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MERIT FINANCIAL ADVISORS:

How It Became A Hybrid RIA M&A Powerhouse

The Atlanta-region firm is on track to add $4 billion to $6 billion in new AUM in 2023 alone.

By Christopher Robbins

Rick L. Kent, CEO and founder of Merit Financial Advisors

OVER THE PAST TWO YEARS, A ONCE-QUIET, midsize hybrid RIA in the Atlanta area has roared into an engine of merger and acquisition activity, defying both growing pains and the challenges that come with expanding a business during a global pandemic.

Alpharetta, Ga.-based Merit Financial Advisors has made 23 acquisitions so far, with 12 of them coming in the past 12 months and 15 more planned for this year, according to President Kay Lynn Mayhue, and the firm aims to continue its accelerating growth.

"We'll never stop building," Mayhue says. "What we're building to is the RIA of the future."

Merit currently oversees a total of $8 billion in client assets, of which $5.7 billion are in advisory accounts, another $2 billion are in brokerage accounts and the remainder are in various assets under advisement. It will add another $4 billion to $6 billion in assets in 2023, predicts CEO and founder Rick Kent.

"We think that there is something special that we have going on. That's why we are growing so much," Kent says. But how is it working, and why? The simple answer would be that the firm got an investment in January 2021 from Wealth Partners Capital Group and private equity firm HGGC. These stakes were intended, in part, to help Merit jump-start its acquisition efforts.

But in truth, Kent started planting the seeds of Merit's success over 20 years ago.

Thinking Long Term

After receiving his securities licenses in 1998 and starting out at Securities America with very little knowledge or experience of his own to rely on, Kent soon realized he wanted to be an independent advisor—and that independent advisors were most successful when they focused on a niche.

Because of the size and strength of the telecommunications industry in the Atlanta area in the late 1990s and early 2000s, Kent decided to build his business by helping workers in that industry with their employee benefits.

"It was a different approach—most advisors really were after the money in motion, and if they didn't find it in one place, they would start looking elsewhere," Kent says. "I was thinking more long term with my approach, tilling the ground, tending the seeds, with the belief that the harvests would come, that I didn't need to be worried about finding money in motion all of the time, that I could build out potential for the future."

For the first couple of years, Kent's practice grew slowly until, in 2002, BellSouth (now AT&T) experienced a massive round of layoffs—and the advisor's phone started to ring. He picked up

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$42 million that year from people confronting unexpected retirements.

The pipeline he had built was working. "I started to build out Merit around that business model, treating people like clients before they were clients," he says. "We were building out massive pipelines, and it began to pay off. We started hiring around the W-2 model and training advisors on what I was doing, and it just got better and better and better and better. Still today we get $100 million in new business a year from people retiring from AT&T. It's just been great."

Kent's vision for his business evolved from growing his then $500 million AUM practice to building something bigger and more team-oriented where he could coach and work with other advisors. In 2005, Merit adopted a three-prong business approach—pursuing 10% organic growth through niche marketing and business development; a hybrid RIA merger and acquisition business; and, lastly, a hybrid RIA-oriented business line modeled on broker-dealers' offices of supervisory jurisdiction (or super-OSJs).

Merit has invested $4 million in technology over the past two years. "Thus far, the return on our investment has been phenomenal as far as organic growth is concerned. Going forward, when advisors see what we've built, that's going to attract a lot more to Merit."

—Kay Lynn Mayhue, President, Merit Financial Advisors

Sticking To His Roots

As Merit's growth crescendos, Kent and Mayhue hold true to a set of core values that define the firm, its leadership and its evolution.

From his earliest years as an advisor, Kent has embraced a value of servant leadership. This, to him, means turning a company's organizational chart upside down, because a leader is also the person with the most responsibility for the most people.

Over the past few years, Merit has grown from a staff of 16 people to, this year, a head count that will exceed 200 people dispersed throughout the country. Mayhue and Kent have adopted another core value, collaboration and team building, to cope with the change. From the top down, Merit is organized by teams with usually no more than six to eight people for maximum efficiency.

"We have a regional director platform where we have group meetings every two weeks, and one-on-one meetings also every two weeks," Mayhue says. "In these meetings we're hearing about what they have going on in their areas and what we can do to help and better serve them. They're bringing ideas to the table, and we're discussing them together, along with things like best practices, organic growth, non-organic growth, employee issues, opportunities and risks. We create forums to discuss all of those things."

