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The Future of RIAs: Scale, Durability and Human Capital

By **John Furey,**
Advisor Growth Strategies

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OVERVIEW

Advisor Growth Strategies (AGS) founded the Alliance for RIAs (aRIA) with a group of some of the best registered investment advisors (RIAs) in the industry. aRIA was formed to provide the industry with insight into the future of wealth management and how owners can best optimize their business value and scale their firms. For over 10 years, aRIA has provided thought leadership to the wealth management industry through insightful content that provides actionable ideas and collaboration with industry participants via conferences and virtual environments.

Why did AGS found aRIA?

The concept behind the group was simple. Form a group committed to peer-to-peer learning consisting of founders with a passion to develop their firms, grow enterprise value, and a commitment to evolve mergers and acquisitions (M&A) in our industry.

The RIA industry has evolved and so has aRIA. The industry has experienced a wave of incredible innovation including:

- The rise of the multi-billion dollar, scaled players in the industry. As of 2021, 1,147 “billion dollar” RIAs controlled over 47% of the assets in the channel¹. In 2012, 436 “billion dollar” RIAs existed – large RIAs are getting larger.
- Expansion of the industry’s technology map and virtual capabilities.
- Material development of the RIA support ecosystem including capital providers, consultants, marketing firms, and coaches.
- Creation of more viable succession and partner options via the rise of outside capital providers, consolidators, and financing mechanisms to fund internal succession.

- Growth in value-added capabilities of custodians and asset managers – including practice management, financing capabilities, and technology.

Despite the success of the registered investment advisor (RIA) over the last decade, a new set of challenges will emerge. RIAs will be faced with real tradeoffs to best manage their firms and will have to cope with sophisticated competitors. This dynamic will ultimately increase pressure on margins due to inflationary costs, price compression, data/technology challenges, and most importantly the ability to attract and retain a diverse group of top talent.

Where does the industry go from here?

This paper seeks to outline some of the key structural issues within business management in the RIA industry. The goal is to offer some practical solutions or at least the identification of the key opportunities and challenges owners will face in the future.

aRIA will remain connected by continuing to meet as a study group bi-annually and will seek to advance the profession individually. We welcome your engagement and interaction.

¹ Cerulli US RIA Marketplace 2022

ARIA MEMBERS



John Furey
Advisor Growth Strategies



Jeffrey Concepcion
Stratos Wealth Partners



Brent Brodeski
Savant Wealth Management



John Burns
Exencial Wealth Advisors



Jack Petersen
Summit Trail Advisors



Ron Carson
Carson Group



Neal Simon
formerly Bronfman Rothschild
(Wealthspire)

10 years so far: Learnings from the past decade

When aRIA was founded, there was little advancement in terms of professional management. The industry's primary focus was improving advice in the disciplines of wealth management, financial planning, investments and evolving technology platforms. Little attention was played to fundamental structural issues such as professional career advancement, organizational structure, compensation systems, next-gen equity planning, financial management, and business continuity. The industry has made meaningful progress.

Advancement of business continuity and succession planning

Multiple industry leaders identified the issue surrounding succession planning. With aging founders, access to financing to fund internal transactions, and the emergence of minority investors, the industry finally made a dent in this systemic issue.

