Indie Advisor M&A Pegged to Reboud

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Mergers and acquisitions involving independent registered investment advisor firms is expected to return to the upward trend of recent years, making last year's slide in such deals an anomaly of the bad markets, according to Schwab Advisor Services and other industry observers. The growing sophistication of acquisition-minded RIA firms themselves should be a primary driver, and the expected interest of other buyers could spark further demand.

The 2009 tally of M&A deal volume for RIA firms that had more than $100 million in assets dropped from 68 deals in 2008 to 62 in 2009, according to Schwab's data. That pattern held in the broader data for all sizes of firms Schwab tracked, a category that fell from 88 deals in 2008 to 71 in 2009. Before last year, the market for RIA deals had steadily grown since 2004, when the annual volume was 24 deals.

RIA firms have steadily grown as a share of the market's buyers, hitting 53% of last year's deals for firms with more than $100 million. The next biggest buyer segment consisted of consolidator or "rollup" firms that acquire equity stakes or cash flow agreements, which made up 29% of deal volume. Consolidators had been increasingly active buyers prior to 2008, but most of them pulled back during the downturn and only recently have resurfaced, says Dave DeVoe, managing director of strategic business development at Schwab.

The signals of late 2009 and conditions so far this year suggest 2010 will be a bounce-back year for the market, DeVoe says. "There was a five-year [positive] trend, and we see 2009 as a short-term dip," he adds.

DeVoe says the longer trend owes mostly to "structural changes" in the industry that are encouraging a move by brokerage advisors to independent firms, as well as the aging demographic of existing RIA owners. He says the down markets in late 2008 and early 2009 led RIAs to put the brakes on potential deals.

Among indicators that 2010 is going to be more active is the reappearance of interest from private equity investors in the RIA market, after that type of capital fled during the downturn. DeVoe says another factor is a return to higher valuations of firms, which have been rising as RIAs see their fee-based revenues return – along with the value of their clients' portfolios – from the depths of the market crash. And a combination of continued buying by RIA firms and rekindled interest from consolidators should drive a busier year, he adds.

Other studies of the RIA market also predict a busier 2010. A recent report from Pershing Advisor Solutions tracked a sharp decline in 2009 deals but anticipates a "resurgence" as consolidators regroup and "RIAs become more confident and more aware of the benefits that can be gained by pursuing a merger or acquisition with their own kind."

The downturn also might have helped the atmosphere for deals by showing existing RIAs and other wealth managers that revenue growth from market appreciation is not as viable as adding new clients, Levitt says. That reminder may encourage firms eager to grow their assets to acquire smaller counterparts.

Not everyone agrees that 2009 was a slow year, however. One such dissenter is **Dan Seivert**, CEO and managing partner of **Echelon Partners**, an investment bank and research firm in Manhattan Beach, Calif., that recently published its "2010 M&A Trends and Opportunities" report. He says last year was about on par with past years if the data analysis includes RIAs of any size – not just the bigger ones – and if the definition of deals includes any transfer of equity between principals. In that context, 2009 was quite busy, he adds.

"There is an incredible amount of deal activity not being reported in these studies," Seivert says.

Even so, this year should still result in more deals than 2009, he adds, because valuations are likely to improve. A big component will be the move of breakaway advisors out of the salary-based model of the big brokerages and into RIAs, where they can become equity partners of these independent firms.

Deals also may come from other potential buyers. Levitt says he has tracked interest from multi-family offices to acquire RIAs. One of the larger firms in this segment, GenSpring Family Offices, has made several acquisitions of high-end RIAs in recent years.

But the big push still should be from the two main players now: existing RIAs and consolidator firms. Schwab's DeVoe says those two groups will also probably overlap more often as competitors for deals.

In the past, consolidators tended to seek RIAs that were going to stick with their firms for several years, while RIAs often looked to simply acquire the assets and clients of an advisor planning on exiting the business. But more recently, both types of firms have been branching out, with consolidators in particular finding they can use current affiliates to buy out smaller RIAs where principals are retiring. "There will be a lot of opportunity out there in 'subacquisitions,'" DeVoe says.

• Evercore Wealth Management announced it is buying Morse Williams and Co., an RIA managing about $190 million. Evercore, launched in late 2008, now has $1.5 billion in client assets.

• Seattle-based Moss Adams Wealth Advisors acquired Rowling, Dold and Associates of San Diego, bringing the combined firms to more than $1 billion in assets.

• Michigan-based Rehmann, which runs more than $1.3 billion in client assets, is merging with Cleveland-based Dawson Wealth Management, which has $330 million in assets. They will operate under the Rehmann brand.

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