ACP Approach to Technology

Prepared by the ACP Technology Committee, 2018

Employing Technology to Enhance Practice Efficiency

Establishing Your Direction

As financial planners, we all understand the importance of knowing where you're going before you set out to achieve anything. Setting up a technology system for your financial planning practice is no different. According to Michael Kitces,[1] one of the key things you need to know is what type of financial practice you're planning to support, now and in the future. If you're a solo practitioner versus a multi-planner office, it's likely your technology choices are going to be a bit different. The solo practitioner is most likely going to be focused on personal efficiency, whereas a multi-planner firm will be interested in implementing solutions that are more collaborative and expandable to accommodate organizational growth and internal communication. Knowing where you're headed along this axis will help you determine which software solutions are best suited to meet your needs. Unless you're certain you're headed for the Solo Planner model, which likely means a three-person operation at most, it's probably best to plan for expansion from the beginning.

For those in multi-person firms, perhaps equally if not more important than the technology itself is bringing others along in the visioning process and getting their buy-in before making any commitments or decisions regarding your firm's software. There's nothing more expensive than buying something that either won't meet your needs or simply cannot meet your needs because those who are intended to use it and make it work aren't interested.

Don't Buy a File Cabinet

If you're planning to have a "paperless office," don't buy a file cabinet! Of course, this statement is a bit of an exaggeration. The point is, stay on track and be efficient from the start. Don't employ inefficient office tools and technology that will pin you into a corner, which you will inevitably have to fight your way out of in the pursuit of efficiency at a huge expense of time and money.

What's your unique ability? What's the best, most efficient way for you to spend your time? What's the best way for your assistant to spend their time? Is it constantly toiling with the updating and re-updating of client data that's largely available for free in digital form? Do you depend on the accuracy of this data to make client-related decisions that have financial consequences? Is it more likely that a human, rather than a machine, is going to make a mistake with this data which could lead to negative financial ramifications for you and your client? This is the exact description of the type of process that technology should be employed to manage and enhance.

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[1] *The Best Technology to Adopt First as a Solo Financial Advisor*, https://www.kitces.com/blog/best-technology-for-solo-financial-advisor-to-adopt-first-crm/

Cloud-Based vs. Network vs. Standalone Implementations

Historically, if you needed more than one personal computer to house your data and be operational simultaneously, you had to set up a network with a centralized server to hold and deliver your data to each "workstation." Nowadays, you have many more options. Data synchronization software can keep multiple workstations functioning without a central server. Similarly, cloud-based solutions can provide centralized network-like functionality without the need for any kind of networking capabilities in the office.

The ability to support your staff or even simply yourself without being anchored to a single location is a clear advantage of cloud-based software. Your needs in this space will be driven not only by how you handle data, but also the number of personnel and work locations you need to support. As such, prior to making software purchasing decisions, you should have a clear idea of what your data needs are and how you're going to support them. If you don't have the expertise to figure this out on your own, this is one area in which relying on a professional for assistance is more than worth the expense.

How you decide to manage and store your firm's data will also impact how you're able to share documents with others. When your data is already in the cloud, sharing can be easier. Common data sharing solutions come in many forms, shapes, and sizes. Most are in the form of secure online access portals where documents are stored behind a firewall and are made accessible via a secure log-in process. Another form of secure document sharing works in conjunction with your current email solution and provides enhanced document attachment and access monitoring capabilities. These solutions can be obtained from standalone providers and as components within various client relationship management, portfolio accounting system, and financial planning platforms. When selecting a solution for your firm, be certain you have a clear understanding of how its use complies with the data security, tracking, and archiving requirements dictated by all regulators pertinent to your situation (e.g., state, the SEC, and/or the IRS, etc.).

Keep It Secure

Needless to say, when handling sensitive client data, security is an absolute must. All communications and client data should be protected with encryption at *all* times. This means encrypted Wi-Fi, secure cloud connections, document sharing, email, the use of software and hardware firewalls, as well as fully encrypted hard drives, thumb drives, etc. Taking these steps can certainly be an inconvenience. Still it's worth it. Not only are you doing right by your clients, but in the event that you do ever lose control of your client data, fully deploying encryption prior to any such event (depending on the laws in your state), can prevent you from ever having to notify your clients of the loss.