Emergence of dozens of very large RIAs

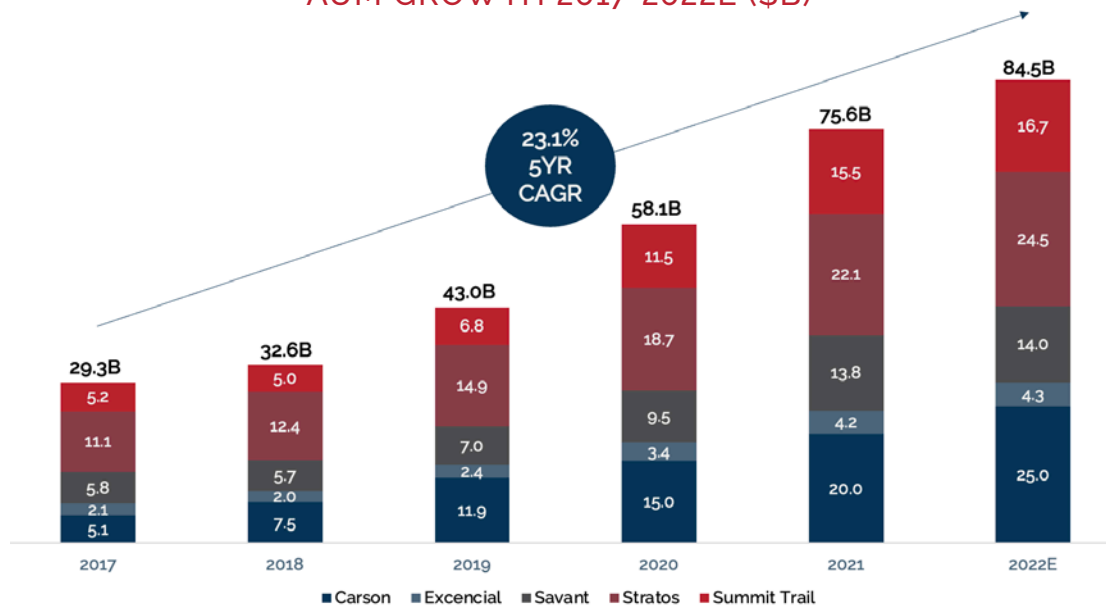
The number of RIAs that have at least \$5B in AUM has grown from 10 in 2011 to 258 in 2021! These firms have developed senior management teams, functional capabilities, and scaled systems and processes. In fact, although \$5B firms represent only 1.5% of all RIAs (including hybrids) they account for 47.4% of all managed AUM. If you add RIAs that manage over \$1B in AUM, the total AUM market share is 74.6%². Clearly, the industry's AUM is becoming more concentrated.

Organic growth

Broadly, the industry became bifurcated into "haves" and "have-nots" in terms of organic growth. In general, most RIAs' growth tracked with the market, with a true organic growth rate for the industry at 3% or less. Most firms struggled finding the right combination of people to develop business and the value proposition to attract new clients. Only select larger RIAs delivered healthy organic growth rates at 10% or more based on macro data. aRIA firms performed above their peers' growth – delivering over 23% growth on average.

² Cerulli US RIA Marketplace 2022

AUM GROWTH 2017-2022E (\$B)



“In the future, advisors that do not have sophisticated wealth management capabilities married with technology and the right team will struggle” – Brent Brodeski

Emergence of professional management

Whether from an outside investor or recruiting, larger RIAs have developed executive leadership teams that look more like those at a publicly traded company versus an independent advisory “practice”. These firms operate on a different plane of strategic planning, financial discipline, and accountability. Each aRIA firm has installed professional management and there are dozens of firms outside of aRIA that have done the same – Creative Planning, Mariner Wealth Advisors, Cerity Partners, Abacus, and Iconiq Capital to name a few.

Increased availability of capital

The RIA channel has certainly been “discovered” by outside capital. From private equity to purpose driven debt providers, meaningful investments have been made in the channel. Fidelity research notes the number of M&A transactions has increased ~400% from 2016 (55 transactions) to 2021 (222)³. This only includes

reported transactions, with the number of private transactions spiking the number even higher. This trend has increased the optionality for RIA owners in transitioning their businesses internally and externally.

Disintermediation of traditional providers

For decades, custodians, asset managers, research providers, and technology companies dominated a sphere of influence around the business management of RIA owners. Today, there is a massive constellation of providers seeking to influence advisors. Some are more mainstream and in front of advisors—consultants, capital providers, and law firms. But there has also been incredible innovation from affinity/educational groups such as XY Planning Network to platform providers such as Dynasty Financial Partners and Carson Group. As we look forward, the amount of information is at an all-time high, and distilling what is actionable will be paramount.

