M&A Activity for RIAs Surges in Q1, Poised for Boffo Year

04/19/2018 Originally Published by Bernice Napach, ThinkAdvisor

M&A activity in the RIA space surged in the first quarter, with the number of deals climbing 12% from a year ago and the average deal size reaching $1.04 billion, according to **ECHELON Partners' Q1 2018 RIA M&A Deal Report**.

Forty-six deals were consummated with an aggregate $47.8 billion in assets under management, setting the stage for likely another record-setting year of RIA M&A activity, according to ECHELON, which is estimating 193 deals for the year. Lightyear Capital's $9 billion acquisition of HPM Partners was the biggest deal in the first quarter.

Consolidators and strategic buyers accounted for 46% of Q1 deals; RIAs, 37%. That's similar to the 44%/37% breakdown for all of 2017 and continues a pattern that began in 2015 when RIA firms were no longer the dominant acquirers.

"Strategic buyers and consolidators are rapidly expanding their footprint by winning significant market share from pure RIA consolidators," according to the report. Banks, which were once the larger buyers of RIA firms, accounted for just 9% of deals in the first quarter. ("Other" buyers accounted for the remaining 8%.)

Breakaway activity also accelerated in the first quarter, rising to 128 teams, the highest number since the second quarter of 2016, when 176 teams relocated to new firms, and 28% above the 100 average since 2013. The first-quarter total was also 6% higher than 121 counted for the fourth quarter, when Morgan Stanley and UBS pulled out of the Protocol for Broker Recruiting with Citibank following early in the first quarter of this year.

"The threat and reality of wealth management firms departing from the broker protocol pact is a scary proposition for financial advisors," said **Mike Wunderli**, a managing director of ECHELON Partners, in a statement. "We're seeing a significant uptick in the number of advisors evaluating breakaway options and the speed at which they are doing so."

When a firm leaves the broker protocol, the liability of an advisor who leaves the firm increases. The advisor would not be permitted to take any client data with him, even the most basic contact information, or solicit clients' business from his new perch without facing potential legal consequences.

To date, Merrill Lynch and Wells Fargo remain in the broker protocol, and UBS, which has left, has delayed plans that would have tied broker bonuses to an agreement that would have prevented departing brokers from contacting their former clients for 12 months.