RIA consolidators face a $2.4 trillion opportunity: Cerulli

By Editorial Staff *Thu, Nov 21, 2019*

'The major RIA consolidators currently manage a total of $308 billion today, so $2.4 trillion represents a massive growth opportunity,' said a Cerulli release this week.

The total available market for registered investment advisor (RIA) acquisitions over the next five to 10 years is $2.4 trillion in assets under management (AUM), according to Cerulli Associates, the Boston-based global consulting firm.

The $2.4 figure is based on the assets currently managed by advisors on the brink of retirement ($1.6 trillion), by breakaway advisors ($469 billion), and by growth-challenged RIAs ($348 billion).

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One driver of RIA consolidation is an impending succession crisis among advisors. About one-third of advisors in the RIA channels plan to retire in the next 10 years, and many lack a succession plan.

"Succession planning resources are decentralized in the independent channel, meaning the largest, well-capitalized RIAs are best positioned to match advisors to a like-minded successor, help navigate the process, and provide capital to fund the transition," said Marina Shtyrkov, research analyst at Cerulli, in the release. "More than 80% of advisors who are currently affiliated with an RIA consolidator see it as a succession exit strategy."

As the RIA channel continues to take market-share from broker/dealers (B/Ds) by attracting advisers with the prospect of independence, the assets managed by those breakaway advisers present another growth opportunity for consolidators.

"Consolidators provide the safety net of operational support, strategic guidance, and economies of scale, while also allowing advisors to retain flexibility and gain more control over their practice than they have in the B/D channels," Shtyrkov added.

On the other hand, breakaway advisers worry about losing clients when they leave a B/D and about the cost and responsibilities associated with operating their own RIA. Roughly half would rather join an existing independent firm than start their own, according to

Cerulli.

Struggling RIA firms create more acquisition opportunities. Large and small RIAs face growth-related challenges, including "time constraints, increasing costs, technology integration, compliance hurdles, accommodations for increased staff headcount, and reallocations of management responsibilities."

"By delivering turnkey resources, strategic guidance, and expertise, consolidators allow advisors to focus on what they really care about, such as growth and working with clients," Shtyrkov said.

Large RIA consolidator firms are well-positioned to seize this opportunity. "[They] couple the fiduciary appeal, adviser-first culture, and flexibility of the RIA model with the up-to-date technology, sophisticated marketing power, reliable back-office support, and preferred pricing," the Cerulli release said.

Cerulli divides RIA consolidators into three categories: RIA-branded platforms, financial acquirers, and strategic acquirers. The consolidators themselves "are an attractive opportunity for private equity investors and asset managers," Cerulli said.