For some, the Street is a straitjacket

Former big-bank money managers are finding that small is beautiful, KEITH DAMSELL writes

Paul Harris, along with two fellow fund managers, left the comfort of Toronto-Dominion Bank in 2003. A year later, it was Ted Rechtshaffen's turn to say goodbye to Royal Bank of Canada.

It may be too early to call it a trend, but some executives are turning their backs on the big banks, claiming the best financial advice may be far from Bay Street.

"Everyone has ideas about what they think should be done. At the bank, some of them you'd have to work on for two years to see the light of day and then they never would," said Mr. Rechtshaffen, president and chief executive officer of TriDelta Financial Partners. "Here, if I really believe in it, I do it."

The former vice-president of strategic initiatives at RBC Dominion Securities claims the banks are simply too big, struggling with conflicts and unwilling to offer clients the best solution, especially when it may reside with a rival firm. In contrast, TriDelta promises a menu of in-house and third-party wealth management services. Small clients with as little as $50,000 in assets are welcome.

There's a similar approach at Avenue Investment Management Inc., a Toronto firm launched three years ago by a trio of former fund managers with TD Asset Management Inc. Avenue takes a high net worth model and applies it to a client base with $100,000 to $1-million to invest, a group "somewhat left out in the cold" by Bay Street, said Mr. Harris, a principal and portfolio manager. The Avenue team holds the same portfolio as their clients; if returns are weak, fees are reduced.

"The problem with the financial services industry is they pay you just enough money not to be entrepreneurial . . .. three- to five-hundred thousand dollars a year, you have a nice house, you have a nice lifestyle. It's really hard to jump ship," Mr. Harris said. "We manage money very differently than I did when I was in New York or at TD. You can clear away all the noise . . . and have a vision of what you are trying to achieve for your clients."

KEVIN VAN PAASSEN/THE GLOBE AND MAIL

Ted Rechtshaffen left RBC Dominion Securities to head TriDelta, where he says he has more freedom to put his ideas into practice.

Morningstar leaves the fold

It's official — Morningstar Canada is leaving the Canadian Investment Funds Standards Committee (CIFSC), the industry research firm that defines and classifies mutual funds.

Scott Mackenzie, president and chief executive officer of Toronto-based Morningstar, served notice a month ago it was an unhappy member of the volunteer organization, claiming the group was ineffective and moving too slowly when it came to decision-making. For example, the federal government scrapped the 30-per-cent foreign content ownership limit on registered retirement savings plans a year ago. The CIFSC has yet to come up with a new fund classification policy.

None of the on-line research firm's concerns has been addressed and "time marches on," Mr. Mackenzie said. Morningstar's name and committee members were removed from the CIFSC website last week.

The departure of the committee's largest member is "not a preferred outcome," conceded Ralf Hensel, chairman of the CIFSC and senior legal counsel of the Investment Funds Institute of Canada. "No system is perfect but we are doing the best we can," he said, adding that it can be very difficult to reach consensus on "divisive" industry issues such as foreign content.

The financial advice community has been watching developments closely. There will soon be two sets of criteria for comparing mutual fund performance and asset mix. Morningstar is now reviewing fund categorization and, after industry consolidation, expects to release its system by the end of the summer.

"In the beginning, it is sure to cause confusion as advisers and consumers will not know what is the standard to measure mutual funds," said Chris Reynolds, president of Investment Planning Counsel Inc. of Mississauga. "However, in the long run, one of them will certainly become the standard that will be used and the other will begin to lose market share and popularity — but only time will tell."

RBC shakes up mutual funds

The mutual fund arm of Royal Bank of Canada is doing some spring cleaning, announcing a series of changes to a whopping 17 funds.

Most significantly, RBC is seeking regulatory and unitholder approval to overhaul the investment objectives of six funds to allow its investment team to take advantage of the end of foreign content restrictions. The funds — RBC Balanced Growth, RBC Blue Chip Canadian Equity, RBC Canadian Value, RBC Canadian Growth, RBC Energy, and lastly, RBC Precious Metals — will become more internationally oriented, looking to U.S. and foreign markets for future growth. Names will change, too, with the bulk adding "global" to their moniker.

In addition, the RBC O'Shaughnessy U.S. Growth Fund, a well-regarded $621.1-million fund run by New York data guru Jim O'Shaughnessy, will be capped to new investors. There's a handful of further RBC fund mergers and fund closings in the works, too — clients are advised to check with the bank's website.

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