Mark Hurley: The goal for us is not to build up and flip.

After more than two years of radio silence, Mark Hurley pings with a stake-taking in an under-the-radar RIA

The writer of firebrand reports describes his own company as 'boring' -- questionably -- but lately has lived up to his billing

Friday 8.23.13 **by Lisa Shidler**

Brooke's Note: If you know Mark Hurley, you know him as being uniquely American in his brash, devil-may-care sarcasm. But if you were compare him to a hockey team, you might say he's more Russian. Recall how they'd pass and pass and pass and rarely shoot. But their scoring rate was high. Mark seems to be getting back into shooting more pucks, after it seemed like he had taken a pass on the whole deal game — a sign, he says, of a growing sense of urgency about succession.

After an uncharacteristically quiet two-plus years, Mark Hurley announced his Fiduciary Network LLC has purchased a minority interest in Durbin Bennett Peterson Private Wealth Management LLC.

The deal follows the usual script for the Dallas-based dealmaker and publisher of controversial reports — plunking in some money to ease an internal succession, then largely stepping aside.

The agreement for the stake in the Austin, Texas-based RIA was inked just three months after the publication of Hurley's bombshell paper, "Brave New World of Wealth Management," in which he suggests that the RIA business will be concentrated — but not consolidated — over the next decade into an industry. See: Mark Hurley drops a new wealth management prognosis on the industry with a zero-sum flavor.

Ready to pop

While white papers are often written to generate attention and even business, Hurley says this deal was set in motion well before his buzz-worthy paper came out this spring.

The fact that it took Fiduciary Network 2 1/2 years to woo and win Durbin Bennett Peterson, which manages about $850 million of assets for 200 clients, doesn't faze Hurley, who says it's natural that some deals just take longer than others — and that sometimes less is more.

“The discipline in this business is not the deals you do but the deals you don’t do,” Hurley says. He adds that a raft of deals spurred by the bottled-up need for succession in the business may mark the next two years. See: Have an aversion to succession plans? Consider a continuity pact as a vital baby step.

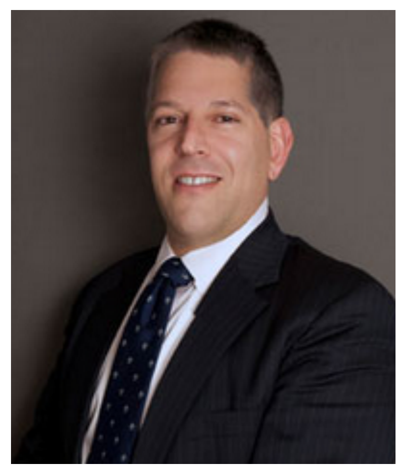
No fireworks

This is the 13th completed deal for Dallas-based Fiduciary Network, which was founded in 2007 by Hurley and real estate investor Howard Milstein. The firm, with $14 billion assets under management, buys minority investments in RIAs in a leveraged-buyout style. The firm’s primary backers are New York-based Emigrant Bank and Virgo Investment Group, based in Redwood Shores, Calif. Hurley’s firm typically buys a minority stake interest in an RIA that is looking to access more equity so that junior partners can begin to buy ownership into the firm.

“When we do a deal, you don’t see a lot of fireworks,” Hurley says. “We just don’t do a lot of deals. But they come in spurts. You’ll have three, four or five in one year and then go a few years without any deals at all. You have to have investment metrics and a strategy and you have to be confident that over time you’ll find the deals. Firms get into trouble because they reach to do a deal just because they feel they need to get something done.” See: Mark Hurley’s comeback to Veres: Fiduciary Network is investing millions in wealth management businesses — it’s just that few in the industry make the grade.

'Exceptional bench’

The purpose of this deal was to help bring in the next generation of advisors as owners. “Durbin Bennett Peterson is in one of the best markets in the country,” Hurley says. “We’re seeing a lot more people looking into this. The difference between a few years ago and now is now more people are trying to outright sell their business.”


Steve Levitt: If you have a skinnier bench of advisors, you may want to consider another option.

Hurley declined to offer specifics about the deal but says Fiduciary Network, in addition to its minority interest in DBP, is now a non-voting member of the RIA’s board, which is consistent with his firm’s deal structure.

“Our strategy is different from the other roll-up firms. We’re investing money for two very wealthy families so they can get sufficient returns. It is very boring. I’m helping businesses remain independent and owned by management,” Hurley says. “We’re not buying very much of the company. Where we make the money is the future growth. They’ll have substantial growth. These guys have been on their own for a long time. You don’t see them at industry conferences.” See: Why the term 'roll-up’ should stay in the RIA vocabulary.

