M&A Pegged to Increase for Indie Advisors

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Deal activity to acquire independent advisor firms kept its momentum in the first quarter, and some indicators are pointing to an upswing this year. That's according to data and analysis from Charles Schwab & Co. and others.

The story of 2008 in this market segment – where deal levels kept pace with recent years, but for different reasons – is continuing so far in 2009. The big change was a pullback in acquisitions by "consolidator" or "holding company" outfits that buy up stakes in independent registered investment advisor (RIA) firms, with deals led by advisor shops themselves picking up the slack.

Transactions overall were tamped down in recent quarters because advisors had been "shell-shocked" by the crash, but they should return as the markets settle down, says **Dan Seivert, CEO and managing partner of Echelon Partners**, a consultant and investment bank in Manhattan Beach, Calif. His firm recently signed on to provide deal consulting services to advisors through TD Ameritrade– one of the four big custodians that support RIA firms, alongside Schwab, Fidelity Investments and Bank of New York Mellon's Pershing division.

"A lot more oxygen has been pumped into the room, and that's causing [parties to] resume discussions," he says. "I definitely think that over the course of the next 18 months, there's going to be an incredible amount of activity. It could be one of the biggest deal periods that we've ever seen."

The 18 deals counted by Schwab last quarter, for firms overseeing a collective $29 billion in assets, is on a pace nearly identical to the last two years, says Dave DeVoe, managing director for Schwab Advisor Services. This year should at least match 2008's total of 82 deals involving firms with $134 billion in client assets, he adds.

"What's interesting is it was a record year despite the turmoil," he adds. "We probably would have seen 20% to 30% more deals."

Schwab's tally counts deals with advisors running more than $100 million that involve equity changes – mergers, acquisitions, management buybacks, and breakaways from the wirehouses going independent in arrangements that give them ownership stakes. [See a roundup of recent deals at bottom of article].

DeVoe says the pace of advisor-driven deals accelerated in the first quarter, rising to 60% of the total, outpacing last year's 50% peak in that category. Holding companies made up only about a third of the first quarter's deals, falling back from previous highs.

The RIA-driven deals stem in part from growing savvy among advisors, DeVoe says. He says that this includes a better understanding about the importance of finding deal partners that make a strategic fit as well as the elements that go into crafting acquisitions, such as valuations of firms.

Seivert says the Echelon-TD partnership is taking the RIA-driven phenomenon further by basically institutionalizing the buying process for RIAs. The platform is designed to help RIAs that custody through TD to find deal partners for mergers and acquisitions and then to tap into Echelon's investment banking expertise for aid on carrying out the transactions.

The program has begun with Seivert's team vetting a group of preferred buyers – RIA customers of TD that are primed to acquire or merge with other advisors. He says Echelon sought RIAs that have sufficient financial resources, asset levels, internal infrastructure, and industry experience, and now is training them to prepare not just for a single deal but to make such buying a strategic part of their growth.

"We'll help them work faster and be more competitive in the process," he says. "We're training them on how to build a pipeline and keep it stocked."

Another possible spark for more transactions is the holding companies – firms such as New York's Focus Financial Partners, WealthTrust of Nashville, Tenn., and Boston Private Financial Holdings in Boston – returning to the market. They were active from 2005 to 2007 as their model gained traction, fed by RIAs eager to sell and retire or trying to take advantage of aggregator bidding wars, Seivert says.

However, when the markets fell last year, RIA firm revenue and cash flow dropped as well, leading to far lower valuations for firms seeking buyers. Aggregators began making correspondingly low offers, and sellers pulled back, Seivert says.

Still, Seivert says he expects holding company activity to rebound as the fortunes of advisors rise with the tide of the better equity markets, making deals more attractive. "That market will come back as valuations go up," he adds.

Schwab is tracking another strain of transactions in the aggregator category – deals where advisors exiting the wirehouses are starting up or joining independent practices as equity partners, either through the holding companies or through new players serving as "platform hosts." Examples of such platform hosts include Chicago's HighTower Advisors and SeaCrest Wealth Management of Purchase, N.Y.

Recent RIA deals in the market include:

• the merger of Salient Wealth Management and Friedman & Associates in San Rafael, Calif., to create an RIA with $600 million in assets

• the acquisition of GKM Advisers in Los Angeles, with $353 million in assets, by Denver-based First Western Financial, a private bank that now has $2.5 billion

• the acquisition of Denver's Epic Advisors, an RIA with $2 billion in assets, by SunTrust Banks affiliate GenSpring Family Offices18

• the management buyback by advisors from Boston Private to create two RIAs: Sand Hill Advisors of Palo Alto, Calif., and Granite Investment Advisors in Concord, N.H.

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