the Steadyhand Diaries

By Tom Bradley

VETERAN MONEY MANAGER TOM BRADLEY BROKE ALL THE RULES BY LAUNCHING A LOW-FEE, DIRECT-TO-CLIENT MUTUAL FUND FIRM. IN PURSUIT OF HIS DREAM, HE CHASED DOWN THE RIGHT TALENT, ENDURED THE GLARE OF REGULATORS, GOT A NEW LIVER AND SQUARED OFF WITH A GRIZZLY BEAR

In early 2005, Tom Bradley resigned as president of Vancouver-based Phillips, Hager & North Investment Management, one of Canada's biggest independent money managers. Rather than play it safe after his 14-year stint at PH&N, Bradley opened his own Vancouver mutual fund shop. Since beginning his career in 1983 as a research analyst at Richardson Greenshields, the Winnipeg native has watched the wealth-management business grow fat and flabby. Bradley set out to build a firm that put investing ahead of marketing. He also found time to keep this diary.

MAY 13, 2005

"My husband just had the biggest midlife crisis I've ever seen. Certainly the most expensive one. Couldn't he just have updated his wardrobe, bought a Porsche and had an affair?" At my 50th birthday party, this is how my wife described my quitting Phillips, Hager & North. There's probably a grain of truth to the midlife crisis, but Lori and I both knew it was time to go. It wasn't fun any more.

The birthday fell just days after my farewell party. It was brutal leaving. PH&N has been hugely successful. It manages more than $50 billion, has a great client-service ethic and is the envy of the Canadian industry. We all worked our asses off to make it happen.

As much as I loved the team, I stepped down because the board and I were increasingly out of synch. I wanted our investment stars—who are now on the board—to focus on managing money. They wanted to get more involved in running the business side. This was too fundamental a difference for me to just live with.

SEPTEMBER 7, 2005

We're back in Vancouver after two months at Crystal Lake in Ontario. I had no problem enjoying the summer off, even if my water skiing got progressively worse. Turning 50 isn't all it's cracked up to be.

It's only been two days, but I can already tell that Lori doesn't like being married to a retiree. Fortunately, all it took was a rainy afternoon and a few phone calls to get my head back in the game. I've got a couple of opportunities with established firms, but I really want to start something new.

I know the pension business well, and am known there, but wealth management has more upside because, to put it bluntly, the industry has gotten out of shape. It's now driven by marketing rather than investing. Fees are too high—among the highest in the world. And portfolios are bloated with too many stocks.

OCTOBER 20, 2005

I'm perched in my home office overlooking Kits Beach, and what do I spend my afternoon doing? Dissecting a principal-protected note—the industry's wonder drug, which promises equity-like returns with no downside. While the selling document tantalizes the reader with a return of "up to 10%," I calculated that the odds of that happening were virtually zero. What garbage.

It seems that every day there are new products—closed-end funds, wraps, principal-protected everything—driving fees up and transparency down. In many cases, the fees are over 3%, which doesn't give the investor a chance. With the big players so fixated on asset gathering, it's hard to see things changing.

But some firms are bucking the trend. We built a successful private-client business at PH&N, without sales commissions and fancy packaging. And in the U.S., lower-fee, direct-to-client mutual funds make up 15% of the market. Vanguard, a trillion-dollar mutual-fund co-operative, doesn't have a big sales force or marketing budget, but its passion for low-cost investing—primarily through indexing—and client service has taken it to the top.

In Canada, very few firms have made a serious effort to introduce low-fee, actively managed funds. The banks are direct-to-client, but they don't charge much less than the high-cost adviser-sold funds. They just haven't used their scale and distribution power to bring down fees.

MARCH 2, 2006

This morning I closed the door on the chance to lead a smaller Toronto firm. I want to focus on getting a new mutual-fund company off the ground. Enough dreaming about it. We'll burn through some serious cash and I'll offend a few industry friends along the way, but if we do it right and get a little luck, we can have a real impact.

Steadyhand, as I've called it, will sell its funds directly to the investor. Our fees will be low—no

1. Neil and I talk shop
2. Brainstorming at Whistler
3. My 1,600-pound buddy Koda
4. Our CFO, Elaine Davison
5. Burntkit gets creative

commissions or trailers. Clients will get simple, straight-ahead service. The lineup will be limited to areas where we can add value—probably three to six funds—and we'll partner with outside managers. And the key—those experts will run the funds the way we want our money managed.

Building a company to serve my own purposes goes against everything they teach in marketing class, but it makes sense in this context. Too often, the investment professionals who design and manage products don't have their own money at risk. Alignment between the professional and the client is more important than any marketing nuance.