³Fidelity, Wealth Management M&A Transaction Report, Q4 2022

What firms benefited from these trends? RIAs that exhibited superior execution acumen and built processes to install accountability to their teams. Advisor Growth Strategies (AGS) has been fortunate enough to work with hundreds of firms in the ecosystem. We believe, the firms with the best talent and high growth rates always have installed processes to plan better and hold their team accountable. Half of aRIA uses EOS/Traction, a business management system that provides a framework to track and deliver annual goals.

These significant trends culminated with an increase in enterprise value for the entire RIA ecosystem with the largest players benefiting the most. Advisor Growth's "The RIA Deal Room" research confirms that valuations within the channel have almost doubled from 2017 – 2021 with an industry median value of 9X EBTIDA with larger, fast growing firms commanding 12X EBITDA or more. Some of the largest RIAs in the industry were able to track private equity investments eclipsing over 20X EBITDA.

Number of Acquisitions	2017	2018	2019	2020	2021	2022E	Total
Carson Group	0	6	1	3	2	3	15
Exencial Wealth Advisors	0	1	0	1	0	1	3
Savant Wealth Management	0	1	1	1	3	5	11
Stratos Wealth Partners	1	1	1	1	0	5	9
Summit Trail Advisors	1	0	2	0	1	0	4
Total	2	9	5	6	6	14	38

“The RIA channel is still the most dynamic channel in wealth management. The amount of innovation has been fantastic, but we’re still in the third inning” – Neal Simon

Metrics matter > RIAs rewarded for tapping into the power of scale.

When aRIA was founded, the group intuitively knew that to truly build enterprise value, certainty and deliver superior outcomes for clients, scale mattered. As a result, member firms invested in people, process, and technology and achieved specular results (see Appendix). aRIA's average compound annual AUM growth equaled 23.1% and enterprise value growth was 34.2%⁴.

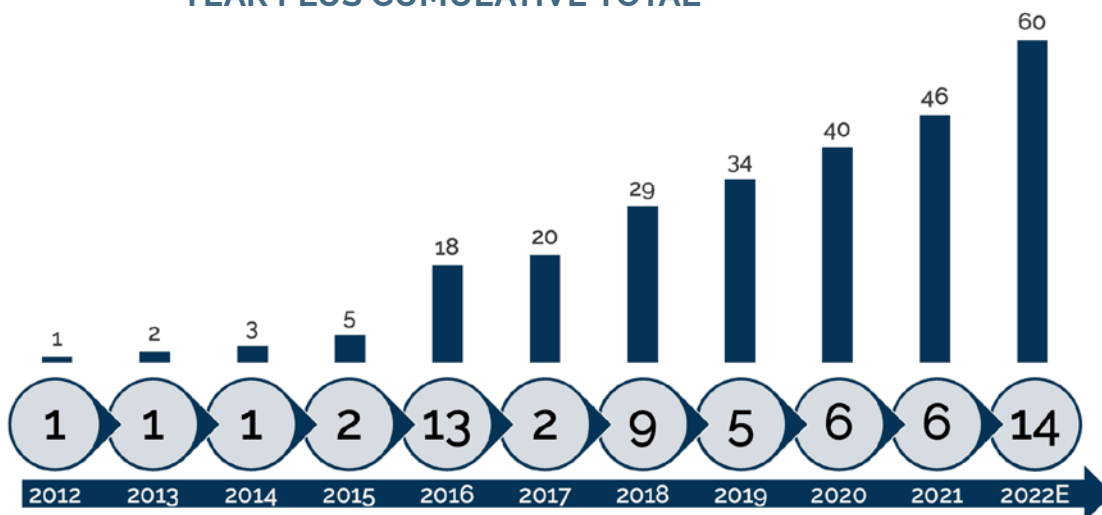
Tracking the metrics matters! Firms that leverage best practices to design key elements of growing a business such as organizational structure, next generation equity plans, and KPIs are able to drive results. The appendix shows the performance of aRIA firms, with

KPIs at the top of all firms in the industry. Each member also experienced one or more transformational events, whether it was a material minority investment transaction, hiring key people, or making material investments in their technology stack.

