Broker. An individual or firm who acts as an intermediary between a buyer and seller. A broker usually charges a commission.

Dealer. Any person or company in the business of buying or selling securities for his or her own account, through a broker or otherwise.

Broker–dealer. NASD member firms that act as securities dealers and/or brokers.

Investment adviser. Any person or entity who is compensated for providing advice to others or issuing reports or analysis regarding securities, as defined in section 202(a)(11) of the Investment Advisers Act.

Solicitor. An investment professional who “finds” and refers clients to an investment adviser for a fee.

Commissions. Usually paid by a third party (not the client) to the CPA. Commission contracts are between the CPA and the third party, and the CPA is not responsible for performance, reliability, product or service.

Wrap fee. The charge for an investment program that bundles or “wraps” a number of services, such as brokerage, advisory, research, consulting and management, and covers them with a single fee based on the value of the assets under management.

February, 2000

Be An Investment Adviser

Phyllis Bernstein, CPA, PFS
Laura Inge, Editor

Financial planning is currently a very popular high-growth service. Your competitors most likely have begun offering some kind of financial advisory services, and government regulations are being relaxed, allowing even the smallest CPA firms to offer their clients one-stop shopping.

What do these changes mean for you? While many CPAs are feeling a bit whipsawed by all that is happening in the marketplace, the opportunities are providing you with great client service options. A sole practitioner who recently expanded into investment advising told me her practice already is growing. “I don’t have to refer my clients to the person down the street anymore,” she said. “This opens a whole new door for me.”

There are plenty of reasons CPAs—large and small—should add investment advice to their list of client services. After all, they traditionally have been asked for financial advice, they customarily charge a fee for their services, their objectivity and integrity are well-recognized, they have the trust of their clients and, most important, they are at the center of their clients’ financial universe.

Five Models To Choose From

A CPA who wishes to add investment services and financial planning to his or her client services can choose from several different business models. Business models help you structure how your firm does business and your relationships in the securities industry. The five most common business models for adding investment services to your financial planning services are described below.

1. Direct affiliation. With this model, your firm will be an official National Association of Securities Dealers (NASD) securities brokerage office. Your employees must be licensed to sell securities and/or registered as investment advisers. Your “payout” would depend on your volume of business. You can choose to work on a commission or fee basis with clients. The broker–dealer for your office provides services, including trading and operations, product and market research, accounting, marketing, compliance, training and advisory services.

The pros of direct affiliation are these:

- You have a smaller capital investment.
- You have a well-capitalized, experienced organization behind you.
- There usually are no restrictions on ending the relationship with a your broker–dealer if it doesn’t work out.
- The cons are as follows:
- You and your staff will need additional licensing.
- You will be governed by the NASD.
- The broker–dealer controls what you do.
- You will have less flexibility.

2. Partnering. With this model, your firm partners with an existing broker–dealer in your region, and the service is transacted through that partner. CPAs will need to get licensed and registered to share commissions and fees. The payout is much smaller because of the partnering agreement.

The pros of partnering are as follows:

- Partnering is easy to establish.
- It limits your involvement in investment problems.

The cons of partnering are these:

- The payout is smaller than with direct affiliation.
- You have less control over the client's affairs.

3. Turnkey asset management program (TAMP). A TAMP is a useful model for start-up firms because TAMP provides firms with a package system for reports, compliance, training and asset managers. TAMPs will provide a firm with the research on capital markets and money managers. They also help with business development and account administration, and they have resources for portfolio design.

The TAMP will charge your client from 1% to 1 1/2%, while you charge an additional fee for your services.

The pros are these:

- TAMPs are easy to get started.
- A large selection of asset management service is available.

The cons are as follows:

- The services are higher priced.
- The payout is lower.

4. Open platform. This model allows you to choose how client money is managed. You can pick your money managers and you can also do some or all of the money management yourself. Both you and the third-party managers charge your client fees, and a custodian collects them for you.

A broker–dealer performs trades, provides custodial services, prepares statements and reports and provides client data for your analysis and compliance. With institutional brokerage services you enjoy consolidated assets and the ability to trade with several broker–dealers, have access to foreign exchange markets and a large universe of fee-based, fee-waived, and no-fee mutual funds. With an open platform, you enjoy discounts or rebates on portfolio accounting software, real-time market information, independent research and charting and equity mutual fund reports. In addition, you can, if you wish, use third–party advisers to manage your clients' accounts, as well as multiple managers of your choice, and they can all be combined on one statement. The AICPA's new Center for Investment Advisory Services (CIAS) encourages CPAs to adopt the open platform approach.

The pros of the open platform model are these:

- The firm enjoys more freedom and flexibility with clients in this approach.
- It costs less to operate.
- There are fewer people with whom to share fees.

The cons include the following:

- The CPA will lose clients if investment performance is poor.
- There is more liability exposure.

5. Independent money manager. CPA money managers manage stocks, bonds and derivatives with full discretion, and with little or no financial planning experience. The AICPA Center for Investment Advisory Services does not recommend, however, that CPAs become money managers. It is not a part-time service. CPAs can make the transition to investment adviser because they are the trusted financial adviser; however, being a money manager is a completely different thing. It's a full-time career. Money managers charge what they please, and clients pay all commissions or fees and custodial charges on top of the manager's fees.

The pros are as follows:

- The margins are higher.
- The CPA can control the relationship.

The cons are these:

- The firm must have a portfolio manager and analyst.
- You are judged on the portfolio's performance record.

Choose The Model And Get Started

As the barriers between professionals crumble, more and more investment advisers are forming alliances with CPAs, attorneys and other professionals. These advisers and their new partners need to thoroughly understand the rules governing each professional's activities, including the services the financial adviser and the other professionals will each be providing, how the alliance will be organized, the registration and solicitation requirements and special concerns regarding other professionals' activities.

The AICPA Center for Investment Advisory Services encourages CPA financial planners to focus on adopting the open platform model and keeping their clients

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focused on long-term goals.

See Glossary of Investment Advisory Terms

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