

## Is Your Firm Prepared to Offer Investment Services?

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CPA firms wishing to offer investment services should proceed carefully. In most cases, a firm providing such services will have to meet rigorous government standards. A firm may register to give such advice, or it may affiliate with an entity already registered with the SEC or a state securities department. The type of registration depends on the scope of services offered, fees charged, the state where the practice is located and the amount of assets under management.

The first step is to define your business. After deciding what services you want to offer and how to charge for them, begin the registration process. Then listen to clients and competitors and put together a solid business plan to handle anticipated concerns. Here are some issues to consider if you're thinking about offering investment services.

- ***Will you be more comfortable handling discretionary or nondiscretionary accounts?*** A discretionary relationship allows the CPA to make investment decisions for the client. In a nondiscretionary relationship, the client must approve each transaction prior to a trade.
- ***What fee structure will work best for your firm?*** Fee formats may vary considerably. In a tiered approach clients are charged a percentage of the total assets. A graduated fee increases or decreases based on the amount of assets under management (client portfolios under \$100,000 are commonly charged 1.5%; those over \$1 million are negotiated and can be as low as .75%). Hourly fees commonly range from \$150 to \$250; expect rates higher than \$300 per hour to be questioned by your state securities department, says Melissa Dehn of TDA Compliance in Antioch, California.
- ***An examination prep course can help if your state requires a minimum competency exam.*** The most common competency exam is the NASD Series 65. Companies such as Securities Training Corp. offer courses to help you prepare. If you have the PFS, CFP and/or other designations, you might not need to take a Series 65 exam. (See the AICPA Web site [investmentadvisory.aicpa.org](http://investmentadvisory.aicpa.org) for information on whether

an exam is needed and what course discounts are available.)

- ***You'll need guidance if you register your firm as an investment adviser.*** Jim Koon, of Securities Exam Preparation Inc. in Washington, says, "Firms managing more than \$25 million in assets must register with the SEC; those managing under \$25 million need to register with their state securities commission." To ensure a smooth filing of form ADV, a company such as National Regulatory Services can help (it also offers discounts through the AICPA Center for Investment Advisory Services). "Even if your firm files with the SEC, it still may be required to file notifications with states in which you have a place of business or clients. Each state has its own filing requirements, so it's good to use a regulatory compliance firm," says Phyllis Bernstein, AICPA director of personal financial planning.
- ***You'll need a strategic partner to perform securities trading and custody.*** If you manage client investments for a fee, you must affiliate with the institutional brokerage group of a broker-dealer. For example, Fidelity and Schwab offer adviser participation programs. If you choose to receive commissions and affiliate with a broker-dealer, you have specific responsibilities both to the broker-dealer and to your clients.
- ***Building a track record with long-term clients is key to success.*** With your business model in place, turn your attention to marketing. You might point out to a client with a booming business and growing employee base that you can offer new investment services. Cite your credentials, which might include PFS, CFA and CFP.
- ***You must anticipate client concerns and be prepared to address them.*** Clients may be reluctant to pay for an initial portfolio analysis. Or they may have difficulty seeing their tax adviser in a totally new role. If your client says someone else will do an analysis for free, show how your financial analysis is more comprehensive. Meld your past experience to your present expertise.
- ***You'll need to keep clients informed and motivated.*** Send regular e-mail updates on portfolio performance, schedule "keep in touch" pieces such as newsletters and market alerts throughout the year and set aside time for face-to-face meetings—regularly and often.