As the industry moves forward, KPIs and metrics will matter more than ever. Firms that can demonstrate a track record of growth and professional development will attract the best talent, be able to understand what is working and what is not in their client relationships, and manage their business valuation. Superior execution and business acumen will be the next value add. The best RIA "properties" will win the battle for the next new client and be able to drive cash flow/attract capital to fund investments in growth.

⁴ Advisor Growth Strategies, aRIA

aRIA TOTAL NUMBER OF ACQUISITIONS BY YEAR PLUS CUMULATIVE TOTAL



The road ahead > key trends that will drive success and failure

There will be 5-10 firms that will achieve recognizable brand status on a national scale this decade

At least two dozen firms have a stated long-term goal of building a "national RIA." One could argue several firms are already there. Firms like Fisher Investments and Creative Planning both have significant media spends on a national scale and offices in every major market. RIA consolidators are becoming far more regionally significant. For example, Mariner Wealth Advisors and Hightower Advisors have offices in dozens of markets and hundreds of advisors. By 2025, AGS expects there to be at least five firms and as many as ten RIAs who manage over \$100B in AUM. The capabilities of these firms may start rivaling independent broker dealers and even wirehouses.

Large RIAs (\$10B or more) will benefit from scale and make it tougher for everybody else to compete.

10 years ago, AGS predicted "\$10 billion is the next billion" meaning a billion in AUM is no longer large and that firms will need to grow to \$10 billion to really have the level of sophistication and profitability needed to advance the client experience and attract top talent. This trend is now becoming real. Larger RIAs have a revenue model that allows them to invest in their business in a more strategic way. The most material of which is developing an organizational structure of functional experts that can support front line advisor professionals.

This will manifest itself primarily in increased capabilities that smaller RIAs can't build "in-house" and therefore must find 3rd party partners. This includes key areas of wealth management such as tax, insurance, estate

"Once we had a team north of 50 contributors, we knew we had to increase our discipline around the organization. Traction/EOS locked us in on what activities needed to be measured and created a framework to hold our team accountable." – John Burns

planning, and holistic financial management versus simple financial planning. In the future, households in the most attractive segments (HNW and UHNW) will demand their primary advisor provide incremental services to simplify their lives.

This will require firms to have a deeper bench of functional experts – larger RIAs will have the

revenue model to hire these professionals with smaller RIAs struggling to compete and grow. The numbers over the past decade don't lie.

Larger firms are growing faster. For smaller firms to compete – they will have to develop a niche capability or find a leverage point from an outsource provider or potentially find a partner through M&A.

BILLION DOLLAR FIRMS, CERULLI



Technology > seen and unseen. More critical in the future, but harder to predict direction.

As it turns out "robo advisors" did not take any material share from more traditional RIAs as expected! However, the RIA technology ecosystem has continued to become more complicated – see [Kitces Advisor Technology Map](#). The truth is most RIAs can't afford the resources required to keep track of all of the technology available to them and must rely on and leverage technology consultants and experts at partner firms to help them sift through the noise. In addition, larger firms such as Carson Group, Pathstone, and Allworth Financial are building their own in-house technology solutions to better their client experience and capture new client leads for their advisors. It is increasingly difficult to predict the direction of technology in our industry.

Aging advisors exposed?

Some of the primary benefits of starting an RIA include the ability to deliver fiduciary advice, build custom solutions for clients, and own a small business as an entrepreneur. However, owning a small business and not building business continuity with next generation advisors could prove to be a risky proposition for advisors at or near retirement age. Lost confidence of clients and team members may limit an advisor's effectiveness.

More rigorous and aggressive regulatory environment.

