



An Overlooked Custodian that Deserves Consideration

by Joel P. Bruckenstein

There's been a great deal of buzz this year about the various custodians for independent advisors and their capabilities with regard to software integration. One custodian that often gets overlooked in those discussions is Trust Company of America. I'm not quite sure why TCA is often overlooked as a custodian, but it could be the name. Many folks naturally assume from the name that TCA is a traditional trust company; it is not. Although organized as a trust company, the firm's primary business is acting as a custodian for fee-based advisors.

TCA seems to suffer from a lack of name recognition as well. While I find that most advisors can name at least three or four custodians, TCA is not one I hear mentioned that often. It is a pity that TCA is not better known in the advisor community, because the firm does have some unique attributes that make it an attractive custodial option for many fee-based advisory firms. It might also be TCA's corporate organization as a trust company, as opposed to a broker/dealer, that causes advisors to hesitate. While there is nothing inherently wrong with a custodian being organized as a trust company, and in fact there may be some advantages, many advisors are unfamiliar with this arrangement, so they may be wary at first.

One advantage that advisors perceive when working with TCA is that the firm has no retail-facing business, so it does not compete with advisors for wealth-management clients. TCA is not alone in this regard. Others custodians, including Shareholder Service Group and Pershing, also confine themselves to the institutional side of the business, but it is perceived as an advantage nonetheless.

A second advantage of working with TCA is its expertise dealing with nontraditional assets. These include direct participation programs, limited partnerships, limited liability companies, private and preferred stock placements, deeds of trust for mortgages, promissory notes, and real property.

Another possible advantage in today's turbulent economic environment is TCA's corporate structure and its financial strength. As a Trust company, TCA is regulated by both the FDIC and the Colorado Bank Board. Idle client cash in customer accounts is insured by the FDIC.

According to D. Terry Reitan, president and CEO of the firm, TCA has \$22 million in equity capital and no debt. It has invested its capital conservatively. There are some mortgage pool investments, but they are mostly Ginnie Mae pools, which are backed by the federal government.

Perhaps TCA's largest competitive advantage, however, is its technology platform. The centerpiece of TCA's technology platform is TCAdvisor. This single, Web-based application offers extensive functionality to the individual advisor and to the advisory firm. For example, the TCAdvisor platform includes portfolio management and reporting capabilities, which eliminates the need for daily downloads to reconcile with a third-party portfolio-management system. Since the TCA portfolio-management software is integrated into the platform, there is nothing to download or reconcile.

Trading is also simplified. That functionality, too, is integrated right into the platform. This means there are no trades to manually upload, and that trade allocations can take place from right within the single online application.

Since there are no "daily downloads" to deal with, portfolio and account information is available in real time. This means that advisors have the most current data at their disposal at all times, which leads to better decision making.

TCAdvisor's capabilities go well beyond integration and real time information. The platform allows advisors to create strategies, or investment models, and to then apply those models to a large number of client accounts, thereby automating the investment (and rebalancing) process. For example, an advisor could create a core U.S. investment strategy that consisted of 50% to an S&P index fund, 20% to a small-cap separate account manager, 20% to a market-neutral manager, and 10% to a real estate mutual fund. The advisor might create a core international equity strategy consisting of 50% allocation to a broad based index ETF, 25% to a small-cap international separate account, and 25% to an emerging-markets mutual fund. The advisor would then combine those strategies to create a client portfolio. So, for an all-equity portfolio, advisors might create a client portfolio consisting of 70% core U.S. strategy and 30% core international strategy.

This ability to combine a model overlay, a portfolio-management system, and a custodial system in a single platform has a great deal of appeal to firms that want to grow rapidly, because this sort of model-based investing is highly scalable. Once the strategies are created and in place, they can be applied to an almost infinite number of portfolios in a short period of time.

The TCA platform offers many other features of interest to advisors. According to Reitan, TCA can handle bulk transfers with ease. It can prepare, accept, and reconcile large transfers within days, he said. TCA offers client portals, so clients can access account information and performance information online. The firm will also print and mail quarterly performance reports to clients. Online consolidated delivery of indexed client statements is available. TCA can calculate fees for clients and do the billing for advisors as well. According to Reitan, TCA can handle just about any fee schedule an advisor can come up with, including fee processing by model, a popular option.

TCA is in the process of rolling out some technological enhancements. TCForms, currently in beta, offers interview-based online forms with support for eSignature workflows. These forms can include the advisor's own new account forms.

Model tactics, also in beta, is an extension of portfolio modeling. It is a little difficult to explain, but it

is designed to help tactical traders maintain their asset-class weightings while rotating the underlying securities. For example, if an advisor wants to maintain a static allocation to large-cap U.S. equities, but rotate the sector weightings based on the economic cycle, the advisor can set up the tactical allocations in advance and execute the changes when necessary at the push of a button. Model tactics can also be used to better manage the cash needs of clients. Under this scenario, two accounts or clients would be assigned the same strategies, but one would have a tactic that requires a larger cash cushion than the other. Basic rebalancing tools are already available through the TCA platform, and the firm plans to enhance these tools to include redemption fee tracking, tax-optimized model processing at the family level, and more.

For advisory firms with larger operations or multiple offices, TCA is beta testing a package of sales analytic tools. These tools will allow supervisors to sort and view business at the office level, the rep level, or any other custom set required. These tools will provide managers with the information they need to better manage their reps, their offices and the business as a whole.

TCA does not currently offer integration with any of the widely used industry CRM packages, but Reitan says that is because clients haven't requested it yet. His firm has integrated with a few of his client's proprietary CRM applications, and he sees no impediment to integrating with commercial CRM applications when clients request it.

Trust Company of America is an interesting example of a smaller custodian that can differentiate itself from the crowd by offering some unique services and a strong, integrated technology platform. For firms that manage money through the implementation of model portfolios in particular, TCA offers an interesting alternative to the bigger, better-known custodians.

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Adapted from an article published by MorningstarAdvisor.com on 10-09-08.



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