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Ideas from leading experts in financial planning

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American Institute of Certified Public Accountants

WHAT'S INSIDE

The 2001 AICPA National Investment Planning Conference: Some Lessons Learned

In partnership with the Illinois CPA Society, the AICPA held its 2001 National Investment Planning Conference on June 25 and 26 at the Palmer House Hilton, Chicago, Illinois. Presenters at the conference offered various lessons to participants—and to all providers of investment planning services: The speakers at this conference envisioned an always dynamic personal financial planning and investment-planning environment. This environment requires planners to keep up with technical knowledge, know which management techniques and business models work best for their practices, and keep abreast of regulatory changes, while maintaining relationships that not only help clients meet their financial and life goals, but also ensure their expectations are realistic. The range of session choices provided participants with the guidance to meet these needs.

Unusually, the conference's keynote speaker did not speak until the second morning. As is traditional, however, the keynote speaker was well known in the financial services industry, this year C. Bruce Johnstone, a managing director and senior marketing investment strategist for Fidelity Investments. In his speech "How to Make a Volatile Market Work for You and Your Clients," Johnstone predicted continued volatility in a market based on three pillars: rising corporate earnings, although weak now; benign inflation and interest rates, along with ample liquidity; and reasonable valuations.

What to do in this climate? Johnstone offered these suggestions:

1. Lower expectations.
2. Return to long-term horizons.
3. Be prepared for volatility.
4. Avoid concentration in yesterday's favorites.
5. Raise your fixed income exposure.
6. Be a diversified stock picker.

Adviser Issues

Whether the market is volatile or "irrationally exuberant," financial planners and investment advisers need to meet client expectations if they are to prosper along with their clients. Many conference speakers emphasized the importance of understanding these expectations to maintain client relationships. Some also believe that client expectations are shaping the finanicial

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TRENDWATCH

To avoid the cash drain of severance for employees departing because of downsizing, some companies are increasing pensions by the amount of the severance package. Under qualified severance arrangements, the companies are allocating some assets of overfunded pension plans to the accrued benefits of pension plan participants. The companies cannot "raid" a pension surplus to make this arrangement. The IRS allows pension trust funds to be used only to finance pension-related activities. And, although the companies may save cash, they reduce the surplus of the pension fund. Such arrangements can only be used for particular events, such as a plant closing or layoffs, and are still subject to limitations,

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TRENDWATCH
(continued from page 1)

such as salary ceilings, nondiscrimination requirements, and other qualified plan distribution rules.

Lisa Yoon, *CFO.com*, July 30, 2001, www.cfo.com.

The speed, number, and size of large-company bankruptcy filings has increased dramatically in the last five years. This is the finding of AccountingMalpractice.com in a study of 282 publicly traded companies that filed for bankruptcy over the past five years. The study covered only companies with $50 million in assets or $100 million in sales or both. Despite expectations otherwise because of the strong economy during this period, the number of bankruptcies tripled, from 30 to 95 and the average asset size almost tripled. Furthermore, the speed of failure increased as the interval between the last reported positive earnings and the bankruptcy filing shrunk from 30 months in 1996 and 1997 to 26 months in 1999 and 2000. The study is available at http://accounting-malpractice.com.

"Bankruptcies Speeding Up," *Practical Accountant,* June 2001, page 10.

Analysts "buy" and "sell" recommendations lack objectivity. An SEC study says that many equity analysts own the stocks they follow, and many bought pre-IPO shares before putting out glowing "buy" recommendations on the stocks. Some analysts made millions selling shares they were telling investors to buy. In an address to the House Financial Services subcommittee, SEC acting chair Laura Unger said, "It has become clear that research analysts are subject to several influences that may affect the integrity and quality of their analysis and recommendations," The SEC study uncovered potential conflicts of interest at nine brokerages and found that more than a quarter of analysts reviewed bought pre-IPO shares of companies they follow.

Joseph McCafferty "Are Analysts Pumping and Dumping? The SEC Thinks So," *CFO.com* ◆

The 2001 AICPA National Investment Planning Conference: Some Lessons Learned

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planning industry of the future, so planners need to understand them to respond effectively to industry changes.

The conference started off with speaker and author Nick Murray advising planners that investment advising and personal financial planning are not just selections on a long menu of services. Murray drew an analogy between his uncle's comment about the U.S. role in the Vietnam War and his own opinion about planners offering these services. In response to Murray's question about whether the U.S. should be in the war, his uncle said only, "All the way in or all the way out." Murray's point was that investment and financial planning services are part of "a different world than the one you originally chose to live in." They require focus and can't be treated as a sideline to fill gaps between providing other services.

Financial and investment planning clients have three issues, Murray said, Will I have enough? Will it last? Who will inherit it? The pitfall planners sometimes encounter is they focus on their performance rather than the clients' goals. Clients' perception of the planners' performance depends on whether their goals have been achieved. To suggest the difficulty of measuring this achievement, Murray cited Albert Einstein's statement: "Not everything that can be counted counts and not everything that counts can be counted."

