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## NEWS RELEASE

*Schwab Redefines RIAs in its M&A Study but Experts Say Further Refinement is Needed*

### **Registered Investment Advisors have \$50 Million of AUM and Serve HNW Investors.**

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*Originally Published By Brooke Southall, RIABiz*

Industry observers have long scratched their heads at how Schwab Advisor Services came up with such a long list of fat RIA M&A transactions each quarter.

Heads of rollups, M&A specialists like **ECHELON Partners** and research analysts at FA Insight had openly asked how the San Francisco-based custodian came up with big deals that didn't jibe with their own on-the-ground observations.

Now that disconnect may be alleviated as Schwab refines its methodology.

#### **Good bye hedge funds**

"We feel the new methodology provides a tighter focus on RIAs who directly serve the HNW client segment and removes institutional RIAs, such as hedge funds, mutual funds and separate account managers," said DeVoe in a release. "As the RIA industry evolves, we will continue to revisit our methodology and refine it as needed to make it the most relevant for our clients and business partners."

RIAs are also being defined as: firms that predominantly serve high net worth retail investors; firms with at least \$50 million in AUM and breakaway brokers from wirehouses who received consideration for joining an RIA. Schwab also updated all its old data to make for an apples to apples comparison.

#### **Refinement needed**

Schwab will continue to tweak its RIA definition for its M&A study, according to the release.

Dan Inveen, principal at FA Insight of Seattle, says he sees Schwab's move as a positive step.

"In the past, I've been asked many times why the Schwab data will sometimes track differently to what we produce for Pershing. It will be an easier conversation now, at least going forward, to explain why Schwab and Pershing data may differ.

"With the exception of including RIA transactions with wirehouse teams, Schwab seems to have moved very close to the terms we have set and followed with Pershing for over five years now. With Pershing, we've elected to focus exclusively on deals that involve the sale or a merger of a retail-oriented RIA, as these are the deals that most directly influence overall market value for retail RIA firms. I recognize that there are benefits to tracking RIA transactions with wirehouse teams, however, and look forward to comparing and analyzing variations in the Pershing and Schwab series in the months and years ahead."

## **Uptrending M&A**

With its new metrics applied, Schwab sees an uptrending market of RIA M&A.

According to the data, there were 27 M&A transactions involving RIAs, representing approximately \$20.8 billion in total assets under management acquired in the first six months of 2011 ended June 30. The AUM for the average deal during the first half of 2011 was \$770 million. This compares to the first half of 2010 that yielded 30 transactions representing \$12.4 billion in AUM, with an average deal AUM of \$412 million.

"Thus far in 2011, we've seen a significant leap in the average deal size due to a greater proportion of those with \$1 billion or more in AUM, despite a slight decrease in transactions over the same period last year," said David DeVoe, managing director of strategic business development for Schwab Advisor Services in a release.

"RIA's themselves continue to be the dominant buyer category, demonstrating their growing sophistication in mergers and acquisitions," added DeVoe. "It also shows RIAs' willingness to use M&A as one way to achieve business goals and objectives."

The 12 deals in Q2 2011 represented \$13.2 billion in AUM and made for a decrease in deals from the 14 deals with approximately \$8 billion in AUM reported in the same quarter in 2010. Average deal size increased. The 12 deals tracked by Schwab in the second quarter of this year had an average deal size of \$1.1 billion, versus \$571 million for the same time period of 2010. The dominant buyer category continues to be RIAs which conducted 12 transactions in 2011.

## **ABOUT ECHELON PARTNERS**

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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