

Why a suburban New Jersey bank and a white-shoe \$1.3 billion RIA found love in Morristown

by Lisa
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Brooke's Note: When I see deals go down between banks and RIAs, my ears always tingle with recent interviews with RIAs who spun out of banks after a bad few years, lost in a wilderness of lending culture and its byproduct — bankers. So my antennae are up. To overcome such expected cynicism, bankers fresh off purchases typically lay it on thick about the synergistic benefits to come. My antennae go higher. That puffery does not seem to have occurred here. I'm seeing two executives making a deal in the spirit of neighborliness and common sense. They still might get on each other's nerves. But maybe not.

A 90-branch super community bank has just financed a deal in which its subsidiary, Beacon Trust, will buy The MDE Group, a \$1.3 billion RIA in Morristown, N.J. in the heart of Big Pharma-land. The deal includes the purchase of MDE's asset management affiliate, Acertus Capital Management LLC.

In the all-Morristown deal, Beacon will have now have managed assets of \$2.5 billion.

No price or term information was disclosed about the deal though, it was allowed, MDE can expect to be paid out over several years. See: [First Allied builds a bridge to potential Securities America defectors](#) .

Capital to invest

The deal comes on the heels of RBC acquiring Los Angeles-based City National and its wealth management holdings including Convergent Wealth Advisors. Game on for what happens toward the end of a market cycle when bank-lending opportunities are lean but bank M&A budgets are fattened up after a good run. See: [LPL Financial confirms that Akellian hire means big plans for its clearing services](#).

Under those circumstances, it only makes sense for a bank to play to its strengths, according to Jim Nesci, president of Beacon Trust Company, also based in Morristown. Nesci joined Provident Bank in 2009 tasked with growing the firm's wealth management business by acquisition and by using the bank's deep capital pockets. Back then, the wealth management assets at the bank were just \$300 million.

"The bank has capital available to invest. From a bank strategy point of view, the trend is for banks to do deals like this because the lending business is getting harder and harder to do," says Nesci. "The spreads are tightening and you need other mechanisms to increase earnings. From a bank point of view, there aren't many choices, we've chosen to go into wealth management because we believe that's our best alternative."

'Super community bank'

But in terms of asset quantity and white-shoe client quality, Beacon Trust is taking a giant leap forward. The MDE Group was founded in 1987 by chief executive Mitchell Eichen. Prior to that, Eichen was an officer and senior financial counselor for the Bank of New York's personal financial counseling department.

MDE has about 200 ultrahigh-net-worth clients and Beacon has 900 mass-affluent clients.

MDE Group's brand name will give way to the soon-to-be-formed RIA Beacon Investment Advisory Services, which will hold all of MDE's former assets. [Fidelity Institutional Wealth Services](#) will remain MDE's primary custodian. The

assets at Beacon Trust will remain separate. See: [Viewing RIAs in a new light, Fidelity Institutional shifts from a top-down to a bottom-up emphasis to serve them.](#)

The assets of the soon-to-be-formed RIA and Beacon Trust will total \$2.5 billion. The RIA hasn't been formed yet but leaders are in the process of obtaining approval and are submitting the form ADV and are waiting regulatory approval.

Acertus, which is the money manager, will keep its brand name and continue to perform in its niche of institutional money management.

Eichen is expected to remain as an advisor to the firm. Attempts by RIABiz to reach him for comment were unsuccessful.

Truster of banks

But as a former banker himself who has made public his desire to get his firm's stalled growth going again, Eichen has been clear that using bankers is high on his list.

In a 2010 interview in this publication, Eichen commented that he was a few months into a national search for private bankers to join his ranks, saying that that private bankers were more open than they have ever been to joining an RIA. See: [Evercore is looking to its future after lifting out a huge team of U.S. Trust financial advisors.](#)

Small town smoldering with rich clientele

"Banks have really hurt these guys," he says. "Bonuses were way off last year. People took massive haircuts. [Private bankers] are pretty disgusted."

Eichen added that he prefers the advisors that come out of the private banking realm to ones from the wirehouse world.

No doubt Eichen will not get many "private bankers" out of this deal in the U.S. Trust sense of the term.

But he gets a stable, local bank. See: [U.S. Trust advisor joins an RIA after surviving the firm's sale to Bank of America.](#)

Beacon Trust Company is a wholly owned subsidiary of The Provident Bank, which is also a subsidiary of Provident Financial Services, Inc., which reported assets of \$8.4 billion as of Sept. 30, 2014.

"Our market cap is \$1 billion and we have well over 100,000 customers in the bank. So, this is a super community bank. If 1% of our customers were turned into wealth management clients, it's a new mechanism to feed a new business," Nesci says. "It's very big but we're labeled as a community bank and 70% of our lending is commercial."



Steve Levitt: It speaks to very natural synergistic fit between corporate banking and private wealth management,"

Bank-wealth synergy

The deal makes a lot of sense, says Steve Levitt, co-founder of [Park Sutton Advisors LLC](#) in New York, which advised The MDE Group on this deal.

