Who's Really Managing Your Wealth?

UNDERSTANDING THE IMPACT OF RIA FIRM CONSOLIDATION

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The registered investment advisor (RIA) industry has been undergoing a rapid wave of consolidation and aggregation, reshaping the landscape for both firms and their clients. While firms claim these mergers and acquisitions bring better services and stability, the reality is that consolidation is often driven by succession challenges, the need for growth, and financial incentives. This shift in ownership structure can lead to both opportunities and challenges for clients, impacting the level of service, investment approach, and overall experience.

The Reasons Behind RIA Consolidation

In our opinion, the push for consolidation is fueled by several factors:

1. **Succession Planning Challenges:** Many RIAs, particularly smaller firms, struggle with establishing long-term succession plans. Rather than grooming the next generation of advisors, some owners opt to merge with larger firms to ensure continuity and financial security.

2. **Desire for Growth and Profitability:** Many firms seek consolidation as a way to scale their operations, expand their client base, and improve profitability. This drive for growth can sometimes shift the focus away from client-centric service.

3. **Regulatory Complexity:** Increasing compliance and regulatory requirements put pressure on smaller firms. Merging with a larger organization can provide access to shared compliance resources and reduce the burden on individual advisors.

4. **Technology and Operational Efficiency:** Larger firms often have more sophisticated technology platforms, which can improve efficiency, enhance investment options, and streamline client services.

5. **Competitive Pressures:** With the rise of robo-advisors and large financial institutions expanding their wealth management offerings, smaller RIAs may feel the need to join forces with larger entities to remain competitive.

How Consolidation Affects Clients

For clients, RIA consolidation can bring both benefits and drawbacks, depending on how the transition is handled. Potential downsides for clients include:

- **Less Personalized Service:** Many clients choose independent RIAs for their personal approach. After consolidation, firms may implement standardized processes, potentially making the client experience feel less tailored.
- **Changes in Investment Approach:** A shift in ownership can sometimes lead to different investment philosophies, new product offerings, or changes in portfolio management strategies.
- **Potential for Higher Fees:** While firms cite economies of scale, some mergers result in increased fees or changes in cost structures that may not always favor clients.
- **Conflicts of Interest:** When firms consolidate, particularly under private equity ownership, there is a risk that profit-driven motives could influence investment decisions.
- **Transition Challenges:** Clients may experience changes in advisor relationships, reporting structures, or service models, which can take time to adjust to.

What You Should Consider

If your RIA firm is consolidating, we think it's important to take proactive steps to understand how the changes might affect you:

1. **Ask About Service and Fees:** Find out if there will be any adjustments to service levels, investment strategies, or pricing structures.
2. **Evaluate Cultural and Philosophical Alignment:** Ensure that the new firm's values and approach align with your financial goals.
3. **Review Agreements and Fiduciary Responsibilities:** Confirm that the firm will continue acting in your best interest and that there are no hidden conflicts of interest.
4. **Stay Engaged in the Process:** Maintain open communication with your advisor to ensure a smooth transition.
5. **Explore Alternatives if Necessary:** If the new structure doesn't align with your needs, consider seeking a firm that better matches your expectations.

Conclusion

From our perspective, RIA firm consolidation is reshaping the wealth management industry, bringing both opportunities and challenges. We believe that while some mergers enhance service offerings and create

stronger firms, others may lead to less personalized service, shifting investment priorities, and potential conflicts of interest. Clients should stay informed, ask questions, and ensure that their financial well-being remains the top priority amid these industry changes.

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