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Ready to Offer Financial Services to Your Clients?

Three critical success factors you must understand before you take that first step.

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Last month you may have read my article which introduced the pros and cons of offering financial services to your clients. At this point, I'd like to discuss the two critical factors that can mean the difference between success and failure in this endeavor. Once you understand these issues, you'll be able to make a better decision on whether or not this business is a good fit for you and your firm.

Financial Products vs. Financial Services

The first critical point to understand is that financial products are commodities — and financial services are not. Many practitioners mistakenly believe that clients buy investments like they buy groceries, so they get into the financial advisory business by obtaining a securities license, hanging a shingle and trying to sell as much "product" as possible. Well here's a news flash — mutual funds are not tomatoes! One size does not fit all. All investments are not equally attractive or appropriate for all your clients. Your clients want your expert advice — not just a convenient place to pick up a few stocks or bonds.

Think of financial products as you do tax law. Have you ever reviewed a prospective client's tax return only to realize that the previous CPA who prepared it made errors that cost this person thousands? Sure the tax law is the same, but you may apply or understand it differently and that is what makes you a professional.

When it comes to financial services, everyone has access to the same products. What differentiates financial service providers is how you use these products to solve your clients' financial problems. This issue has far-reaching ramifications if you really consider it.

First, if you understand the difference between financial products (what you sell) and financial services (what product or service you suggest, to whom and for what reason) you understand that you take on an obligation to become either an expert in this area or to align yourself with someone who is. You must understand how to use investments to benefit clients. You must understand the risks and rewards of these different investments and be willing to advise clients on what they should do rather than simply sell the investments your clients are willing to buy.

Appropriate Licenses

When you become a financial advisor, you become a financial doctor of sorts. Would you allow a surgeon without a diploma or training in the necessary expertise to operate on you?

Obtaining the appropriate license is a prerequisite to enter the financial services business, but it is far short of satisfying the competency requirement. If you decide to get into this business, remember that you have an obligation to provide expertise in this area.

Next, consider the issue of objectivity. I may not know you, but I would bet dollars to doughnuts that you place a very high value on your ability to provide objective advice to your clients. Believe it or not, how you enter into the financial service business will determine how objective your advice to clients will be. In order for you to understand this, I need to provide background.

First, please understand that there are three main avenues for you to sell financial services and investments. You can become an insurance salesperson, a broker or a Registered Investment Advisor.

Insurance

You can enter this business by obtaining an insurance license. If you go this route, you'll only be able to sell insurance products and fixed annuities to your clients. If you become an agent for one firm, you'll be even more restricted and will only be able to sell those products the company allows you to sell. I think you can already see the problem here.

Insurance may be one important financial tool for your clients, but is it the only tool they need? Obviously, the answer is no. So if you value your objectivity, going the insurance sales route is not a good choice. You will only be able to sell insurance and you will find yourself "encouraged" to sell insurance even though it isn't always in the best interests of your client.

Brokerage Firm

The next way to provide financial services is to become affiliated with a brokerage firm. Under this *modus operandi*, you can sell investments that the brokerage firm allows you to sell and nothing more. While the offering list is usually much broader than that of insurance firms, it is still limited. Also, your broker may "encourage" you to sell more of one specific product, regardless of your clients' needs.

Now, I know that you would never do anything to hurt your clients, but if you enter into this business through the insurance or brokerage route, your objectivity will be impaired — if not in fact, certainly in appearance. These models do not compensate you for providing ongoing service. You are paid to sell and you only get paid when you sell something. Usually, this is not a good fit for CPAs and it is rarely in the client's best interest to have a financial advisor working in this model.

Registered Investment Advisor

The third way to enter this business is the least used, but in my opinion, the best if you want to maintain your objectivity. This is to become a Registered Investment Advisor (RIA). This method is quite different from the insurance or brokerage models because you do not have a larger firm lording over you telling you which investments to sell. You can become a Registered Investment Advisor without affiliating with any insurance firm or broker dealer. If you go this route, your objectivity can remain intact. This model is also more closely aligned with the mentality of the CPA's and client's needs as you are compensated regularly for providing ongoing financial advice.

Final Thoughts

Mind you, this is not to say that every stockbroker and every insurance agent is a crook and that every Registered Investment Advisor is a saint. You can be ethical and professional regardless of how you enter this business. However, the last method gives you the greatest opportunity to maintain your objectivity.

Having looked at the requirements for you to obtain expertise and remain objective in your offering, we are ready to review the various models that other CPAs have used to satisfy these requirements as they enter this business. We will explore those models in an upcoming issue.

You will also find additional helpful resources provided by the AICPA's PFP/PFS Committee.

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Neal Frankle *is the author of* Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity. *He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, do the same for their clients You may obtain a free white paper — Should I Offer Financial Services To My Clients? — by e-mailing your request to him.*

Frankle is a contributing writer of AICPA Wealth Management Insider. *His views as expressed in this article do not necessarily reflect the views of the AICPA or the* AICPA Wealth Management Insider.

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