E*Trade Gains a Foothold in the RIA Space, but It Is Going up Against Bigger Competitors

10/20/2017 Originally Published by Jeff Benjamin, InvestmentNews

E*Trade Financial Corp.'s acquisition of Trust Company of America is seen as a solid endorsement of the strength and profitability of the financial advisory business.

The $275 million deal to buy the $17 billion-asset Denver-based custodian, which E*Trade announced during its earnings call on Thursday, gives the company a foothold in the registered investment adviser space.

"This deal is symbolic of a real important trend," said **Daniel Seivert**, chief executive of the investment bank **ECHELON Partners**. "All of the original online brokers have migrated to serving two sides of the house, including retail investors and as working as intermediaries for financial advisers,"

If E*Trade plans on expanding its reach into the custodian space it will have an uphill climb. The four largest custodians, Schwab, Fidelity, TD Ameritrade and Pershing, have more than $2 trillion in combined custody assets.

During the earnings call on Thursday, E*Trade chief executive Karl Roessner explained how "E*Trade strives to be the No. 1 digital broker and adviser to self-directed traders and investors."

"Yet, with only 10% to 12% of our customers' investible wealth, we fully recognize that key segments of our customers look elsewhere for hands-on management," he added.

One example of an area where E*Trade hopes to keep more assets on its platform is in its stock plan administration services, where it contracts with 1,000 public companies to hold compensation in the form of company stock for nearly 1.5 million individuals.

Of the roughly $130 billion in stock plan assets, $38 billion is currently vested and can be sold or traded.

Instead of seeing stock plan assets move off the platform, Mr. Roessner hopes a connection with RIAs through an in-house custodian will help "expand our ability to serve their needs within E*Trade."

According to the third-quarter earnings report, E*Trade has $60 billion in customer deposits, and $365 billion is assets spread across 3.5 million accounts.

The TCA acquisition, which is expected to close in the first half of next year, is expected to add $80 million worth of revenue to the balance sheet in 2019.

"From E*Trade's perspective, this looks like a play to get deeper into the RIA custody space," said Michael Kitces, partner and director of research at Pinnacle Advisory Group.

"It makes sense, as while there is tremendous pressure on the margins of custodial platforms, the advisory business is still more stable than the retail transactional business," he added.

For Trust Company of America, a second-tier custodian with about 250 RIA clients, the outlook is for capital infusion and improved branding.

"E*Trade brings a lot to the table for us," TCA president and chief executive Joshua Pace said in an emailed statement.

"They've got a passion for technology, a spirit of service and a powerful brand," he added. "We believe E*Trade enables us to become an even more valuable partner to our advisers and their clients."

The deal looks good to Ed Gjersten, vice president at Mack Investment Securities, a $300 million advisory firm that has custodied with TCA for 20 years.

"I think E*Trade will provide them with a bigger reach to more advisers, and potentially deeper spending on technology," he said. "From our side, nothing is changing other than we're getting a bigger partner coming in to provide some additional funding for technology."

In an email to RIA clients on Thursday after the announcement, Mr. Pace wrote that he will continue to run the leadership team, and that TCA will continue to be run as a non-competitive partner.

"We plan to continue to run TCA as we have always run TCA — doing what is in the best interests of our clients, our business and our brand," the email read.