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Start-Up Adviser Firm Adopts Fee-Only Model

■ BY MATT ACKERMANN

Perceiving inherent conflicts of interest in big brokerages' revenue models, a former Minneapolis broker started his own investment advisory firm this year and has gathered \$100 million of assets while promising to take no compensation from fund companies.

David Bromelkamp, a 17-year veteran of RBC Dain Rauscher, the brokerage arm of Royal Bank of Canada, said he launched Touchstone Investment Consultants about three months ago because stricter Securities and Exchange Commission guidelines were making it increasingly difficult to be an investment adviser in a large financial institution.

"Issues are starting to rise up that are making it more difficult for someone that provides investment consulting services to act freely and in the best interest of clients," he said.

Mr. Bromelkamp said large firms that accept compensation from anyone other than clients are automatically conflicted. To avoid this, Touchstone has divorced itself from brokerage and only accepts compensation from advisory clients.

"We are not accepting money from mutual fund companies, money managers, or custodians," he said. "Revenue is just from the investment consulting we provide our clients."

Jennifer Ellison, a spokeswoman at RBC Dain Rauscher, said company policy requires it to accept compensation from fund companies only for education it provides about their products. "Dain does not have proprietary products," she said. "We always put the best interest of clients at the center of everything that we do."

Touchstone's approach took hold in its first 100 days as it accumulated 48 clients and \$100 million of assets under management. Mr. Bromelkamp said he expects to have \$200 million by yearend and \$1 billion within five years.



Bromelkamp: "We are not accepting money from mutual fund companies."

Peter Delano, an analyst at TowerGroup, said banks and other large financial companies are working hard to comply with regulations requiring that investment advice be objective. Solid compliance activities instill confidence in investors, he said, and enable big companies to stem client defections.

"Whatever a company can do in terms of an audit to show that they have strong internal control is helping larger asset managers maintain customers," he said.

Citigroup Inc., partly to avert conflicts within its big brokerage operation, went so far this year as to sell its proprietary investment products division to Legg Mason.

Mr. Bromelkamp said large financial companies cannot change the fact that most straddle the fence between brokerage and advisory services. Touchstone — whose founders are Mr. Bromelkamp; Jeremy Graff, a certified financial planner who has worked with Mr. Bromelkamp for eight years; and David Gutzke, who was a director and senior portfolio manager at Windsor Financial Group — decided to avoid conflicts by not offering brokerage services.

Touchstone wanted to establish itself as a firm that advises high-net-worth investors and institutions without any conflicts, Mr. Bromelkamp said. "We had an advantage," he said. "We had a clean slate to design a firm that would provide independent investment advice."

A report from Spectrem Group, a Chicago research firm, said 38% of ultra-high-net-worth investors are using independent advisers and that half of these people say they do so in order to get objective advice.

"Wealthy investors understand the difference between brokers and advisers," Mr. Bromelkamp said. "They like the fiduciary relationship with an adviser, and they want someone like that on their side."

Touchstone has "kept it simple," he said, by working exclusively with clients and only charging fees for advice.

Touchstone started its business with a team of eight experts, including the three founder-consultants. Mr. Bromelkamp said he thinks each consultant can handle a maximum of 40 clients and he expects to hire more consultants within two years as the firm grows. ■