First Things First - CRM

According to many successful advisors, choosing, and employing a client relationship management (CRM) solution, is the first technology tool a new advisor needs to implement (or later, regrets they didn't). The CRM is the heart of the client-focused financial planning firm because it can house much, if not all relevant client-related information. As such, the longer you wait to get your system set up, the more data you will have to convert from your current (old), system to the new. Data conversion can be a time-consuming and costly exercise, so don't do it more often than absolutely necessary.

When reviewing surveys and querying seasoned and successful ACP members, all will tell you that if there's anything they wish they did differently, it would be getting their CRM solution up and running as soon as possible. "Make it the center of all you do!" is the common message. As such, we recommend you choose a robust CRM that can grow with your firm and get it going as soon as is practically possible.

Common CRM solutions within the ACP membership are Grendel, Redtail, Wealthbox, and XLR8. While the majority of CRM solutions do not have any particular customizations for ACP-style practices, Grendel offers pre-installed ACP-specific workflows and features tailored to enhance the functionality of the ACP Pyramid data population process.

Financial Planning Solutions

The 2018 T3 Tech Survey[2] establishes a financial planning solution as the most important software for a new advisor and a lessor concern for everyone else (CRM software comes first for seasoned advisors). As an ACP member, you have access to the ACP Toolkit, which many successful ACP members use for their primary financial planning tools. While licensing a commercial alternative certainly isn't necessary to run and grow a successful practice, commercial solutions do offer features and capabilities not available in the Toolkit. Some of these features include client portals or vaults, asset aggregation capabilities, Roth conversion analysis, and Social Security claiming optimizers. Beyond the ACP Toolkit, commonly used commercial planning solutions within our community are eMoney, MoneyGuidePro, and RightCapital.

Portfolio Accounting System

As per the T3 Survey, portfolio accounting systems (PAS) and rebalancing solutions are the next two most important software tools regularly employed by financial planners. While ACP planners have access to the Excel-based ACP Pyramid as a portfolio management and rebalancing solution, commercially available solutions offer a far more robust feature set, including data-gathering automation and tax-smart rebalancing capabilities that not only improve efficiency, but also reduce errors and improve outcomes through their built-in intelligence and replacement of manual, error-prone processes.

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[2] *2018 Software Survey,* http://t3technologyhub.com/wp-content/uploads/2018/02/2018-T3-Software-Survey-Report-v2.pdf

As “holistic” planners, ACP members have historically faced an identity dilemma of sorts when choosing to implement a PAS over the ACP Pyramid they likely “grew up” on. This is because it wasn’t until 2014 that a true PAS tool capable of creating the ACP Pyramid became available to ACP members (PowerAdvisor tools). As such, the decision to begin using a PAS in your practice also meant that you were likely jettisoning a key component of the ACP System from your frontline tools. Fortunately, this is no longer a necessary choice for members who want to improve their firm’s efficiency.

Unlike the Excel-based ACP Pyramid, a PAS is a database system that’s designed from the ground up to make use of transaction-level data as the foundation for your clients’ asset tracking. This is important because transaction-based data is necessary to build and maintain the tax lot level information required for tax-wise rebalancing recommendations and decisions.

Another common feature of most PAS software is data import functionality. Asset custodians such as TD Ameritrade, SSG, and Schwab create digital records of your client accounts, which can be imported by the PAS to populate your database much more efficiently and accurately than can be done by hand. Not only can the PAS use the data for portfolio management decision making, these systems also typically include robust billing, performance, and general reporting functions.

In addition to simply providing software for your firm to use, many developers also offer data population and reconciliation services. Accordingly, by making use of these services, an advisor can contract out its portfolio data management needs and mostly become a data consumer instead of a data manager. Doing this instead of hiring staff to “manage your client pyramids” will not only make your practice more efficient, it will also free up your people to make a bigger difference in your clients’ lives and circumstances by doing what they do best.

Variations on the outsourcing theme are also available from back office support service firms. In this implementation, the outsource service firm not only populates your client data but also provides the planner with access to the PAS software through a sub-licensing arrangement. This approach is usually most advantageous for firms with smaller client bases, which make the cost of directly licensing PAS software a challenge.

Tax Planning and Preparation

While preparing tax returns for clients isn’t a necessary requirement to be a “tax-focused” financial planner, the overwhelming majority of ACP members do provide their clients with professional tax preparation services as a key component in the stable of services they provide. Accordingly, in addition to tax planning software, preparation software is also a part of most ACP firms’ tech stack. Should you be one of the many members who offer tax preparation services to clients, you’ll not only be interested in each software package’s functional capabilities, but when starting out, you'll most likely also want to consider providers that offer a "pay per return" licensing structure. In this category, packages common among ACP members are Lacerte, Drake, Intuit ProSeries, and Intuit ProConnect.

