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Texas Bank Venture Reflects Wealth Industry Shift

'There is lingering distrust of larger financial institutions out there.'

BY KEVIN NOBLET

Texans like to think big, but Dallas-based financial adviser Wayne McCullough is thinking ahead. So he's gone small.

For years, Mr. McCullough worked at giant banks and brokerages. Now the sixth-generation Texan is leading a wealth management start-up for Benchmark Bank, a local fixture with offices in Dallas, Austin and Plano.

It's something of a risky move: Benchmark has 50 years of experience handling savings and making loans, but none in the investment advisory business. Its new venture started in April without any clients. But Mr. McCullough, 43, believes as many others do in the industry's shift away from dominance by the large Wall Street brokerages.

The growth of business for smaller advisory shops, many of them community-focused, "is going to be truly epic in the next 20 years," he says. Industry studies in recent years show that independent firms are growing faster and are winning market share--and adviser talent--from the major brokerages.

Mr. McCullough's own career reflects the trend away from big brokerages. He started with A.G. Edwards in the 1990s, but after its 6,600 advisers were acquired by Wachovia in 2007, and Wachovia in turn was bought by Wells Fargo & Co. a year later, he moved to Deutsche Bank's U.S. wealth management unit. That operation was significantly smaller--just a couple of hundred advisers across the country--but the bank was and is a global giant, with all the bureaucracy that comes with it.

Working at large firms means "you're going to be ultimately constricted in a box, in how you can operate," he said in a telephone interview. And when you want to step outside that box on behalf of a client, "everything's

got to go upstairs. It takes longer."

Now he can take any important question straight to the bank's chairman and chief executive, Mike Barnett, whose office is steps away. Mr. Barnett is grandson of the bank's founder.

"We have more control over who we are and how we behave," Mr. McCullough said. "We have compliance, but it's not all-consuming."

Benchmark, which has \$400 million in assets, hopes to tap the close relationships it has cultivated over the years to build an advisory client list. Until now, when its customers asked for help with investments, the bank referred them to outside firms.

Still, its move is somewhat unusual for a small bank. According to researcher Cerulli Associates, many smaller and mid-sized banks with existing wealth-management or brokerage businesses are re-designing those operations. But "very few of them are from-scratch startups," says Cerulli director Bing Waldert.

"A lot of (small) banks are thinking about this. But they don't know where to start," he said.

The dependable nature of wealth-management revenue, where clients are charged a fee based on their assets, should be as attractive to a small bank as it is to a large one, Mr. Waldert notes. Some of the country's biggest, such as Morgan Stanley and Bank of America, have lately come to rely more on the steady profits of their big advisory operations.

An advantage for a smaller bank is their local ties--and their distance from Wall Street. "There is lingering distrust of larger financial institutions out there," among people shaken by the 2008-2009 financial crisis, Mr. Waldert says. "There is an element of consumer choice playing into this."

Benchmark Private Wealth Management is wholly owned by the bank and has just two managing partners: Mr. McCullough, who is also president, and Keith Beckman, 45, who was the bank's director of special projects and also has a background in portfolio management. An associate director, Rawles Bell, 25, rounds out the small staff.

A key factor in starting the advisory unit was the ready availability of back-office technology and other support, Mr. Beckman says. A lot of tools and services that didn't exist a decade ago are "almost off-the-shelf now," and can be outsourced, he notes.

A North Dallas-based company, Argentus, was contracted to supply much of it, including a Benchmark-branded website where clients can check their investment account balances and where proposals for prospective clients can be generated. The arrangement also allows Benchmark Wealth to work with many asset custodians, including TD Ameritrade, Schwab and Fidelity.

Benchmark's wealth unit will operate only as a registered investment adviser, charging fees based on the size of a client's investment account, and not as part of a broker-dealer. That will help keep its regulatory burden down, and reflects the preference of a growing number of clients to work with a fee-only adviser.

Not having investment advisory services was "a hole in our business line," Mr. Beckman said. The bank's clients, which including many small business owners in the real estate and the oil and gas industries, had asked about getting help with investments.

These are now among "a ton of prospects" that the new wealth management unit is targeting, Mr. Beckman said. Some already have signed on with the new service, but he knows winning more

will take time. The bank isn't disclosing its benchmarks for the unit's success, but Mr. Beckman speaks of a time frame of "several years."

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