If technology complexity was not enough, RIAs will likely face greater scrutiny from regulators in the future. This will require firms to spend more time on processes and structures that may not directly benefit the client but will limit capital that could be better reinvested in a

business. RIAs will have to pay closer attention to changes in the regulatory changes with hybrid firms having to manage both SEC and FINRA requirements.

Client expectations will continue to rise.

Given advances in technology and sophistication of capabilities within larger firms,

client expectations can only go one way – up! As mentioned earlier, larger firms will be better equipped to invest in their firms to manage these expectations. RIAs will need to develop their professionals to provide greater client education, develop their solution set to deliver deeper wealth management solutions, and anticipate client needs.

“With the investment from Bain Capital, we are making transformational improvements to the Carson platform. We’re convinced AI and a digital client experience that simplifies our clients’ lives is a game changer and will drive organic growth.” – Ron Carson

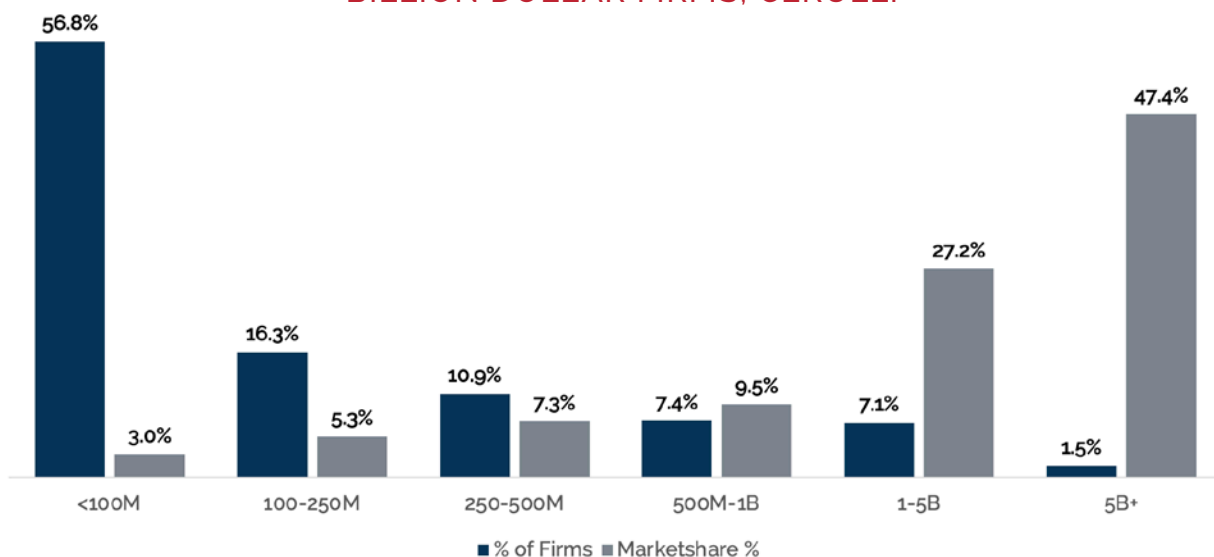
What will drive success in the future

Gain a leverage point by partnering with another RIA or a scale provider

Although RIA M&A activity is on the rise, an RIA doesn't have to do a deal to compete in the future. The RIA ecosystem has expanded in a way where an advisor can focus on their unique strength and outsource the rest. For example, if an advisory firm wants to focus on high end planning, why not leverage the

myriad of investment outsourcing providers that exist? If a firm does not want to build a core competency in managing technology, operations, and compliance, why not leverage a platform provider? If a firm doesn't want to sell but founders need liquidity or next-gen owners require financing to buy equity in a firm, why not leverage a capital provider? For RIAs to be successful, they will either need to find a partner via M&A or find a leverage point to flourish in the future.

BILLION DOLLAR FIRMS, CERULLI



If you can't scale, hone a niche strategy

In the end, there will be two paths to success – scale or developing a niche. If committing to scale is off-putting to an RIA firm owner, then developing a niche is a way to compete and succeed. A niche strategy includes developing an “ideal client” sub-segment and developing capabilities around that segment accordingly.

