

## HOW A SMALL RIA FINDS BUYER

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Wayne Warner hasn't rushed onto retirement.

But the 83-year-old majority owner of Wayne Warner & Associates, a registered investment advisor in Fallbrook, Calif., has long known that his sudden death or incapacitation would disconcert his clients and double the workload of his business partner, Jayne Byrne.

So the man who helps clients fund comfortable retirements has been getting ready for his own, planning for a partial sale of the business he has been building since the mid-1960s.

Warner and others like him can take comfort from a growing sense that the market for independent RIA sales has improved. "We're definitely seeing more activity" as a nascent economic recovery prompts RIAs that kept quiet in dark days of 2008 and 2009 to come looking for buyers, said Lawrence Hughes, head of Bank of New York Mellon's wealth-management division.

There are those who question the value of an independent advisory business of WWA's small size. It manages around \$85 million.

This makes it a "have not" outfit, according to "Back to the Future," a 2005 white paper on the market for registered investment advisors. These small firms compensate their owners well enough, but lack capital to accelerate growth or respond nimbly to changes in the marketplace by investing in new technologies and dealing with more stringent compliance, the paper argued.

And according to a 2010 paper called "Creating, Measuring and Unlocking Enterprise Value in a Wealth Manager" by RIA equity backer Fiduciary Network, only 200 to 400 of the 25,000 RIAs in existence "possess the potential to build material enterprise value."

Warner and Byrne disagree. "The misconception is that small advisory firms are in this for the money," said Byrne. "We make a good living for ourselves and our families--but the other aspect is that this is an exciting business, and people really need our help."

In 2007, the partners started planning in earnest for the founder's departure. WWA had been courted by so-called rollup firms, but it wanted to sell only Warner's piece of the business and have Byrne, 35 years his junior, stay on as lead partner. They also wanted an ownership that still emphasized client service. So they focused on like-sized firms run by independent, experienced principals who emphasize financial planning.

Now, capping a search that was prolonged not by the downturn but the partners' desire to vet as many candidates as possible, WWA is closing on a deal with a pair of local advisors. They are roughly Byrne's age, and would buy Warner's shares in the firm over several years as he transitions out of the business.

BNY Mellon's Hughes said the RIA market is improving not just because retirement-age and recession-weary owners are anxious to cash in on stronger valuations. Many owners would also rather sell than pay for the

improvements needed to compete in a marketplace where clients want more services from their advisors and where regulation is getting tighter.

But investment banker **Daniel Seivert** isn't sure BNY Mellon has an accurate read. BNY Mellon is one of the past decade's busiest wealth-firm acquirers, so it makes sense that it would hear from firms that are feeling shaky and looking for the kind of upgrades it can provide.

The easy profits and growth of the mid-2000s may have disappeared, "but it's unbelievable how many firms grew in 2008 and 2009," said Seivert, CEO of Los Angeles-based **Echelon Partners**. "A lot of businesses are run as 'lifestyle boutiques' which are cash cows run by founders who love their jobs and can manage the business well into their seventies and beyond," he added.

## ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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