M&A Deals Hinge on Advisors's Talent and Fit

2.26.15 Originally Published By Chris Latham, Financial Advisor IQ

Advisors looking to grow business through M&A must look beyond financials at talent retention and cultural fit, say experts who attended Pershing's regional symposium Wednesday in New York.

Yet parties to a merger deal often overlook the human element, since they're so preoccupied at first with numbers. This occurs because sellers often overestimate how much their books of business are worth, and the growth potential of a firm post-merger is often open to interpretation before the deal closes. But good deals come to fruition when buyers and sellers agree on what life will be like once the merger is complete, said people at the symposium.

Firms that recruit and retain top talent will be in a much better position for M&A deals than firms that fail to do so, according to **Dan Seivert** of **Echelon Partners**, a Los Angeles-based investment bank that works with advisors. As advisors retire and their population shrinks, he says, competition for talent will heat up further. "Dealmaking requires attracting people and keeping them," says Seivert, who conducted an M&A session at the symposium.

He estimates, based on industry reports, that on average of close to 1,000 M&A deals occur each year, with only 0.02% of advisors participating. Going by news headlines and research findings, he figures 55 deals occurred last year. However, he believes these numbers dramatically understate the true market. The wealth management industry could see its assets double within the next five to 10 years. Meanwhile, the industry loses about 3,700 advisors each year. These trends may trigger massive merger opportunities for advice firms, Seivert says.

For Andrew Reder, a managing partner at Kistler-Tiffany Advisors, bringing on people who buy into the firm's culture is just as important as hiring people with the right skills. His Berwyn, Pa., firm manages $570 million in assets and oversees an additional $260 million in 401(k) plans. Kistler-Tiffany has looked into potential acquisitions, though for now it is sticking with hiring individual advisors. Reder sees parallels between joining a new firm — which essentially buys your book of business — and selling a practice. Either way, too many would-be sellers are more concerned with getting paid up front than with growing the business after joining forces, he says.

"You have to be very selective about who you want to come in your house," Reder says. "We want advisors to assimilate to our culture, our practices and our methodology of doing business."

Despite that kind of discriminating eye, independent advisors face a strong seller's market, according to Howard Diamond of Chester, N.J.-based Diamond Consultants. He routinely runs into firm owners who'd like to grow by buying out other practices but lack enough differentiation to stand out among a horde of rival bidders.