For example, an AGS client has a niche

around executives of energy companies. The firm studies the energy companies defined benefit plans, offers free education, and builds their financial planning offering to maximize financial outcomes when executives leave their company. Industry participants that choose to not choose a path and try to walk down the middle of the road might wind up being run over by firms that do have scale or a well-defined niche.

“At Stratos, we’re seeking to evolve our platform to be the leverage point for advisors. Our niche is to be a fantastic outsource provider to advisors. We have the same mentality in making build versus buy decisions for our platform”. – Jeff Concepcion

Broaden firm ownership while maintaining harmony in corporate governance

Original thinking in the RIA channel for firm founders was “hold on to your equity as long as possible, then sell your equity for maximum valuation at exit.” RIA owner mindset will need to evolve in the future. The most successful firms in the US have broadened their ownership table to key next-gen contributors and brought them into the fold of management teams. Firms that don't adopt this mentality will simply hit a glass ceiling where the firm can only grow as far as it can provide equity opportunities to its best talent. If opportunities aren't available, an RIA will inevitably lose top talent to a competitor.

Create true accountability systems

Goals-based and metric-centric firms will be the most successful going forward. Increasing

focus on annual planning and KPI tracking needs to be a commitment by ownership and management teams. The secret is not creating a plan and identifying the KPIs, but in creating a culture of accountability that actually drives the result. This is not simply holding a professional to their annual goals via a review process, but it's tracking the progress at a far more frequent cadence that most firms aren't willing to commit to.

AGS and certain aRIA firms use the EOS/ Traction system that mandates weekly management team meetings to track KPIs, anticipate issues before they happen, and trigger iteration of solving issues before they become major problems that could derail an annual plan. Accountability must start at the owner level – it's hard to hold a team accountable if the owners aren't “all in” to delivering a result for the firm.

“We have built out an amazing investment team that monitors the environment on a global basis. This is scalable to all our partners and teams. We feel this differentiates us in the UHNW space” – Jack Petersen

Develop diverse teams

Firms can't be successful without accountability – An RIA still must be managed as a meritocracy and still must hire the best possible talent to serve clients and grow the firm. In addition, the firms that can bring in talent diversity will likely benefit by expanding their addressable market for clients, gaining broader ideas to evolve the firm's direction, and advance a team's culture. This concept is easier to put pen to paper and talk about at industry events versus putting into practice. Most firms do not have the resources to find and develop diversity. Larger RIAs, support institutions such as custodians, platforms, and asset managers must find a way to help RIA owners. Our industry has a long way to go in terms of talent diversity.

Effectively handle the pressure of the new macroeconomic environment

Choppy markets and expense model inflation always put pressure on RIA firm owners. The uncertainty coming out of the pandemic, inflation, and a potential recession all lower confidence. RIA owners will have to have a hyper-focus on the financial management of their firm's P&L, find ways to be more proactive with clients to calm nerves, and still be able to invest in their business. These challenges are indeed daunting. RIAs will need to be increasingly more nimble and find the resolve to focus on the long term health of the business.

“One of the things we are most proud of at AGS is creating organizational structures and compensation/equity plans that have performed in every market this past decade. Creating an excellent investment framework and expertly managing a proforma will be fundamental going forward.” – John Furey

Practical action items for emerging RIAs committed to grow and succeed

Although the future is going to be increasingly more complicated and difficult to manage for RIAs, there is still room for firms of all shapes and sizes to succeed. The key for owners and management teams is to be far more deliberate and proactive in managing their firms. Here are tangible action items for firms to consider.