A senior leadership team meets weekly; it consists of all of Merit's department heads, and it's led by Chrissy Lee, the firm's chief operating officer.

Continual Improvement

Kent has also brought a value of "kaizen," a Japanese term that roughly translates to "continuous improvement," to Merit.

"We have to invest a lot in people," Kent says. "Every person has a personal development plan: how you can get better, how you can be more valuable to yourself and the team, what's your ideal job, what do you really love to do, etc. Those conversations go on at least twice a year. We're not after people's job; we're trying to get to know them and bring out the best in them."

That guiding mechanism extends somewhat to Kent and Mayhue as well, as both solicit frequent feedback from their teams, department heads and regional directors. From the early years of Merit, Kent has also pushed his firm to be future-focused, planning more for a vision years or decades into the future rather than just trying to make it through the next 12 months.

Covid Descends

Of course, all of Merit's values were challenged by the closures and market shocks caused by the Covid-19 pandemic. That meant it was tricky to meet with people, whether it was prospective clients or potential partners and advisors for acquisition.

"You would think there's no way you could continue to grow, but for us it became getting better at working within those constraints, improving those Zoom meetings," Kent says. "We started to do everything we could do to improve, from the quality of video to sound and whatever. For those who made sense, we found ways to meet but stay at a distance. Of course, we would prefer to go to dinner with people if they were comfortable with it."

With a strategy in hand and new capital behind it, Merit continued to grow during the pandemic, Mayhue says, because the challenges of Covid-19 shined a light on advisors' needs. For example, the volatile markets of spring 2020 made more advisors seek out a more comprehensive investment platform.

"Also, we have technology," Mayhue says. "If you're going to work remotely and have people spread out, you need best-in-class technology. We were continuing to build during the pandemic, and that was an attractor."

Technology's Role

The RIA of the future envisioned by Kent and Mayhue is built on cutting-edge technology. Rather than try to keep up with the changing tech of today, Merit's leaders, with the help of an internal technology advisory board and external consultants from F2 Strategy, have strived to stay ahead of the wealth management industry with a two-year road map.

"With technology, the biggest problem in the industry is that when you have different platforms you end up with different investments in different places," Kent says. "Advisors might have to pull three or four statements to sit down in front of a client. We decided that we wanted to be able to bring all of those accounts into one place, with one statement, and show it to the client, and we wanted it to be seamless. We do that through Orion."

With its new Orion-powered client portal, Merit not only avoids sending clients to custodians or clearing firms to get their account information, it can also create a digital client experience that focuses more on a client's financial plan and more on the client's progress toward their goals than on pure market or investment returns.

With a single log-in, not only can a client access accounts and their plan, but they can also use a document vault for all of their essential financial and estate-planning documents and share access with household members.

All told, Merit has invested $4 million in technology over the past two years. "Now we're making data-driven decisions as a firm," says Mayhue. "Thus far, the return on our investment has been phenomenal as far as organic growth is concerned. Going forward, when advisors see what we've built, that's going to attract a lot more to Merit."

Technology investment has become overwhelming for a lot of advisors trying to keep up, according to Kent and Mayhue, even though keeping up with new technology is essential to building and maintaining a best-in-breed firm. Merit has identified technology as an area for differentiation for both attracting new advisors and inorganic growth, as well as new clients and organic growth.

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The Next Chapter Of Growth

Merit is seeking advisors and transaction partners in two different channels. One includes growth-oriented advisors who have reached a ceiling in their development and need a strategic partner to help them grow. In this area, Merit is often fishing from the same pond as other serial acquirers, aggregators and strategic buyers.

The other channel is lifestyle advisors. "Two and a half years ago, we saw the opportunity on succession planning," says Mayhue. "Advisors say 'I'm tired of the day-to-day business. I want to hand you the keys and only work with clients or only do business development,' and enter the next phase of their lives. We thought, 'Imagine if we put some effort behind this.'"

In part, the Wealth Partners Capital investment is meant to fuel these succession-minded acquisitions.

One thing that won't change as Merit continues to grow and evolve: its hybrid status. "In the last 18 months, one-third to 40% of the transactions we're doing are with fee-only RIAs only," Mayhue says. "It opens up an additional pool of folks for us to have conversations with. It's not because we're a hybrid; we're not the only firm doing deals with folks with Finra registration, but being a hybrid enables us to work with those who do, so it gives us a wider platform."