risks, and economics are fully understood. Not all equity is created equal, and not all partnerships deliver on their promises, and not all equity will generate great returns.

Advisors considering a transition should approach equity with disciplined skepticism, rigorous due diligence, and professional guidance. The most successful outcomes occur when equity aligns with long-term growth, transparent valuation, realistic liquidity, and sustainable support.

Ultimately, the best transition decision is not the one with the most compelling equity story, but the one that balances economics, ownership, support, and flexibility over time.