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How a Small RIA Custodian is Making Big Waves

Trust Company of America Invested Heavily in Technology to Make RIAs Efficient with an Array of Advisory Representatives

By Brooke Southall
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The late trading and market timing scandal of 2004 was once regarded as the poster child of what was wrong with the financial services industry.

After Wall Street's implosion and Eliot Spitzer's disgrace – the former governor spearheaded market timing investigations when he was New York's attorney general – the events of 2004 seem almost quaint.

But for Isaac Braley, the memories still linger. The backlash against the practices severely harmed his business.

"We only traded an average of two to two-and-a-half times a year," says the president of BTS Asset Management. "We were the baby that got thrown out with the bath water."

The Lexington, Mass.-based RIA's assets plummeted from more than $1 billion in 2004 to $500 million in 2007, because it could no longer employ the same mutual fund strategies that had won it client loyalty since it was formed in 1979.

Hyper growth

Since 2007, BTS has quadrupled its assets under advisement to $2 billion. The company's established agreements with broker-dealers provided a big boost, Braley says.

But he also credits a constituency most advisors wouldn't name – his firm's asset custodian, Trust Company of America. Trust has experienced similar hyper-growth at a corporate level by helping to turn RIAs like Braley into turnkey asset management providers.

"Our ability to distribute became much easier" than through a standard brokerage platform, Braley says. "Trust Company of America gave us the ability to manage all our clients in one model."

> "Inefficiencies can be hidden when times are good, but when markets are down, the efficiency our technology provides becomes invaluable." TERRY REITAN

Indeed, on Dec. 1, Trust's assets in custody surpassed the $9 billion mark, after starting the year at $7.1 billion. The company's total RIA assets in custody at the end of the first quarter of 2005 were just $2.3 billion.

That means that Trust has enjoyed a 35.7% compounded annual growth rate for four years, even accounting for the collapse in late 2008.

The nature of these market conditions may actually have benefited the asset custodian, according to Terry Reitan, Trust's CEO.

"The recent slump in the market put a bright spotlight on the importance of efficiency and scalability for financial advisors," he said in a statement prepared last month. "Inefficiencies can be hidden when times are good, but when markets are down, the efficiency our technology provides becomes invaluable."

Trust has the technology to allow an advisor to trade a virtually unlimited number of accounts simultaneously and to keep trading costs minimal because of the pricing of its omnibus trading platform.

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>
> SARA NELSON

This ability to use an automated approach to rebalancing portfolios is a key advantage for some asset custodians, says Skip Schweiss, president of TD Ameritrade Trust Co. and the former head of RIA custody for Fiserv. He is also a managing director of TD Ameritrade.

Big one

"This is a big one," he says. "It's one of the best ways we've found of helping advisors run their practices more efficiently. We can shave about half the time off of their rebalancing."

Trust's technology allows it to compete with custodians many times its size, says Sara Nelson, vice president of marketing with the company. The key is the sizeof the advisors it is able to attract.

"[Our clients] are not a small series of smaller advisors servicing a small group of clients," she says. "They are more often than not very large advisors who support an array of representatives who market their investment strategies to end-clients they will never meet."

Approximately $6 billion of the assets in custody at Trust fall into this TAMP category whereby the assets are managed by an RIA on Trust's platform, and the client relationship is managed by a third-party firm, according to the company.

The third-party firms include independent broker-dealers, CPA firms and other RIA firms that focus on gathering assets.

RIAs using the Trust platform are managing more than $500 million each for representatives at LPL Financial of Boston and San Diego, and Lincoln Financial of Philadelphia.

Interactive Financial Advisors, which manages $170 million from Oakbrook, Ill., has an array of representatives. The firm currently has 50 investment advisory representatives gathering assets on its behalf and the company plans to expand to 150 IARs in the coming year, according to the president of the firm, Rick Peterbok.

The arrangement is reminiscent of another hub-and-spoke system of serving clients.

"It's very similar to a broker-dealer," he says.

Gordy Wegwart, president of Verity Investments in Durham, N.C., says that finding Trust was not easy. Verity manages $250 million and it keeps $150 million with Trust.

"We searched and searched and searched for nine months," he says.

Verity invests the retirement savings of teachers and professors in 403(b) plans. This means needing to add $100 to $250 at a time – and needing to allocate to 15 or 25 positions.

Paramount concern

Keeping trading costs low and trading efficiencies high was of paramount concern.

"If you start applying ticket charges, the client is [only] paying us," Wegwart says.