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Muddy Waters: **Consolidation Diluting RIAs**

By Peter McGratty, Executive Director of RIA Development

Key Questions:

- **How is private equity-driven RIA consolidation reshaping the meaning of independence?**
- **What are the consequences of RIA consolidation for advisors and clients?**
- **What challenges do RIA consolidators face after acquisitions?**
- **What opportunities exist for traditional independent RIAs in this environment?**

As noted in our article **Four Key RIA Business Trends: Insights from the Field**, private equity RIA consolidation is reshaping the independent RIA landscape. Increasingly, the independent channel is diverging into two distinct camps: the RIA consolidator firms that, in many ways, resemble traditional broker-dealers, and the traditional, client-focused independent wealth management firms.

How is RIA Consolidation Changing the Meaning of Independence?

Independent RIA values have long stood on four key pillars:

1. **Fiduciary commitment**: Transparent advice in the client's best interest.
2. **Client load discipline**: A limited client roster (typically 100–150 per advisor) to ensure proactive, high-touch relationships. (Michael Kitces)
3. **Comprehensive financial planning**: Personalized, ongoing planning that seeks to improve client outcomes.
4. **Tailored investment management**: A focus on long-term, risk-adjusted performance over product sales.

Many long-standing firms have built their brands on these values and continue to uphold them. However, my conversations with hundreds of advisors, combined with field observations, suggest that for some PE-backed consolidators, these values are now secondary to financial objectives. Indeed, Michael Kitces makes a similar observation that "Firms seeking acquisitions may talk up their values prior to the sale, but the reality is that at a firm that is rapidly acquiring other businesses – particularly when funded by private equity ownership – the focus is often on the growth of assets and profitability, no matter what the core values are purported to be." (Michael Kitces)

Instead, the focus has shifted to:

- Rapid AUM growth
- Geographic expansion
- National brand creation
- Eventual monetization via IPO or secondary sale

This shift has real consequences:

- Some firms are **reintroducing product sales**, blurring the fee-only distinction and introducing potential conflicts of interest.
- Others have **expanded advisor client loads** well beyond 150, reducing service quality and responsiveness.
- Financial planning is sometimes treated as a **loss leader**, offered up front but not maintained.
- Investment strategies are being diluted, with **hundreds or thousands of model portfolios** created to attract assets, not necessarily to serve client needs.

[1] https://www.kitces.com/blog/dunbars-number-and-how-many-true-financial-planning-client-relationships-you-can-really-have/?utm_source=chatgpt.com

[2] https://www.kitces.com/blog/learning-experiences-advisor-firm-owners-merging-selling-acquisition-inside-information/

Independent RIAs vs. Consolidators

This bifurcation extends beyond RIAs. Vendor and service providers are increasingly prioritizing large consolidator accounts over smaller firms. The appeal is clear: fewer contracts, higher revenue. But the consequence is that smaller, traditional firms are finding themselves underserved or outright dropped.

This emerging trend is in its early innings but is already prompting concern. As one $500M firm principal told us, "Our tech provider restructured their support model and now routes us to a general queue behind their top consolidator accounts. We've lost our rep." Another firm tried to engage a recruiting firm to identify planning associate candidates only to learn that the recruiting firm had let go its team and now only focuses on a few large RIA contracts.

RIA M&A Integration Challenges

After a decade of aggressive deal-making driven by RIA M&A trends, many consolidators now face their next challenge: integration. To achieve the efficiencies and brand coherence they promised investors, they must align systems, pricing, branding, and compensation. Here are the hurdles:

- **Technology Integration:** Merging multiple custodians, tech stacks, and reporting systems creates operational risk that often impacts clients directly.
- **Brand Unification:** Renaming firms risks alienating loyal clients.
- **Pricing Rationalization**: Harmonizing hundreds of fee schedules may lead to client pushback.
- **Advisor Compensation Consolidation:** Standardizing payout structures is sensitive and may drive advisor attrition.

Industry professional Eliza de Pardo recently observed that new data indicate client defections across the industry jumped from 2.5% to 3.6% in 2023, an increase of 44%. Among the reasons is trouble with merger integration. She notes “for clients, the experience can feel unsettling. If their point of contact, trusted advisor, meeting routine, level of support, custodian, reporting and overall care and service change within 6 to 12 months, they may ask themselves if they are still at the right place.” (Eliza de Pardo)

And Jodie Papicke of advisor recruiting firm Cross-Search notes that “many, many firms have lost touch with what it takes to provide an appropriate level of service to advisors”. She continues, “…M&A frequently delivers changes that are completely out of an advisor’s control, which helps explain why their movement has definitely ramped up over the last five years.” (Tobias Salinger)

We are already seeing signs of advisor attrition post-acquisition, as frustration with operational friction and shifting compensation models quietly drive exits. Clients, too, are noticing. While these outflows are currently masked by strong inflows of new advisors (driven by favorable market valuations and high M&A multiples), that dynamic may not last.

[3] https://riabiz.com/a/2024/10/24/the-sudden-unprecedented-leap-in-client-departures-that-rias-are-suffering-is-understandable-but-largely-indefensible

[4] https://www.financial-planning.com/news/why-and-when-financial-advisors-change-firms#:~:text=Service%20and%20M&A%20troubles,in%20the%20last%20five%20years.%2

Generational Shift: Succession Risks for RIAs

According to Cerulli Associates, the average age of a financial advisor is now over 56, with more than 37% of advisors expected to retire in the next 10 years. (Cerulli Retirement Projections)

This looming generational handoff is a double-edged sword for consolidators. On one hand, it fuels M&A pipelines. On the other, it raises urgent questions about succession, culture retention, and advisor/client loyalty.

[5] https://www.cerulli.com/press-releases/the-financial-advisor-industry-has-a-headcount-problem

Opportunities for True Independent RIAs

For traditional independent firms that remain committed to a high-touch, planning-first, fiduciary experience, now may be the time to stand tall. As large firms face growing pains and service degradation, disenchanted clients and advisors may begin seeking a return to values over scale.

Stay true to your brand. Be proactive in telling your story. And don't underestimate the power of differentiated service in a world rushing toward sameness.

What's Next?

In upcoming issues, we'll continue to dive deep into the remaining trends. Our goal is to: help you prepare, adapt, and grow in a changing RIA landscape.

Let us know what challenges your firm is facing and how we can support your evolution.

Ready to talk to one of our experienced professionals? **Schedule A Discovery Call**

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