Tibergien Talks M&As, Wells Fargo's RIA Move and Surprising Industry Trends

The Pershing Advisor Solutions chief talks to ThinkAdvisor about recent developments in the industry.

by Ginger Szala for ThinkAdvisor

Pershing Advisor Solutions CEO Mark Tibergien. (Photo: Carmen Natale/ALM)

ThinkAdvisor had the chance to catch up with BNY Mellon|Pershing Advisor Solutions CEO Mark Tibergien at the firm's recent RIA Symposium in Chicago. We got his thoughts on M&A trends, the breakaway movement, RIA affiliations and what RIAs can expect going forward.

Here are excerpts from the hour-long conversation with the RIA thought leader, who **writes a monthly column** for *Investment Advisor* magazine.

THINKADVISOR: What merger & acquisition trends in the RIA world do you see?

MARK TIBERGIEN: The volume of M&A transactions, which depending on [various] studies, is between 300-400 a year in this business.
Some of those aren't literally mergers and acquisitions but the way they count them; as an example they'll count somebody lifting out of a wirehouse and bringing their business into [another group], which are breakaways. That will count as a transaction and it's not quite the same. But it kind of is.
You have these strategic acquirers, the financial acquirers and the tactical acquirers. So the strategic acquirers would be firms that are attempting to build a national brand; United Capital would be an example of that.
The financial buyers are those that are amalgamating acquisitions to flip … Their motivation is really not to build a brand but to but to get a return on investment.

Rudy [Adolf, founder and CEO of Focus Financial Partners] would readily admit that he's a financial buyer. What he's doing is acquiring a stream of income. They went public with it. But they're not trying to create a unified brand, unlike what United Capital was trying to do. The tactical buyers are not serial acquirers; they'll purchase things because an opportunity arises. There is a fair bit of that going on with just one-off kinds of transactions.

That's how I look at the motives of the buyers. From the sellers' standpoint there are several different motives for a large number of them: It's a liquidity event for the founder and for others; it's a desire to get to critical mass because they're too big and too small. And for others the purchase price is just too tantalizing not to want to do a deal.

What would you say to [Market Counsel's Brian] Hamburger and [Advisor Growth Strategies' John] Furey's comments on not discussing price first in merger discussions?

Their advice notwithstanding, it's usually the first question. They're exactly correct in their proposition [that] if you're talking about what's the price, then you're not asking … what's the value?

In fact the missing discussion in all of this is, once the deal is done, what happens? What happens to employees? What happens to the leader with the transition? What happens to the culture of the company? What happens to the brand? What happens to the clients?

I don't think there has been enough study yet on post-transaction consequences. And it's an intriguing topic … in this business, because it's so human-capital driven. And [it's] so personal, both from the client's standpoint and from the practitioner's standpoint, that it's a dynamic that we have to begin to understand eventually.

What's your sense about the breakaway trend?

It's a complex question, but let me see if I can answer it this way. The easiest way to define a breakaway is someone who is an employee of a large bank or brokerage firm and they're breaking away from the restrictions of that parent company.

They're [also] breaking away from having access to certain financial solutions, from having access to certain technology capabilities, to [now] being able to take control of their own destiny and ultimately to build value in their own business.

The beauty of owning your own firm instead of being an employee is that you get a reward for labor as well as a reward for ownership or risk; if you're an employee you just get a reward for labor.

It's a huge leap to go from the security of employment and a brand name to being an entrepreneur. … The choice of RIA breakaways is to join another firm or to create your own firm. [But] think about all the things you have to do.

You have to get a business license. You have to register your business. You have to pay corporate taxes. You have to meet payroll. You've got to find a place to lease. You've got to acquire furniture. … I don't think people think about all that's involved [and if] the reward is worth it. It's often a big challenge.

Wirehouses like Wells Fargo have added an RIA option — what do you think the impact of that is?

It was inevitable that the large banks had to shift from product sales to advisors. [But often] the language that's used in the business tends to create more confusion than clarity.

The term "advisor" has a specific meaning under the Securities Act of 1940. And unfortunately the SEC and the industry did not do a good job of enforcing the use of the term, and so consequently many who are not advisors are using the term advisor.

So the question is: Do I want to do it as a custodian or as a branded advisory business or be a service provider to advisors? The significant shift of assets from brokerage to advice is saying if you're going to be in this business you need to have a model that makes sense.
So in [Wells Fargo's] particular case they've experienced quite a bit of defections, and people are saying, "Well if I'm going to move, I might just go all out." … I don't see the complete disappearance of the brokerage model, because there are certain consumers who prefer that, and there are certain business models that support it.
But if you're going to be in the wealth management business, moving more towards a fiduciary standard is logical.

It seems a lot of the IBDs are adding or pushing their RIA affiliations or options too, right?

Pershing, in addition to being one of the largest RIA custodians, is also the largest broker-dealer clearing firm in the country. And one of the patterns that we've seen is the immense increase in RIA assets, because independent contractor broker-dealers tend to create their own ADV with what they call a corporate RIA.
Then the reps affiliate under that using that ADV. And it's a way to support what is a natural evolution of the business. But that's different than what the brokers with the wirehouses are doing.
It's a significant trend that I don't really see abating, either. That's [a] challenge now for independent contractors. We're consulting with them and have created a team inside of Pershing to consult on independent broker-dealers' strategies for how they want to be either more effective in their corporate RIA or define what their purpose is.
How do they leverage our platform more effectively? How do they become relevant to the advisors that are tempted to go to a pure RIA or to defect to other firms? … Part of [the issue] is that the margins are better on the RIA side than on the broker-dealer side and the income stream is more consistent and predictable.
The risk is higher because you're a fiduciary, so there is that risk-return equation. And most people who go the RIA route are paid a salary versus being paid on the grid. And so the obligation of the firm in that case is the change in the method of compensation. It's not variable anymore. It's a fixed cost.

What do you think of Independent Financial Partners leaving LPL?

When they left LPL, they decided that Pershing would be their primary custodian for their RIA business and would be their clearing firm for their broker-dealer business. So we think it's a brilliant move [smiles].
But it really goes back to the original context that people leave their current relationships either to avoid pain or pursue pleasure.
I can't speak to the pain that [IFP was] experiencing, but I can tell you that by having control of their own destiny they have greater access to solutions. They're not managed to the lowest common denominator. In fact they own their own management decisions.
We don't deal with that like a broker-dealer would. They have access to innovative technology and they can integrate. They can pick their own solutions; they don't have to rely solely on us.

You've been in this business for a long time. What's surprised you?

I was never surprised by [consolidation] … but once it happened, the speed at which it happened was surprising. [That is] the momentum picked up quickly in breakaways, in mergers and acquisitions and in private equity coming into the business.

Those three things in the last decade, the pace at which they gathered speed once somebody started to do it, was really quite remarkable.

The thing that [also] surprises me … is the multiples people are paying. I mean they are all over the map from five to as high as 18 times EBITDA.

My argument is that value is a function of the future. And one of the things that tells me what the proposition looks like is what's the age of the clients and what's the growth engine within the firm that is driving more clients. And if you've got old clients and no growth engine, then you can't possibly be valuing it at such a high multiple.