TD Unveils M&A Service for Indie Advisors

Originally Published By Tom Stabile, Fund Fire

A new clearinghouse aims to link independent advisor firms that are seeking merger and acquisition opportunities, both as buyers and sellers. TD Ameritrade unveiled a new platform yesterday that connects its institutional services division – which offers advisors a mix of custodial, investment, and practice management services – to an investment bank that focuses on the wealth management sector.

TD's new AdvisorLink service first offers a catalog of firms looking to buy or sell advisory practices. It then hooks them up with **Echelon Partners**, an investment bank and strategic consultant based in Manhattan Beach, Calif., for services such as identification and screening of potential deal partners and for negotiations and structuring of the actual transaction.

There are other RIA deal-matchmaking and investment bank referral services on the market, including ones available from TD's main RIA custodian competitors at Charles Schwab & Co., Fidelity Investments and the Bank of New York Mellon's Pershing division. But the new program aims to provide an end-to-end service that embeds the investment banking offering into the package, says Brian Stimpfl, managing director for advisor advocacy and industry affairs at the TD Ameritrade Institutional division based in Omaha, Neb.

"We're offering a very customized approach designed specifically for TD Ameritrade advisors that not only uses the expertise we bring but also [the capabilities of] an industry-focused investment banking firm," he adds.

The new platform aims to capitalize on market forces that appear to be encouraging more transactions among RIAs. Schwab regularly tallies the mergers and acquisitions activity across the sector, and reported that a new record level – 82 transactions in 2008 – was largely the result of RIAs themselves stepping up deal activity. In prior years, banks and "holding companies" that buy up independent firms were the most active acquirers of RIA firms, but last year, RIAs themselves accounted for more than half of all deals, according to Schwab's data.

Stimpfl cites the aging demographic of advisors, many of whom are closing in on retirement, as well as an increase in the number of RIAs seeking to expand their businesses, as motivators for TD to launch the program. And the market turmoil is a big driver because RIA firms that had been garnering profit margins of up to 30% now might only be breaking even or losing money. "You then have to cut costs, grow quickly, or merge to get cost synergies," he adds. "The environment is ripe right now for advisors looking for those [merger] opportunities."

The confluence of such factors is perfectly timed for this kind of offering, says Tim Welsh, president of Nexus Strategy, a strategic consultant in Larkspur, Calif., and a former executive in Schwab's business practice consulting unit. He says the number of RIAs who are "burned out" and feeling pressure as service and capacity issues "start to creep in" during the downturn are especially providing fodder for deals.

"Ameritrade's timing here is excellent," Welsh says. "Providing access to do the deals is an important feature. Most deals that didn't work out in the past were because advisors tried to do it themselves."

Welsh says TD also could gain an edge if the program encourages TD-serviced advisors to buy up RIAs on a rival custodian's platform. "If they can get their advisor to buy a Schwab one, then you get those assets," he adds. "So you're both playing defense – putting a fence around your existing advisors and making them stronger –

and playing offense when your advisors buy another custodian's advisor. This could be a powerful asset-gathering tool."

The new program is open only to TD's 4,500 RIA clients or prospective clients on the buyer side, but any firm could be listed as a seller. The sellers could include RIA firms themselves as well as brokerage advisors who want to join an existing RIA firm and bring over their books of business, Stimpfl says. It also handles mergers between RIA firms.

For the tailored matching and transaction services on the investment banking side of the program, **Echelon** would ask the participants for a detailed profile of their practices and their deal criteria, while providing specialized training and deal support to the RIA-buyer or merger clients that are on the TD platform.

Stimpfl says the RIAs can decide the level of service they want in a transaction, from simple matchmaking to find deal partners, which they can handle themselves and access for free, to the more advanced services that Echelon offers but charges them for separately. He says Echelon also offers access to other professionals for matters such as financing and legal counsel. "You will be able to go as deep as you want to go," he says. "The consultative offering is the value here."

A few existing deal matchmaking programs on the market resemble Schwab's offer, which includes introductions to a slate of nearly a dozen investment banks, attorneys, and other consultants advisors can tap.

Nexus's Welsh says he was involved in developing Schwab's program several years ago. "I always thought we were too early to market," he says of the offers the various custodians put together. "Times were good, everyone was doing well, firms were valued high. Most of them attracted few deals and died on the vine."

Welsh says the TD program could be good for **Echelon** as well in providing a pipeline of deals to handle. He says few investment banks focus on the RIA market because the firms, and the deals, are typically small. Such a partnership could supply volume and scale to make providing the service more attractive to the investment bank.

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