The Valuable Role of an Accountant in Wealth Management Services

Your financial well-being can be impacted by the relationships you hold with a number of professionals. Accountants, financial planners, portfolio managers, bankers and lawyers all play a role in ensuring your specific financial objectives and needs are met. The optimal solution is to have all of these professionals working together as a team, as what may be a good idea in one part of your plan may have a negative impact in other areas. Communication between the individuals working on your behalf is a key element for success. However, this component is often lacking, as many fail to see the added value of a team-based approach.

Wealth management is an area where open and continuous dialogue between the client's accountant, financial planner and portfolio manager can be of tremendous value. In structuring a portfolio, the first step is to establish an appropriate asset allocation. The primary task of a portfolio manager is to invest in a mix of short-term instruments, bonds and other income producing assets, with domestic and foreign equities, in relative proportions appropriate for each client. In order to carry out this process the client's risk profile must be established. Determining the amount of risk an individual can tolerate merely on the basis of age or some other mathematical formula ignores other issues that are unique to the client's particular circumstance. Valuable input from the accountant regarding the client's family dynamics in their business, financial needs and future plans helps shape a more comprehensive and complete picture.

Once the client's risk profile has been established with an appropriate asset allocation, the accountant can assist in modeling cash flow in and out of the portfolio. This involves an analysis of assets and income outside of the portfolio, marginal tax rates, and the impact portfolio income may have on the client's overall tax position, such as the clawback of Old Age Security benefits.

Another extremely valuable role the accountant plays in the wealth management process is in managing capital gains tax. The portfolio manager typically generates gains and losses throughout the year as the portfolio is rebalanced to align with target asset allocations. An annual review of those gains and losses prior to the end of the tax year, in conjunction with any other gains or losses that may have been generated outside of the portfolio, may lead to the strategic sale of assets within the portfolio to minimize the client's total taxable capital gain. For example, suppose an investor had sold a cottage two years ago and paid a substantial tax bill on the capital gain realized. Working with the portfolio manager, the accountant can convey this information so strategic tax selling can be implemented. The portfolio manager can identify any assets with imbedded losses, sell those assets to realize the loss and purchase similar securities, commonly referred to as proxies, to keep the portfolio fully invested. The accountant can carry back those losses for a period of up to three years to recover some or all of the tax paid on the sale of the cottage.

Finally, the appropriate asset allocation for an individual client will likely change over time. As people age and accumulate wealth, their need for growth may diminish, replaced by a need for tax efficient income. The accountant is usually closest to the client and has a better understanding of changes in family dynamics and financial objectives. Again, by conveying information to the portfolio manager, the client's risk tolerance can be reassessed and adjustments can be made to a more appropriate target asset allocation.

In summary, an accountant can play a key role in providing wealth management services. The intimate knowledge of the client's unique situation held by the accountant can help shape the client's risk profile and target asset allocations. The accountant can help in the assessment of total cash flow and mitigation of taxes. Valuable input to assist with strategic tax selling to minimize capital gains can also be provided by the accountant. Finally, the accountant can convey changes in the client's personal and financial circumstances that may warrant adjustments to the client's target asset allocations.

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