Create a real strategic plan

AGS has worked with hundreds of firms in the industry. We estimate that 75% of firms do not have an actual strategy plan that is metric based, has tangible goals, and is well understood by their teams. It's pretty hard to go from point A to point B if point B is never defined! Owners need to get more educated

about the market around them and build a plan – ideally one that looks out three years, with well thought out annual and quarterly goals that have a single person accountable to a goal. How does an owner get started if strategic consulting is a gap? Hire a coach or consultant or adopt a strategic planning system. Traction/ EOS is gaining ground, but there are others!

Develop a clear human capital strategy and tell your team

Most human capital strategies adopted by RIAs are pretty simple. Did we lose a contributor? Hire a new one! Is the operations team busy? Add to staff! Do we want to find more clients? Hire a new advisor! Figure out an M&A strategy to buy a practice! RIA owners need to evolve their thinking in a more “top down” fashion versus “bottoms up” which tends to be very

Size Segment	Number of RIAs	AUM Marketshare
<100M	9,468	3.3%
100-250M	2,716	5.3%
250-500M	1,812	7.3%
500M-1B	1,228	9.5%
1-5B	1,189	27.2%
5B+	258	47.4%

tactical. This fits with strategy planning. Where will your firm be in the future? What talent will be needed in the future to support our goals?

This starts with owners. Most owners are great advisors and salespeople but may not be the best operators of firms. However, owners should choose the role they want to play first and hire the right team to support the human capital strategy. Human capital is the most crucial business management challenge in the future. Any firm or any professional services business is only as good as their team!

Master the remote work world

The pandemic presented challenges and opportunities when professional services firms went completely remote overnight. Some RIAs were able to adapt quickly, while others struggled. In the end, RIAs are taking different approaches to remote work. One AGS client has leveraged the remote work world to attract top talent from markets from all over the US. This firm specializes in working with partners in management consulting firms, whose professionals also work remotely creating a virtual team environment and client experience. Other firms have decided to adopt hybrid approaches.

Regardless, establishing a client remote work policy will be fundamental to attracting new team members in the future. The best firms will seek to match their client experience to

their work policies. There is no doubt there needs to be room for live interaction for collaboration, however firms that offer remote work flexibility will likely have a competitive advantage.

Create an environment of transparency

Small businesses tend to struggle with communicating with their teams in terms on what is working and what is not. For firms that manage metrics, why not fully communicate how the firm is tracking versus the goals. This is not only at the management team level, but with all contributors. Having team members understand when the firm is doing well and when it's not will only increase commitment.

This is not only simple metrics such as new clients, and AUM growth, but can also include more perceived "sensitive" metrics such as revenue, client satisfaction, investment performance, client attrition, and sales losses. Team members will likely find it refreshing to understand why a firm did not win a new client and how the team can improve to advance a firm.

Make your firm durable enough to service any market

As the famous Buffett saying goes, "Only when the tide goes out do you understand who's been swimming naked." For essentially a decade, advisory firms' revenue models only went in one direction to the growth in

asset values, making it far easier to manage a revenue and expense model. Obviously, in a sideways or downward market, managing expenses becomes far more challenging for firms that are not gaining asset flows from existing clients or have an organic engine to find new clients. Standing still and trying to “do things the way we’ve always done it”, may not be a winning strategy.

Top firms in the industry focus on things they can control. This includes understanding client demographics in a very deep way. Does a firm have a client base of wealth accumulators or a base of clients that are spending wealth? Understanding client demographics and how they can relate to future revenue growth or declines is critical.

RIAs may want to consider revisiting their firm’s revenue model. Most RIAs have AUM based fee models, with only UHNW firms, family offices, or planning centric firms charging flat fees based on the work delivered. Larger RIAs are bringing capabilities such as tax planning/preparation and insurance to help diversify their revenue model and deliver greater value. Ten years ago there was worry about “basis point” compression for firms charging an AUM fee. In the future firms that can retain their AUM model and charge a fee for value-added services will certainly be winners.

The single largest expense for RIAs is team compensation. In challenging markets having the right compensation system that aligns to firm strategy will be critical. There is no “ideal” compensation plan that can be applied across the industry. The best firms create incentive systems that support the firm’s strategy and culture. This not only includes cash compensation, but non-cash benefits, and the opportunity to participate in the ownership in a firm.

