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With John E. Erard and Barry K. Mendelson of Capital Market Consultants LLC

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Smaller players in the financial services industry need a way to compete with the big boys, and Capital Market Consultants LLC in Milwaukee aims to help.

A robust investment management platform is critical, said Barry K. Mendelson, 57, founder and managing partner. Most independent advisers and smaller financial services firms use turnkey asset management platforms. But these platforms aren't up to snuff in today's market, Mr. Mendelson said.

SnapShot

Barry K. Mendelson, 57, founder and managing partner of Capital Market Consultants LLC in Milwaukee since 2002 (pictured above, right)

Career: 1998-2002, director of investment consulting services and wealth management strategy at Robert W. Baird & Co. Inc. in Milwaukee; 1997, director of pension consulting services at Principal Financial Securities Inc. in Chicago; 1995-96, director of managed-asset services at First of Michigan Corp. in Detroit; 1992-95, assistant director of the consulting services group at Kemper Securities Inc. in Chicago; 1985-92, registered representative at Chicago Corp.; 1981-85, Chicago-based registered representative with A.G. Edwards & Sons Inc. in St. Louis

Education: bachelor of science degree in general life sciences from Palmer College in Davenport, Iowa, 1976; certified investment management analyst designation from the Investment Management Consultants Association in Greenwood Village, Colo., 1990

John E. Erard, 56, partner in charge of distribution and marketing at Capital Market Consultants since March (pictured above, left)

Career: 2003-05, executive vice president and national sales director at Portfolio Services Group Inc. in Chicago, the predecessor firm to Providence, R.I.-based Managers Investment Group LLC; 2000-03, partner and director of training at Lord Abbett & Co. LLC in Jersey City, N.J.; 1996-2000, Detroit-based partner, central division director and regional manager at Lord Abbett; 1985-96, Chicago- and Detroit-based regional manager with Lord Abbett; 1981-85, Las Cruces, N.M.-based branch manager at A.G. Edwards; 1975-80, Albuquerque, N.M.-based registered representative at A.G. Edwards

Education: bachelor of science degree in finance from New Mexico State University in Las Cruces, 1975; CIMA from IMCA, 2002; accredited investment fiduciary designation from the Center for Fiduciary Studies in Sewickley, Pa., 2004

"They're packaged products" that cost too much, he said.

Capital Market Consultants customizes platforms for each client by seeking out the best managers, technology partners and others without financial conflicts getting in the way.

"With our model, there is no financial arrangement between CMC and the [money] manager," said John E. Erard, 56, partner in charge of distribution and marketing.

Capital Market Consultants is "an up-and-coming organization in their field," said Dennis Marx, senior partner at JMG Financial Group Ltd. in Oak Brook, Ill., which manages about \$1 billion for clients using Capital Market Consultants-designed platforms.

"They have a greater depth of talent than our previous provider," he said.

Mr. Marx lauded Capital Market Consultants for providing money manager performance data "quickly and accurately."

Q.What niche is Capital Market Consultants trying to fill?

BM: The idea for CMC began in the late 1990s when I was at [Robert W. Baird & Co. Inc. in Milwaukee]. We were getting phone calls from firms looking at what we had developed in the managed-money area. The inquiries I was getting were from small to midsize firms that found themselves at a competitive disadvantage against the big New York wirehouses. So CMC was launched in mid-2002, and we got our first clients at the beginning of 2003. The entire point of our company is to help the small to midsize financial institution get into the open-

architecture space without having to buy a [turnkey] product. We help them build their own proprietary

investment platform.

Q. *Have you been helped by growth among independent advisers?*

BM: Along the way, there's been

this emergence, or perhaps re-emergence, of brokers' going away from the brokerage houses to the independent custodians like [Charles] Schwab [& Co. Inc. of San Francisco] and TD Ameritrade [Institutional of Jersey City, N.J.].

JE: The adviser being recruited by these [registered investment adviser] custodians can use turnkey asset management programs or create a platform themselves. But neither option really satisfies the business model these advisers have grown up with.

Q. *Why aren't the custodians providing the platform advisers need?*

BM: Custodians don't want the same liability exposure that the wirehouses have. The fiduciary liability associated with recommending a manager to an adviser - who is going to turn around and recommend that manager to a consumer? They don't want any part of that.

JE: Most of the custodians already have multiple relationships with the [turnkey asset management programs]. They are looking now to go beyond that, because they want to attract the very successful wirehouse adviser.

BM: What these TAMPs [at the custodians] really provide is access to managers. They're not necessarily organized programs like a wirehouse offers.

Q. *What is the difference between what Capital Market Consultants provides and the turnkey asset management programs?*

BM: TAMPs are fairly inflexible. They're product offerings. With a TAMP, the adviser submits a logo and has a few choices to select from, and that's going to wind up being his or her platform. But it's really someone else's platform. Advisers [who are going independent] want something that, for the first time, is a reflection of who they are. Whatever products the adviser wants - funds, ETFs, SMAs, funds of hedge funds - we design for them. A TAMP delivers everything from a proposal generator to a performance monitor. We don't provide elements like performance reporting, so we collaborate with other vendors who do deliver performance-reporting solutions. Our solution allows advisers to pick the best technology for all functionalities.

Q. *How have you eliminated the conflicts in turnkey asset management ?*

BM: We are not program sponsors. That is a very important distinction. We do not have contracts with money managers. We do independent, objective research on managers and fully document it. Then it's the adviser's firm that signs a subadvisory agreement with the money manager. That's different from a TAMP, where the TAMP is the manager, and the money manager is a subadviser. They have a business relationship. We want to be able to say in all good conscience to our clients, "Fire that manager." We don't want to disrupt, or even think about disrupting, an existing business relationship with a manager.

Q. *Does the industry truly have open architecture?*

BM: If you really have open architecture, people get on [a platform] based upon merit. As a practical matter, however, there are three reasons why someone gets on anybody's platform. First, advisers have clients with assets at those managers, and you can't tell clients to sell out and have taxable events because one guy is [0.20 percentage] points better. Second, managers also get on because of recruiting reasons. It's easy to recruit firms

and easy to recruit advisers if you have managers like the ones already being used. And the last reason, because of merit.

Q.Does merit rank last in picking managers on some platforms?

BM: Yes. Those factors vary from platform to platform, but they're always at work. I would submit to you that if a platform had only managers who were all great managers, but no one had ever heard of them, and [advisers] weren't comfortable using them, that program would suffer.

Q.What do you charge?

BM: When we do the complete platform, all the asset allocation models, proposals, ongoing due diligence, collateral material, content for websites, etc., we charge basis points. For the first \$100 million, it's [0.15% of assets]; for the next \$150 million, [0.05%]; for the next \$250 million, [0.03%]; and for the next \$500 million, it's [0.02%]. Our minimum-size client is \$50 million, although we do have some smaller.