FinancialPlanning

Breakaways, Banks & Wealth Managers Seen Leading RIA Deals in 2015

by Charles Paikert

Propelled by breakaway brokers, interest from banks and wealth management success, the growth forecast for advisory firms this year is robust, according to one of the industry's leading investment bankers.

"The prospects for organic growth for RIAs and IBDs have never been greater," says Liz Nesvold, managing partner of New York-based Silver Lane. "We expect to see more lift-out and advisors turning independent activity in 2015. The ability to build tangible equity value is also becoming more attractive to the advisor, especially given the spread between ordinary income and long-term capital gains rates."

Nesvold also sees more bank activity in the wealth management space this year.

"Those that will be on the acquisition side of the ledger will embrace wealth management as a core competency of the bank," Nesvold says. "We expect to see a few more transformational acquisitions à la CIBC-Atlantic Trust, RBC-City National and Boston Private-Banyan. In addition, banks that do begin to build their wealth platforms with a smaller first acquisition will be more thoughtful about post-closing integration and the combined growth strategy. "

Indeed, Silver Lane, which advised Vantage Investment Advisors on its recent sale to Mariner Wealth Advisors, outlines why it believes it "makes sense strategically to align a bank with a wealth management platform" in its new white paper "Silver Lane Insights: 2015 Outlook."

BULLISH ON WEALTH MANAGERS

Nesvold is also bullish on the growth prospects of independent wealth managers such as New York-based Snowden Lane Partners, an ambitious two-year-old advisory firm that just added a Merrill Lynch team from Pittsburgh and is shooting to hit $18 billion in AUM by 2020, according to Lyle LaMothe, the firm's chairman.

Teams transitioning to Snowden since October had "over $900 million in client assets," firm president Greg Franks said in a press release this week announcing the addition of The Feldman Group, a two-person Pittsburg-based Merrill team. However, the firm's assets under management as of September 2014 were only $204 million, according to its Form ADV report filed with the Securities and Exchange Commission.

"The biggest opportunity for platforms like Snowden is the sheer demographics and trend toward independence," Nesvold says. "If they have the right tools in place and can attract the first half-dozen teams to take the leap, the next half-dozen will be easier."

In fact, Snowden's most recent lift-out is the firm's fifth, and the new Pittsburgh office joins others in New Haven, Baltimore, New York and Pasadena, Calif.

LaMothe, a 25-year Merrill veteran himself and a former head of the wirehouse's wealth management unit, says Snowden is looking to expand in the Northeast, Chicago, Texas, California and the Pacific Northwest.

TEAMS KEY TO BUSINESS MODEL

Snowden is looking for wirehouse breakaway teams, with advisors who have at least 15 years' experience, LaMothe says. Teams are key to the firm’s business model, he adds: "It's a team-based-only model. We'd like three, four or five teams in local offices. And our advisors like ecosystems where there is collaboration and idea sharing."

Engaged, wealthy clients are also part of the business model. The wealth manager, which is also a broker-dealer generating about 20% of its business from commissions, targets wealthy business owners and corporate executives who are interested in financial planning and "an interactive relationship with their advisors," LaMothe says.

Challenges facing Snowden include pricing and a growing competitive landscape, says Nesvold, whose firm also advised Bel Air Investment Advisors on its $125 million sale to Fiera Capital in 2013.

"Pricing the model correctly is critical," according to Nesvold. "With budding platforms, there is always a temptation to underprice the model to attract the first few teams. Unfortunately, only when you get deeper into the on-boarding and entrenchment process do younger platforms find they have effectively priced at a loss."

COMPETITION AND CAPITAL

Strong, established regional wealth managers such as Aspiriant, The Presidio Group and Savant Capital are also targeting high- and ultrahigh-net-worth clients, as are well-capitalized companies with national aspirations such as Focus Financial Partners, United Capital and Mariner Wealth Advisors.

What's more, Snowden is also going up against other relatively new Manhattan-based firms with a similar profile, such as Lebenthal and Cantor Fitzgerald.

Capital funding is also critical for an RIA with fast-track growth ambitions. Snowden's first $10 million was raised internally from partners including LaMothe and Snowden CEO Rob Mooney, also an ex-Merrill executive. Last year the firm secured $40 million from private equity firm Estancia Capital Partners, Snowden’s majority owner, LaMothe says.

Snowden is on track to reach operating profitability this year, according to LaMothe, and plans to stick to its knitting.

"We're very focused on investing and spending our own capital," he says.