

# Financial Planning

## FP50: Big Changes at the Top

By [Ann Marsh](#) June 02, 2014, 1:05 a.m. EDT 8 Min Read

---

For the country's leading IBDs, the jump in revenues was a welcome change after a moderate 4.7% uptick in 2012. But the sweet year also lured in a new player, who emerged seemingly out of nowhere to shake up the ranking's top spots.

Nicholas Schorsch, the REIT magnate and executive chairman of RCS Capital, snapped up five prominent broker-dealers at the end of 2013 and the beginning of 2014, at prices some deem rich and others call canny. In January, he paid \$1.15 billion for one of the largest networks in the country, Cetera Financial Group, and its four distinct B-D brands.

Since most of Schorsch's deals didn't close until this year and the FP50 rankings on the following pages reflect year-end 2013 numbers, RCS new heft doesn't register in this year's lineup. And LPL Financial, which has long held the top spot in the FP50, would still loom over this newcomer in terms of revenues, with \$4.05 billion.

But the 2013 revenue numbers for Schorsch's various acquisitions a list that includes not just Cetera and First Allied Holdings, both of which are finalized, but also pending deals for J.P. Turner, Investors Capital Holdings and Summit Financial Services Group yield an aggregated total of \$1.59 billion.

That would put RCS in the equivalent of the No. 3 position, elbowing Raymond James Financial Services down a notch.

Meanwhile, Schorsch has made it known that he's nowhere close to being done. I think Nick will buy another \$1 billion to \$2 billion in companies which might be enough to let him leapfrog past LPL to claim the top spot says Cambridge Investment Research founder Eric Schwartz. He himself fielded a friendly prospecting call from Schorsch a few months back, he says, but demurred. Now everyone is wondering who is next.

Our industry hasn't been this interesting in a while, says Erica McGinnis, who took over as CEO of Advisor Group in October. As of year-end 2013, Advisor Group was the country's largest network of IBDs in terms of revenues, with \$1.25 billion, but would also slip below the new RCS cluster. That said, McGinnis adds, We don't feel threatened by it. We think we have our own opportunities out there.

### CONSOLIDATION SPEEDS UP

[Schorsch walked into a market](#) that's been ripe for an M&A spree. The industry has already been consolidating, even as its overall size also has increased dramatically. Experts like Schwartz

have been predicting for years that the industry might crunch down to perhaps 10 major players, with everyone else mom-and-pop shops although not everyone agrees with this assessment.

McGinnis says she's out to play her part in the next round of acquisitions, although she's waiting to see how the market settles in after Schorsch's tear. He bought those firms so quickly, she says. For me, it's natural to ask how much due diligence went into those purchases. I think we are a really mature organization. We've always had really thoughtful due diligence.

Meanwhile, Schorsch has already altered the pricing landscape. The question everybody asks is, 'Can we afford to compete against [RCS] now??' McGinnis says. We are not going to immediately assume that the prices he paid are the new normal. The market needs to test that. I don't think we are going to see other B-Ds who say this is the new cost of recruiting.

Ed Forst, CEO of No. 29 firm Lincoln Investment, which has been operated by his family for three generations, also has M&A on his mind. We did some planning of our own about five years ago, says Forst, whose firm racked up 33.9% revenue growth last year the highest in the FP50. We agreed we had to grow, because size matters and we can't do it organically.

Lincoln bought Great American Advisors, which had \$28 million in 2009 revenues, in 2010; then in 2012 vaulted itself onto the FP50 by buying Capital Analysts from a subsidiary of Columbus Life Insurance. It was a splashy debut, and gave Lincoln 63.6% revenue growth for the year again the highest in the FP50.

And like Schorsch, Forst says he will do more. There are great opportunities in the IBD world, he says. He argues that Lincoln is an appealing alternative to a big newcomer like RCS: This business [is] the only business we are in.

## **ADVISOR CHOICE**

Indeed, that gets to a key point made by several executives: The industry has plenty of room for a variety of business and service models. The corollary to that, of course, is that advisors have plenty of choices if they're unhappy with changes at their existing IBD.

Schorsch and other aggregators run the risk of alienating advisors and causing them to flee, executives suggest. At the end of the day, this is a relationship business, McGinnis says. Those individual relationships are among the reasons both Schorsch and McGinnis resist rolling up their separate B-D brands into a single one that requires all advisors to be under the same umbrella.