Many sessions addressed the elusive elements that influence the client-planner relationship. These elements play a significant role in dealing with "sudden-money clients," the subject of the general session that followed Nick Murray's. "Turn Your Client's Sudden Money Into Lasting Wealth," presented by Susan Bradley, CFP, of the Sudden Money Institute, Palm Beach Gardens, Florida, addressed the many issues faced by people who receive money in an amount significantly larger than they are used to. The money brings emotions and confusion with it, so planners need to address these factors as well as others they're traditionally used to dealing with. (Sarah Phelan, PFP Technical Manager at the Institute, summarizes Bradley's session on page 7.)

Expanding Role

The financial planner's role is expanding in response to clients' increasing dependence on their trusted advisers. Speaking in a general session, Deena Katz, CFP, described what she thought client expectations were becoming and would be in the future. Although the title of her presentation was "Best Practices," and she touched on some practical practices such as using a prospect qualification form and interviewing prospective clients, Katz focused on explaining how client expectations, as well as market forces, are causing the planner's role to expand.

Katz, president of Evensky, Brown & Katz, Fort Lauderdale, described

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three forces changing the financial services industry. This change, she said, had been going on for only a short time. The first she called "blur." "Professions," Katz said, "are coming together and overlapping in the things they do."

Consequently, competition for the adviser's services is increasing. Once a CPA could refer a client to a lawyer for advice and the client would come back after the lawyer provided the service. Now, the client may not come back because the lawyer might also provide financial planning, tax, or insurance services. "Everybody is out there in the financial advisory business," Katz said.

A second force is commoditization. In the past, clients needed their financial advisers for access to information and products. Today, they access anything they want through the Internet. "They do need us for some very important things," Katz said, "but not what we were used to conventionally as financial planners."

The third force is "deep-pockets competition." "The Merrill Lynches of the world have seen the light" about financial planning, Katz said. "Fortunately, for all of us, they don't get it yet. And we have some time to decide what we're going to do. The advice is paramount. The most important value we have for clients today is our advice."

Consumer attitudes are also different. Today attention, not information, is scarce. Clients are less able to manage and put their minds to all of the things that they need to do.

Life Services Providers

Planners, Katz said, have the most natural positioning. They know everything about their clients. "You need to move into what I call being a 'life service provider,'" Katz said, that is, "providing support and services to our clients on a holistic basis."

Planners will be doing such things as bill paying, mortgage restructuring, auto leasing and purchasing, and consolidating savings. They will be providing a paperless way for clients to see their own information, for example, scanning in their estate planning documents, or perhaps their last tax return.

"Your clients are outsourcing their lives to you," Katz said. "And in that way you can support them in so many aspects of their lives." Katz cited as examples, college funding, which now becomes one-stop higher education preparation, and retirement planning, which becomes one-stop relocation assistance, rather than just capital needs assessments.

Clients are getting used to customization and they also want anticipation of their needs.

Clients are getting used to customization and they also want anticipation of their needs. "Our new adviser role," Katz said, "is information synthesis, hassle-solving, decision validation, whole person and family support. They want a trusted person who can help them through the maze of problems they have." Some firms have an inhouse psychologist or family social worker, people who can help others through very difficult times.

Coopetition

Katz advised participants to make sure that they're making the best of their relationships with the people they're associated with in various capacities—"complementers," she called them. They include suppliers, clients, and competitors. Complementers might be psychologists, conflict resolution specialists, divorce planners, real estate agents, travel agents, geriatric care managers and other health care professionals.

She also advised having this spirit of "coopetition" with suppliers, such as the many exhibitors at the conference. Advisers could make suggestions about products if they don't have what they need, and offer them support, for example, by being a beta tester.

She also suggested coopetition with such competitors as banks, trust companies, insurance agents, brokers and other professionals involved in providing services to clients. "This," Katz said," is all part of being that life-service professional that I think we're all going to become—where your client is looking to you for one plan from one adviser."

Behavioral Finance

At one point in her session, Deena Katz said "I think one of the most important things I learned was about behavioral finance—that clients are not rational, but they are predictable." Behavioral finance was the subject of her partner Howard Evensky's session "Behavioral Theory—Understanding Your Clients." Evensky offered that "In classical finance, people are rational. In behavioral finance, people are normal." He discussed the "normal" overconfidence people have, for example, in their ability to time the market or to pick managers, and offered ways to understand what influences clients to make the investment decisions they make and to coach them to deal with the risks of investing.

Coaching

Mark Matson covered somewhat similar ground but with different emphasis in his session, "How to Manage Investors' Expectations." Matson is president and CEO of Matrix Asset Allocation, Cincinnatti. He told his audience that most investors have "unreasonable, unreachable expectations." Nevertheless, managing their expectations is "crucial" to the success of advisers. To do this effectively, advisers need to shift their role.

Matson pointed out the several "investor perception errors (IPEs)" clients are likely to have:

- *Hindsight bias*, or tending to believe they knew all the time what would happen.
- *False patterning*, or identifying patterns when none exist.
- *Emotion-based decisions,* or

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basing important decisions upon gut feelings.

- *Media hype*, or accepting uncritically the predictions, forecasts and explanations provided by the media.
- *Overconfidence*, which is an undeserved sense of certainty, ability or skill.
- *"The necessary lie syndrome,"* or justifying imprudent behavior.

Investors with realistic expectations will admit that they're emotionally incapable of managing their own money. To manage clients' expectations so that they will identify this reality for themselves, Matson believes advisers need to change their role to that of coach, "a person who instructs, trains and expands others." Advisers have a planning based focus, while coaches focus on the client relationship.

