

E*Trade sells investment advisory to Fidelity/Vanguard specialist

Posted by Dan Primack
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Adviser Investments, the independent advisory founded by noted Vanguard analyst Dan Wiener, is about to get a lot larger.

Fortune has learned that the firm -- whose principals also include Fidelity analyst Jim Lowell -- this morning acquired Kobren Insight Management from E*Trade Financial (**EFTC**). The deal will increase AI's assets under management from around \$1.3 billion to over \$2 billion, plus add fixed income capabilities.

"We're a big believer in buying individual mutual fund managers, not mutual funds themselves," Wiener says. "KIM really complements that strategy, and will help us further customize based on each client's individual risk profile."

E*Trade originally acquired KIM in 2005, as the kickoff to a shopping spree in the registered investment advisor space. It was part of the company's move into wealth management, but something seems to have changed along the way (one source suggests that the E*Trade exec championing the acquisitions has since moved on, but neither KIM nor E*Trade returned requests for comment).

No matter the reason, E*Trade late last year retained investment bank Silver Lane Advisors to begin shopping KIM. Among those Silver Lane reached out to was Fiduciary Network, a platform bankrolled by New York's Milstein family to acquire minority positions in wealth management businesses. Fiduciary Network began looking for the right fit, and settled on AI.

"There are over 18,000 RIAs out there, but AI is one of the fewer than 40 of them that are professionally managed," explains Mark Hurley, president and CEO of Fiduciary Network. "Dan Wiener is a visionary and amazing investor, but what makes his firm so successful is that he realized at the beginning that he didn't know how to run a business. So he hired someone very smart, Dan Silver, to run the day-to-day."

Under terms of the agreement, Fiduciary Network will finance the KIM acquisition via a combination of loans and equity. In exchange, it will receive around a 20% non-voting ownership stake. FN has no plans to ever sell its stake, instead viewing this as a passive cash-flow play.

KIM staffers also will become partners in the combined business, while over 90% of KIM clients agreed to transfer their business over to the new entity.

"All of these RIA businesses are about adding clients, like boa constrictors eating a deer," Hurley says. "They want to eat as much as possible, but there only is so much they can get into their mouth at any one time. If you can acquire a company like KIM and capture an enormous number of existing clients -- which takes much less time than getting new clients -- it's a good way to skip the mouth and go directly to the boa's stomach."