# MERGING TRUMPS SELLING IN TODAY'S MARKET

Originally Published By Brian Stimpfl, Boomer Market Advisors

**Dan Seivert** is a dealmaker and these days he's busier than ever, matching investment advisory firms in the market to merge. Seivert is the CEO of **ECHELON Partners**, an investment bank specializing in M&A transactions within the wealth management industry.

While fewer wealth management firms may be up for sale, Seivert says he's seen a 25-35% increase in the number of firms looking to merge since the beginning of 2008. Most think of mergers as the combination of two standalone firms, but often overlooked is the breakaway, or "pushaway", broker that has little incentive to remain employed at their current firm. These brokers may be able to seek employment arrangements, sometimes involving ownership or equity, and significantly add to the universe of "merger" opportunities for advisors.

Small to medium sized firms with $20-100 million in assets under management are especially interested in combining forces to potentially improve margins and increase competitiveness in these tough market conditions. "In 2008, smaller firms were motivated to merge by a need to be more competitive with bigger firms when prospecting clients," said Seivert. "Today, smaller firms are feeling vulnerable as they see profit margins shrink. Larger firms are looking to grow but either can't get the capital to make acquisitions or don't want to take on the debt payments or dilution that comes with getting this capital."

**The current economy will drive merger activity**

Several factors are contributing to the increase in merger conversations. Many firms that were working with 30% or lower profit margins are now break even or losing money. They need to cut costs, grow quickly, or merge to offset the 20-35% decrease in client assets and fees that came as a result of the market's decline. Because organic growth [adding new clients or getting more assets from existing clients] will likely be harder to come by in the near future, growth through merger is an option that more firms may explore. Lastly, scale helps with valuation by expanding valuation multiples and can improve a firm's ability to compete.

Many independent firms with less than five employees may be compelled to increase in size and stability through a merger, in effort to ease prospects' concerns about working with a smaller firm. For clients, mergers can bring about access to more products, services, professional talent, better technology, and perhaps a better service experience.

**Disruption and opportunity**

While the next decade is likely to be marked by a large number of deals involving retiring advisors, Seivert says the next two years will provide unprecedented opportunities as a result of the recent seismic dislocations in the financial services industry.

"Never in the history of the investment product business have more advisors found themselves working for a new company, for a new boss, or out on the street looking for a new job," says Seivert. "With a record number of advisors and their clients in motion, this presents a huge opportunity to RIAs and stable wealth management firms that are looking to bring on producers, experienced talent and the clients."

### Measuring your merger preparedness

Advisors seek the benefits of scale and the increased profitability potential associated with merging with another firm. However, many advisors are sometimes intimidated by these often complex transactions. Preparing your firm for a deal is a critical first step toward a successful merger. The following is a list of questions to help you gauge whether merging with another firm may make sense for you.

- Why am I interested in merging - is the desire born out of strength or weakness?
- What are the benefits of a merger to me, to my employees?
- How will the merger help the firm achieve its strategic vision?
- Are we in touch with who we are as a firm?
- What does my firm hope to accomplish through a merger and are there other ways that might be better?
- Can I, the leader of this firm, handle the merging process given my skills, my work load, and the time required to perform in a high quality way?
- What message does attempting to merge send to employees and clients? What will they think and how do we best manage communications/disclosure?

Out of any crisis comes the potential for great opportunity. With the increasing demands and costs on business owners and the compression of revenue on these businesses, the scale that comes with merging can allow advisors to better compete. Advisors that take advantage of the opportunity may be best positioned for success throughout and beyond the current market challenges.

*Brian Stimpfl focuses on advisor advocacy and practice management initiatives for TD AMERITRADE Institutional including a new advisor M&A matching program, called AdvisorLink, developed in cooperation with ECHELON Partners.*



### 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.

**Daniel Seivert**

Managing Director

dseivert@echelon-group.com