Advisors at DBP didn’t return phone calls or e-mails seeking comment. On its website, DBP describes itself as a tax and financial consulting firm that provides compliance services to wealthy individuals for their estate planning entities and closely held businesses. The firm was founded in 2001 and its ADV shows that it has 12 people on staff, seven of whom perform advisory functions.

Hurley describes the firm as one that typically stays under the radar, is well run, highly profitable with a deep bench of top-notch advisors. It is these partners in waiting that convinced him that DBP has great potential to expand its business dramatically. “They have an exceptional bench and they want the people on their bench to be owners of the business. We help firms like these acquire other firms. The advisors are keeping control of the business.”

No exit strategy needed

Steve Levitt, managing director and co-founder of New York-based Park Sutton Advisors LLC, says Austin is an excellent location for an RIA. See: Marty Bicknell self-declares a slowdown after bringing on $700 million more of RIA assets to punctuate an epic streak of deals.

As for deals, he notes that they may not come fast and furiously for Hurley because his business model appeals to only a select group of RIAs who still want to maintain ownership. In many cases, advisors are looking to cash out at retirement or they want someone to manage the practice for them. Not as many advisors are seeking to retain majority ownership. See: Seeing a clear path to $3 billion, Washington Wealth hitches its venture to LPL but quietly adds Schwab.

“He’s not like a private-equity firm looking for an exit. His firm wants to help older principals and founders who need to get liquidity,” Levitt says. See: As LPL Financial braces for a share sell-off and loss of two directors, a Citi analyst says it’ll be good.

Levitt adds that crafting that type of deal can take longer, especially if there’s no hurry for the advisor partners to complete the deal. More quickly consummated deals often indicate the desire for a short-term liquidity event. In addition, crafting this type of deal often involves more planning because the RIA needs to figure out how to shuffle staff and owners, particularly as younger advisors take on ownership.

“This is a good option for a firm that has a good-sized bench and feel they want to recruit talent,” he says. “If you have a skinnier bench of advisors, you may want to consider another option.”

Hurley agrees and says that these deals can take longer often because the partners aren’t in any hurry to complete it.

Next phase of evolution

Despite the fact that this is his first completed deal in more than two years, Hurley says he has plenty on his plate. “We’re getting a lot of M&A activities — more than I’ve seen in the last 10 years.” He maintains that FN is in talks with dozens of advisors, but it takes a long time to find the right fit. See: Schwab 2013 RIA M&A data show hope but also futility

“The advisors we invest in aren’t trying to sell the business, they’re trying to do the difficult financial planning for the business. The objective is to effectively go through the next state of the business's evolution."

Fiduciary Network currently has investments with RegentAtlantic Capital LLC in Morristown N.J.; Brightworth LLC in Atlanta; Brouwer & Janachowski LLC in Tiburon, Calif.; Seton Smoke Capital Management (now part of Brouwer & Janachowski); Evensky & Katz Wealth Management LLC in Coral Gables, Fla.; Keats Connelly and Associates LLC in Phoenix; Gibson Capital LLC in Wexford, Pa.; Legacy Wealth Management Inc. in Memphis, Tenn.; Sand Hill Global Advisors LLC in Palo Alto, Calif.; Soltis Investment Advisors LLC in St. George, Utah; Adviser Investments LLC in Newton, Mass.; and Kobren Insight Management in Newton Mass.

Those firms have done well, says Hurley. "If you looked at the revenues before the crash and compared them to today, for our firms they are 90% higher then before the crash. We've broadened ownerships and created tremendous incentives for their businesses to grow and flourish. Many of our firms have also completed other transitions buying other firms too." See: Buckingham Asset Management creates a structure with Focus Financial that enables it to roll-up the 120 RIAs that entrust it with $13 billion of DFA TAMP assets.

A generation of wealth managers

Fiduciary Network currently has 20 deals in the pipeline, according to Hurley, and of those he expects to close four or five.

"I am always getting asked how many deals I'm doing. The goal for us is not to build up and flip. We're looking long-term as investments for a few families to generate cash flow and leverage cash flow. It's a unique model … It's a very slow process."

Hurley adds: "We're getting a lot of calls from people who want to sell their businesses. They want us to find someone to give them capital and that takes a lot of time. What's different today is there's a whole generation of wealth managers who haven't been able to set up successors." See: What I learned from four failed attempts to find a successor for my $1.5-billion AUA RIA.