April 2014

Financial Planning

Financial-Planning.com

From CPA to CFP/CPA

As firms battle each other to lure advisors, HD Vest focuses on a different talent pool: tax professionals who expand into financial planning.

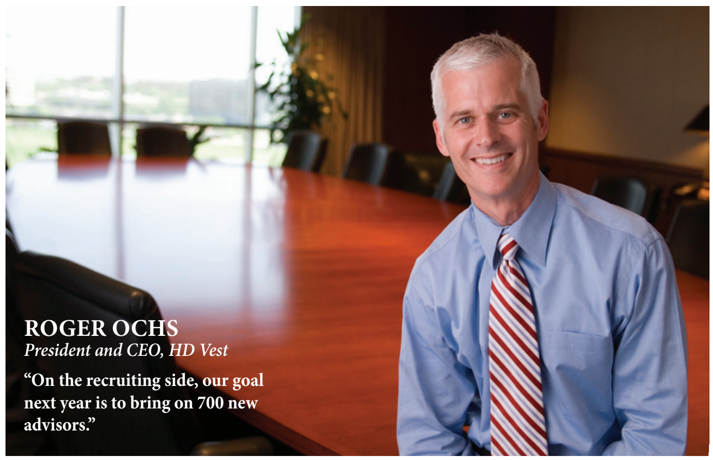
By Scott Wenger

There are tried-and-true battle plans as firms labor to recruit planners into their ranks: poach from rival firms, lure brokers away from the wirehouses, train new graduates to become CFPs, etc.

But as HD Vest President and CEO Roger Ochs sees it, the practice of essentially trading advisors with other firms is a zero-sum game. Instead, HD Vest — which believes that a tax return is a "road map" that can help a professional build a comprehensive financial plan — seeks to fulfill its growth strategy by turning CPAs into CFP/CPAs.

"Having the client's tax data and that relationship gives our advisors an unfair advantage over other advice providers out there," Ochs boasts. This helps its advisors create "tax alpha" for their clients, a feat that can be easier to achieve than investment alpha.

The Irving, Texas-based firm, which was the 21st biggest independent broker-dealer in last year's FP50 survey, expects revenue to surge 13% this year, driven by its recruitment efforts and organic growth. Such growth would be above the industry average, propelling the firm higher up the list. Ochs explained HD Vest's growth initiatives and strategy in an interview with Financial Planning. Below is an edited transcript.



ROGER OCHS
President and CEO, HD Vest
"On the recruiting side, our goal next year is to bring on 700 new advisors."

You're a company man.

Been here a long time. The company started in 1983 and I celebrated my 27th anniversary in February.

You never had the desire or opportunity to do something else?

No, I like this business. It's a great business. I've had different responsibilities over the years, so that has given me a little bit of the opportunity to look at outside opportunities, if you will. But I really like what we do. I love the advisors, I love what they're doing, I love the vision and I love our team that we put together, so it would be a hard place to leave.

If you don't understand the tax ramifications, your client's going to pay 20%, 30%, 40% more in taxes.

Tell us about your recent marketing review and how you want to position the firm for the years ahead.

From a branding perspective, we hired Ruth Papazian [from LPL Financial], and one of her first initiatives was to do a full brand review and evaluation. As we continue to move the organization forward, we have an initiative called reinventing growth, so we've made significant investments in the business, particularly around technology and practice management. The brand will support the reinvention idea, but will be rewoven into multiple concepts throughout the organization.

On the recruiting side, our goal next year is to bring on 700 new advisors. Not all of our advisors engage at the same level, so our business model is different in terms of bringing new advisors into the industry.

Unlike a lot of firms that tend to recruit experienced advisors from other firms and trade advisors, if you will, most of the advisors we bring into HD Vest are new to the financial planning industry. They're CPAs — tax professionals who have a full-time tax practice. There are 220,000 of those small business owners who have a tax business. Our focus is to help them understand how they can deliver financial advice to their past clients using the tax return as the road map to deliver that advice.

They will all be 1099s?

Right. And they bring with them an established book of relationships, not a book of business in a traditional sense, but a book of relationships where they'll have 300 to 500 client relationships typically. Now, some will come in and have 10,000 relationships, which is hard to have. We provide them with the right training and solutions for them to be able to deliver holistic financial advice to those clients.