What the coach can accomplish includes helping clients to overcome their IPEs, eliminate speculation, diversify portfolios, and achieve market returns. The coach can provide education, help simplify the investment process and instill discipline. The coach will not encourage unrealistic expectations by predicting the future, picking stocks, or suggesting that clients can beat the market.

Predicting the Future

Predicting the future of financial markets may may not be appropriate for advisers, but considering the predictions of others about the future of the financial services industry may well be appropriate. The old saw "forwarned is forearmed" fits here because, although competition is increasing, many, like Deena Katz, believe that the CPA adviser sits in a strong position as the industry evolves. One who also believes the future can be good for CPA advisers is Mark Hurley, president and CEO of Undiscovered Managers, LLC, Dallas whose presentation "The Future of the Financial Advisory Business: Part II, Strategies for Small Businesses" followed up on his presentation at last year's Investment Planning Conference in Philadelphia. (See "The Future of the Investment Advisory Business" by Phyllis Bernstein, CPA/PFS in *Planner*, January/April 2000), in which he discussed the findings from research about the financial services industry. Having "looked at the macro issue," as Hurley said, he then looked at some of the same issues from the perspective of an owner of a smaller business. (All of Hurley's research is available at no cost at www.undiscoveredmanagers.com.)

The objective of the follow-up paper was to help the smaller advisory business decide, given what is coming in the industry, what it should be thinking about and how to reposition the business?

Scale or Specialization

Hurley predicted that within five to seven years, financial planning and investment advising firms will be forced either to expand in order to gain scale and become a dominant competitor or become specialists. Hurley believes that many, many small firms will continue, but "a small firm that's not a specialist won't make any money." (For more on the specialization strategy for small firms, see "Meeting the Future of the Financial Advisory Business: Scale or Specialization?" on page 5.)

Whatever the future of the industry and however advisers decide to address the future, they still need to deal with day-to-day operations. Not only will important changes be industrywide, resulting from outside market forces, but also technical advances will bring new ways to manage operations as well as new products to meet clients' needs.

In recognition of these changes, the greater portion of the conference was dedicated to sessions that addressed these issues. Operations were covered in sessions on different methods for managing your back office. Regulatory compliance changes were covered in a session on the issues and trends in investment adviser compliance. Other technical sesssions included sessions on asset allocation; bonds; exchange-traded funds; mutual funds, managed accounts and securities; along with sessions on investment style; aggregators and portals; individual stock analysis; and advanced manager search.

Most of the sessions are available on tape. See "Investment Planning Resources" on page 6 for information. ◆

PFS Well Represented Among Worth's Top Two-Fifty

Each year, *Worth* magazine publishes a list of the best 250 financial advisers in the U.S. CPAs with the personal financial specialist (PFS) designation always account for a significant portion of the list. This year 46 PFS holders are among the elite group (another 26 CPAs are on the list).

Worth develops the list by culling past lists and considering recommendations. Candidates complete an extensive questionnaire dealing with their credentials, professional distinctions, and compensation structures. They also submit a financial plan and a letter of recommendation from a client or professional peer outside their firm. The list of planners is published in the September 2001 issue of *Worth.* ◆

Meeting the Future of the Financial Advisory Business: Scale or Specialization?

At the AICPA 2001 National Investment Planning Conference, Mark Hurley, president and CEO of Undiscovered Managers, a family of mutual funds, presented a session on "The Future of the Financial Advisory Business: Part II, Strategies for Small Businesses." Hurley predicted that within five to seven years, financial planning and investment advising firms will be forced to become either dominant competitors, using scale to gain a competitive advantage, or specialists. Despite the need to gain scale to compete, Hurley believes that there will continue to be many, many small firms. However, he said, "a small firm that's not a specialist won't make any money."

Future niche advisory businesses will be very good at solving very complex problems for people. Hurley postulated "that nobody goes to a financial adviser to get financial advice." Instead, they go to get their problems solved. Most of the value added by the financial adviser is the ability to diagnose the client's problems. Hurley believes that financial planning and investment planning are already commodities and will be even further so in the future. The real value-added is the wisdom and judgment that the adviser has acquired over the years in developing an understanding of the client. Consequently, the best firms will be those that have a real understanding of what the clients' objectives are—in many ways better than what clients understand themselves. This understanding will, if anything, accelerate the shift toward specializing in certain types of client problems.

Target Markets

Successful niche advisory businesses will target groups with very complex problems; for example, women in transition. Typically, when advisory firms think of their target market, they say, "I target people with a million dollars of assets," or "I target people with $2 million to $5 million." These are not clearly focused targets for a specialist. A specialist targets clients on the basis of their problems, so if you were targeting women in transition, namely recent divorcees and widows, the starting point would be to look at all the women in the geographic region you want to serve. Then look at the divorcees and widows in that region and the subset, those who have adequate assets to make your service practical from both your and their perspectives.

Successful niche competitors first find a product that is essential to a small group of clients and then corner the market for it. "They are both monopolists and specialists," said Hurley, "and firms that aren't able to become both monopolists and specialists very quickly wind up having their margins obliterated." So anyone who is going to build a specialty business has got to find a very important problem to solve for some sort of subgroup of clients that is large enough to make money on but small enough to corner the demand for it.

