

# HD Vest's Alpha Bet

## To build out its planning business, one firm focuses on advisor prospects with files full of tax returns

The April 1 kickoff of the second quarter means advisors who help clients set investment strategy are likely feeling stress. “Listen,” many of them no doubt have been telling clients, “2013 was a terrific year. Enjoy the gift of a 30% gain in the S&P 500. Just remember that that kind of performance won’t repeat in 2014.” Hopefully, at least a few will truly temper their expectations.

As some advisors look for strategies that can add investment alpha, many also realize they may more easily enhance portfolio performance via tax alpha. The concept is appealing to many advisors who recognize the extent of the battle that must be waged to try to outperform the markets, versus the effort to use existing laws to maximize tax-efficient investment strategies.

Tax alpha is a core part of the business model of HD Vest. The firm focuses on CPAs, who have access to an extraordinarily valuable resource — clients’ tax returns — and works to expand their roster of services to financial planning. As HD Vest sees it, that strategy gives them an edge as they look to grow the firm; CEO Roger Ochs says the company plans to add 700 new advisors this year.

“Having the client’s tax data and that relationship gives our advisors an unfair advantage over other advice providers out there,” he says. In a conversation that’s excerpted in our Interview section

this month (p. 22), Ochs says HD Vest’s growth expectations are distinct given the hiring practices of rival firms and realistic given the size of the CPA world.

“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,” Ochs says. “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.”

Part of the firm’s work to distinguish its services from rival independent broker-dealers includes building a technology platform that relies on data feeds from its advisors of aggregated client tax returns. “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,” Ochs says.

“You know, it’s what you keep, not necessarily what you earn,” he adds. “From our perspective, that’s a significant point. It’s the after-tax rate of return that’s the most critical.” That’s an argument likely to resonate with clients.

—*Scott Wenger*

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