Jon Beatty says many advisors are still more fixated on tending to nervous clients than doing deals.

The RIA M&A market stumbled in 2012, but giants were not deterred, Schwab end-of-year data shows

M&A activity still sickly slow by some reckonings, but harbingers of mating activity abound

1h 18min ago **by Lisa Shidler**

Brooke's Note: Personally, I think RIA M&A activity is poised for a rise. My optimism is based on article flow, tones of voices of deal makers, growth of M&A firms, heads-ups that I get about soon-to-close (maybe) deals for us to write about, and the general sense that the RIA business is growing up every day and doing grown-up things like getting married. See: RIA deals fizzle in the fourth quarter but big-paying banks are getting back into the game. I'd be a bit embarrassed admitting that that is the extent of my analysis if not for the data and analysis being presented by the industry experts themselves — who tend to be overly optimistic or overly pessimistic. In fact, deal flow stays pretty in the middle all the time. The optimists say that there are far more deals happening than we can see. But this is a little like saying that bigfoots are everywhere but that we just can't prove it because they are so elusive. The pessimists point to what scant public deals we can find out about and say: Look! But we know there are in fact more. With that said, I think this article is the best M&A roundup you'll find in the industry and that you'll come away with an impression that bigfoots do exist — if grainy photos are to be trusted.

The pace of merger and acquisition activity in the RIA business remains mired in crisis mode but industry leaders point out that even though there were fewer deals last year, the deals that got done were huge.

Schwab Advisor Services, which tracks the deals, announced today that there was a 30% increase in the total value of M&A transactions from 2011 to 2012. In short, there were fewer deals in 2012 but the average asset size was much larger last year. The assets under management of the 45 deals in 2012 was at $58.8 billion compared with $43.9 billion for 57 deals in 2011.

The national acquiring firms such as HighTower, Focus Financial Partners, LLC and United Capital Financial Advisers drove these major deals. They were the most dominant buyers, accounting for 25 of the 45 reported deals. The incidence of deals engineered by RIAs dropped from 44% in 2011 to 20% in 2012. A number of giant deals were done at the end of last year. See: Why it took Rudy Adolf seven years to win an elusive $1.5-billion RIA to cap a $14-billion-asset year and See: United Capital eyes 'Paragon' brand for the $10-million-plus set after nabbing $1 billion RIA in Seattle.

Where are the deals?

Making such deals happen takes tremendous energy and get-it-done focus. Conditions are still not conducive for that, says Jon Beatty, senior vice president of sales and relationship management at Schwab Advisor Services. “Certainly, RIAs are focused on helping clients through the end of last year,” he says. “We saw tremendous amount of activity helping clients. given everything that was happening in the markets.”

M&A experts remain concerned about the chronically subdued deal flow — even though they acknowledge that there are deals that are happening that aren’t getting reported on this list.

“The transaction volume is lighter than what it should be,” says David DeVoe, principal of DeVoe & Company. “It was a softer year for mergers and acquisitions.”

Mindy Diamond, founder and chief executive of Diamond Consultants LLC, agrees that 2012 was sleepy but she believes that it is the yawn that refreshes.

“We, too, felt the effects of less deals being done last year, but I don’t think that it means that the M&A space is shrinking. I think it’s just getting ready for bigger things. While every RIA firm fashions themselves a buyer, in the end, it is most often the big boys that know how to get deals done — that is, firms like Focus or United Capital or large multibillion-dollar RIAs. Judging by our pipeline, this is the year for these big acquirers.”

Dating, not mating

John Furey, principal of Advisor Growth Strategies describes what he sees this way:

“We are seeing more “dating” versus deal flow in the independent ranks. Many advisors have limited knowledge on the true value drivers within their business. When a buyer approaches, the advisor may view their worth higher than what the buyer is willing to pay.”

Given the fact that there are so many advisors close to retirement, there should be many more deals, says DeVoe. He also points out that a number of the deals completed weren’t necessarily full M&A deals because some of them were breakaways that HighTower brought from wirehouses. And the pace of deals completed by HighTower has dropped off during the past five months. See: After a five-month deal-making hiatus, HighTower adds a couple of advisors and hints at a busy 2013.

