

RBC Dain Wealth Team Breaks Away

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A team of Minneapolis-based advisors from **RBC Dain Rauscher** has set up a new wealth shop. The team, which managed over \$200 million in client money at Dain, has dubbed the new advisory firm **Touchstone Investment Consultants** and is positioning it as a “true open architecture” investment consulting firm.

The team’s decision to break away from Dain highlights what some industry officials are calling a larger industry trend. Those officials note that many “captive” advisors are seeking to go it alone in order to give clients at least the impression of unbiased investment advice. Touchstone will offer investment management consulting services and will advise clients on everything from separately managed accounts (SMAs) and alternative investments, to index funds and mutual funds. The firm will also offer financial planning services such as retirement and college planning.

David Bromelkamp, president of Touchstone, says the decision to set up an independent firm was inevitable.

“For 17 years I thought I was doing a great job for clients,” explains Bromelkamp. “But it became difficult to reconcile acting in the best interest of our client and being loyal to our firm.”

Industry officials who believe that “captive” advisors are increasingly looking to go independent tend to base that belief on anecdotal evidence. Nevertheless, some firms are attempting to capitalize on this ostensible trend.

Schwab Institutional, for one, recently launched a new SMA platform to cater to advisors like Bromelkamp. The new platform, Managed Account Access, is designed to give “breakaway” advisors access to the same managers they used while at their brokerage firm. Schwab, which focuses on the independent advisor market and would obviously benefit from this trend, also released a survey earlier this year to demonstrate that independence is in the advisor’s best interest. The survey, which was conducted for Schwab by **HNW, Inc.** and **Moss Adams**, showed that the percentage of high-net-worth investors using independent advisors increased from 30% in 2001 to 47.5% in 2004.

The move to independence comes down to the desire to eliminate conflicts of interest, according to Bromelkamp. “When an advisor is compensated for directing a client one way or another it’s inevitable that your advice is going to be biased,” he says.

“A brokerage can say they have open architecture, but true open architecture is when you are compensated solely by the client,” he continues. “The only revenue we’ll be receiving is from our clients.”

RBC Dain Rauscher was recently slapped with a \$1.7 million penalty in June for conflicts of interest. Dain was one of 15 firms fined by the **NASD** in connection with the receipt of directed brokerage in exchange for preferential treatment for certain mutual fund companies.”

Following Bromelkamp to the new firm from Dain are **Jeremy Graff**, director of financial planning, **Susan Johnson**, client service associate, **Wade Fowler**, investment consultant, and **Philip Manz**, sales executive.

A spokesman for RBC Dain declines to comment on the team's reason for leaving. Also on board are two professionals from **Windsor Financial Group**. **David Gutzke** joins the firm as director of sales and operations, and **Dawn Coughlin** joins as client service associate. A **Charles Schwab** professional, **Kelsi Rahm**, rounds out the team as client service associate.

The firm is only 18 days into a transition process that can take anywhere from six to eight weeks, says Bromelkamp. Though it is still too early to gauge how many of their clients will follow them from Dain, he is expecting a high percentage will. The average account size of their client base, which includes wealthy families and small institutions, is \$2 million.

The challenge for Touchstone is to convince clients that the level of service they received at Dain will at least be maintained. For this reason, the firm chose to outsource the due diligence of managers and performance reporting to **Fortigent**, which is the private-labeled asset management platform of Rockville, Md.-based multi-family office **Lydian Wealth Management**.

Start-up firms can of course build the capability in-house, but that requires a certain level of expertise that advisors may not have.

Bromelkamp explains the decision by way of analogy. "If I need open-heart surgery, I could go to medical school to learn how, or I could go to a heart surgeon," he says. Fortigent stood out for its "superior" services and expertise. "It's the best investment consulting platform in the U.S.," says Bromelkamp. He also notes that Fortigent shares a similar vision of the industry.

"Philosophically, it's a good fit," he says. "They believe in open architecture and unbiased investment advice. They clearly understand the difference between the advisor and the broker."

"We see them as less of a vendor and more of a long-term strategic partner," he adds. **Gary Carrai**, managing director of Fortigent, echoes Bromelkamp's sentiments. "The real difference between us and other firms out there is that we're culturally a good fit for them," he says. "We're viewed as fellow practitioners and not just pure technology providers." Fortigent currently works with 20 clients and has just over \$1.8 billion on its platform. Though Lydian and Touchstone are "fellow practitioners," Carrai does not expect the two firms to compete for clients.

"We're still a small, boutique firm and the likelihood of that happening is pretty remote," he says. He also points out that the Twin Cities area is one in which Lydian has no exposure. Touchstone, for its part, has no plans to venture too far away from the area.

"Generally, we like any client we don't have to get on an airplane to visit," Bromelkamp says.