



## Ceros Financial hangs a 'welcome' sign out for RIAs who trade actively

The former Rydex RIA unit is starting new life under German ownership

Thursday 6.24.10 by Brooke Southall

Ever since Elliot Spitzer made market timers of mutual funds look like robbers of orphan funds, there has been a pall cast over the idea of trading-intensive strategies. Most advisors trade very infrequently because they simply don't believe it's possible to time the market and because the extra trading adds to costs.

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After Mr. Spitzer forced major mutual fund companies to pay big fines for market timing, even asset custodians and wirehouses have been cautious about serving advisors who favored trading.

That's left a gap in the market where Ceros Financial Services, Inc. is now building a business. The Rockville, Md.-based company serves advisors that want to use active trading strategies on behalf of clients. It has built itself into a niche player with about 100 RIAs managing a combined \$3.8 billion of assets, up from 95 clients with \$3 billion of assets last year.

"Our prospects are often — to manage clients' money better — early adopters of new investment products and in the past two years, that's been a very good way of managing money," says Catherine Ayers-Rigsby, managing director of Ceros. "We are very familiar with different types of investment product. When someone wants to use a new product, we don't shy away from it. We research it and say: 'Let's go forward.'"

### Active trading advocates

Not only is Ceros willing to facilitate active management strategies; it actually advocates for them. Many RIAs that use an intensive trading strategy belong to the National Association of Active Investment Managers. Ceros is a big sponsor of that organization. It has 15 employees dedicated to RIAs.

"We don't consider active management risky, and [our assets are] 80% fee-based so our advisors have no incentive to pursue active strategies except to better manage the clients' money," says Ms. Ayers-Rigsby.

If Ceros is unfamiliar to you, it may be because the company existed under the Rydex brand name since its 2002 founding. It was acquired by Frankfurt, Germany-based Ceros in 2009. Rydex had founded it as a place where trading-minded RIAs could feel comfortable trading in and out of its funds.

"They truly understand active investment strategies and don't have the same holding restrictions that other custodians have," says John Rothe, president of the Rothe Financial Group in Tysons Corner, Va. "I also like the fact that their relationship with Rydex Funds allows advisors to trade Rydex funds intraday via Fidelity's AdvisorChannel."

**Name of custodian:** Ceros Financial Services Inc. using National Financial Services for US business and Pershing LLC for European business

**Phone number:** 866-842-3356

**Founded:** 2002

**Parent company:** Ceros Holdings. AG

**Total Assets in custody:** more than \$3.8 Billion in custody and administration [for transactional business]

**Number of RIAs using platform:** 105+

**Head of RIA custody business and executive's starting year with the custody unit:** Catherine Ayers-Rigsby, 2002

**Head of RIA sales and relationship management starting year:** Sales: Joseph Yoon 2002; Relationship Management: Mike Zarren 2005

**Name of RIA technology platform:** Fidelity AdvisorChannel

**Minimum assets for advisors:** Open

**Size of biggest advisory client by assets:** Over \$1 Billion

**Custody fees [including fees for RIAs that fall under the minimum]:** As of now, there are no custody fees besides annual IRA fee.

**Brand names of custodians absorbed by Ceros:** Rydex

### **Technically an introducing broker-dealer**

Ceros is technically an introducing broker-dealer for National Financial Services, the Fidelity Investments clearing arm, and so RIA assets are actually parked there. Unlike other broker-dealers that hold RIA assets, Ceros charges no custody fees. National Financial gets compensated by the fund companies that RIAs use and National Financial in turn shares those revenues with Ceros.

Yet it's notable that most Ceros advisors say that — technically — they can carry out most of their trading strategies at other custodians. Much of this activity centers around trading Rydex, ProFunds and Direxion mutual funds.

TD Ameritrade, for example, can facilitate some of the trading strategies that RIAs most favor.

“As part of our extensive mutual fund network we do offer actively traded funds, such as Rydex, [Direxion] and Profunds, at no transaction fee and without a TD Ameritrade holding period or corresponding short-term fee,” says John Tovar, managing director of brokerage services at TD Ameritrade Institutional. “Outside of the funds that encourage this type of activity, we of course support our fund partners' mandated holding periods, etc.”

Schwab Advisor Services did not respond to a query about its approach to RIAs who use active management approaches.

But though other custodians have similar trading infrastructure and policies, there are still reasons for active traders to favor Ceros, according to Ken Groves, principal with Capital Research Advisors, which manages \$330 million from Suwanee, Ga. he keeps the majority of his assets with Ceros but also uses some of the better-

## Cheaper and better

“They bring ideas to the table and say: ‘Here’s a cheaper way, a better way,’” he says.

Mary Collins, president of Spectrum Financial Inc., which manages \$230 million of assets from Virginia Beach, Va., says that the service is key.

“They see what we’re trying to do and they know what legally can be done and they make it happen,” she says. “We found that, ‘Wow’, this is working so well that we consolidated,” assets away from other RIA custodians.

Besides RIAs like Groves and Collins with a penchant for trading, Ceros works to satisfy other special circumstances.

The niche-within-a-niche for Ceros are RIAs who want to actively manage clients assets by using self-created funds. For example, it has one client with 800 accounts. His firm created four mutual funds representing four different strategies that he uses to meet the diversified needs of clients.

There are many advisors who pursue a similar strategy by creating model portfolios and putting them into a turnkey asset management program that other custodians have specialized in servicing. Trust Company of America of Denver, Colo. has built its custody business to more than \$9 billion of assets from just about 100 RIAs with attention to this niche. See: [How a small custodian is making big waves](#).

## Mutual funds as a device for managing model portfolios

The advantage of using mutual funds in place of TAMPS is that it enables the advisors to more freely run their accounts like hedge funds – using institutional trade mechanisms like options, according to Mike Zarren, director of relationship management for Ceros.

“This is different from a TAMP because it can be sold on multiple exchanges and can use institutional strategies,” he adds.

Being ensconced in this community of traders makes Ceros sensitive to the subtle needs of RIAs who prefer trading strategies to more buy-and-hold oriented approaches,” Ayers-Rigsby says.

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