**Consolidation is The Trend in 2012**

By David L. Lawrence, RFC®, AIF®

As economic pressures mount on financial institutions, we are beginning to see the effects. Financial institutions are consolidating and those with big pockets are reaping the benefits. Among the most recent of possible acquisitions is the announced purchase of Genworth Financial Advisors by the Cetera Group, home to three other broker dealers, MultiFinancial, Financial Network and Primevest. The significance of this acquisition is in the consolidation of institutions to provide higher level of services to both the reps and their clients.

The delivery of such services is predicated on the economies of scale. Cetera, a spinoff of the ING conglomerate, has created a solid reputation for providing high quality services, including an advanced technology platform for its advisors that provides both choices and scaled pricing. And certainly, Cetera is not alone in seeking opportunities to expand its reach to advisors. Most broker dealers are looking for chances to increase market share. Certainly, when a broker dealer has a larger number of advisors, it can scale the services provided to those advisors at a better cost, creating opportunities for increased profit. Most broker dealers work at very low margins, thus the important task is to increase rep counts to leverage those margins to higher dollar amounts.

The rule change by the SEC on who regulates the independent advisors (from $25 million is Assets Under Management (AUM) to $100 million for State regulation) has created issues and concerns for those advisors. With the possibility of higher regulatory and compliance costs, advisors are increasingly turning to support organizations to help mitigate some of the risks and costs associated with this rule change. Principally, there are three potential choices: remain independent and suffer the higher costs (which might be a difficult task for smaller firms), affiliate with a custodial and/or service organization (such as those offering a la carte services to Registered Investment Advisors (RIAs)), or choose to join an independent Broker Dealer organization. That is where organizations like The Cetera Group and Raymond James Financial (for instance) can help. With multiple channels from which to choose, an advisor looking for a support organization that matches the needs of his/her firm will have an easier time finding the right choice. Due diligence on those choices is likely to be easier as well.

Still, though, advisors should fully investigate those choices in light of their needs and the cost factors involved. As an example, say a firm offers a GDC split of 85%, yet the costs of support (various fees) amount to shaving that split to a much lower number, making it difficult to compare with another firm that offers the GDC split inclusive with the internal costs. It is a good idea, in this case, to run a set of comparative P&L statements, using projected Net Income figures as the basis for comparison. Advisors can sometimes get caught up in gross payout figures, while largely ignoring the potential fine print (costs) and end up with a less than advantageous deal.

Another point to consider is the suite of services. One of the issues frequently encountered by advisors moving to a new organization is the support (or lack thereof) of their legacy software systems. As an example, let’s say an advisor was using eMoney Advisor and moves to a broker dealer that does not support it (integration of data, etc.) or worse, prohibits the use of anything other than their ‘approved’ software. This could represent a huge amount of work on the part of the advisor and/or staff to convert the data and it could represent substantial additional expense in software purchases, etc.

There could also be orientation programs, educational material and other costs incurred as a result of the shift to the new organization. Some b/d’s offer these programs for free, but not all.

The issue of consolidation is not solely limited to the institutional level. Many firms have looked at or chosen to explore consolidation on their own, opting for mergers with other firms or working with M & A firms. Sometimes called acquiring firms, this type of organization may have interest in purchasing a percentage of or all of an advisor’s practice. Those firms may have proprietary services that they wish to leverage with all the firms they work with and, thus, create opportunities for cost savings. The appeal is to sell your firm, but potentially continue to work in it. For those advisors who are older and concerned about succession, this is a viable solution that cannot necessarily be ruled out.

One of the newer players in this space is Merion Wealth Partners ([www.merionwealth.com](http://www.merionwealth.com)) . Merion has created partnerships with a host of complementary services to provide high level services with a shared resource mentality. Merion works with Ash Brokerage, Envestnet, and Sterling Trustees among several others to provide such services.

Another player is United Capital, Private Wealth (<http://www.unitedcp.com/>). United offers an interesting service called ‘honest conversations’. According to their website, Honest Conversations™ is a unique exercise created by United Capital which utilizes a series of cards along with an open, honest dialogue with the financial adviser. They will walk the client through a series of color-coded cards based on fears, commitments and happiness. The client will then prioritize their cards and discuss why they chose them and how they feel about them. Couples and families will each self-identify their own set of cards, giving each person “a voice,” which is most often not the case. Once the cards are prioritized, the clients will discover what type of Money Mind they have and why they make the decisions they do. The adviser will discuss them in detail and help to identify if the clients are on course to meet their goals and map out a process to achieve them. Those advisors who choose to affiliate can have use of this unique tool to build and enhance client relationships.

With apologies to all of the firms that provide such services, the above two are shown as representative examples.

Yet, another choice for advisors is the do-it-yourself approach. For this, there are a number of resources available. Advisor Xchange (<http://adviserxchange.com/buy-or-sell-a-financial-advisory-practice.html>), not to be confused with Advisor Exchange (an account aggregator, offers a number of services to help advisors buy and/or sell a practice. A key feature of the adviserXchange M&A process is that it's designed to help compatible advisors find each other when they're ready to buy or sell a financial advisory practice. Thy can also provide assistance with the following key activities:

1. Determination of a potential valuation range for a given practice
2. Negotiation of the final purchase price and other key terms affecting the transaction
3. Coordination of due diligence and closing documentation

Perhaps the best known of this type of company is FP Transitions (<http://www.fptransitions.com/>). According to their website, FP Transitions claims to be the nation’s leading provider of equity management, valuation, and succession planning services for the financial services industry, and operates the largest open market for buying and selling financial service practices in the U.S. FP Transitions’ has expertise in practice valuations, continuity planning, practice benchmarking, strategic consulting, performance coaching, succession planning, entity formation and maintenance, internal ownership track set up and management, and mergers and acquisitions. For those looking to handle a sale, purchase, merger or succession plan on their own, either of these two could be good starting points.

David L. Lawrence, PhD is Co-Founder and President of Global Practice Network, a technology and consulting firm that provides financial practices, broker dealers and independent firms with comprehensive, profit-driven efficiency consulting, technology solutions and resources. For details, visit [**www.globalpracticenetwork.com**](http://www.globalpracticenetwork.com) .