

A Guide to Help RIA Firms Buy and Sell Successfully



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Achieving success and avoiding failure when transitioning a registered investment advisor (RIA) firm is not black and white. Whether you are looking to purchase an established RIA firm or sell your own, there are a number of considerations. To help you navigate, we put together this useful guide.



Pitfalls to Avoid When Purchasing an RIA Firm

The sale or purchase of a registered investment advisor (RIA) firm can be complicated. Some transactions seem like they were meant to be, while others fall apart in no time. So, what gives? Could there be a secret ingredient that makes selling or purchasing an RIA firm successful?

Although I wish it were that easy, the answer is no. The success or failure of an RIA firm purchase or sale depends on a number of factors. In this guide, I'll review the ins and outs of successful—and not-so-successful—deals involving investment advisory businesses. I'll share pitfalls to avoid, so you can spot red flags before you get too far along in the process.

Here are 5 pitfalls to avoid when purchasing an RIA firm:

- 1 NO SHARED VISION** | All too often, firms purchase another firm out of growth ambitions alone. Buying for this reason alone may not result in your desired outcome. For a deal to be successful, the two RIA firms involved must be compatible. This could mean they have commonalities in the type of clients they serve or products they offer, or it could mean they share similar business values. Most important, the two firms must have a shared vision for the future.
- 2 LACK OF OPEN COMMUNICATION THROUGHOUT THE PROCESS** | Don't be satisfied with the dog and pony show. If you're entering into a deal with another RIA firm, it's important to have tough conversations that get to the heart of each owner's needs and expectations. Build trust before signing on the dotted line, so you can feel confident about what you're getting into.
- 3 THE SELLER WON'T LET GO** | If you're purchasing an RIA firm and the owner insists on retaining control of certain aspects of the business, this could be a red flag. In order for the deal to work—for the two firms to be compatible—the seller needs to accept the buyer will be the one in charge.

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4 POOR CLIENT COMMUNICATION | One of the risks associated with purchasing an RIA firm is that its clients will leave after the deal goes through. To prevent this, it's important to keep clients apprised of the transition. Sending an initial announcement followed by weekly updates is a good start. Be sure to give clients plenty of notice and support for any administrative changes. If the seller hasn't or isn't willing to keep clients in the loop, these clients are likely to feel ignored—and ready to jump ship.

5 LACK OF STRATEGIC FOCUS | It's bad enough when one firm doesn't know where it's going. Adding another firm to the mix could make the situation even worse. This is why it's critical to have a strategic meeting between both RIA firms early in the process. Make sure everyone is on the same page—and this goes for owners within the same firm, too. If agreeing on a focus becomes a challenge, it might be time to walk away.



4 Keys to Success When Purchasing an RIA Firm

Registered investment advisor (RIA) firms looking to grow often choose to purchase another firm. But this is rarely a straightforward process. All too often, we see investment advisory businesses rush into a deal only to regret it later. But the good news is there are 4 keys to success you can use to set yourself—and your RIA firm—up for a successful transition.



Here are 4 keys to success when purchasing an investment advisory business:

1 START WITH A STRATEGY | Having a strategy in place—before you begin seeking an RIA firm to purchase—keeps you from reactively responding to the next opportunity that comes your way. At the very least, your purchasing strategy should consider what constitutes a good fit for your firm, both financially and culturally.

In our experience, RIA firms who successfully join forces are compatible across these five areas:

- Culture
- Investment philosophy
- Client demographics
- Technology
- Business vision

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2 FIND PARTNERS WHO COMPLEMENT YOU | To accurately assess an RIA firm's culture, you must take a close look at its partners (unless, of course, you are purchasing the firm only for its client base). Ideally, their business philosophy and personalities should complement yours. Finding this out requires ample due diligence on your part.

To start, consider talking to employees to get a feel for how the partners treat them as well as clients. Pay attention to how their representatives speak to clients on the phone and what they say about them behind their backs. Then, ask yourself the tough question: Will I truly enjoy working with these people?

3 MAKE SURE YOUR BUSINESS PRACTICES ARE ALIGNED | The ideal alignment will depend on your strategy—that is, the reason you are purchasing an RIA firm. Are you looking to tap into a new client demographic, or do you wish to offer new products? It's also critical to look at how the RIA firm does business. Has it experienced regulatory issues? Has it been party to lawsuits, or is there pending litigation?

4 DEVELOP AN IMPLEMENTATION PLAN | For a smooth transition to occur after the deal has been signed, a detailed implementation plan must be in place. This plan should be developed early in the process. At a minimum, it should lay out the terms of the transition, the role of the selling RIA firm's owner, and the individual in charge of the transition.

➔ Bottom line, achieving a successful transition for buyers and sellers require seasoned professionals that understand RIA firms.

If you're considering purchasing or selling an RIA firm, Elevate CPA Group can help. As financial services industry specialists, we assist investment advisory businesses with everything from cash flow planning and projections to providing outsourced tax services. Our CPAs are available to guide you through the merger or acquisition process, steering you clear of pitfalls and toward success.



We understand
RIA firms.



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