Successful niche advisory firms will be largely design firms. Their objective will be to pick those functions that are the very, very high knowledge base functions and then subcontract out everything else that involves document preparation, tax preparation or anything like that to someone who can do a higher volume at a lower cost.

Support Issues

"From an operating standpoint," Hurley said, "the advisory business probably could be a little less efficient, but I'm not sure how." The typical advisory business has 2.5 professionals per support person. In the future, the challenge will be a shortage of qualified people, particularly support people. "If we go from an environment where there are 2.5 professionals per support person," Hurley said, "to one where suddenly there are six support people per professional, the cost of support people's going to go through the roof."

Hurley believes that the biggest risk to many firms is not losing clients, but losing the support people or being priced out of the market with them.

The businesses that succeed as small competitors—niche competitors—will be very efficient. They're going to figure out how to best leverage the principal's time and delegate other tasks to other people, using some technology to take advantage of maximum efficiency.

In addition, many firms will figure out that strategic partnerships will be key. They're very good at doing certain things while other people are good at doing other things so they will team up with them. "There's also a bit of a race to figure out who to dance with as a strategic partner," Hurley said. "We're seeing insurance agencies, accounting firms, law firms, advisory businesses all starting to team up. Smart firms are also going to recognize that this is coalition warfare. You shouldn't try to do all of this yourselves. Just figure out what role your firm should play. Clearly your vendors have got to be an integral part of your success."

"One of the great ironies of the advisory business today," Hurley said, "is that people sell immense amounts of products to advisers and add absolutely no value beyond the product." He said that "this anomaly exists only in a very inefficient unrationalized business. If you invested $10 million of client's assets into a mutual fund, you would create about $600,000 of economic value for the manager." The winners in this business, like every other business, are going to find a way to have their vendors play a key role in their success. "I'm suggesting intellectual capital, technology, and marketing assistance," said Hurley.

Expanding Wealth and Other New Services

Hurley sees niche specialties starting in two areas in addition to traditional financial advice services. Most advisers, Hurley said, are at the center of a continuum today: Someone has money; they need help investing it. Rather than simply selling them products you work out a long-term financial

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Financial Advisory Business: Scale or Specialization?

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plan that helps solve their problems and meet their financial goals. Hurley thinks that advisers, in addition to doing that, will go further out on the continuum and help clients have more money to invest in the first place.

Hurley cited adviser businesses cropping up around the country whose services include an expertise designed to help some subsegment of the community to be more efficient at making money through work. A woman in College Station, Texas, for example, works with college professors. She has an expertise in the monetization of intellectual property rights. Ordinarily, college professors' range of compensation is fairly narrow. They have tenure so they're not going to be fired, but they're capped at what they make. However, if they invent something, publish a paper or a book or get a consulting agreement with an outside company, they can make a lot of money. The problem is that most college professors don't know how to negotiate with the university much less negotiate with an outside provider.

This negotiating is part of the standard services that this woman offers college professors. Even though she's working with a group of people with relatively few investible assets, she's built a quarter billion dollar business.

Consider that, for most of your clients, particularly those with small businesses, most of their net worth is not in their investible assets, but in their business as reflected by the $5.8 trillion dollars as of a couple of years ago locked in private businesses. Hurley advises that you find what you can do to have a much greater impact on their wealth than your ability to pick a mutual fund that delivers 20 basis points more return than another one.

Personal Capital

A second area Hurley sees specialty firms getting started in is the area of personal capital. In addition to helping people plan their lives and invest their money to achieve their goals, firms are building specialties in helping people use their money more effectively, improve the quality of their lifestyles and deal with the consequences of wealth.

Firms are building specialty practices, for example, in how to give money away. More than 80% of the millionaires in the U.S. didn't exist ten years ago and the interest in giving money away as opposed to giving it to children has never been higher. Furthermore, dissatisfaction with the means for giving the money away has never been higher too. Firms are building expertise in philanthropic activities, saying to clients,"If you want to make a bigger difference with your money in addition to getting great financial planning and investment management, you should work with us."

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Dealing with the Sudden Money Syndrome

By Sarah Phelan, JD

At the AICPA 2001 Investment Planning Conference, Susan Bradley, CFP, told this anecdote about a family with sudden money:

One Saturday night, Jill, a waitress, discovers that she holds the winning ticket in a $75 million state lottery. She works days (10-hour days), and her husband Jack works nights, and the first time they cross paths is Monday morning, when Jack comes home to go to sleep.

"Pack your bags!" Jill cries. "I've won the Lottery! Pack your bags!"

"Wow, honey, that's just wonderful!" Jack says. "Do I pack for the mountains, or for the beach, or what?"

"Whatever," Jill says. "I've had it with you. Just pack your bags, and get out!"

Yes, couples with "sudden money" may deliver a suddenly changed dynamic to the adviser's doorstep. This, Ms. Bradley says, illustrates the value of the Decision-Free Zone (DFZ) that is a hallmark of the Orientation Program that she has created for her clients who have received sudden money. Ill-considered hasty divorce is one classic error that sudden money recipients fall into; the other two of the top three are the purchase of unsuitable new homes and foolish investing.