APRIL 24, 2006

I'm in Toronto to test the Steadyhand concept. I started with Chuck Winograd, who hired me into the business 23 years ago when he was research director at Richardson Greenshields. He now runs the capital-markets side of Royal Bank. As usual, Chuck got right to the point. Can we get the managers we need? How do we differentiate ourselves from a gazillion other fund companies? How much money will it take? His parting words: "Tom, you know this is a long shot."

As a hard-nosed mentor and a friend, Chuck would rather see me get a real job—"while you're still a somebody."

APRIL 28, 2006

While gathering feedback, I keep hearing that Steadyhand will require deep pockets and lots of patience. "It's great you're doing this" is quickly followed by "It's going to be tough. How will you sell the funds?"

As everyone has rightly noted, it's hard to woo investors directly when all roads lead to the financial adviser. These gatekeepers control the bulk of the industry's assets. Like Bob Hager used to say, "Mutual funds are sold, not bought."

JUNE 6, 2006

Neil Jensen has signed up with Steadyhand until Labour Day. We'll know if it's a "go" or "no-go" by then. I'm pumped—I've always wanted to work with Neil.

Neil is a serial entrepreneur who co-founded Habañero, a successful IT consulting firm in Vancouver. When he consulted to us at PH&N, he always seemed to know more about our business than we did. We'll make an interesting combination—boring investment guy and entrepreneurial techie. Technology and the Web are critical to reaching our target client: the do-it-yourself investor.

JUNE 8, 2006

Lori, Neil and I brainstormed with Bernie Hadley-Beauregard and his wife, Pauline, tonight. Bernie is a friend and the marketing guru of B.C. wine. He's shaken up his industry, so we asked him how to build awareness for Steadyhand in ours.

No brilliant ideas came out of the wine, but we got Bernie's message loud and clear—"If what you're doing doesn't make you squirm a little, then you haven't gone far enough." No middle of the road for Steadyhand.

JUNE 22, 2006

The regulatory reality just hit home. Because we're selling direct, we have to join the Mutual Fund Dealers Association, the watchdog for fund dealers. We also have to be licensed, as a firm and individually, with the securities commissions of each province and territory where we want to do business. As a result, regulatory and legal costs for a direct seller make it uneconomic for us to offer our funds in the smaller provinces.

JUNE 28, 2006

Neil has set up a Steadyhand blog. This is new to me, but I love it. I get to spout off about things whenever I want. It's an experiment, but Neil thinks it will be the way we communicate with investors.

AUGUST 31, 2006

Over the last year I've been meeting with managers across Canada, but it's difficult to find folks who run money in line with our philosophy.

So far, the big firms leave me cold. They have great people, but they're too mechanical, too standardized and too focused on the index. Our research shows that the way to beat the index in the long run is to ignore it in the short run. It also shows that funds that concentrate on fewer holdings have a better chance of outperforming.

Now that indexing has matured and many active managers behave like indexers, our approach to investing is unique, even radical. It wouldn't have been, 20-plus years ago, when it was common for managers like PH&N's Art Phillips to pay the index little heed. Our opportunity is to be the anti-index company.

SEPTEMBER 8, 2006

I can't believe we just hired a CFO who's six months pregnant. Are we nuts...or incredibly enlightened? Elaine Davison resigned from Qtrade today and starts on Oct. 2. She'll be with us for a couple of months, but we'll go through the start-up without her. Yikes. Scott Ronalds, a favourite of mine from PH&N, will join us the same day—he'll do all our communications.

It's starting to feel like a real company, and Neil is jazzed about Steadyhand. He's moved fast to secure outsource partners—custody, record-keeping and client-relationship management. Now we have to pin down our investment managers and fund design, as well as formalize our marketing strategy.

OCTOBER 3, 2006

Today, Neil and I went to interview a website design firm called Burnkit in an old warehouse in the Downtown Eastside. We met with a guy named Josh Dunford who looked about 18, with the requisite jeans and sneakers. If we want to push the envelope, I think we've found the right place.

Neil, Scott and I scoped out our brand image a couple of weeks ago at our cabin near Whistler. Neil has built the site architecture. Now we want Burnkit, where it turns out Josh is a co-founder, to make it hum.

Their team came up with three concepts they thought would differentiate Steadyhand and help build awareness, our biggest challenge. We picked the one furthest from the centre line—"Don't Fear the Bear." I don't think there's another investment firm on the planet that would dare put a bear on its website, but it shows that Steadyhand is willing to challenge industry conventions when they don't work for the client.

OCTOBER 19, 2006

Neil has come up with an interesting approach to pricing. As our clients' assets grow, their management expense ratio will go down. We'll start to taper the fee at $100,000. And instead of making long-term Steadyhand investors pay more, as the cellphone companies do, we'll reward them by further reducing their fees over time. Our standard fees won't be the lowest on the Street, but for larger, long-standing clients, we'll be untouchable.

