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RIAs should beware the stress of success: Cerulli

By Editorial Staff *Thu, Jul 19, 2018*

'As firms surpass $1 billion in assets, they reach a new phase in their business lifecycle,' said Kenton Shirk, a director at Cerulli, in a release.

Registered investment advisors (RIAs) encounter a new set of growing pains when they reach $1 billion in assets under management (AUM), according to recent research from Cerulli Associates, the global research and consulting firm.

“As smaller RIAs reach $500 million or more in assets, they transition from a practice to become a functional business, but as firms surpass $1 billion in assets, they reach a new phase in their business lifecycle,” said Kenton Shirk, a director at Cerulli, in a release.

“In many cases, they begin to support a growing number of advisors across multiple locations, and as they centralize services and resources, they develop a home-office support structure analogous to that of a broker/dealer (B/D).” At that stage of development, RIAs need to acquire a new set of competencies or risk losing competitiveness.

“They now face new challenges such as attracting and retaining advisors, building scale across a large number of advisors, enhancing advisor productivity, and offering a consistent and positive client experience across a large organization,” said Shirk. “They need to build an executive management team, which often includes hiring roles such as chief operating officers, chief compliance officers, and chief investment officers.”

Billion-dollar RIAs grew 9.8% annually during the five years ended 2016, according to Cerulli. RIAs with $250 million to $500 million in AUM grew 11.8% and firms with $500 million to $1 billion grew 10.6%. The seven RIAs with $10 billion or more at the beginning of the period grew only 6.0%, underperforming the growth rate of small broker/dealers with $10 billion to $50 billion (9.5%).

Despite these hurdles, “RIAs that can overcome these challenges could ultimately become formidable competitors among wealth management firms,” Shirk sad.

These findings are included in the 3Q 2018 issue of The Cerulli Edge–U.S. Advisor Edition.