Already sizzling market for advisory firms could be stoked by DOL fiduciary rule

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The market for financial advice firms continues to run hot, with the number of deals and sophistication of transactions growing every year, acquisition experts said.

Advisory firm sales have ramped up the last few years as demand for personal financial services has climbed and the number of advisers has fallen. Advisers also are using inorganic growth to create larger firms that can better handle increasing compliance and technology costs, said experts at the Pershing INSITE conference in Orlando, Fla., on Wednesday.

"There's a continued interest from very sophisticated buyers who are into this space," said Mike Papedis, managing director of HighTower, a national hybrid advisory firm.

Private-equity money is investing in registered investment advisers, banks are getting involved with acquisitions and firms like HighTower are completing transactions, he said.

In fact, Chicago-based HighTower announced Wednesday it had acquired a St. Louis-based firm with $400 million in client assets, Archer Wealth Management.

The number of reported advisory firm transactions jumped from about 60 in 2013, to 90 in 2014, and more than 130 last year, Mr. Papedis said.

And that's only the deals the parties' openly discuss; many others remain private.

About three to four times that many deals are going on among registered investment advisers, wirehouse advisers and aggregator firms, said **Dan Seivert**, chief executive of **ECHELON Partners**, which values wealth management firms and consults on acquisitions.

Jason Carroll, managing director of Live Oak Bank, said his bank alone will help finance about 150 advisory firm deals this year.

Deals also are getting more sophisticated, combining the use of debt and equity, as well as incorporating earn-outs and clawback provisions into the terms, Mr. Seivert said.

While advisory sales already are gaining momentum, a new factor could propel even more action in the coming months.

There's wide speculation that a new Labor Department fiduciary rule that requires advisers to provide retirement advice in the best interests of clients will encourage some advisers to exit the business rather than make the changes required to comply. The new rule begins to take effect in April 2017, with full implementation by the start of 2018.

Mr. Carroll said the pending rule could frustrate advisers, especially older individuals, and it may lead advisers to decide they don't want to go through another licensing event.

So far advisers are strategizing how to make some changes to meet the rule's requirements. But some of the "perverse reactions" the rule may spark could also push advisers to throw in the towel, Mr. Seivert said.

For instance, an adviser who charges clients less on cash funds than on mutual funds and recommends moving cash into a mutual fund "is in harm's way" under the new paradigm, he said. The advisers would likely need to increase fees charged on the cash fund so there is no difference.

Mr. Seivert doesn't expect an increase in deals right away because of the DOL rule, "but maybe after some failed attempts that ends up happening."