David DeVoe: Simple math shows us there should be 200 or so deals each year.

“The demographics of the industry haven’t changed, and that’s what is most concerning,” DeVoe adds. “When you look at the industry, there are about 20,000 firms ,and 50% of those advisors are expected to retire [soon]. Simple math shows us there should be 200 or so deals each year.”

Numbers don’t get reported

But Daniel Seivert, CEO and managing partner of ECHELON Partners LLC in Manhattan Beach, Calif., says he doesn't put much stock in the numbers reported simply because so many deals occur that don't get reported.

Even though the roll-ups show up as major players, Seivert says they're pretty small in the overall M&A-landscape. "The roll-up firms are going to continue to count for less than 5% of the deals, but based on the media, you'd think they account for more than half."

"There's a great deal of activity and it's just not picked up in these reports and it's hard to make year-to-year comparisons," Seivert says. "In any given period, there may be only 10% of the deals that are actually being reported."

Stealth successions

Beatty agrees that there are a number of transactions and aspects about succession planning that aren't included in the report. For instance, he points out that some RIAs spend years working on an internal succession plans and that strategy wouldn't show up on the report even if there are junior partners buying larger portions. See: Why a $1.5 billion RIA is selling internally this time — perhaps with Schwab as 'investment bank' — after a sale to an outsider went bad.

Still, even though there are fewer deals, Beatty says he is encouraged that the deals are so large.

"The growth of the overall size of deals is further indication that the RIA continues to flourish," Beatty says. "The size of the deals means there was more activity with larger advisors." See: First Republic pays a staggering sum for Luminous Capital, sources say, and shifts the breakaway and M&A games in the bargain.

Beatty says he feels there could be an increase in activity this year if there's a positive catalyst such as a robust stock market or favorable legislation that provides assurance on taxes and regulations going forward. See: The killer cheat sheet of just where RIA clients stand after the near-cliff experience.

DeVoe also points out that he sees a great deal of activity on the horizon and that his firm hired two investment bankers last year to meet the increase in activity.

"Our pipeline for 2013 is very robust at this point, and at least they're engaging us, but it doesn't seem like the numbers are moving as aggressively as they ideally should be for succession planning," DeVoe says.

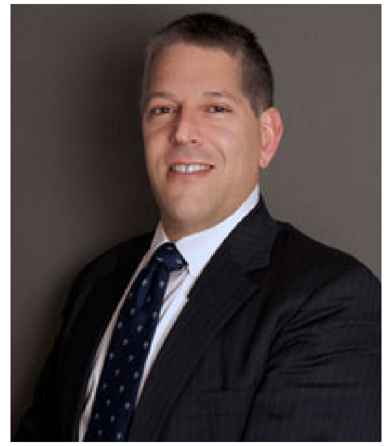
Belly up to the rising bar

M&A activity certainly hinges on a wide range of factors, including the market, but right now interest is high, says Steven Levitt, managing director and co-founder of Park Sutton Advisors LLC in New York.

"We did see more activity with bigger firms than in prior years," Levitt says. "As time goes on, the bar rises. We're seeing some of these really successful RIAs take it to the next level."

Levitt believes there could be more big deals this year, depending on whether factors change.

"The last half of 2012, there was a catalyst in terms of tax rates going up and ushered in some deals that closed," he says. "Those rates are gone now, but the fact of the matter is I think there's no shortage of RIAs who will be having these conversations. I think we'll see a good number of announcements this year." See: Even as mired markets stalled Q2 merger deals, private-equity-fueled national acquirers revved up prices.


Steve Levitt: As time goes on, the bar rises.

Levitt points out that the larger firms get, the more their costs will add up and that could lead them to think of more consolidation.

"As firms get bigger, costs will continue to rise and they'll need to continue to reinvest. It's probably only natural that some of these medium- and larger-size RIAs will look to merge," Levitt says.