The Value of Your Firm Isn't Just About You

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Advisory services don't operate in a vacuum. The value of a financial advice practice — and potentially its principals' ultimate remuneration — can be colored by macroeconomics and other seemingly distant external forces.

That's a main takeaway from the latest Seivert Report, published today, on trends impacting the value of private and public companies in the wealth- and investment-management industry.

Between June 2015 and April 2016, the total value of the 160 or so wealth and investment firms tracked by Los Angeles-based investment bank and valuation consultancy **ECHELON Partners** for its Q1 2016 Seivert Report declined 9%.

This slump, says ECHELON Partners CEO **Dan Seivert**, is the result of capital market volatility triggered by central bank action, regulatory changes, and "global crises brought on by mass refugee immigration, commodity slumps, and political unrest."

Adds Seivert: "Wealth advisors should pay heed to this indicator when considering the valuations of their practices, as further market turmoil or, conversely, success could drastically alter the way in which their valuations should be assessed."

In other words, you can't set prices in a vacuum.

Seivert's message isn't ultimately pessimistic, however. If the stock market's recent sharp return from 12-month lows in mid-February "turns to extended growth, advisors can expect assets under management and revenues to rise" and goose valuations in the process, he says.

The specific macro forces pressing on valuations through the past half year or so include the Federal Reserve's rate increase in December — its first in seven years — and higher anticipated costs for complying with the Department of Labor's new fiduciary rule.

But some parts of the wealth and investment industry overcame such headwinds to log higher valuations in recent months, according to the Seivert Report.

Financial technology companies, especially investment processors, saw increases thanks to "innovation and increased demand," the report says.

And "despite lackluster financial performance," alternative investment shops upped their collective value in the marketplace "due to demand for non-correlated investments" in what remains a very low interest rate environment, according to the same source.

Total enterprise value of the 157 firms tracked for the Q1 Seivert Report was $5.7 trillion.

The two largest sectors — national investment brokerages and foreign money-center banks — account for 71% of this total, according to the report.

Investment managers, regional brokerages and regional banks account for just 6.2% of the total.

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