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Pair of RIA founders forced out as roll-up firms feel pressure

WealthTrust's Roulston, Focus Financial's Brochu leave as parent debt mounts

By **Jed Horowitz**

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On consecutive Fridays this month, the founders of two independent wealth management firms that sold majority interests to parent consolidator firms were forced from their jobs.

The departures of Scott Roulston from Fairport Asset Management in Cleveland and David Brochu from Strategic Point Investment Advisors LLC in Providence, R.I., were sparked by discontent with their parent firms' strategic direction or by their inability to work with their partners, depending on which side is telling the story.

Whatever the cause, observers say the departures of Mr. Roulston and Mr. Brochu underscore pressures on the operating models of their highly leveraged parent firms, which are often dubbed "roll-ups."


Fairport is owned by WealthTrust LLC of Nashville, Tenn., which after an expensive buying spree hasn't purchased a registered investment adviser affiliate since October 2008. It now owns interests in 10 RIA firms. WealthTrust itself experienced a shake-up last week as its founder, Rush "Rusty" Benton, stepped down as chief executive.

Strategic Point is controlled by Focus Financial Partners, the New York-based consolidator that last November resolved some pressing financial issues by raising \$50 million in new capital and subsequently purchasing three RIA firms. It now has stakes in 18 RIAs.

Both firms accelerated their activities four years ago to capitalize on the rapid growth of RIA firms.

Theorizing that a wealth management holding company is worth more than the sum of its cash-spewing parts, roll-up founders hope to sell their companies after several years of

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operation at a much higher multiple than they paid for the affiliates. They borrow heavily to finance their deals — paying high interest rates to banks and hedge funds and promising private-equity firms' hefty rates of return.

The concept appealed to some founders of RIAs, particularly those seeking to monetize their life's work as they anticipated retirement. Roll-ups typically offered them rich upfront and/or deferred cash payments — with the possibility of an extra payout tied to the future “liquidity event” if they also took or bought stock in the parent, or negotiated puts on the remaining interests they kept in their firm.

The roll-ups also promised “soft” operating benefits, such as bulk purchases of technology and support services, and potential referrals from other partner firms in the enterprise with different areas of specialization.

But the model depends on continually accelerating asset growth from RIAs to allow the roll-ups to purchase new firms, pay down debt and support the affiliate businesses — and growth came to a crashing halt during the market debacle of 2008. As a result, the consolidators curbed their purchases, cut some staff, imposed spending restrictions on some affiliates and scrambled to raise additional capital.

“The model is somewhat flawed because any excess cash flow was used to make more acquisitions in a leveraged situation, and that only works in rising markets,” said H.K. Hallett, who with a partner repurchased his RIA firm, Kingfisher Capital, from WealthTrust last summer. “The primary reason we left was to control our own destiny and reinvest our excess capital in our own business.”

Mr. Hallett, who now manages about \$300 million of assets at his Charlotte, N.C.-based firm, says he operated fairly autonomously from the time he sold a majority interest in his RIA to WealthTrust in 2004 until the roll-up recapitalized itself in 2006.

Things got tougher, he said, after private-equity firm Circle Peak Capital and mezzanine-debt provider Falcon Investment Advisors LLC bought the roll-up from Morgan Keegan & Co. and cranked up pressure on WealthTrust's executives and its affiliates.

Mr. Benton, 51, who founded WealthTrust in 1998, said that the company was no different than any other financial services firm forced to retrench after the 2008 financial crises.

“We survived a pretty horrendous downturn,” he said last week, acknowledging budget-tightening but insisting that WealthTrust still gives strong support to its affiliates. “It's been brutal, but I have no doubts about surviving.”

Mr. Benton conceded that the firm has no plans to buy additional RIAs anytime soon, but said that WealthTrust continues to be “very profitable.” He declined to provide specifics or discuss its debt obligations.

Chief operating officer Holly Deem, who is Mr. Benton's replacement, did not return a call for comment but addressed the firm's future in a statement last week. “With the economic recovery under way in the U.S., WealthTrust is well-positioned for continued success as a leading wealth management organization,” she said.

Mr. Roulston's forced departure from Fairport, which has more than \$800 million under management and is WealthTrust's third-largest affiliate, raises further questions about stability and could cause concern among clients and other affiliates, said some people close to the firm.

Mr. Benton denied major problems, saying the changes at Fairport were stimulated by disagreements between Mr. Roulston and his Ohio partners. Mr. Roulston, 52, whose father founded a predecessor firm to Fairport in 1960 and has been CEO since 1990, countered that his disagreement was a strategic one with WealthTrust.

Compounding the potential image problem for WealthTrust and Fairport is the upcoming departure of Gregory Althans, Fairport's chief investment officer, who some sources said was being groomed by WealthTrust to replace Mr. Roulston. Mr. Althans, who didn't return a call seeking comment, is leaving for a new venture in the Cleveland area.

Paul Abbey, the 58-year-old chairman of Fairport, said he regrets Mr. Althans' departure but maintained that the firm's longtime team approach to client service will permit him and his five remaining partners to ably service clients of the departing executives.

Fairport brought in a record level of new assets in the first quarter, said Mr. Roulston, who arranged the sale of up to 80% of Fairport to WealthTrust in 2007. He has a one-year non-compete package and an agreement to sell his remaining interest in Fairport to WealthTrust.

Mr. Brochu's departure from StrategicPoint, which he founded in 1989, was more tempestuous. He filed a lawsuit against Focus Financial last November seeking access to its books and records.

In interviews, he said he was concerned about Focus's financial condition and feared that its recent acquisitions and recapitalization were diluting older affiliates' stakes disproportionately and possibly enriching the roll-up founders at the affiliates' expense.

Mr. Brochu's firm was one of the first four RIAs acquired by Focus in 2006.

A clerk at the Chancery Court of Delaware said that the suit filed by Mr. Brochu's holding firm, Progressive Financial Strategies, was dismissed May 7.

Mr. Brochu, who was forced from his job that day, couldn't be reached for comment. In earlier interviews, he said that he was at loggerheads with Focus over a settlement and complained that the firm was severely restricting his budget and business plans.

Mr. Brochu's certified financial planner certification recently was suspended for 15 days as a result of an inaccuracy in a private-placement document that he said he brought to the attention of regulators'.

Loretta Mock, a spokeswoman for Focus, confirmed Mr. Brochu's departure and said Focus and StrategicPoint have "obtained restraining orders" in Providence Superior Court against him. She declined to elaborate.


Strategic Point, which oversees about \$540 million in client assets, according to a March

regulatory filing, continues to operate under two senior managers hired by Mr. Brochu.

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