Dynasty Boss Reveals Secrets to Taking on an Investor

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As the owners of bootstrapped RIAs look to achieve scale and growth, some are thinking about taking on outside investors. FA-IQ reached out to Shirl Penney, CEO of wealth firm infrastructure provider Dynasty Financial Partners, to find out how firms taking on new funding can avoid making costly mistakes in the process.

This discussion, which has been edited for clarity, takes place against a backdrop of heightened financial interest in independent wealth firms.

As of Sept. 30, 127 deals involving RIAs had been struck — 20 more than in the first three quarters of the previous year — according to **ECHELON Partners**, a Los Angeles-based investment bank and management consultancy. Meanwhile, with a 19% increase through Q3, 2017 is on track for the fifth straight year of record-setting deal flow.

New York-based Dynasty is plugged into the private client RIA space. Besides supplying fiduciary advice firms with technology, investments and a range of consulting services covering everything from marketing to succession planning, it provides loans to firms in search of funds to retool, expand or diversify.

Penney, who co-founded Dynasty in 2010, says this background helps him and his colleagues spot trends — and their pitfalls — early.

Q. Why are there more wealth firm transactions these days?

A. Simply, the firms are attracting more money. The first thing you have to understand about RIAs and the indie space generally is that there is lots of capital for the wealth management ecosystem. The industry has matured to the point where institutional-quality investors are taking notice. The interest is coming from private equity firms, strategic buyers like banks, asset managers and family offices.

wrong. $3 million in EBITDA means the business is a lot less risky."

Q. What's motivating potential buyers?

A. First, the level of professionalism at RIAs has really gone up. For strategic buyers who are often the highest payers, buying an RIA can be about diversifying, or it can be a way to tap into better distribution intelligence. Just look at BlackRock's investment in iCapital Networks, an alternatives platform. BlackRock wants a better pipeline. So, as firms like United Capital and HighTower continue aggregating more firms together, some RIAs are overcoming an historic challenge to private equity firms taking an interest in them by being big enough to justify a PE firm's participation and answer questions about an investment that may be posed by their boards or come up in their due diligence. And of course, for an RIA, buying another RIA can be a great way to achieve scale or growth and get into new markets. That's an aspect of the M&A activity in this space we're seeing a lot more of.

Q. Does this heightened interest pose dangers to RIA owners?

A. In a sense, yes. When they're facing off against professional investors, they have to realize the people across from them do this for a living; it's what they think about and practice all the time, not just as a sideline to doing something else. Because of that – and because it can be a very exciting and distracting process for people who don't do it all the time – it's best to seek professional guidance.

Q. You say there's M&A money out there targeting RIAs. Is it a tide that raises all boats, or can firms increase their attractiveness?

A. As I said, it's a big mistake not to get guidance when a deal is in view. But before then, firms that don't take steps to professionalize are at a disadvantage. Buyers are looking for operational efficiency, growth, investment consistency, a thoughtful succession plan, and of course books and records that are current and clean.

Q. You mentioned family offices — the often closed-door investment managers of the super-wealthy — as buyers in this market. What's sparking their interest in RIAs?

A. There are a couple of things going on. Family offices want to own annuitized revenue streams, which they see as an element of a fee-based business-like wealth management. These entities are also at a high level of sophistication, and they think if you're going to play wealth management, you should play independent wealth management for better growth prospects. And there's a strategic element. An RIA can provide expertise, in certain asset classes or in terms of robust financial planning. So, from the perspective of a family office, an RIA can provide good potential return and access to valuable intellectual capital.