Advisor Biz Grapples with Succession Recession

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Succession-driven deal volume among advisory firms will have to pick up, but right now there's a puzzling lack of activity, said **ECHELON Partners** founder **Dan Seivert** at the firm's Deals and Deal Makers Summit in Santa Monica, Calif. on Thursday.

Seivert estimates there are about 1,000 transactions every year—far more than the 50-deal average publicly reported by Schwab Advisor Services in recent years. Many small and internal transitions are never reported.

Still, that's not enough to keep up with the 3,500 to 4,000 net loss of advisors every year.

"We're not seeing the number of planned successions to match the volume of people leaving," **Seivert** said. "There's just not enough going on."

He calls it the "succession recession."

ECHELON's annual meeting, an intimate group of large advisory firms and related providers, aims to do something about that lack of deal-making. The problem right now, though, is that times are too good and advisors have no urgency to act.

"We're now in a golden period of the business cycle," **Seivert** told *Financial Advisor*. "Advisors are feeling good, cash flow is coming in, clients are happy" and there's no obvious external threat forcing advisors to consider selling out.

At the same time, creating an internal succession plan is difficult. Structuring the company, hiring the right people and figuring out who's going to take over is a costly and time-consuming process. And older advisors don't have the energy to pull it off in many cases, **Seivert** said.

But as advisors age and the need to transition out becomes more urgent, **Seivert** expects to see more external sales.

"The better choice to consider is a merger partner, so you don't have to build out" and create an internal succession plan, Mark Tibergien, chief executive of Pershing Advisor Solutions, told attendees at the conference.

Internal succession plans should probably have three candidates per owner, Tibergien said, which gets expensive for smaller firms.

"Friends deals are some of the best" ways to transition out, **Seivert** added. This is where separate owners get to know each other over time and decide to combine firms. "They find each other in study groups, and hand-pick their successors," he said.

For industry survivors, the environment continues to look bright.

The U.S. wealth management industry currently handles about $23 trillion, **Seivert** said, which should double by 2027 assuming just five percent growth. Even assuming a growth in advisor headcount, assets per advisor will still double.

"That future looks euphoric," **Seivert** said, "but there [will be] a capacity issue."

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