Most tax preparation packages do not offer tax planning capabilities, and tax planning with a tool designed for preparation isn't optimal. Consequently, you'll most likely want to license a tax planning software package as part of your software arsenal. Beyond good interface design, the key to tax planning software efficiency is fast and accurate data population. This is one situation in which it's optimal to have a planning tool that has a software bridge or direct connection to your preparation software (assuming that you're doing tax preparation). Some standalone planning tools offer a "data connection." However, when you dig into their specifications, you discover their data connection is limited to personal information such as name, date of birth, etc. So, if you're doing preparation and you want to leverage the data entry that's already been done as part of the return, you may want to focus on planning tools created by the developer of your preparation software. If you are going to rely on a software bridge, make sure its capabilities match your expectations before you buy it. In this category, packages popular among ACP members are CFS TaxTools, Lacerte Tax Planner, Drake Tax Planner, and BNA.

Data Flow and Integration

When we're told to make any particular piece of software the "center of everything we do," it's important to consider the source. Software developers like when the majority of what we do is dependent upon their solutions. The custodian wants you to keep them at the center, as does the financial planning software developer and the CRM solution. As such, they all attempt to box us in. You can avoid this, at least to some extent, if you understand how things connect or are wired up.

Because we're largely dealing with asset-based data, custodians are usually where it all begins. This is where the transactions originate, so it's quite logical that would most likely be your key data source. Should you decide not to have a custodial relationship and instead decide to work with retail client accounts from most anywhere, you will not have access to these free institutional data feeds. As such, the only way for you to automate your data gathering functionality will be to make use of asset aggregation solutions. Unfortunately, as of this publication (2018), ByAllAccounts is the only aggregator known to provide reliable transaction-level data that's importable by most PAS software. Accordingly, whether or not you have a custodial relationship is a key decision that needs to be made as early as possible due to the long-standing implications it will have in regard to your firm's practice efficiency limitations.

As has been implied, custodial-level client data is a key resource that can be leveraged by most, if not all, investment advisor-oriented software solutions. Most often, this single data source can fuel your CRM, your financial planning software, and your PAS through a direct connection. If you're tracking held-away assets such as employer plan holdings and ACP holistic planning assets such as homes, mortgages, bank accounts, etc., these can be tracked manually until it's too onerous to do so. At that point, a transaction level asset aggregator can be employed. An example of a typical data feed path with description is shown in Figure 1.

Of course other data paths are possible. The key thing to remember is that just because you employ the CRM as the "center" of your client data universe, this doesn't mean the data path has to originate there as well.

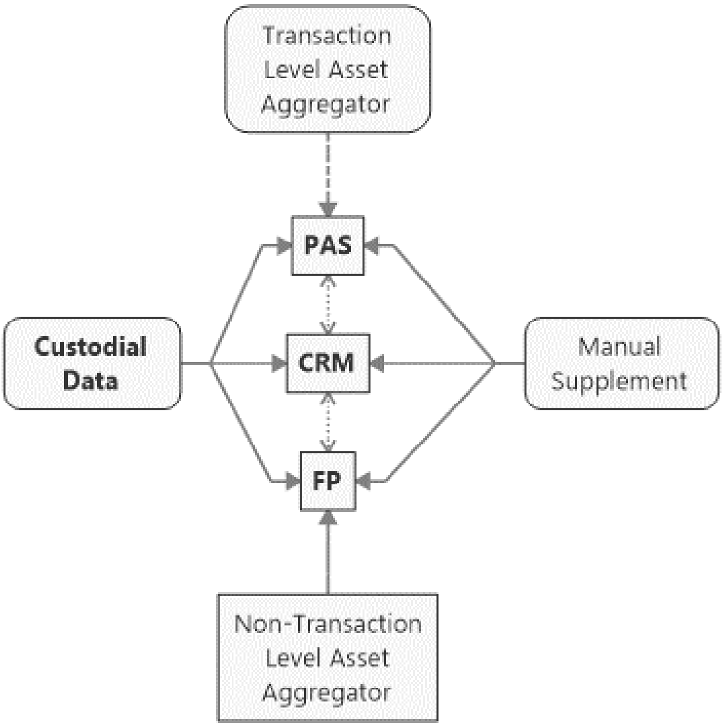

Transaction Level Asset Aggregator
PAS
Custodial Data
CRM
Manual Supplement
FP
Non-Transaction Level Asset Aggregator

Figure 1. A possible data path. Custodial data drives the PAS, CRM, and FP software separately and simultaneously. This is supplemented by manual data uploads and eventually a transaction level asset allocator such as ByAllAccounts. Many times, the FP software also pulls data from a non-transaction level data aggregator such as Yodlee.

