

# FINANCIAL POST

## FEATURES

### E.F. Hutton emerges as rare new player in Canadian securities



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Tyler Anderson/National Post  
Dennis Dewan, left, and Dan Geraci, co-CEOs of E.F. Hutton Holdings Canada, see the lack of entrants in the securities marketplace as an advantage.

Behind the scenes of Canada's securities industry, an ambitious new brokerage is taking form, bearing a storied name and a host of finance veterans.

E.F. Hutton Canada Holdings Ltd. could become the country's newest investment dealer once it goes through the appropriate regulatory hurdles. If the E.F. Hutton name strikes you as familiar, that's probably because it is. The original E.F. Hutton was one of the most respected financial firms in the United States, founded in 1904 and eventually absorbed by Citigroup Inc. in 2009.

Four years later, a group of finance veterans from Canada have bought the naming rights to relaunch the brand in Canada. The team includes Dan Geraci, founder and co-chief executive of E.F. Hutton Canada and a former employee of the original company in the 1980s and Midland Walwyn veteran Dennis Dewan, who will be the other co-chief executive. Wayne Fox, the current chairman of TMX Group Inc., will become chairman of the company.

What makes E.F. Hutton's story especially compelling is just how rare it is to see a new player enter the Canadian securities industry. Data from the Investment Industry Regulatory Organization of Canada shows that only 13 startups have joined its ranks since the 2008 credit crunch, compared with the closing of 32 firms.

That fact is not lost on Mr. Geraci. But he notes that the lack of competition in the securities industry gives E.F. Hutton some advantages. "The barriers to entry are certainly high in the Canadian marketplace," he said.

"But at the same time, what that has meant is there hasn't been a lot of activity in terms of innovative models, in terms of really offering more disruptive alternatives to the current way of doing things. That's something E.F. Hutton aims to do."

Lack of new entrants into the Canadian securities industry is due to a number of factors. New industry regulations, an increasing concentration of dominant players and the rising costs of doing business have all scared away new competition.

But in addition to the changing nature of the securities industry, some structural issues also make it difficult for entrepreneurs to succeed.

Brad Cherniak, co-founder and partner for Sapient Capital Partners, points out that for a new brokerage to succeed, it can't simply work hard to build its clientele — it needs to have a clientele right off the bat. That means entrepreneurs with very little history in the industry can't just start up a new company, the way they can in other industries, notably technology.

"Investment banking is a very personal brand-driven business," Mr. Cherniak said. "People are trusted because they have long, established relationships and track records in the business. To succeed, brokerages have to be a collection of those types of people and the substantial systems necessary to support them and ensure regulatory compliance is maintained."

The volatility of the stock market in the years since the financial crisis, leading to less reliable returns for fund managers, have also made new players hesitant to enter the market.

“Weak market conditions, together with rising fixed costs, have devastated the boutique sector’s earnings performances,” Ian Russell, president and chief executive of the Investment Industry Association of Canada, wrote in a letter titled Vanishing Entrepreneurism in the Canadian Securities Industry earlier this year.

“Since 2007, revenues have averaged 17% and operating profit nearly 50% below pre-crash levels. In fact, half of the boutique firms in the industry — some 90 firms — were losing money on a net basis in mid-2012.”

But Mr. Geraci, far from being intimidated from the current market environment, sees a plethora of opportunity. “We believe the timing is extremely good,” he said.

“Some might say, well it’s rough markets, it’s a tough environment to start a business. The last time I checked, all of us in this industry were supposed to be trying to get in low and not at the top. The best time to start a business is when things are slower.”

He laments that so much focus on the definition of entrepreneurship is placed on the creation of new firms. He contends that the constant efforts by advisors to build their own clientele shows that the securities industry is inherently entrepreneurial. He said E.F. Hutton plans to leverage its advisors to put the focus back on providing guidance, rather than following the current market model, which emphasizes selling products.

“The advisor and the investor should be at the front of the strategy, not at the end of a product manufacturing process,” he said. “Too many large institutions today manufacture products and push those products to retail distribution, and in those cases, the advisor-investor relationship is purely distribution.”

Therein lies the problem of the modern brokerage landscape, Mr. Geraci said, adding that it is something E.F. Hutton will seek to change.

“When we look at the marketplace, we don’t see the innovation anywhere in the industry, whether it’s in the asset management side or the securities side,” he said. “The only way change is going to happen is through the establishment of a new player pushing into the status quo and trying to establish a new paradigm. We think we have that with our model.”

The IIAC’s Mr. Russell said that the success of new players such as E.F. Hutton is crucial to the health of the Canadian finance industry.

“These ... firms do more than just add competitive vitality to the marketplace, often making a unique contribution by offering a full array of wealth management services to investors with lower wealth thresholds, or specializing in research, underwriting and distribution of the shares of small and mid-sized businesses,” he said.

The five-year plan for E.F. Hutton envisions up to 37 locations in 25 cities in Canada, totalling 337 advisors. Mr. Geraci said he expects that all the appropriate regulatory decisions should be made by the third quarter of this year, and if approved, would allow E.F. Hutton to begin operations shortly afterward.