

Tax Alpha: What a Successful Wealth Management Practice Looks Like

By Chad Smith

This column is built on the premise that accountants and tax professionals bring a natural edge -- their tax expertise -- to the provision of financial planning and wealth management services, and we've spent many of the previous installments focusing on tax strategies that can help you sharpen that edge.

This time around we want to examine how well-suited wealth management is to CPAs and tax experts. To that end, Accounting Today and HD Vest undertook a research program to look at the characteristics of accounting firms with well-established financial planning/wealth management practices to see how those offerings fit in.

To start, we looked at a survey group that was a representative of the accounting profession as a whole, and found that approximately a third of them are currently offering wealth management services, which means that, while there are still plenty of firms that can jump into this area, it's hardly unusual for accountants and tax pros. In fact, of the 100 firms in the survey pool that have practices in this area, almost two thirds have been at it for more than six years, and 9 percent have been involved for over 20 years.

They've built these practices off a relatively small portion of their client base -- 59 respondents reported that less than 20 percent of their firm's individual clients are also wealth management clients. This means they have ample scope for

growing their practices among a set of prospects who already know and trust them. That may explain why cross-selling is one of the main sources of new FP/WM clients, with 49 percent of respondents citing it. (Referrals from current clients, at 85 percent, and referrals from other professionals, at 51 percent, were the only other major sources.)

What's more, it doesn't require searching out a host of high-net-worth individuals: On average, 45 percent of their clients have less than \$500,000 in investable assets, and only 10 percent have more than \$10 million.

And they're growing: 56 percent of respondents reported increasing their FP/WM revenues last year, while 43 percent remained the same. Of those whose revenues grew, the vast majority (81 percent) reported an increase of 6 percent or more, with a full third seeing a jump greater than 11 percent.

Finally, the profits are there: Among all the firms, 21 percent saw profit margins of 50 percent or more, 27 percent had margins between 30 and 50 percent, and another 17 percent were over 20 percent.

The data strongly suggest that for accountants who have built a FP/WM practice, it has been a strong performer and become an integral -- and profitable -- part of their firms.

Next month, look for insights into tax loss harvesting. In the meantime, you can see past Tax Alpha columns and videos under the Tax Alpha tab.



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