Fisher Buys RIA and Promised More Deals

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Fast-growing Fisher Investments has acquired a Houston-based independent registered investment advisor firm, the second deal in an aggressive push to buy RIAs. Fisher closed last month on the deal to acquire assets of Lighthouse Capital Management, which managed $460 million.

The 18-month-old acquisition campaign – which had its first deal in December and may have three more close by year's end – complements the direct-marketing torrent that has helped Fisher grow to about $30 billion in assets from high-net-worth investors, up from about $11 billion in 2003, according to FundFire archives. Overall, the wealth management and asset management hybrid firm based in Woodside, Calif., manages $45 billion including assets from institutional investors.

Fisher's core effort of directly managing money for high-net-worth investors differs from other wealth managers because it uses a low-cost model that handles all client contact by phone. And it has rapidly built its presence around an aggressive marketing campaign that features ads, direct mail, and broadcast interviews, most built around the prominence of Ken Fisher, the firm's CEO and CIO, who has authored several finance books and is a longtime Forbes columnist.

"They are serial marketers, more than any other company," says **Dan Seivert**, CEO and managing partner of **ECHELON Partners**, a consultant in Manhattan Beach, Calif. "It's like an overnight success story 30 years in the making, where Ken Fisher built up a lot of credibility writing for Forbes for 30 years, plugged in a marketing machine behind that, and then developed the scalability and the [low-cost client service infrastructure]."

For now, the Lighthouse purchase appears to signal Fisher will move strongly into a space that had several active players last year, when a hot deals cycle had dozens of RIAs selling entire businesses, partnership stakes, or cash flows to firms focused on such acquisitions, generally referred to as "roll-up" companies. Several firms that track RIA deals say this has been a quieter year so far for the busiest buyers, which include Focus Financial Partners, WealthTrust, Boston Private Financial, Asset Management Finance, United Capital Financial Partners, and Fiduciary Network.

Fisher's focus is RIAs with $100 million to $1 billion in client assets, but it probably will overlap little with other RIA buyers, says Mark Scalzo, group v.p. and head of mergers and acquisitions for the firm. That's partly because Fisher can offer aggressive prices and an immediate transition of client assets, which other acquirers cannot, he adds. But the main reason is that Fisher integrates the RIA's business into its model and dissolves the prior firm's identity, while other RIA acquirers aim to keep wealth firms mostly intact.

"There are not a lot of situations where folks are saying 'We're also talking to the roll-up firms,'" Scalzo says.

Fisher's move into acquisitions is good news for RIA owners generally, especially those with principals who haven't mapped out an exit strategy, because it adds a big buyer to the fray, says Echelon's Seivert. But he says Fisher may be less appealing to RIAs where principals expect to stay on for a few years or even longer – situations where the "roll-up" approach of leaving acquired firms intact may be more attractive.

Scalzo says Fisher's effort is so far an "enhancement to our current core business," a reference to the direct marketing that tries to attract investors with more than $500,000 in assets.

"There are certain groups of high-net-worth clients who will not respond to what we do on the direct-marketing side," he adds. "We thought we could craft a situation [to find RIA] sellers who need a transition and have not provided for that in house – and who have clients who want other enhancements, such as the ability to invest globally – to get us exposure to some of those clients who don't respond to the direct marketing."

Scalzo says deals with three or four RIAs are "in serious negotiations" and another 10 are in the works. He says the volatility in investment markets doesn't affect Fisher's approach, but could spark RIAs to look for a buyer. But volatile times also could make client transitions to a new wealth manager more difficult, setting "a higher hurdle" for Fisher to satisfy investors.

Fisher's strategy also entails looking at acquisitions of asset management firms, particularly where it has gaps in its in-house styles, Scalzo says. The firm has various equity strategies, including its original small-cap portfolios and global strategies it has built since. "There are a significant number of style boxes from [an investment] consultant's perspective that we don't fill," Scalzo says. "We are looking to acquire firms to keep the investment teams intact, but to leverage our sales and marketing and research [resources]. The hurdles are high. You have to have a cultural fit."

The Lighthouse deal comes after Fisher closed its first RIA acquisition on Dec. 31, buying EconoStrat Advisory of Bloomfield Hills, Mich. Fisher declines to release terms of either deal. Scalzo says Fisher has brought over 85% to 95% of assets from Lighthouse, after having brought over more than 90% of assets from EconoStrat, which managed $65 million. Fisher has already integrated most of the Lighthouse clients, with each account moving over in a customized transition to Fisher's in-house separately managed accounts.

Scalzo says the recent deal appealed to the Houston RIA in part because its principals were hearing clients ask for global investment strategies more often. The firm ran a pair of domestic strategies it called Equity Account Composite and Balanced Account Composite.

As in the prior deal, three Lighthouse principals are staying on board for up to a year to assist in the transition from a client service standpoint, but not for portfolio or client management, Scalzo says. Future deals will work similarly, and former RIA principals may be able to join Fisher in other business units, such as sales, Scalzo says. Fisher will close each RIA's local offices in the process."They're likely to wow [the RIA's] clients from the perspective of the thoughtfulness and the reporting and approach and touch – how many times clients are contacted and what with – and the consistency of the service," Echelon's Seivert says. "They're not likely to wow in that the touches are not in person. It's not a fellow member at the country club."

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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