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Top 100 Independent Advisors

Opportunities and challenges as the industry consolidates—and what it means for average investors.

By Steve Garmhausen

The following has been excerpted

There's a quest for scale that will let firms deliver a high-end client experience at a reasonable cost—but there's also the possibility that growth outpaces a firm's ability to handle the rate of change.

"One of the challenges high-growth firms face is that you need to be that much better at running an organization," says David DeVoe, managing partner at San Francisco–based investment bank DeVoe & Co. "Firms moving into the high-growth space [should remember] the old mantra, 'What got you here won't get you there.' "

The independent-advisory business is simultaneously growing and consolidating. The number of significant deals has increased from 36 in 2013 to 99 in 2018, and 65 in the first half of 2019 alone, according to DeVoe & Co. At year end, there were 17,107 retail-focused RIA firms, collectively managing $4.8 trillion in assets, according to Cerulli Associates.

In recognition of this fact, Barron's launched its Top RIA Firms ranking three years ago, and this year we've expanded the ranking to 50 spots from last year's 40.

The RIA industry's growth has been driven by three streams—organic, acquisitions, and mergers and strategic partnerships.

The industry's merger mania is driven by the need to attain scale that will let RIAs cope with the rising cost and complexity of technology and compliance.

Mergers and acquisitions make sense on the surface: For starters, they clearly can benefit clients by bolstering a firm's investing and financial-planning expertise, support staff, and client-facing technology.

Mergers can create service redundancy for clients. Right now, the vast majority of independent advisors are solo practitioners who lack a plan for what happens to their clients when the advisor retires or otherwise quits a practice. When such advisors work within firms, the succession issue is more easily addressed.

Combined firms can also provide better career paths for young talent.

But mergers also are full of potential pitfalls. Integrating two businesses, each with its own culture, technology, workflow, and business structure, is a complex process fraught with potential friction, says David Canter, head of the RIA segment at Fidelity Clearing & Custody Solutions.

When it comes to growth, how fast is too fast? For clients, it all depends on the benchmark service level they've established with their advisor and their support team, says Canter. "Any break in responsiveness, or failure to execute against an important task like tax-loss harvesting or managing a charitable donation," can signal that a firm has gotten over its skis, he says.

To avoid that scenario, the most successful firms start adding infrastructure well before they need all of the capacity, says DeVoe. That includes hiring more advisors, support staff, and compliance and even marketing officers. ■

The ranking is based on data provided by individual advisors and their firms. Advisor data is confirmed via regulatory databases, cross-checks with securities firms and conversations with individual advisors. The formula Barron's uses to rank advisors is proprietary. It has three major components: Assets managed, revenue produced and quality of practice. Investment returns are not a component of the rankings because an advisor's returns are dictated largely by the risk tolerance of clients. The quality-of-practice component includes an evaluation of each advisor's regulatory record.