Create a professional ecosystem around your firm

Most firms think of their professional network as simply centers of influences (COIs) that can help refer clients. Traditionally this is attorneys, accountants, and tax professionals that can refer clients to RIAs and vice versa.

In the future, RIAs will not only have networks of trusted professionals that can deliver referrals and round out a client experience but will also have an ecosystem that can impact other areas of their clients’ lives. This could be anything from philanthropic efforts to helping gain access to unique travel experiences. Although these types of firms are geared toward the UHNW segments, this can also be done in ways for HNW clients and certainly for firms developing a niche strategy. RIAs should broaden their thinking – how else can we be making an impact to our clients lives beyond wealth management?

Conclusion

The future of the RIA industry is still quite bright. At a macro level, the RIA channel is still the fastest growing segment of wealth management. The number of firms in the US has grown from 47K to 71K firms (YE 2021) with assets growing at a CAGR of 13% in the last decade⁵.

The most successful firms will adopt strategies to modernize their firms to become more attractive to potential ideal clients and most importantly the most talented professionals. Despite the challenges outlined in this paper, RIAs can adopt strategies and tactics to help make their firms more durable to survive any market.

APPENDIX

aRIA KPIs 2017-2022E

AUM	2017	2018	2019	2020	2021	2022E	5Y CAGR
Carson Group	5.1B	7.5B	11.9B	15.0B	20.0B	25.0B	37.4%
Exencial Wealth Advisors	2.1B	2.0B	2.4B	3.4B	4.2B	4.3B	15.4%
Savant Wealth Management	5.8B	5.7B	7.0B	9.5B	13.8B	14.0B	19.4%
Stratos Wealth Partners	11.1B	12.4B	14.9B	18.7B	22.1B	24.5B	17.2%
Summit Trail Advisors	5.2B	5.0B	6.8B	11.5B	15.5B	16.7B	26.3%

Estimated Firm Value	2017	2018	2019	2020	2021	2022E	5Y CAGR
Carson Group	200M	310M	500M	500M	1.1B	1.2B	43.1%
Exencial Wealth Advisors	45M	55M	60M	85M	120M	120M	21.7%
Savant Wealth Management	180M	181M	213M	263M	851M	896M	37.9%
Stratos Wealth Partners	90M	100M	120M	230M	340M	450M	38.0%
Summit Trail Advisors	80M	90M	120M	170M	250M	300M	30.3%

Number of Accounts/Clients	2017	2018	2019	2020	2021	2022E
Carson Group	12K	22K	31K	36K	40K	46K
Exencial Wealth Advisors	.9K	1K	1K	2K	2K	3K
Savant Wealth Management	4K	5K	5K	6K	8K	10K
Stratos Wealth Partners	24K	28K	33K	37K	44K	48K
Summit Trail Advisors	4K	3K	3K	4K	4K	4K

Number of Locations	2017	2018	2019	2020	2021	2022E
Carson Group	48	88	118	138	167	180+
Exencial Wealth Advisors	4	4	4	5	5	5
Savant Wealth Management	13	15	16	18	20	25
Stratos Wealth Partners	72	91	94	113	123	113
Summit Trail Advisors	5	5	7	7	7	7

Number of Employees	2017	2018	2019	2020	2021	2022E
Carson Group	125	188	232	230	266	370+
Exencial Wealth Advisors	57	61	51	87	98	109
Savant Wealth Management	142	165	176	208	251	332
Stratos Wealth Partners						700+
Summit Trail Advisors	38	35	42	55	78	85

Number of Owners	2017	2018	2019	2020	2021	2022E
Carson Group	12	26	37	31	30	35
Exencial Wealth Advisors	2	1	10	11	12	13
Savant Wealth Management	70	71	83	96	125	127
Summit Trail Advisors	18	19	21	21	22	22