RIAs merging at a record clip, more breakaways become RIAs

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Consolidation in the registered investment adviser space has become fast and furious, with no slowdown in sight, according to the latest research from **Echelon Partners**.

The 138 transactions last year set a new record for RIA M&A activity, representing a 10% increase over the 2015 record of 125 deals and a 16% compound annual growth rate since 2009, which saw just 48 deals completed.

"The many macro trends impacting the RIA industry is setting up for a perfect storm of M&A for the wealth management industry," said **Daniel Seivert**, Echelon's CEO.

Among those factors commonly cited as driving consolidation are an aging adviser community, growing technological challenges, and increased regulatory oversight, including the Department of Labor's looming fiduciary rule.

The report also includes data on breakaway broker activity — brokers leaving major broker-dealers to go independent — showing more than 400 teams leaving last year for the second consecutive year. More than 15% of all breakaways have become RIAs, reflecting a new high.

According to Echelon's research, which included statistics from InvestmentNews' Advisers on the Move database, the deck is being reshuffled in a way that is seeing more breakaway brokers migrate toward the RIA business model.

Last year 66 breakaway teams joined RIAs, representing an increase from 64 in 2015, 57 in 2014, and 30 in 2013.

"Wirehouses used to have a lock on the platforms, the technology and the systems, but all those things have become commodities," he said. "Most RIAs are not capital intensive to set up, and it's so much easier than it used to be."

Bill Van Law, president of the Investment Advisors Division at Raymond James & Associates, is seeing the same pattern of breakaway broker movement.

"If you look at the history of the RIA space, 80% of the growth was coming from places like bank trust companies and CPAs," he said. "But that trend is shifting, and more RIAs are now coming from wirehouses. Part of the reason is that a cottage industry emerged to fill in where there are a lot of gaps versus what the wirehouses would have."

RIA deals have not only become more frequent, but the deals are also getting bigger.

"We anticipate a significant increase in advisers looking to drive inorganic growth through an M&A strategy as well as an increase in deal activity as a result of an aging adviser population, an increase in succession planning and the impacts of the new fiduciary requirements," Mr. Seivert said.

According to Echelon, acquired RIA assets under management in 2015 and 2016 was between two and three times the average experienced between 2010 and 2014.

Last year marked the third time in the past five years that the average deal size exceeded $1 billion in assets under management.

RIAs were the acquirer in 42% of the transactions, which is down from 47% in 2013. The trend is reflective of the growing impact of strategic acquirers and consolidators, Mr. Seivert said.

Even though the numbers are growing at a record clip, it still represents a fraction of the potential, according to Michael Kitces, partner at Pinnacle Advisory Group.

"It was a record-level of M&A last year relative to prior activity, but it's still a miniscule level of M&A relative to the total size of the industry and how many RIAs there are," he said. "To me the biggest story continues to be not the growing level of M&A, but how little total M&A there really is amongst the RIA community, given the average age of an adviser, especially since the bulk of M&A deals are from a small subset of larger firms, which means if you calculate the amount of M&A by the number of firms instead of their assets, there's really very little M&A actually happening in the RIA space at this point."

Mr. Seivert of Echelon said he "totally agrees" with Mr. Kitces' assessment, because Mr. Seivert believes the number of RIA deals is vastly under reported.

"There are 300,000 advice-providing professionals, and 30,000 RIAs at 10,000 firms," Mr. Seivert said. "We're reporting roughly 1% deal activity, and we think the actual number is between 3% and 5%, which means three to five times the number being reported."