When to Leap

Only you can decide when it's time to retire an old way of doing things and replace your process with something new. When you're just starting out and have no clients, you have all the time in the world. At this point, efficiency is not a high priority. However, times will change and so will your workload. When it comes to the timing of adopting new technology solutions, you're trading the added expense in exchange for increased efficiency and/or capabilities. When the main reason for adopting new technology is increasing your capacity to serve clients, “don’t wait until you need it!” The reason for this adage is because if you wait until you’re hurting due to a work overload, you’re going to be hurting a lot longer than necessary (and so will your clients). This will not only have negative impacts on your life, it will have negative impacts on your growth rate as well.

Licensing Options and Priorities

ACP has a rich tradition of knowledge sharing. Plan to take advantage of it, even with regard to the technology you choose. If tools other members are using will also meet your needs, consider licensing what’s already in use by others, as this will increase your resource pool when it comes to problem solving and learning new ways to benefit from your technology.

Check with other members via discussion searches and new messages to find out what solutions others are using and/or considering for adoption.

ACP is always developing new partnerships, discount programs, and relationships to benefit its members. Check the resource library to find out what’s available to lower your total cost of ownership and increase the value of your membership.

Your ACP membership provides entry-level access to custodial relationships with SSG and TD Ameritrade. Both of these organizations have affinity relationships you can take advantage of as well.

Training

Software is useless if you don’t know how or won’t use it. This may sound a bit obvious, but it needs to be stated. Many of these software solutions are quite complex and getting the most out of them means investing time in both training and learning. If it’s only you, it’s totally up to you to discipline yourself in training and implementing what you learn. If you’re working in a multi-person firm, training all who will use the software you license will be necessary as well. Don’t fail to consider these needs before implementing your plan.

Summary and Conclusion

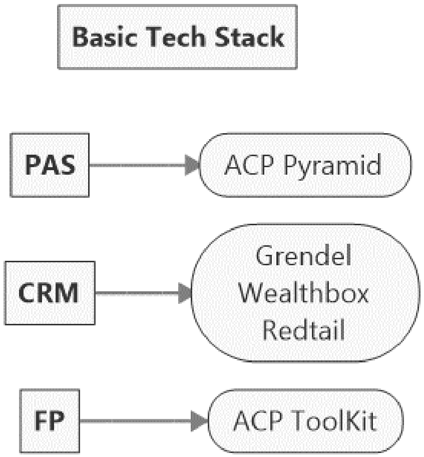
Begin with the end in mind, and don’t buy things you’re not going to use. Most of the software we all own has tremendous capabilities that we rarely use. Make sure you take the time to bring others along in the process and to understand any software’s capabilities before you make a commitment.