Ms. Bradley, the founder of Sudden Money Institute, Palm Beach Gardens, Florida, addressed the Investment conference on "Turn Sudden Money Into Lasting Wealth". Bradley's practice is now devoted to creating orientation programs for sudden-money recipients and their families.

She strongly recommends a *process* for individuals and families that have suddenly received any amount of money that is larger than they're used to handling. For some people, this might be $50,000; for others, it's a $10 million sports contract or $50 million in stock options.

Why is a process needed so badly? There are several reasons: Unlike the person who makes a fortune over time, the sudden-money client has no time to develop "money maturity" or good judgment about money. Some clients experience a loss of boundaries, feeling open to demands from all sides, and most clients impose a lot of pressure on themselves to make good decisions and to make them fast. They also experience a lot of pressure from family, acquaintances, and vendors. To add to that, they are commonly in the grip of major emotions—so many sudden-money events involve major life events, like death, divorce, or injury, and even the thrill of a lottery win or a career triumph can throw a client off-balance. And many are just confused.

Deciding Not to Decide

Sudden money families want to know where they are now, they want a sense of control, and they want to settle into a new routine. Ms. Bradley responds to these needs with her Orientation Program, which (1) creates a Decision-Free Zone, (2) creates a Bliss List, a list of life goals, (3) inventories assets and (4) determines the immediate tax position.

The DFZ creates needed structure and allows time to prepare to make decisions. During this time only the most essential decisions are made. Ms. Bradley recommends making an agreement to stick to the essentials.

Not the least benefit of the DFZ is that it minimizes the influence of outside advisers. So many of the people surrounding the newly moneyed are after the adviser's job. Everywhere clients go, someone is always ready with an arm around the shoulder, or a

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Resources for Advising Sudden Money Clients

In her talk, Ms. Bradley suggested these additional resources:

- *The Millionaire Next Door.* Even experienced business owners can be thrown by suddenly having cash, which is the "sudden liquidity" cousin of sudden money. "Having thirty million in your checking account is very different from having thirty million in plants and trucks and inventory," Ms. Bradley said. This is one book that offers guidance on how rich people can raise responsible kids, a common concern of the suddenly wealthy.
- *Bobos In Paradise: The New Upper Class and How They Got There.* Baby Boomers with sudden wealth (the "bohemian bourgeoisie") *are* different from their elders, particularly in how they approach philanthropy.
- *Prince Charming Isn't Coming.* This book is particularly good for distribution to women clients, Ms. Bradley said. The author, heiress to a fortune from H&R Block and long accustomed to a very comfortable life, was blindsided after her father's death by one particular burden of sudden wealth: sudden responsibility. Her book is intended to help others avoid her mistakes.
- *Sudden Money: Managing a Financial Windfall.* Ms. Bradley's own book details the disciplined process, a blend of life planning and financial planning, that she has developed specifically for the recipients of windfalls.
- *Suicide: A Study in Sociology.* This book by Emile Durkheim, often called a "Father of Sociology," is one of the first quantitative and yet, qualitative sociological studies in history. It is still used in college courses. Durkheim put a finger on "social anomie," a sense of crisis experienced when transitioning to a new social culture. An individual may, for example, have long thought that people with big money are greedy and/or spoiled. Finding that he's one of "them" now can be very unsettling.

Dealing with the Sudden Money Syndrome

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hug, and an offer to "let me have my offshore trust guy call you." If you have given your client a process, and a Decision-Free Zone, the client is armed with a response: "My adviser said we'd get to that later."

Newly moneyed people generally bring lots of suspicion to the table, and number one on their list of people to be suspicious of is the investment adviser. Ms. Bradley says that the adviser's credentials and track record, while important, are not the most important factors to these clients. Most important are how you listen to them and how you communicate. Showing them expertise is critical, but validating their feelings and expectations is equally critical.

Supporting Life Goals

Ms. Bradley recommends that advisers direct their clients to develop a Bliss List, a list of life goals. This is not about what is "possible." It's from the heart. Clients are encouraged to list items according to importance, not likelihood. Then advisers can plan to make the money support the clients' most important life goals.

After the Bliss List is created, the adviser runs a reality check, taking a look at the financial side. This analysis of present value and future values helps to set new boundaries and serves as the foundation of the investment plan. It helps to clarify choices by identifying possibilities and setting priorities. This is also the point at which tax issues are addressed.

Then the orientation process gets to the Wealth Assimilation phase. A cash flow plan is put into place, and insurance and the foundations of an investment plan are addressed.

The insurance needs of a client with sudden money have almost certainly changed. The adviser should review the client's life and health insurance coverage, and should also check on long-term care coverage, property and casualty insurance and personal liability coverage.

Implementing the Plan

The engagement then moves to the implementation phase, which includes investing, buying a new home (or homes), gifting, and spending. In some situations, "spending " includes buying a new business.

Most likely, there are significant opportunities for gift planning. From the life-planning standpoint, making gifts can be a healing process for the grieving client, and administering a philanthropic plan can be a source of self-esteem for anyone. Philanthropy can also be a bonding activity for families.

The final phase, wealth integration, is the process of owning the experience and weaving the new money into a redefined life. At this point, a monitoring process is put into place, including regular meetings with the adviser and the supporting team.

