

# Sometimes coaching means coaxing clients



## WEALTH MANAGEMENT

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In my last column, I referred to a conference that I attended in the Chicago area which focused on CPA firms that provide integrated wealth management services in addition to their traditional ones. One of the lead-off speakers provided a macro rationale for the lost decade of investing from 2000 to 2009, along with various possible economic scenarios going forward, and the implications for the financial markets.

The scenarios ranged from a double-dip worldwide recession to a sharp rebound in economic activity. Naturally, each scenario was coupled with a range of probabilities and financial market responses.

Clearly, the economist was doing his job in terms of communicating his views of the future. However, most affluent investors would have been at a loss about how to implement a game plan based on this information.

This served as a telling reminder of the challenges faced by accountants' clients in formulating sound investment strate-

gies in the face of an uncertain future.

Thankfully, the main message of the conference was on how to meet the unique needs of the CPA's clients, regardless what economic scenario unfolds. This is the broad goal of any integrated wealth management service as no two clients are identical in their personal situations or their goals. Accountants' trusted advisor status with their best clients places them in a vital role in an integrated wealth management team to help clients achieve their goals. However, some key ideas have to be kept in mind.

### Clients' interest comes first

One only has to read Michael Lewis' recent book *The Big Short* to understand the difficulty most of your clients have in preserving their wealth, much less growing it to meet retirement and other goals. Simply put, the deck often appears stacked in favour of the house (the financial services companies) with the interests of the clients taking second place. Is this a U.S. phenomenon only? Not really.

Ever since my first audit role in public accounting, I've observed the sales and trading culture of the brokerage community. Not that the culture is anti-client, but it often seems to place the firm and their employees first and the customer second. At the root of this bias is the remuneration system focused on commissions. But, you may ask, isn't the world of commission compensation disappearing?

According to a 2010 special report by consulting firm Investor Economics, the first managed (or

fee-based) accounts were introduced in the U.S. by E.F. Hutton in 1974. Yet, it took until almost 2000 for fee-based accounts to appear on the Canadian brokerage scene. By the end of 2009, fee-based assets accounted for a rather modest 25.1 percent of the total client assets on the books of these firms. So commissions remain a critical form of financial advisor remuneration and unfortunately, this can create an incentive for excessive trading and turnover — the antithesis of a sound approach to long-term investing.

### Fiduciary investment advice

While accountants are typically their clients' most trusted financial advisor, they usually don't have the hands-on experience and the necessary securities licensing to provide investment advice. So what investment advisors will place their clients' interests at the forefront? Accountants should seek out investment specialists who have a fiduciary responsibility to put clients' interests first. In Canada, discretionary portfolio managers — who are typically remunerated by a fee as a percentage of assets being managed and not commissions — fit this requirement. (In the interest of full disclosure, my firm is in this category).

### Restrictions?

As mentioned earlier, no two clients' financial circumstances are identical, but in most cases your best clients will have their wealth dispersed across more areas of their balance sheet than simply their portfolios. Furthermore, as

your clients move through life the makeup of their wealth will change — with the need for more liquidity and diversification as they approach retirement. True wealth management needs to take a broader view than simply your client's portfolio investments.

Most of us remember the old saying "a dollar saved is a dollar earned." This saying ties directly into one of the key roles that accountants can actively provide in their clients' wealth management — saving taxes — often a client's major personal expense.

### Information sharing

An integrated wealth management model is grounded on client information being shared with key professionals on the wealth management team. For example, when the estate goals of clients are understood by all team members, strategies can often be employed to reduce a client's ultimate tax bill through an estate freeze, gifting strategies or other mechanisms.

### Clients4Life

Some of you may have read the book by this title, published in 2008 by two accountants. If not, it's a worthwhile read. One of the key principles outlined is to differentiate between being an expert and being an adviser. Accountants are considered 'expert' in their mandatory or compliance services, but that shouldn't preclude them from being advisers in related areas such as wealth management. If you want to provide the greatest value for your clients, accountants need to see themselves as counselors as well as experts.

### Coaching your clients

Having a plan doesn't necessarily mean it will be implemented in the desired time frame or as envisioned. Wealth management coaching, or even 'coaxing' is often needed to get clients to do what they is needed to achieve their goals as procrastination is a problem for all of us. Coaching isn't new to most accountants; you've likely done that with your clients for years but expanding the breadth of your coaching can be source of value to you and your clients.

### Toronto conference

I was so impressed with the quality of the Chicago conference that a Canadian version has been arranged for September 7 at the Toronto Board of Trade. This Toronto event, co-sponsored by The Bottom Line, CCH Canadian Limited and Tacita Capital, will feature several experts in the niche of integrated wealth management including Jim Herrig of Honkamp Krueger Financial Services, a leader in this area in the U.S., as its keynote speaker.

If you are intrigued by the wealth management field and how you can help your clients and your firm, consider joining us.

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