

Three Successful RIAs Map Three Different Roads

Not all successful RIAs are alike. That was evident at an illuminating webinar hosted by Trust Company of America in which three of the industry's fastest-growing RIAs -- Gordon Wegwart, Verity Asset Management; Renee Toth, Flexible Plan Investments; and Steve Blumenthal, Capital Management Group – discussed the strategies utilized in their different roads to growth.

What all three had in common was their willingness to try something new, even if it wasn't popular at the time. And all concurred on the importance of technology, citing their ongoing experience and communication with Trust.

Where they differed, however, provided an engrossing overview of the breadth of the RIA playing field, and how varying styles of management can deliver impressive growth.

VERITY ASSET MANAGEMENT

Wegwart noted that, when Verity started in 1996, they focused on the non-profit retirement category as a way to help participants at universities and other non-profits manage their retirement accounts. Initially, Verity

was able to grow because many of the plans used by non-profits – 403(b) and 401(k) – were costly as overseen by insurance agents, and the employees needed help. Stepping into that arena, Wegwart recognized that employers wanted their employees to have retirement success, and many retirement plan participants wanted the ability to appoint discretionary advisors.

At the same time, Verity had to elevate its performance reporting to meet Global Investment Performance Standards (GIPS), in order to compete on an institutional level.

“That’s where Trust really stepped up to the plate,” recalled Wegwart, “as they worked with us to implement those reporting

standards, and all of the modeling, fee billing, scalability, efficiencies and performance reporting tools it requires. It takes extremely sophisticated technology to enable discretionary management on retirement platforms, and that's what Trust delivered.

With that capability, the company has built its business around managing those discretionary assets for other advisors with clients in the retirement space, and has grown 180% in the past 2-1/2 years, to \$300 million AUM. And where does Wegwart see further growth?

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"We're aiming at \$1 billion AUM in the next 3 to 5 years," he added, "and with Trust as our partner, that's a realistic goal."

FLEXIBLE PLAN INVESTMENTS

Toth's entry into the RIA community was completely different, as she began as a legal secretary for Flexible Plan Investments (FPI) founder Jerry Wagner in 1981.

Wagner had already achieved financial industry recognition as a stock guru and, in 1993, he closed his law firm to start FPI and focus on managing assets for other advisors.

In 1999, Toth became FPI's EVP, and the firm has now grown 125% in the past 18 months, currently with \$1.2 billion AUM.

How did it grow?

At first, that came from pure market-timing strategies. However, when advisors began asking for other approaches, living up to its name, FPI changed course in 1994 and started a momentum-based model that focuses on more traditional asset allocation investing in areas that

appreciate the fastest and avoid market risk, offering clients long-term diversified strategies. As such, the company now offers a menu of 100 diversified strategies that invest in mutual and technology funds.

"This is a 100% quant approach that responds to the market environment," Toth explained, "giving us the ability to spot trends early enough to maximize opportunities and smooth the ride at the same time."

In this proprietary system, everything is thoroughly researched, bringing with it the absolute necessity for flexibility in the mixing and matching of strategies into different portfolios.

"That's where Trust is playing such an important role," Toth noted, "because their technology platform enables us to blend and customize instantaneously, allowing us to have multiple models within one account. Otherwise, our portfolios wouldn't work. Equally important, we've been on Trust's Advisory Board since the mid-90's, and that ongoing communication is at the root of so many innovations."

Quite simply we couldn't diversify our models without Trust's systems.
-Renee Toth

From that interaction, Trust has increased its technological input to meet FPI's needs, turning new ideas into actionable systems. "Quite simply," she said, "we couldn't diversify our models without Trust's systems."

What about the future?

"We see an achievable goal of \$3 billion AUM in two years," she forecasts, "but, really, the sky's the limit!"

CAPITAL MANAGEMENT GROUP

Blumenthal had been a Merrill Lynch broker when he started his own independent RIA firm in 1992, specializing in high-yield bond strategies, eventually changing course when he built a hedge fund around a bond-based strategy.

In 2004, he changed course again, launching his own fund of hedge funds, but that ended in 2007 when he discontinued the fund and replaced it with separate accounts. In that new strategy, he began using alternatives such as currency funds, commodity funds and inverse ETFs with daily liquidity and transparency to grow the business.

And grow it did, from \$125 million AUM in 2007 to \$500 million AUM today. According to Blumenthal, Capital Management Group's (CMG) largest growth has come from RIAs using his strategies, geared to making money under any market condition. At the same time, he notes that the trading pressures in such a system are enormous, since opening as many as 20 new accounts a day would be impossible without the right technology, "and that's where Trust serves such a major function."

For CMG, this is the future of retail portfolio management, with multiple model portfolios combined into various complex strategies tailored to meet specific client or advisors' needs.

"Time is critical in our system," he observed. "With multiple platforms, accounts and locations all in play, Trust's

ease-of-use answers all of those challenges with no more than three clicks. With Trust, we can put multiple liquid, tactical strategies all into one account, and no other custodian can do that.

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- Steve Blumenthal

With such a solid foundation, where does Blumenthal see the company in the years ahead? "We think it's realistic to target growth to \$2.5 billion AUM in three years, and \$5 billion AUM in five years."

To that, Toth spoke for all three RIAs, adding that innovative technology is essential to create and sustain growth.

"Otherwise, all of us would need more employees and have increased operational costs. So, in addition to the scalability, flexibility, transparency, efficiency and mobility technology brings to the mix, the end result of all that is... profitability."

ABOUT THE AUTHOR

Jennifer Neelson is the Chief Marketing Officer at Trust Company of America. With 15 years leading financial services organizations, and through collaborative partnerships, she is a change agent who impacts people and profits. Jennifer is skilled in creating growth and is driven by a passion for building teams and inspiring people.

ABOUT TRUST COMPANY OF AMERICA

Trust Company of America is the only independent RIA custodian offering fully integrated, real-time technology and personalized back office services designed exclusively for RIAs. Trust's unified technology, custody, and service platform gives advisors the freedom to seamlessly optimize their clients' portfolios while building smarter, more efficient businesses. Headquartered in Denver, Colorado, Trust has been redefining the scale, efficiency, and sophistication of the RIA trading model for more than 20 years.

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