Rising Market Spurs Advisory Firm Deals

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NEW YORK (Dow Jones)--Merger and acquisition activity among registered investment advisers is expected to rise as firms shift their focus to thriving from surviving.

Larger firms' desire to grow is a driving factor. Still, deals are taking longer to complete as buyers have become more selective about acquisition targets, many of which took on debt to survive the economic downturn.

The market recovery has allowed financial advisers to spend less time assuaging client fears and more time considering growth or succession plans. In some cases, owners who struggled through the downturn are looking to merge with a larger and more stable business. Bigger firms, meanwhile, see opportunities to expand by acquiring a firm and its clients.

Banks, insurance companies and investment management companies--among the buyers that helped to drive deal activity higher in 2006 and 2007--have backed away from advisory firms to focus on other strategic priorities, says **Dan Seivert**, chief executive of **Echelon Partners**, an investment bank and consulting firm focused on wealth and investment management firms. Relatively large and established advisory firms will emerge as the dominant buyers of other firms this year, he predicts.

Two dozen registered investment advisers were involved in mergers or acquisitions during the first quarter of 2010, representing $19 billion in client assets--the largest first-quarter figures since 2003 in terms of deal volume, according to Charles Schwab Corp.'s (SCHW) Schwab Advisor Services.

Seventy-one deals occurred in 2009, representing $103 billion in client assets. That was down from 88 transactions involving $137 billion in assets the previous year, according to Schwab.

While the number of deals is up so far this year, the size of the deals is down. Almost two-thirds of the deals involved sellers who oversee $250 million or less in client assets, Schwab said. In previous years, this group of small to medium-size advisory firms represented only about a third of the sellers.

"We haven't seen the large deals this year that tend to draw up the averages," says David DeVoe, managing director of the strategic business development group at Schwab Advisor Services. "In terms of transactions, I expect 2010 to be stronger than 2009."

There's no central tracking system for advisory firm mergers and acquisitions, so estimates--and definitions of deals--vary. Some consultants say Schwab's estimates seem low and don't reflect internal deals, in which partners or employees buy out advisory-firm principals.

Pent-up demand and a rising stock market, which has boosted client portfolios and the value of advisory firms, may accelerate the deal trend. But if the market climbs above a certain level, firms may become satisfied with their resulting growth and lose interest in making acquisitions, Seivert says.