"What I think is interesting about this transaction is it speaks to very natural synergistic fit between corporate banking and private wealth management," Levitt says.

Certainly, banks do well with commercial loans but there's stiff competition for corporate loans and the low interest rates are eating into revenues, Levitt adds. See: [BNY Mellon is arming Pershing's RIA unit to the teeth with banking products for ultra high net worth clients.](#)

"I think in this interest rate environment, it's just challenging to make money by lending. They want to meaningfully build their wealth management business," he says.

MDE's clients have mostly been pharmaceutical executives, naturally enough since New Jersey is home to more than 20 Big Pharma companies including Merck & Co., Wyeth and Johnson & Johnson. The average wealth for high-net-worth clients with MDE ranges from about \$5 million to \$10 million.

RIA extractions

Levitt is convinced this deal has better odds of working than other bank and wealth management deals that have gone awry.

In 2004, for instance, founder and chairman of Miller/Russell & Associates Dennis Miller sold his firm to Western Alliance Bancorporation in an all-stock transaction. When the financial crisis hit, its stock fell precipitously and the RIA's owners lost out financially. As a result, on Jan. 1, 2010, Miller and management bought their RIA back with the bank retaining 25% ownership and operating as passive owners. 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.](#)

Judy Shine repurchased her RIA firm that she sold to Phoenix-based Western Alliance Bancorporation in 2007. At that time big Colorado RIA [experienced a similar bad time of it](#)

Lon Morton recently extracted his RIA from a bank. See: [Lon Morton shows how to sell to a bank and live happily ever after — but don't try this at home.](#)

Good omens

But there are several positives in the Beacon MDE deal, Levitt says. One plus is that Beacon and MDE are within a mile of one another and executives in both locations cater to the affluent Morristown — population 18,000 — clientele. The good chemistry between staffers and executives at both firms also augurs well, says Levitt, with their similar approaches to clients and similar technology. Both firms use [Salesforce](#). See: [Evercore is looking to its future after lifting out a huge team of U.S. Trust financial advisors.](#)

"I think this bank [deal] is another signal that banks are very interested in wealth management acquisitions for some of the same reasons. They want to boost the fee income and non-interest income and there's not as much branch traffic as there once was," Levitt says. See: [Mariner Wealth Advisors buys a \\$1.3 billion wealth manager that first unwound](#)



its ties to a bank.

Wealth consolidation

MDE chief Mitchell Eichen is expected to remain as an advisor to the newly formed Beacon Investment Advisory Services.

Nesci came to Provident from Wilmington Trust. At the time, Provident had just \$300 million in assets. The wealth management unit was culled from the bank's trust department. In 2011, the bank completed its first acquisition, buying Beacon Trust, a New Jersey Trust Company.

Provident Bank is the oldest state chartered bank in New Jersey at 175 years old.

In 2011, Provident Bank bought Beacon Trust bringing the wealth management assets to \$1 billion. Provident also bought Beacon Global Asset Management, an RIA, and merged it into the trust.

In October 2014, Beacon Trust Company bought Suffolk County National Bank's wealth management business adding another \$150 million into the wealth management business at Beacon. See: [An \\$18-billion RIA tacks on a \\$24-billion U.S. Trust cast-off as the grab for UHNW magnets continues.](#)

Beacon Trust holds its assets with the Bank of Montreal, the former Harris Bank, and that will not change. Bank of Montreal has been indirectly active in the U.S. RIA acquisitions market of late. See: [What's up with Invesco offloading its \\$20-billion RIA/trust firm to a Canadian bank — and at a bargain price?.](#)

Executive introductions

Park Sutton facilitated introductions between Nesci and MDE executives. Surprisingly, given the two firms' proximity, Nesci and Eichen had never met. But it was clear they had similar ideas about running the business.

"The sellers have to be ready to sell and in this case, he hired an investment banker rather than me simply reaching out asking to buy his business. In terms of assets," says Nesci. "I think Mitch has a similar philosophy and is conservative. We're not shooting for 40% returns. We're shooting for solid returns and advice for our clients."

Eichen's role at Beacon is purposefully undefined and vague, Nesci says.

"The previous CEO will continue to advise me. I think it's important to him that he's not seen as pulling a cord. There's an earn-out component over the course of multiple years. So, he'll continue to be involved for several years. His role [in the deal] is unclear by design. He'll advise me and I may need some suggestions or a client may want to know where Mitch is. We've made a point of not making his role a formal role."

Strong — but not excessive — risk

Nesci was attracted to MDE's open architecture platform, Levitt says.

For his part, Nesci says that MDE offers more sophisticated products than his firm currently can handle. For instance, he maintains that MDE has developed a product that tries to take out downside and eliminates volatility.

"This isn't a product that will get you a 35% return. You get a limited part of the downside and a limit on the upside.



You're playing the middle. I think that is interesting and our clients tend to be conservative." See: [How the alternative investments category got bastardized and why that's a shame](#).

He continues: "When you're dealing with wealthy people, they're already wealthy and we're not shooting for 55% returns. We're trying to maintain purchasing power and make sure we're beating inflation rate and getting them a strong return without taking on excessive risk."

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