# Investment Adviser M&A Seen Rising This Year

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Sales of independent wealth advisory firms are likely to rebound this year after slumping in 2009 as an aging population of principals nears retirement and markets recover from their crisis lows.

Twenty-four registered investment advisers with $19 billion of client assets were sold during the first quarter, putting the industry on pace for a record year, said David DeVoe, head of strategic business development at a Charles Schwab Corp unit that advises RIAs.

"Anecdotal evidence tells us we could see an increase in mergers and acquisitions in 2010," said DeVoe. "We'll start to return to the steady growth trajectory seen in the years before the crisis."

Last year the number of RIA sales fell 19 percent to 71 deals, with $103 billion of assets sold, ending a streak of four straight record years, according to Schwab.

Advisers put succession or sale plans on hold to focus on jittery clients. Principals did not want to sell when the market value of their businesses had plunged.

Even with last week's turmoil, the value of many RIA firms has recovered from the depths of the 2008 meltdown. As asset prices rise and fee revenue climbs accordingly, more advisers are again mulling succession plans and considering a sale.

DeVoe estimates the average age of RIA owners or principals is 54, while about 30 percent are more than 60 years old. There has also been a move to create larger, more extensive firms in what remains a fragmented industry of family-owned shops.

"We're in the middle of a 10-year period of consolidation. M&A will build steadily for the next five to seven years," he said.

Some firms have become too large and expensive to be passed on from a senior partner to a junior partner, which means principals must seek a deal with a third-party buyer or a rival RIA. Schwab's DeVoe estimates 70 percent of RIA sales will be to outside parties.

Rudy Adolf, co-founder of consolidator Focus Financial Partners, said last week's stock market turbulence may encourage advisers at small firms, or those looking to retire, to pursue a sale.

"We think there could be interesting opportunities for us," said Adolf, whose firm has acquired 18 RIAs and manages $35 billion in assets. "Volatility in our space usually means more client calls, client meetings, client communications," he said.

## REAL DEMAND

Deal activity among investment advisers is difficult to track with precision. **Echelon Partners**, a Los Angeles boutique focused on wealth management, estimates 250 to 350 deals a year in an industry with roughly 12,000 RIA firms.

With a few exceptions, RIAs are closely held and seldom make news when they are sold. Echelon's **Dan Seivert** contends deal activity, including many internal transfers to junior partners, probably never really fell off.

"Deal levels are on par with last year, but because many did not properly account for deal volume, they are incorrectly reporting that volumes are up," Seivert said.

He agrees there will be more RIAs considering a sale. Market and valuation multiples have recovered, though many firms are still 15 percent to 20 percent below their peaks.

On the other hand, deal activity will be muted because there is a narrower range of buyers compared with a little more than a decade ago, when insurers, banks, brokerages, investment banks and investment firms all vied to buy wealth managers.

Today, many of these buyers have dropped out of the picture, focused on restoring their financial strength or concluding that investment adviser deals did not pan out.

"Many buyers are still licking their wounds. Their desire to act far outpaces their ability to act," Seivert said.

More difficult to measure is whether the private equity funds, consolidators and RIAs that drove takeovers remain eager to buy. Private equity funds and "roll-up" firms found the rapid growth and rich returns of RIAs attractive, though the financial crisis gave some acquirers pause.

Seivert said roll-up firms, despite the headlines they generate, represent less than 5 percent of deal activity. He also noted that while rising markets may prompt more firms to hang a for-sale sign, suitors may conclude they no longer need deals to grow.

"While buyer demand in 2010 will remain high, real demand will be off significantly," he said. "There will be far fewer firms involved in making real bids for sellers."

### About ECHELON Partners

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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