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The Solo Advisor Is Anything But Dead

By Thomas Coyle June 1, 2016

With more than half of all advisors in teams, consensus among opinion-makers in the wealth advice industry holds that independent sole practitioners – generalists by necessity – are a dying breed as more specialized FAs at ever-bigger firms come into their own.

But **Peter McGratty** thinks this view deliberately ignores developments in technology and succession planning — and he thinks it flies in the face of sentiment among determined lone wolves and die-hard stay-small advocates.

McGratty is strategy chief for the Advisor Solutions unit of Pinnacle Advisory Group, an RIA in Columbia Md. with about $1.8 billion under management. He says big RIAs and private equity-backed wealth firm aggregators have pushed the narrative that one-person firms — lacking the scale, infrastructure and, in most cases, exit plans to compete with larger outfits — are dying to sell themselves to... well, big RIAs and private-equity backed wealth firm aggregators.

"The PE-backed firms see an independent landscape that looks pretty mom-and-pop that would benefit from scale, and they figure they can aggregate the assets – even level them up and then maybe take the whole thing public," says McGratty, a former bank analyst. "And larger wealth firms want to buy smaller firms because they're finding it harder to maintain their old growth rates organically."

Over time these interested parties "have persuaded the trade press" that solo practices — the businesses they're keen to pick off — are essentially untenable, according to McGratty.

"I talk to hundreds of advisors and solo and small-ensemble practices," says McGratty. "Most don't want to sell to anyone, ever."

This attitude largely comes down to "very high client-retention rates," McGratty explains. "Anecdotally, we're talking 98%, 99% retention — even at so-so firms it's in the low nineties, which is very attractive."

Sole practitioner **Robert Braglia** of **American Financial and Tax Strategies** agrees the wealth industry is wrong to see advisors like him as relics.

"Every conference I go to reminds me of the old **Mark Twain** quip: 'Reports of my death have been greatly exaggerated,'" says New York-based Braglia, whose 23-year-old RIA manages around $100 million. "I hear over and over that a firm like mine can't survive, yet my business grows every year as I grow in efficiency."

Eric Roberge, who works alone at his three-year-old RIA **Beyond Your Hammock,** has seen similar results in a tighter time frame.

"Technology is actually making it cheaper to run a solo shop like mine," says Roberge, whose Boston-based RIA's compensation models include by-the-hour planning and outside-investment supervision. "I work in a virtual office and therefore my overhead undercuts every standard advisory firm."

Robert Cheney of **Westridge Wealth Strategies** in Palo Alto, Calif., agrees "great technologies and third-party resources make for great opportunities for a sole practitioner like me to partner instead of build in-house — and save clients in fees."

Robert Cheney

Underlining this point, Cheney lists as his "partners" providers to his practice — which provides insurance services as well as investment advice, estate planning and retirement-plan services — such as brokerage First Allied Securities, investment outsourcer **Loring Ward** and brokerage network Cetera Financial's workplace benefits consultancy.

With this backing, Cheney says he has the wherewithal to satisfy "clients who enjoy having access to an expert generalist, sort of like a private banker."

Meanwhile Pinnacle's McGratty says it's worth noting practice management technologies — what he calls "the great outsourcing ecosystem" — weren't readily available to independent solos "just 10 or 15 years ago."

So, while the demise of these FAs — exacerbated by an aging advisor demographic — may have seemed a sure thing just a few years ago, the trend has been checked by recent innovation, particularly in workflow.

And, adds McGratty, this innovation is coming from separate technology makers as well as aggregated service providers. Among these functionality aggregators are RIAs like Pinnacle, which replicate their service platforms for other firms, and purpose-built infrastructure providers like Dynasty Financial Partners.

Succession and continuity safeguarding is a newer lifeline to advisors who like to work alone — even if they're determined to, as the saying goes, die with their boots on.

In recent years Pinnacle and wealth firm-network builder Focus Financial Partners have launched business lines that match big firms willing to buy modest books of business at some future date with solo practices in search of next-generation continuity for their clients.

To date, Focus has done more than 70 such deals, Pinnacle more than 30.

But an independent RIA marketplace of 20,000 firms is plenty big enough, says McGratty, for other matchmakers "to come out of the woodwork and start putting deals together."