

INVESTOR'S BUSINESS DAILY®

Advisors Raise The Red Flag To Enhance Clients' Team Of Experts

MOREY STETTNER

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Seasoned financial advisors don't just rely on their own expertise to serve clients. They also assemble a group of specialists to round out their team.

From accountants to attorneys to insurance agents, advisors often involve outside experts to address client needs. Big brokerage firms may hire these specialists in-house, but advisors at boutique outfits tend to identify people they trust and enlist their help as needed.

In many cases, however, clients already have good relationships with CPAs, lawyers and other professionals. They may tell their advisor that they want to stick with their preferred person.

In these scenarios, advisors serve as the quarterback who consults with other members of the client's financial team and coordinates an overall action plan. That's a straightforward process if everyone produces quality work.

“When we bring in a new client, we will ask probing questions such as, ‘Who’s your CPA?’ ‘How did you start working with them?’ and ‘How long have you been working with them?’ ” said Ian Weinberg, a certified financial planner in Woodbury, N.Y. “We want to make sure other professionals are at a gold-standard level, and if they aren’t, we want to be deliberate and not step on anybody’s toes.” A client’s allegiance to a certain expert can pose problems if the advisor concludes that the outsider isn’t up to snuff. It’s not easy to tell a client, “The person you’re so fond of isn’t doing the job.”

Financial advisors sometimes find that clients choose outsiders, such as accountants or attorneys, not on merit but due to friendships or family connections. Over time, they stay loyal to these individuals even if they produce shoddy work.

“It’s a sticky situation because they like the person and don’t want to switch,” said Allan Katz, a certified financial planner in Staten Island, N.Y.

Tact And Diplomacy

Like many advisors, Katz opts for diplomacy. Rather than rail about the incompetence of a client’s longtime CPA, for instance, Katz will mention a few areas of concern.

“I may offer to have the client’s tax information looked at by an accountant whom I trust,” he said. “Then I’ll report back” and highlight important issues. Clients can then conclude for themselves that their accountant dropped the ball.

Katz cites a case in which a client's tax returns included credits for higher education expenses. Yet the client's two children were in high school. He wound up walking the client through the IRS audit procedure and its consequences — without directly criticizing the client's accountant.

“Eighty to 90% of the time, the client will make the right decision and fix it when I bring it to their attention,” Katz said. “I've been in this business for 25 years, and I've assembled a great team if the client wants me to refer them to someone who will take extra care to make sure there are no mistakes.”

Advisors may find that clients initially enlist capable professional-service providers. But as clients accumulate assets, their lives get more complicated and their needs evolve.

“A lot of wealthy people start to outgrow their accountant, attorney and insurance people,” Weinberg said. “Red flags come up all the time. When that happens, we try to show our clients where the value lies with another professional's expertise.”

A Or B Player?

There's a big difference between blatant incompetence and malfeasance — and well-intentioned outsiders who simply lack what Weinberg calls “gold standard” ability. He has experienced both types.

He recalls a client who used a childhood friend as his insurance agent. The agent convinced the client to purchase unnecessary and costly coverages, which concerned Weinberg as soon as he found out.

“We're unwinding it now,” he said.

Another client chose an estate attorney whom Weinberg deems “a B player, not an A player.” In Weinberg's view, the attorney didn't deliver superior expertise to his client.

“This attorney is competent so it's a fine line,” Weinberg said. “And the client is comfortable with his relationship with this attorney. So I gave the client my candid assessment of the attorney's limitations and said I have an A player whom I recommend going forward.”

Occasionally, a client will remain wedded to an accountant or attorney who tells them what they want to hear. If a client likes to cut corners on his taxes, for instance, he may favor a CPA who takes advantage of every questionable loophole.

When advisors discover such shenanigans, they come to a crossroads: They can fire a client who refuses to play by the rules or hold their nose and accept that the client insists on keeping dubious “experts” on the team.

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