Dan Seivert and Mark Tibergien karate chop private equity investors for being little more than financial engineers in RIA orbit

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The CEO of **ECHELON** and the CEO of Pershing Advisor Solutions describe the investors like hedge funds that make savvy purchases of depleted oil wells

Two hundred private equity investors have showered the RIA ecosystem with capital in recent years, sparking national RIAs, robo-advisors, wealth software and suitcases of cash for retiring RIAs.

Sound good? More like, too good to be true, say **Dan Seivert**, CEO of **ECHELON Partners** and Mark Tibergien, CEO of Pershing Advisor Solutions. They mock debated the point at the Deals and DealMakers Summit in Newport Beach, Calif., even though they largely seemed to agree with each other.

The 200 private equity (PE) firms, mostly since 2009, have injected a hefty $800 million into 60 robo-advisors, 45 wealth managers, 60 roll-ups and 75 wealth technology firms.

But the relationship suffers from a blindness to behavioral dynamics, said Tibergien. "The people who get bought get resentful. It's labor versus capital, and the PE guy rides off into the sunset," he explained.

Anders Jones (right) with his Warburg Pincus private equity backer, Jeff Stein. Both missed the private equity practitioners roast.

Following the debate, he clarified his view on one upside -- infusions of capital from private investors have added liquidity to a seller's market for RIA firms, and in some cases, provide fuel to grow larger firms.

"It does cause some cultural strain to people left behind, however, because PE's measure of success is financial return, not client satisfaction," he added. In the case of roll-ups, most often PE-backed buyers purchase RIAs in the spirit of a "depleted oil well."

"Right now it's like a high-yielding bond to them," Tibergien parried. "What many of them don't know is they are buying depleted oil wells. Their clients are as old as the advisors, and their wealth is often transferred outside the practice upon their death or retirement."

"But the P/E firms often see a high-yielding bond from the income generated in the RIA firms based on past results and think it's a perpetual income stream," he added.

No trickle-down

Private equity firms are getting internal rates of return around 40% but as high as 50%, which is not trickling down to the RIA owner-advisor level, **Seivert** added.

This lopsided equation between RIAs and their PE-owners is not likely to change soon. Private equity investors are interested in financial engineering of RIA transactions as cash cows but not in re-engineering how traditional RIAs work, he added.

"The first wave of PE investors isn't involved the way it is in other industries. The private equity guys are just phoning it in and not getting to know advisors or into the true fabric of the industry," he said.

Elliot Weissbluth was relaxed and let me take his picture on the third ask.

Facet Wealth's Warburg Pincus PE investor and managing director Jeffrey Stein, was at the DealMakers Summit but did not address the broader questions raised by **Seivert** and Tibergien.

His role was limited to a presentation of Facet with the startup's CEO, Anders Jones.

In this instance, Warburg is largely playing the role of venture capitalist to a fledgling firm with minimal revenues. Facet Wealth is reinventing how advisors get hired, where they work (at home), how they charge (flat fee), how their work flows (very consistently) and how they acquire assets (buying small books).

A good buyer would bring systems to M&A and ideas to RIAs for getting better talent and changing the advisor and client experience.. Buying firms that have little hope of achieving that evolution amounts to "rewarding old people who failed to plan," Tibergien said. "With a PE firm, you're a term-taker."

An RIA with a need for liquidity should give the market -- PE-financed, or not -- a hard look, according to **Seivert**.

But were the market to correct 15%, an RIA's EBITDA would plunge 60% (if expenses were not cut and the RIA's value would plunge 70%. That said, buyers should be on the prowl to close deals now. In the event of a mini-crash, quality sellers will dry up waiting for the market to rebound.

Worth noting too, Seivert says, is that it takes nine to 12 months to sell an RIA. While it is possible to sell faster, buyers often perceive a “hurried seller” and offer to pay less and on less favorable terms.

The 4%

That said, of the 13,000 SEC-registered RIAs only about 4% do deals at all, even though the number of deals tripled from 160 to 471 in the last five years. Of those, a third got publicly reported.

Under Megan Carpenter's officiating, the debaters stayed in obeisance to the format.

The RIA M&A market's biggest ailment is the lack of buyers even though it often seems that no firms are for sale, he adds. "We have a lot of pretenders. You need a specialist, and a process for buying. Many RIAs just say: I'm a buyer (without preparation.) and then use messaging that does not focus on what’s in it for the selling advisor."

The event, held again at Newport Beach's Island Hotel, had a mix of attendees ranging from Elliot Weissbluth, chairman of HighTower to Bill Van Law, ex-RIA chief at Raymond James, who let on he may reappear soon in an "entrepreneurial" venture. Both executives are typically speakers at events, but seemed to flow with the regular crowd taking notes at sessions.

I listened in while Weissbluth did a poolside call with a HighTower partner, who was about to speak with a HighTower prospect. The executive emphasized that he expected the advisor to speak from the heart and not feel like he needed to sell.

The one downside of the event was that PIMCO -- right next door -- did not provide its stunning amphitheater again this year. That tossed the crowd back into the usual windowless gray recycled-air chambers that pass for conference rooms. After storming PIMCO, Dan Seivert puts LA on RIA map with high-aptitude Summit

Seivert is looking at alternative West Coast venues to avert that fate for next year.

Keeping **Seivert**, Tibergien and the event at tip-top form was FiComm's CEO Megan Carpenter. Her warm, no-nonsense, high-charged debate mediation was only overshadowed by her composure when audience interaction software wavered for a few minutes.

As my plane rose out of Newport Beach from John Wayne Airport, I looked longingly at the beach I'd first seen in the DealMaker Summit brochure.

ECHELON's managing director, Carolyn Armitage, was a star born in sessions and her been-there stage presence showed.

Seivert is practicing what he preaches in deepening his bench.

The more corporate speakers like Michael Lovett, head of the RIA group for Vanguard Group and Tony Parkin, a vice president of business consulting for Schwab Advisor Services, were very guarded in sharing information with the crowd.

The were leavened by more irreverent entrepreneurs Meb Faber and Bill Willis, CEO of Willis Consulting and the dean of Los Angeles-based wirehouse recruiting.

Meals were served in indoor-outdoor settings that reminded attendees they were in weather-resplendent California.

The asset management session was the usual depressing story of shrinking fees and zero innovation. The recruiting session had an equally macabre feel. Wirehouses are simply more desperate than ever -- withdrawing from protocols and making brokers sign to life sentences when they join.

Prison protocol

PIMCO's incredible amphitheater from last year was duly missed.

Willis said, however, that these withdrawals from the protocol and TROs are very much hurting UBS and Morgan Stanley's recruiting efforts. "Who goes to prison voluntarily? It's the last stop," he said.

But with wirehouses no longer as fertile for hunting talent and assets, 41% of RIAs say other RIAs are their top labor source, said Mark Bruno, associate publisher at InvestmentNews who shared results from his firm's most recent survey. See: How InvestmentNews may become nucleus of U.S.-based roll-up if UK investment banker succeeds with 'wild swim' across Atlantic to purchase it

But Willis still says recruiting is more a function of looking in the mirror than out the window.

"Look in the mirror; why would anyone want to join you?" he advised.

Now if only he could convince PE investors to engage in such introspection to help evolve traditional RIAs.