The estate planning needs of a sudden-money client are ripe for review and action at this point. Guardianship planning takes on new complexities, and if the client's new money comes from royalties or annuities, as in the case of an entertainer or a lottery winner, tax planning customized to those income streams is required.

Critical to this entire process is client education. The adviser must review the basics with the client, or teach the basics if necessary. This serves to manage client expectations, in addition to giving the client more control. Client education is an excellent agenda item for a retreat meeting, where participants' attention can be focused and topics can be re-visited as necessary.

CPAs Top the List

Surveys show that CPAs are at the top of the list when families with "sudden money" look for advice. They are looking for trust, experience and specialization, and communication, and they value a well-known name and referrals from trusted sources.

CPAs interested in serving these clients will need to build their referral networks, which may include existing clients, attorneys, other CPAs, and therapists. One big advantage of working with adviser teams is the creation of an excellent referral system. ◆

Your New Money Clients: Probably They're High Maintenance

If you're seeing this:	*You're probably dealing with:*
■ No risk tolerance ■ Preoccupation with downsides ■ No tolerance for isolation	Fear
■ Failure to pay attention ■ Numbness ■ Inability to think long-term ■ Turning affairs over to somebody else	Grief
■ Gift-giving spree ■ Spending spree	Guilt
■ Denial ■ Getting rid of money	Anger
■ Major spending spree	Celebration

The Proposed Global Business Credential: Do Financial Planners Need It?

By Phyllis J. Bernstein, CPA/PFS

The AICPA may ask members to vote on a proposed global business credential, which is part of a strategy that will affect current members, as well as future generations of our profession. As many of you know, the AICPA and a consortium of international accounting associations have been exploring the creation of a new global business credential characterized by market responsiveness, breadth of knowledge, strategic focus, and portability from one country to another.

The proposed credential is now generally known by its placeholder name *XYZ*. (Many of you have heard the earlier name, *cognitor*, which has been dropped. A new name is under study.)

I have been using the name *ABC* because the proposed credential is to be an Accreditation for Broad-based business Consultants. The new credential will be open to many different types of business professionals, nonCPAs, as well as CPAs. One estimate is that more than nine million people could qualify to earn the credential. The AICPA's conservative estimate is that more than 200,000 professionals worldwide would gain the credential by 2003 and 600,000 by 2010. By 2006, half of the credential holders would be CPAs and by 2010 about 30 percent.

Validating Interdisciplinary Competencies

The Institute states clearly that the proposed credential is not for all CPAs. Most likely to benefit from earning the designation are industry CPAs and CPA consultants in nontraditional areas. The Institute believes these members would find most immediate value in the credential as a validation of the interdisciplinary competencies they have developed. Holders of the designation would be broad-based business professionals who help people and organizations achieve their objectives through the strategic use of knowledge and knowledge management systems

The proposed credential is unlikely to affect the practices and careers of many financial planners. Our current and prospective clients know what we do. But the credential has been proposed to address long-term issues faced by the accounting profession rather than affect the way many of today's CPAs perform their daily business.

Proposal Founded on Research

The AICPA's decision to pursue the credential is based on extenisive research, which is posted at http://globalcredential.aicpa.org. (To read it, you will need at least an hour. You can also request a videotape to use at firm-wide meetings, which covers the debate surrounding the credential and can be instructive for those who want to learn. Obtain your videotape by sending an email request to http://globalcredential.aicpa.org.)

> **Prospective users would pay more for credentialed employees and practitioners**

I won't repeat all the research. Suffice it to say that both supply- and demand-side research found that now is the right the time to act. Prospective users would pay more for credentialed employees and practitioners. So for a business person the key benefit of the credential may be getting higher fees or compensation. A CPA planner, especially a CPA/PFS already qualifies for such a benefit.

The AICPA leadership is solidly behind the proposed credential, which resulted from the CPA Vision project.

The Credential's Impact on Planners

Consider the impact credentials have on clients' perception of CPAs' expertise and legitimacy beyond traditional accounting and attest functions. Most CPA financial planners have not found that earning the PFS or another financial planning designation necessarily enabled them to earn more money. Instead, the PFS designation gave many of us courage to deliver financial planning services in a way that best serves clients. Thus, the PFS was a good designation for entrants into this new service area.

In CPAs' personal financial planning environment, our prospective and current clients saw us in a historically narrow role of "accountants" who lacked the expertise to understand most financial products and offer personal financial planning services.

So successful CPA entrepreneurs earned specialized niche designations, such as the PFS (personal financial specialist), CFP (Certified Financial Planner), CFA (Chartered Financial Analyst), and other designations because the "old way" of just calling ourselves CPAs or accountants was not working. We began expanding what we were doing to meet client demands. We became more market-driven. We went from "compliance to reliance." We are not just looking into the rear-view mirror, but are looking into the future and being strategic. We are crafting plans and helping with implementation of the plans to accomplish clients' goals.

New Structures

Tomorrow's best firms will create the greatest amount of value in our global society. The best will have private client groups or multifamily offices offering cutting edge financial strategies, and using discount brokerages, insurance, mutual funds, etc. to help clients achieve their business and life goals. The basic benefit of our service will be to help clients maintain control and solve their problems. The basic structure of our firms will need to accommodate the information revolution's impact on the way we conduct

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The Proposed Global Business Credential

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our business and life. Tomorrow's firms will combine the practices of CPAs, attorneys, private bankers, investment advisers, financial planners, psychologists, and communications professionals. These firms already exist and are successful. Some were borne through strategic alliances.

