



Q&A: From Tax to Financial Planning

Phyllis Bernstein
Laura Inge, Editor

Clients consider you, the CPA, their most trusted adviser. Because of this, you are in a special position. You can make use of the information you already have about a client—whether it's from a form 1040, an attest engagement or a technology consulting engagement—to offer your clients financial or investment advisory services.

Moving from an engagement like tax preparation to financial planning can be complex, but, with the proper training and licensing, it can be nearly seamless. Many CPAs already are making changes in the services they provide. The following questions about the process were posed by CPAs and answered by Phyllis Bernstein, director of the AICPA personal financial planning division. You may have similar questions as you develop your own financial and investment advisory services.

1. As my role changes from tax preparer and planner to money manager, how can I develop my practice?

Because you review your clients' returns, you know where their assets are. You also know whether they are satisfied with their adviser, broker or money manager. Often, clients are unhappy with at least one of the above. If a client is not happy with the professional currently investing his or her funds, this is an opportunity to propose yourself as the new financial adviser and suggest taking over management of that client's assets. This process, known as "asset capture" works best when you have a face-to-face meeting with your client to analyze the portfolio—you can demonstrate your investment savvy and use the occasion to ask for work.

2. If a client has \$2 million invested with a broker or adviser he or she is not satisfied with, how much might you expect the client to invest with you in the beginning?

You could probably assume 50%. The client already has someone he or she can use for comparison, and this should work to your advantage. Within a year, you

may very well have the rest of the assets under your management. This is another example of asset capturing.

3. What will the financial planning market look like in five years?

Over the next few years, there will be a free-for-all in financial advisory services—everyone will advertise himself as able to do just about everything. There will be a complete convergence in what individual planners are doing and selling. There also will be certain limitations, such as government oversight and auditing relationships. Many changes will occur, and CPAs will find that almost any model or method for getting into the financial advisory business will work.

There currently are four ways of getting into the financial advisory business:

1. Getting paid for making referrals.
2. Forming strategic alliances.
3. Setting up your own investment advisory practice and bringing in your own experts.
4. Becoming an agent of a brokerage company.

Determine your own strategy. You may want to bring an expert in house, or you may decide to set up a separate investment advisory entity so the new business is owned by and connected with the CPA firm, with a separate group involved in the advisory function.

The model you choose should be what conforms best to the current growth strategy and culture of your firm, as well as to your personality and that of your clients. Every model has proven successful so far for different reasons. For larger firms, the separate firm model makes sense. For small firms, becoming an agent or setting up an alliance with other advisers may be the best model. Getting paid for referrals has the lowest potential value for all firms. Carefully evaluate the models to find one that makes sense for your firm.

4. How do you price financial advisory services?

Clients who have a high net worth have different personalities, and they will respond differently to various pricing arrangements. Look at it from their point of view. Some clients will happily pay for services on an "unbundled" basis even though it costs more. Other clients prefer to tell their CPAs to take care of the financial matters and to give them a bill. It is really a client-specific issue, not a company- or firm-specific one. You have to know who your clients are and what they are likely to be comfortable with.

Vary your payment arrangements to suit the clients. Show them the payment schedules and let them choose whether or not to "bundle" planning, tax work and

investment advice. They should have the option of changing it later; that way, they're not locked in.

Most investment advisers charge clients a fee based on assets under management. Others are paid for their services through a commission. Although some of these advisers are seriously concerned about possible conflicts of interest, others feel that disclosing the commission to the client cures the conflict.

Any investment adviser or financial adviser, regardless of the compensation method, has a fiduciary duty to help clients decide on what is in their best interest. For example, a back-end-loaded mutual fund might make sense for a client. But you have to be licensed to sell mutual funds (you must have passed the Series 6 exam) to earn the commission. However, many mutual fund companies are willing to waive their loads, and an asset-based advisory fee may, in any case, be more appropriate.

5. How will the Internet affect investment advisory practices?

Personal service will become more important for the high-net-worth client. The do-it-yourself baby boomers will want and expect customized online portfolios. Expect such portfolios to become the norm in the near future. Online trading and advisory services will speed the trend toward fee-based and fee-only services from the more common transaction-based services.

Low-cost Internet trading will force firms to justify their costs by providing value-added services. Fee-only advisers will benefit because people will be looking for planning advice instead of making trades—clients will continue to pay for valuable advice.

Technology is an enabler—use it to your advantage to help educate your clients. Clients are likely to want to go to the Internet to check their portfolios. Advisers need to be the first source for financial advice. Your Web site will be a very important part of this service. For example, many advisers have set up a password-protected page on their site, updated daily, with client account information.

Clients may react emotionally to a change before the CPA can explain what is really happening. A Web site enables current and prospective clients to understand you, your firm's philosophy and how you provide advice.

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Phyllis Bernstein is the director of the AICPA personal financial planning division, Jersey City, New Jersey, e-mail: pbernstein@aicpa.org.

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