OCTOBER 23, 2006

Time to decide on the manager for our equity fund. I'm really comfortable with both Cranston, Gaskin, O'Reilly & Vernon and the other candidate. CGOV is a boutique Toronto firm that manages about $1 billion for wealthy individuals. The other shop would have a more marketable record out of the gate, but I want to avoid a common investor mistake—chasing performance.

Neil says I get more excited when I talk about CGOV. Its portfolio doesn't look like other managers'. It's truly all-cap and is managed on a global basis, which means they take the best stocks Canada has to offer and complement them with select U.S and international ones. And they won't own more than 25 stocks, so they act on their convictions. I love that discipline.

CGOV is a great firm and will be a good partner.

NOVEMBER 23, 2006

The search for a small-cap manager has taken a few twists and turns. I initially favoured a Toronto-based firm that had always been successful in small-cap equities, but I'm not comfortable with its corporate structure. There's no employee ownership, and the place has been losing people and assets.

Wil Wutherich, on the other hand, runs his own firm in Montreal and has lots of skin in the game—all his family's financial assets are in the portfolio. Wutherich & Co. is a small shop—totally unknown and somewhat unconventional. Sounds perfect.

We're going with Wil. His record has suffered lately because he sold his oil stocks too early, but he's made his clients a lot of money since he started in 1999.

In addition to CGOV and Wil, we've selected Vancouver-based Connor, Clark & Lunn to manage our savings and income funds. While we look for a global equity manager, we've started to negotiate fees with the three firms. We have to convince them that their fee should reflect our future status, not our size at start-up. This is when I really know I'm not at a big company any more.

DECEMBER 11, 2006

"Don't Fear the Bear" comes to life today. My furry, 1,600-pound friend Koda and I are starring in a series of video clips for our home page. The thought of me going into the ring with a grizzly amuses Neil to no end. Why did I insist on shooting this live?

Before we started, the trainer warned that Koda might try to check me out. "If he moves over and starts to nudge you, push back." Oh, right.

As it turned out, Koda and I got

along fine. The bigger challenge was delivering my lines. "Okay, Tom—take 13."

DECEMBER 19, 2006

What a loser. I fly all the way across the pond and get to spend one grey winter day in Edinburgh. No golf, no touring—nothing. It was worth it, though. We've got us a global manager: Edinburgh Partners.

It took a while. We did extensive data screening, numerous phone interviews and three on-site reviews—the final one being with Edinburgh Partners in Scotland. It was surprisingly hard to find a global equity manager that runs concentrated, non-benchmark-oriented portfolios. The firm is only four years old, but founder Sandy Nairn, formerly head of global research for Templeton, has put together a veteran team. And like Wil and CGOV, these people are all about investing. As Sandy said, "We wanted to get away from the bureaucracy and just manage money the way we wanted to."

JANUARY 18, 2007

Where did that come from? A week ago Monday we were wrapping up our morning huddle when I collapsed...out cold...three times in 10 minutes. After we realized I had a stomach full of blood, the ambulance hustled me off to surgery. I'm just home after 10 days in hospital and am getting stronger, but my life has changed—what was a manageable bilary condition is now advanced liver disease. No wonder my skiing and basketball have been so shitty!

"Do you still want to do this?" Neil asked. "It's not too late. We can pull the plug."

I'm not going to pull the plug. I'm not planning on dying and I'm not ready to retire. This will just make the first year or two a little more challenging.

FEBRUARY 13, 2007

It's official: We have five Steadyhand funds, prospectused and everything. To get there, we had to make decisions on some things that had been hanging. We settled on a minimum investment of $10,000 per fund. If we're going to keep our fees down, we can't afford to carry small accounts. Our lineup will have a fixed management expense ratio ranging from 0.65% to 1.7%.

We also put the pin in on electronic delivery: An investor can't buy a Steadyhand fund unless they have an e-mail address. After their welcome letter, our clients should never get another piece of paper from us besides a tax slip.

And we registered in five provinces—B.C. to Ontario. We can't justify the regulatory cost of operating anywhere else.

APRIL 10, 2007

We're open for business. Neil and I cut the ribbon this morning in brilliant sunlight—I hope it's an omen. Tonight we'll do our first road-show presentation in Vancouver. Time to get out and sell.

APRIL 16, 2007

It's a week past launch and the silence is deafening. A few clients are trickling in, but I can tell the team is disappointed. And our rollout events in Calgary and Winnipeg this week will be mostly friends and family. Man, it's tough putting bums in the seats. At this stage, we need to contact every potential attendee directly with a call or personal e-mail. I wish we had more family and friends!

