RIA Consolidators' Growth Rates Spike

01/24/2018 Originally Published by Melanie Waddell, ThinkAdvisor

Three major consolidators — Dynasty Financial, AMG Wealth Partners and Mariner Wealth Advisors — grew their affiliated assets under management by a five-year compound annual growth rate of more than 45% from 2011 to 2016, according to Cerulli Associates.

Independent RIAs grew assets during the same time period by only an 11.7% five-year CAGR, and hybrid RIAs by 10.7%, according to Marina Shtyrkov, a research analyst at Cerulli, commenting in the first quarter 2018 issue of The Cerulli Edge — U.S. Advisor Edition.

While Cerulli classifies Dynasty as a consolidator, Dynasty does not. "Unlike others in the RIA market, Dynasty works with completely independent RIAs," a Dynasty spokesperson told ThinkAdvisor. Dynasty does not "own the firms on our platform and they don't own any part of Dynasty. Instead, the RIAs pay us an annual fee to be part of our network."

Cerulli focuses on the rapid asset growth among RIA consolidators that are capitalizing on the "fragmented marketplace" by acquiring or partnering with both new and existing RIAs. Private equity firms, broker-dealers as well as established RIAs are investing in the space, according to Cerulli.

ECHELON's fourth-quarter 2017 RIA M&A Deal Report found that consolidators took control of RIA deal activity. "In search of growth platforms and scale, well-capitalized, strategic buyers and consolidators accounted for 44% of RIA purchases in 2017, consummating a record of 74 deals," the report states.

The Boston-based research firm said that it anticipates a "rapid evolution of competitors and business models" in the consolidator space going forward.

Succession solutions, infrastructure support, acquisition capital and aggregated buying power are cited as the most common motivators for advisors' increased interest in affiliating with consolidators, Cerulli said.

However, "given the recent momentum behind aggregators and platforms, and the demand for operational and financing support, it is crucial for advisors to remain aware that not all consolidators are created equal," warned Shtyrkov.

Cerulli categorizes consolidator firms as either platforms, financial acquirers or strategic acquirers.

"The merits and drawbacks of each segment's business model will often depend on the advisor's motivations for affiliating with a larger partner," the research firm said.

Elliot Weissbluth, CEO and founder of RIA aggregator firm HighTower, said in December that the advisory industry is "at the very beginning of consolidation," and that "it's for all very good reasons."

Looking ahead, "you're going to see aggregation" in the RIA space, Weissbluth asserted. "Statistically, if you look at the total volume of deals and activity, there's a volume of transaction activity that is trending upwards."

Weissbluth agreed in December that the "aggregator" trend is emerging: "The number of 'aggregator' firms that are in the business — like us, actually consummating serial transactions — is starting to increase."