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Small Advisors: Regional RIAs Want You

BY CHARLES PAIKERT OCT 18, 2013 11:30am ET

Are small advisors a big enough market for regional RIAs offering support services?

Phoenix-based SureVest Wealth Management thinks so, and is launching a platform offering investment, compliance, marketing, technology and client relationship support to advisors who have between $15 million and $50 million in assets under management.

So does Pinnacle Advisor Solutions, a division of Columbia, Md.-based Pinnacle Advisory Group, which opened its doors in June 2011 and is also targeting smaller advisors with a similar suite of investment, back office, marketing and consulting support services.

"The small guy is getting squeezed," says SureVest president Jeremy Kisner. "Most RIA firms are run by solo practitioners or small offices of less than five advisors. Consolidators and larger RIAs that are trying to recruit advisors to their platform usually won't work with anybody who has less than $100 million in assets. That leaves the smaller firms out in the cold, because they don't have the expertise or time to implement and integrate everything they need into their practice."

Large RIAs and big-money breakaway teams are relentlessly wooed by high-profile consolidators like Focus Financial Partners and United Capital and high-end platform providers like Dynasty Financial Partners and HighTower Advisors.

SureVest and Pinnacle, meanwhile, are targeting smaller "lifestyle" advisors who want to remain independent but need resources, guidance and business support from the "substantial ecosystem of solutions" that are now available, says Peter McGratty, Pinnacle's vice president of business development.

REVENUE-SHARING DEAL

SureVest is offering a revenue-sharing partnership deal to advisors using the SureVest brand. SureVest's share of the fees billed to the end client range from 55 to 75 basis points depending on the total assets under management that the advisor has with the firm, Kisner says. If the end client pays 1.4% and SureVest gets .65%, for example, then the advisor would get .75%.

“Most of the IAR’s [investment advisory representatives] that we will be working with are not building and managing their own portfolios and are using third-party money managers,” according to Kisner. “As a result they are already used to a revenue share arrangement and are likely currently paying more than 55 to 75 basis points. The difference is we do a lot more than just manage the portfolios.”

SureVest can make a profit, Kisner says, by taking advantage of scale and the fact that unlike competitors providing office space and furniture to advisors, the firm’s overhead “is not as high.”

But breaking into such a challenging market won’t be easy, says industry consultant Dan Inveen, principal and director of research FA Insight.

SMALLER BUDGETS

“On paper SureVest is certainly targeting needs that would resonate with that size of advisor,” Inveen says. “The $15 million to $50 million AUM RIA does not have a lot of discretionary budget for these kinds of services, however. Further, SureVest will have to make a convincing argument that the value it will offer advisors goes beyond what the custodians are already bringing to the table.

“Other established advisor partners, approaching more from the investment side, are also offering similar support,” he adds. “Most prominent in this camp would be Envestnet. If they are to make a go of it SureVest will most likely need to succeed with the investments component of their offering, because that is where the greatest margins are, but this will be a challenge as there are already many established providers in this area and the market is very competitive.”

RIA industry consultant **John Furey** is also based in Phoenix and familiar with SureVest. While competition with local RIAs across the country for smaller advisors will be fierce, says **Furey**, principal of Advisor Growth Strategies, SureVest is “trying to make a distinction through allowing advisors to maintain their brand, while leveraging off their middle office. They are holding out the promise to free up advisors to grow their business.”

PINNACLE’S PROSPECTS

That strategy has worked well for Pinnacle, which is currently working with four advisors with assets between $20 million and $75 million, according to McGratty.

“Smaller firms are comfortable as practitioners, but less so as small business owners,” McGratty says. “They value boots on the ground experience of advisors who have successfully navigated the same waters they want to cross.

“The key to understanding this opportunity is to realize that these advisors, most of whom left larger organizations in the first place, value and desire independence, and no longer have to make a deal with the devil by returning to these large companies,” he stresses. “They need business support and now there is an ecosystem of solutions that provide that support.”

Pinnacle expects to add four more firms to its roster, with assets ranging close to $300 million, by the end of the year, according to McGratty. Clients are charged a 0.45% investment management fee and 0.60% to 0.65% for both investment management and back office services. This fee compares favorably to the 1% management fee that mutual funds charge clients, McGratty contends, “especially considering that Pinnacle bundles additional services like private label marketing communications, strategic business consulting and continuity planning.”

SureVest’s entry into the market is a good sign, McGratty says.

“It’s a good business opportunity and we expect a growing number of competitors,” he says. “But that’s good news and we welcome them. New entrants raise awareness that there is an alternative to joining a larger firm or selling out.”

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