MAY 15, 2007

Good news. As of today, I'm on the list for a liver transplant. I could get the call tomorrow or next year. The bad news is, I'm grounded...can't leave the province. That will limit our ability to get in front of prospective clients, which we need to do. But maybe it's a blessing—the beta blockers and my weakening condition have taken the strength out of my voice and slowed down what is already a deliberate presentation style. Yawn.

JUNE 7, 2007

We must be doing something right. The website continues to get rave reviews. Scott and Neil nailed it. And today a couple of big clients signed on, including a Bay Street lawyer none of us knew. But TD Waterhouse also called to say they wouldn't be listing our funds. Apparently we're too small and we cause them too many operational problems. Translation: You need a trailer fee.

The TD news is a blow. We may be direct-to-client, but our business model still assumes that 25% to 30% of our clients' assets will be held through other dealers, mostly discount brokers. TD is the leader in that category. Fortunately, most of the other banks and dealers are signing on. In the meantime, we don't want to pay a trailer to a discount broker. An ongoing advice charge for no advice doesn't make sense.

JULY 9, 2007

The Mutual Fund Dealers Association is coming in to do an audit in two weeks—didn't they just leave? It's laughable how regulated mutual funds are compared to hedge funds and other structured products. I can't talk to Scott about the Seahawks game without documenting it and putting it in the file. The clients are ultimately paying for this. Are they any better off?

JULY 13, 2007

Yesterday was a big milestone. We delivered our first quarterly statement electronically, and so far clients love it. Besides performance reporting, we show the fees paid in dollars and cents—I don't think anyone else does that. It seems perfectly logical to us, but the industry has gone out of its way to obscure these little details.

AUGUST 27, 2007

Do I sound different? I have a new liver. I got the call at the office on the 13th and was under the knife at Vancouver General Hospital the next morning. Six hours of hell for Lori. I'm feeling better already, but after the excitement of getting home, I'm just bagged. I've got to keep reminding myself...be patient.

OCTOBER 11, 2007

I guess this means I'm officially back. Today we shot a video at the office with Wil, then I hosted an evening event with him talking about the small-cap fund.

1. April, 2007, we open for business
2. Lori and I (new liver inside)
3. On the recovery trail
4. Wil Wutherich and I prep for a podcast
5. Meeting with managers in Toronto

NOVEMBER 6, 2007

Twice in two days—investors who were interested in our funds asked their advisers to check us out. In both cases, the adviser's research was haphazard. The question we got asked was, "Do you pay trailer fees?" The message reported back to the client was, "They are...new...small...unproven...never heard of their managers." Both advisers recommended against investing with us.

JANUARY 13, 2008

It's 3 a.m. and I ain't getting back to sleep. This entrepreneur thing is brutal—no new clients the last two days. It's RRSP season, for Christ's sake. The sign-ups for our Toronto presentation are only at 33 so far. And the markets are a nightmare. At this rate, our managers will have trouble reporting a positive number for year one.

JANUARY 24, 2008

I suspected it was coming. Saxon just upped their trailer fee to 1%. With this news and PH&N's announcement that they're now paying trailers, we're getting more different by the day.

The adviser channel seems to be where everyone's attention is. The firms I figured would take a run at PH&N have all adjusted their focus toward the commissioned sales force. Even PH&N is going that way. Which raises the question: Are they giving us more room or is the direct market not there?

JANUARY 25, 2008

Well, that wasn't so bad. Last night about 50 clients/prospects showed up for the Meet the Managers event in Toronto. At this stage, drawing that many interested investors is pretty respectable. But these managers are good—they deserve 500 people in the room.

My impatience belies the fact that interest in Steadyhand is building. Web traffic is growing. Our blog is being read. The phone calls and e-mails are picking up, and next week we're expecting healthy crowds in Winnipeg and Vancouver. It's gratifying to get calls from all over the country from people we've never met. They get what we're doing.

FEBRUARY 21, 2008

PH&N announced it is selling out to Royal Bank. Our blog says it all—"Holy shit!"

It's a sad day. I hate to see a great Vancouver firm get absorbed into Canada's biggest bank. PH&N will be indistinguishable in a year or two. I never wanted this to happen.

But the deal makes us more unique, which is good...I think. And maybe the bank will bring attention to our small segment of the market.

As we head toward the end of our first year, we're managing $30 million for 300 clients. With weak markets and just a one-year track record, we've got to keep our expectations in check. Only a small portion of our target clientele will invest right now. The early adopters either know us personally or were keen enough to look at our managers' long-term performance.

So far, it's playing out as we'd hoped. We've got a great team and set of managers. We've been able to separate our approach and investment philosophy from the herd. And our early clients are passionate about Steadyhand. Who knows? Perhaps we have a chance to be the "next" great independent Canadian firm. ■