The greatest value for the affluent client will be individuals who can combine creativity with strong leadership and relationship-building skills. Integrity, honesty and professionalism are a given. Intellectual honesty, full disclosure, and open communications are necessary to better serve these clients. This is the value of a wealth care professional—who will help clients in planning for wealth accumulation and preservation. Our process will need to be more efficient and client focused. Can our CPA brand stretch this far? Yes. Yes. Yes.

But back to the proposed global business credential. The question to ask is, will the skill set of credential holders dovetail with this future? The three distinct types of competence that credential holders will be required to demonstrate include:

1. *Cross-disciplinary knowledge*, which encompasses the broad and interdisciplinary portfolio of business knowledge and functional expertise that professionals are expected to understand.
2. *Professional competencies,* which include a suite of skills, capabilities and attributes that allow the credential holder to be effective and productive.
3. *Integrative competencies* that are the hallmark of the professional, representing the capacity to envision, strategize, conceptualize and innovate. This signifies the professional's ability to focus on the future and combine knowledge from many sources, often in novel ways, to create economic value.

The AICPA says that the new designation will not be a requirement for CPA financial planners, just as the PFS is not a requirement. Research shows that many CPAs would use the proposed credential to create value for their clients, employers and own careers. The AICPA says that acquiring the proposed credential will enable CPAs to uniquely combine a depth of business understanding and financial acumen with expertise in strategic integration of knowledge.

It is anticipated that clients will be able to expect:

- Integrative thinking and problem solving.
- Solutions that incorporate a wide range of relevant knowledge.
- Unprecedented ability to access, create and apply knowledge systematically.
- Consistent competencies and quality levels across business disciplines and geographic boundaries.
- Adherence to a strict code of ethics and professional standards.
- Up-to-the-minute knowledge and continuing development of new skills.
- Groundbreaking thinking that produces value-added results.

Who Needs the Global Business Credential?

Right now, accountants are extremely well positioned to provide financial advice to their clients and prospects. The only obstacle to success is us. Credentials give us courage and help us when we start our careers or venture into new waters.

Now think about the future. Consider supporting the credential if you can integrate the new skill sets into your firm. You have the expertise to provide the services demanded by clients. Consider supporting the credential because it opens your firm to new team members who will enable you to become more profitable and better trained to provide highly coordinated services to affluent clients. Consider supporting the credential if you want our profession's future to be attached to the success of another multidisciplinary credential. Consider supporting the credential if you think you'd benefit from access to a knowledge resource that puts answers to a wide variety of professional questions at your fingertips and gives you access to worldwide network of elite professionals.

You qualify for the credential because you already are a broad-based strategy thinker. If the credential fits with your view of the future, then you need to find out more about this designation and vote for this initiative. If this credential is not a part of your vision for the future, then consider the impact it can have on addressing a problem we all face. The appeal of the accounting profession to students has diminished. In 2000, only 2% of college students majored in accounting, down from 4% in 1990. Obviously, students are being attracted to other majors. Consequently, fewer graduates are moving into staff positions in firms. The pipeline will have a void of younger staff who would have moved up into senior positions.

The proposed global business credential may well help to attract more and even better students to accounting. The combination of CPA and XYZ is likely to attract new CPA candidates from more diverse backgrounds, according to research conducted by the Interpublic Group of Companies, Inc., a leading international firm in new product and service research.

As for me I am charting a course through a perilous future and I am happy to go there as a CPA/PFS. I will continue to pay AICPA dues and PFS accreditation fees. The Institute recognizes that many CPAs will continue to succeed without adding the proposed credential and therefore will continue to support those members with its programs. Its goal remains serving as the primary advocate for the CPA profession. The credential will not add any additional standards or regulations for CPAs.

I have talked with CPAs who support the proposed credential and others who oppose it. You can see discussions of other CPAs' views at **xyztalk@yahoogroups.com.** My decision about getting the global designation is still in flux. ◆

Farewell to Phyllis Bernstein

Phyllis Bernstein, who for 10 years served as Director–Personal Financial Planning for the AICPA, has decided to leave the Institute to create her own consulting practice.

Bernstein will serve as a consultant to CPA firms to help them integrate financial planning and investment advisory services into their practices. She will also assist financial services firms in structuring alliances with CPAs.

"The AICPA is a grand organization with a great vision," Bernstein said. "The strength of the AICPA lies in the passion, dedication and integrity of the remarkable group of professionals and volunteers. During my 16 years of service, I have developed many meaningful relationships."

Anthony Pugliese, AICPA Vice President–Member Innovation, said, "Every CPA in financial planning has benefited in some way from Phyllis. She has long been a tireless advocate of CPAs as personal financial planners and developed many programs that have contributed to their success. She's a genuine asset, and we look forward to working with her in the future."

"We can't overestimate Phyllis' contributions to personal financial planning as it's practiced by CPAs," said Jim Mitchell, Chair of the AICPA Personal Financial Planning Executive Committee. "It's largely through her efforts that CPAs saw the value of financial planning as an area of diversification. While we'll miss her immensely, I'm delighted that we'll still have the opportunity to work with her."