Part of our growth is organic growth through bringing on these new advisors, and the other is around same-store sales growth. We want to help our existing advisors be able to deliver more financial advice to their existing clients and any new clients who are coming into their practice. That's part of the reinventing growth.

Our strategy as we build out our technology platform is we're building a tool called the 1040 Analyst. A tax professional who may have 300 to 500 client relationships, tax returns they prepare, will be able to download that tax data into a repository and then we will provision an algorithm where advisors can then data mine those tax returns to come up with investment solutions from the tax data itself. We will then feed that data into a program that we call *VestAdvisor Select*®, which is a fee-based money management platform that allows advisors to make changes to it. Think of it as a practice management tool for those advisors helping to manage those assets.

I think it's critical that we all reinvest in ourselves. You have to be hungry and you have to want to learn. That's got to be a commitment.

We believe that will not only help the new advisors coming in, but in particular it will help those existing advisors on same-store sales growth. I don't want to call it the holy grail, but having the client's tax data and that relationship gives our advisors an unfair advantage over other advice providers out there.

In June, FP will publish its annual ranking of IBDs. What expectations do you have for HD Vest?

In 2013, revenue was up 10%. This year we project will be 13%.

Is the tax alpha concept important as you distinguish the firm from rivals?

I totally agree with that. We try to maximize alpha. We could be wrong on the investment side, but if you don't understand the tax ramifications in making some of those decisions, then you know your client's going to pay 20%, 30%, 40% more in taxes, which is significantly going to reduce their rate of return. And the 25 or 50 basis points that get picked up in alpha in performance can give it back tenfold over or fivefold over in taxes. That just doesn't make sense. You know, it's what you keep, not necessarily what you earn. From our perspective, that's a significant point. It's the after-tax rate of return that's the most critical.

There's been a lot of attention on the RCS Capital acquisitions. Your take?

They've been busy, haven't they? I think, in general, the independent contractor advice delivery model is a good business opportunity. We're a subset of that. As I said before, we don't really play in that space where we recruit full-time ex-wirehouse brokers.

From a big-picture perspective, more and more consumers are going to need financial advisors to deliver advice, particularly as they reach retirement. The 77 million baby boomers are going to be underserved with all the wirehouses going upmarket. What that means is there are a lot of people in the middle who have a portfolio who are not going to be serviced by an advisor. And so the market that we fill are primarily those clients with investable assets anywhere from $100,000 to $1 million — a sizable nest egg, but it has to be managed very carefully in order for that client to feel comfortable that he or she can retire or stay in retirement. They don't care about alpha, they don't care about data, they care about, "Am I going to have enough money to stay in retirement or can I get to retirement?" That's a big issue that we have to deal with.

Tell us about your fee structure. How are your advisors are compensated?

At a broad base, 70% of our revenue is recurring revenue. The advisor charges the client a particular fee, that's on the fee-based side, or on the transaction, and they receive a commission. We then split that revenue with the advisor, ranging from 50% up to 90% plus, depending on the experience level and the success of the advisor. The more business they do, the higher their payout is, which is pretty common in the industry. Whether it's fee and commission or fee-only is really up to the advisor and the client. We're agnostic when it comes to that.

You mentioned training before. You've run how many marathons?

Seventeen, I guess, 18. You got me on the record here: I am not going to run another marathon. Because as soon as I go on record, then I have to do it. Although my wife continues to say, "You're going to run another one," and I say, "Well, maybe."

What other kind of training are you focusing on for 2014?

I think it's critical that we all reinvest in ourselves. You have to be astute at this business to really be successful, and that's what we teach our team members, our employees, that they have to be good students in this business. You have to be hungry and you have to want to learn. You have to be a lifelong learner. That's got to be a commitment. It starts with me and permeates through the entire organization. Whether that's encouraging our team members to get licensed, if they need to get a securities license or a CFP or their ChFC or other advanced degrees, we have a very generous program for educational reimbursement; some just need to get their college degree, which we pay for.

That's a big commitment for the organization; that's part of our training — and it's on the education side. I need to retire from running marathons. FP

Scott Wenger is editorial director of SourceMedia's Investment Advisor Group and editor-in-chief of Financial Planning. Follow him on Twitter at @ScottWengerFP.