And they are why the No. 4 firm on the list, Commonwealth Financial Network, began offering advisors an RIA-only option last year after failing to win over a large practice from Alabama. They were wonderful, recalls CEO Wayne Bloom with regret. They had \$1 billion in assets. We loved them, they loved us. And, in the end, they went somewhere else. I said, 'What happened?' They said, 'You don't do this.'?

While Bloom isn't pushing for more acquisitions, he believes Commonwealth's boutique strategy can push it past \$1 billion in revenue by 2015. We did \$812 million last year, he says. Sometime this year, he adds, Commonwealth should have \$100 billion in assets under management, and its average production per advisor should pass \$500,000.

## **ELITE STRATEGY**

One firm that has Commonwealth in its sights is Wells Fargo Advisors Financial Network, which lands at No. 5 on the list by revenue, and shows the highest per-representative production, with an average representative grossing \$1.079 million for 2013.

President Kent Christian says his position within one of the large wirehouses gives him a unique advantage. Because his unit accounts for just over 1,200 independent advisors among Wells Fargo's 15,000 total, his division doesn't have to chase scale. We are already there, he says and can be more selective instead, picking only the highest-producing advisors, primarily from other wirehouses.

We are not constrained by any headcount objectives, he says. It's all about making sure we've got the right fix by business mix, by productivity, by business temperament and profile. I think we are highly focused on that.

That selectivity, Christian says, puts his operation in a different market segment than RCS. I do think there are a lot of formidable competitors in the marketplace that we deal with every day, he says, noting that his firm goes neck-and-neck with Commonwealth in competing for advisors. Nonetheless, he adds, I don't regard Nick and his work as a threat.

## **TARGETING the MASS AFFLUENT**

As Wells Fargo and Commonwealth aim upmarket, Lincoln and RCS are pointing toward the mass affluent. Schorsch says he intends to build what he calls the first full-scale investment bank in the U.S. since World War II, with his IBDs wrapped into the overall offering to serve clients with full-scale financial advice.

We'll have the size and scale of LPL, he says. We'll be bigger than Ameriprise. We'll be touching about 2 million households. We don't see ourselves competing with companies like LPL we actually see ourselves working with them.

Schorsch says his desire to work closely even with competitors stems from his faith as a Quaker, a famously passive Christian faith. In the IBD space, he says, this helps him understand and value the diversity among the IBD players: There's so little to compete about.

Yet this may be a tough sell. Schorsch also says he's aiming to capture a 15% to 20% share of the 30 million households he identifies as middle class a group, he says, that has collective investable assets of \$8 trillion. And his competitors won't be so quick to hand over that market share; even he concedes that some would happily pull me limb from limb.

Primarily, he knows they'd be happy to unburden him of his advisors, given the chance particularly if he tries to force advisors to sell his company's nontraded REIT products. Schorsch has made a pledge that he will keep his advisors product choices conflict-free.

Is it credible that he will? asks Ryan Diachok, president of the No. 47 firm Geneos Wealth Management. Only time will tell.

## **RIVALS WATCHING**

Meanwhile, rivals say they are standing by, watching. We had in our database a number of Cetera representatives who had called us in the past, Schwartz says. After RCS bought Cetera, he adds,

We thought, 'Why don't we call them? With the exception of one, over 90% of those people said they were going to take a wait-and-see attitude.

Still, Schwartz adds: The more he goes in that direction, the more our value proposition will stand strong.

Other executives downplay a rivalry with Schorsch perhaps because they know his entry increases both buzz and valuations for other top players. His deal-making is, in one sense, a validation: Finally, an outsider saw the value they've always known was there and placed a huge bet on it.

But some remain unsettled by this Pac-Man gobbling up their neighbors and trying to build a quasi-wirehouse right in their midst. That's the business model many of them try to distinguish themselves from as much as possible.

It's a bold move, Schwartz says. If executed correctly and the stock market holds, I think he could make several times what he has invested.

But when you are trying ... to build a vertically integrated company in a space that's never been structured like that, you are going to upset a lot of people, he adds. " There is a lot of anxiety among advisors who are used to being really independent, wondering how this is going to all play out.

Ann Marsh is a senior editor and the West Coast bureau chief of Financial Planning. Follow her on Twitter at [@Ann\\_Marsh](https://twitter.com/Ann_Marsh).