Bernstein founded the Institute's Personal Financial Planning membership section upon joining the organization in 1985 and, two years later, helped create the CPA/Personal Financial Specialist credential. In 1997, she received the AICPA PFP Distinguished Service Award, the first time a staff member received this recognition.

Bernstein is co-author of *Financial Planning for CPAs*, published last year by John Wiley & Sons, Inc. In addition, *Accounting Today* has consistently named her to its annual lists of the 100 most influential people in accounting and the top 10 people in financial planning.

Bernstein can be reached via e-mail at phyllis@pbconsults.com or phone at 212-330-6075. Her website is www.pbconsults.com. ◆

Assess Your PFS Eligibility

In January 2000, new guidelines for earning the AICPA's Personal Financial Specialist designation took effect. The centerpiece of the guidelines is a point system that encompasses a broad definition of business experience, which includes teaching, provides for a lifelong learning component and recognizes examinations related to PFP.

Each of the three areas—business experience, lifelong learning and examination—requires a minimum number of points to be earned. To attain the PFS credential, candidates must demonstrate evidence of earning 100 points across the three areas.

Access the Assessment Tool

An assessment tool is accessible online to help candidates determine their qualifications for the PFS. Go to cpapfs.aicpa.org, which takes you to the Center for Personal Financial Planning Professionals. Click on "PFS Application/Assessment Tool" after the two introductory paragraphs.

If you download and submit the application, you'll get a fairly quick response telling you whether or not you're in the ballpark for eligibility. If you are in the ballpark, you'll be asked to submit an application fee so that a thorough evaluation can be pursued. If you're not, you'll be apprised of the areas you need to strengthen. So you have nothing to lose by submitting the assessment tool.

Examination

The next PFS examination is scheduled for November 2, 2001. The registration period begins September 17 and ends October 19.

Although all PFS candidates still are required to pass an examination, the AICPA will recognize examinations other than the Institute's PFS exam. The others include the examinations for Certified Financial Planner, Chartered Financial Consultant, Chartered Financial Analyst and the NASD Series 65, Series 66 and Series 7 exams.

All other application criteria apply. These are AICPA membership in good standing and an unrevoked CPA certificate. Inquiries can be directed to cpapfs@aicpa.org. ◆

Negotiating the Road to Becoming an RIA

CPAs encounter varied experiences including some pitfalls as they start up or expand investment advisory services. One story about these experiences is that of Ken Dodson, CPA/PFS of Hamilton Capital Management, Inc., Columbus, Ohio. Dodson's story is told at the AICPA Center for Advisory Services (CIAS).

The investment advising environment is different now, according to Dodson, because CPAs have more choices. "Options—and resources like the CIAS—were just not around back then," Dodson says. "It's a lot easier for a CPA to get to the RIA end goal today and to do it a lot quicker than I did."

If you're thinking about providing investment advisory services, or are already doing so, get the benefit of Dodson's experience, as well as his advice and caveats. Access www.CPA2Biz.com: scroll down the home page until you see "Investment Advisory Services" under which will be the title of Dodson's story, "One CPA's Story in Becoming a Registered Investment Advisor." Click on "full story."

While you're at the CIAS, look around for other resources useful for starting and building investment advisory services. You'll find information about business model selection; licensing, registration and regulation; portfolio management and reporting; ethics and insurance; clearing and custody services; and other areas important to investment advisers. ◆

Financial Advisory Business: Scale or Specialization?

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Good News or Bad News?

"Some people think what we're talking about is bad news," Hurley said. "I would argue that it's incredibly good news. The demand for advice has already gone through the roof and we've not gotten to the question of price elasticity. The price of advice is going to go down; the breadth and quality is going to go up. Demand is going to go further through the roof." However, "The key question is," Hurley continued, "where do you sit in this circle? You're either going to be the adviser or you're going to be in really bad shape." Hurley believes that whoever controls the client controls pricing.

CPAs have a head start at gaining the central position because they control the documents generally and can anticipate liquidity events ahead of other people. "Many of the better accounting firms already have practices that help their clients with their human capital as part of their businesses," Hurley said.

The challenge to CPA firms, Hurley said, is "the accounting profession is designed to figure out whether people have been following certain rules. The advisory business is really more of an 'out of the box' type of business."

Technology's Impact

As for the impact of technology, Hurley's view is that "it's going to accelerate a natural shift that's occurring in the business, that the real value added by advisers is their diagnostic ability." Technology, however, will also accelerate the need for efficiency, and the key to that will be finding qualified support people.

From a long-term perspective, technology will provide no sustainable advantage. Hurley recalled a comment concerning technology by the head of Fidelity's technology group that works with advisory firms: "It's like an arms race. You have to have the weapons, but they're ubiquitous and you can get them for free. Everybody's going to have them." "If you're smart," Hurley said, "you'll get the technology from your vendors for nothing."

Danger or Opportunity?

Hurley concluded by saying that there are two ways of looking at the pending rationalization: as either a danger or an opportunity. The rationalization will start once client supply and demand meet, and, when it happens, it's not going to be marginal change. If you hope to be in the personal financial planning or the investment advisory business, be prepared because, Hurley said, "the decisions you make today are really going to decide what happens. When the change hits, it will be so sudden and so dramatic it will be very difficult to respond." ◆