

## A \$5.5 billion LA-based RIA is getting purchased by First Republic Bank

by Brooke Southall

*Brooke's Note: I got this news late last night and I've thoughts and analysis as I received it today. We have a particular interest in this story because the Luminous breakaway was one of the first stories we covered in depth when we launched RIABiz. See: [Merrill Lynch stars take a leap of faith to a new office — and independence.](#) It caught everyone a little off guard because it happened so quickly after the breakaway, involved a bank as buyer and did not involve a bank using its stock as currency.*

First Republic Bank will acquire Los Angeles-based wealth management firm Luminous Capital for an undisclosed cash price.

The San Francisco-based bank is buying Luminous, with \$5.5 billion in assets under management, to make it part of First Republic Investment Management Inc., a wholly owned subsidiary of the bank. Luminous Capital Holdings LLC is an independent wealth advisor. First Republic expands its Private Wealth Management assets under management to \$29 billion.

David DeVoe, CEO of [DeVoe & Company](#), believes the deal may have contained some irresistible aspects for the Luminous partners.

### ***Cash on the barrelhead***

“The timing and deal structure are particularly attractive for Luminous,” he says. “This is an all-cash deal and the transaction is scheduled to close before the reduced capital gains rate expires at the end of the year.”

Historically, the fourth quarter of each year is the strongest for M&A in this industry. Q4 in 2012 will likely experience a spike due to sellers looking to capitalize on the expiring capital gains rate. See: [Record year for RIA M&A after giant fourth quarter, Schwab study says.](#)



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Yet the deal also seemed to come out of nowhere considering that Luminous relatively recently broke away from Merrill Lynch and seemed to be doing more than fine on its own. “I guess I’m a little bit surprised,” said **John Furey**, principal of **Advisor Growth Strategies LLC** in Phoenix, Ariz. “It’s interesting that they’re in a construct that they ran from.”

Dan Seivert, CEO of [ECHELON Group](#) of Manhattan Beach, Calif., says he is less surprised considering the breakneck growth rate of Luminous and the fact that its principals are advisors in addition to managing the business. “It’s symbolic of the fact that when you get up to their larger size, it requires an incredible amount of advanced management and logistics.”

### ***‘Smart guys’***

Still, Seivert says that deal could prove to be a winner for Luminous because the company will establish a better beachhead in San Francisco — and because the principals likely secured themselves a good future and upside. “They’re smart guys; they know what they’re doing.”

There are actually five smart guys —Sear, Hou, Alan Zafran, Robert Skinner, Eric Harrison and one smart gal: Kim Ip, among the six lead partners.

Luminous Capital was advised by Keefe, Bruyette & Woods, and the law firm of Paul Hastings LLP. First Republic was advised by Silver Lane Advisors and the law firm of Arnold & Porter, LLP and financial terms were not disclosed. See: [Hou-Sear team can’t always beat RIAs so it joins them](#).

### ***Stodgy services for fast-moving clients***

First Republic offers its products and services through 63 offices, including 58 preferred banking licensed deposit-taking offices in eight metropolitan areas: San Francisco, Los Angeles, Santa Barbara, Newport Beach, San Diego, New York City, Boston and Portland. Five offices in Santa Barbara, Calif.; Honolulu; Seattle; Salem, Ore.; and Las Vegas offer lending, wealth management and trust services exclusively. First Republic Bank was founded in 1985 and is headquartered in San Francisco. It was formerly a subsidiary of Merrill Lynch & Co. Inc. See: [A \\$5.5 billion LA-based RIA is getting purchased by First Republic Bank](#).

Seivert says First Republic has a niche of providing services associated with stodginess but for the least stodgy clientele — including top venture capitalists, successful entrepreneurs and private-equity investors.

“If you can be a progressive trust bank — and that’s an oxymoron — that’s First Republic,” he says.

First Republic has a history of building its wealth management business by acquiring RIAs like Tisdale & Associates in Santa Barbara, Bay Isle in San Francisco and Trainer, Wortham & Co. in New York.

“They have a history of growing by big acquisitions,” says Pete Dorsey, managing director of institutional sales for TD Ameritrade.



**John Furey:** It’s interesting that they’re in a construct that they ran from.

### ***Little-known techniques***

Luminous has experienced extraordinary growth since its partners’ 2008 breakaway led by Sear and Hou.

See: [Hou-Sear team makes house calls in five states.](#)

In August of 2009 its assets stood at \$1.7 billion and have since grown exponentially by sometimes applying techniques little known in the RIA universe. The press release announcing the deal said it then had total-banking assets of approximately \$20 billion, \$18 billion of deposits, \$15 billion of wealth management assets and \$4 billion of loans serviced for third parties. See: [Hou-Sear team applies Goldman Sachs marketing approach in second year as RIAs.](#)

In 2009, First Republic managers and investors completed a leveraged buy out from Bank of America, which picked it up as a piece of Merrill Lynch the prior year.

The purchase was completed with \$1.86 billion in new equity capital from an investor group led by Colony Capital LLC and General Atlantic LLC. No leverage was used in the transaction. The Bank’s board of directors consisted of nine members — the Bank’s two senior executives; one each from Colony Capital and General Atlantic; and five independent directors who have been affiliated with the Bank consistently from six to 25 years. See: [Mintz Levin sells its \\$1.2 billion RIA, and Focus Financial nabs the assets through a partner firm.](#)

## ***Model RIA***

**Furey** says that the Luminous deal is another great sign for other big firms looking to do deals.

"I think it's really validating for the RIA model. It didn't take all that long [for the Hou-Sear team at Merrill Lynch to go from brokers to RIA to attractive buyout candidate for First Republic]. This would not be achievable if they were still at Merrill. This could give other wirehouse advisors teams confidence to make a move."

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