

## BUYING OR SELLING A FIRM? DON'T BE DELUSIONAL

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Advisors seeking business deals are often borderline delusional, according to panelists who spoke Wednesday at MarketCounsel's annual summit in Las Vegas. Whether working on succession planning, an acquisition or a sale, FAs tend to underestimate how much they need to prepare, overestimate what they can get from a buyer, or both.

Closing a good deal means clearing many hurdles, warned **Daniel Seivert**, head of **Echelon Partners**, a Los Angeles-based investment bank that works with advisors. The top 10 challenges: mastering strategic planning; finding a growth strategy; financial forecasting; sharing equity; valuation and succession transactions; financing; taxation; management and leadership; legal elements; and governance and decision making.

Behind many advisors' complacency "is a sense of no-counterparty risk and no-business-model risk," Seivert told the audience. "And all those elements that come at the end? Wow, there's a big surprise."

Dealmaking is stressful, so advisors should ask themselves tough questions before and during the process, said Lenny Chang, cofounder of Focus Financial Partners, which buys RIAs. Do they have the capital? Do they know what they're looking to buy? How will the deal further their business goals? Do they have the right team and infrastructure to successfully execute and integrate a transaction? Do they have the time and bandwidth? And what in their history enhances their likelihood of success?

Chang also encouraged potential sellers to perform reverse due diligence, including conducting background checks on key personnel at the acquiring firm. "Not all buyers are created equal," he told conference attendees. "There will always be some firms who will never, ever do a deal, because it may be detrimental to the culture of the firm."

### Advisors' View

Besides buying or selling entire firms, dealmaking includes partial books of business and recruiting high-producing advisors, according to advisors in the audience. For example, Jonathan Foster, president of Angeles Wealth Management in Santa Monica, Calif., believes the best salespeople work for the wirehouses; so he's looking for high-quality brokers who want to leave, receive a good payout and gain the opportunity for equity ownership.

Foster's firm serves wealthy clients and is affiliated with Angeles Investment Advisors, which primarily serves institutions. An ADV from March lists Angeles Wealth Management as overseeing \$110 million in assets; an ADV from September has Angeles Investment Advisors overseeing \$1.7 billion.

“It absolutely is a deal,” said Foster about recruiting a top-producing wirehouse breakaway. “The difference in the deal is you’re not monetizing their business; you’re trying to monetize their opportunity.” After all, he adds, if he doesn’t make it worth advisors’ while to join his shop, “they could go down the street to another brokerage firm and get a huge retention check.”

## 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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