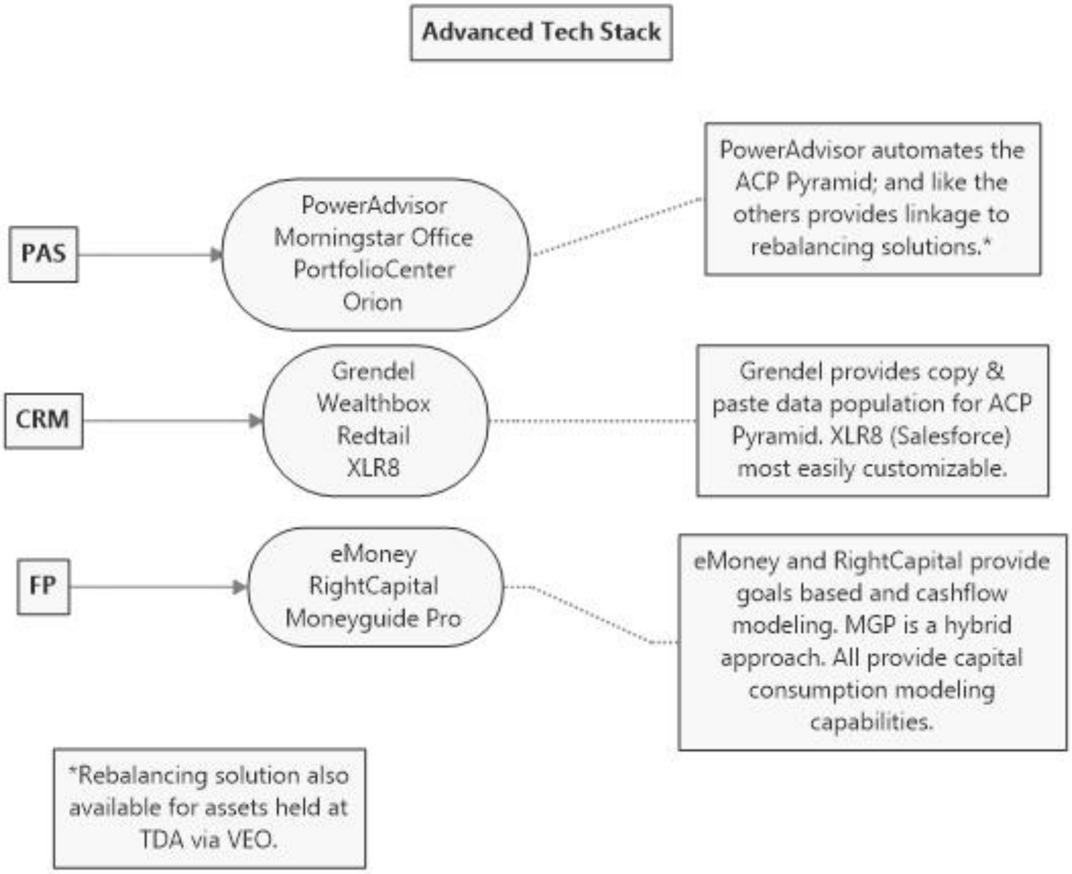
Software is constantly evolving and changing. Fortunately, so is our own ACP brain trust. Reach out. Take advantage of it. You’ll be able to make better decisions as a result. Please review the Addendum to see common tech stack solutions used by both newer and well-established ACP firms.

Addendum

Basic and Advanced “Tech Stacks”

Software solutions listed in the tech stack examples are solutions common to the ACP membership. Please see the T3 survey for market penetration and favorability ratings.


Basic Tech Stack
PAS
ACP Pyramid
CRM
Grendel
Wealthbox
Redtail
FP
ACP ToolKit


Advanced Tech Stack
PAS
PowerAdvisor
Morningstar Office
PortfolioCenter
Orion
CRM
Grendel
Wealthbox
Redtail
XLR8
FP
eMoney
RightCapital
Moneyguide Pro

PowerAdvisor automates the ACP Pyramid; and like the others provides linkage to rebalancing solutions.*

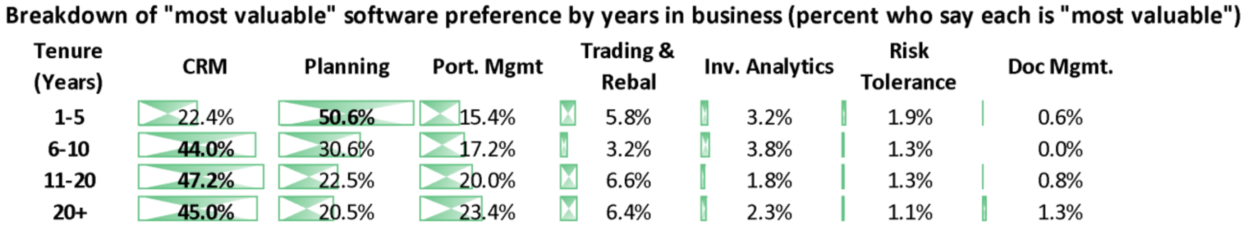
Grendel provides copy & paste data population for ACP Pyramid. XLR8 (Salesforce) most easily customizable.

eMoney and RightCapital provide goals based and cashflow modeling. MGP is a hybrid approach. All provide capital consumption modeling capabilities.

*Rebalancing solution also available for assets held at TDA via VEO.

Data Appendix

Data from the 2018 T3 Survey



Breakdown of "most valuable" software preference by years in business (percent who say each is "most valuable")

Tenure (Years)	CRM	Planning	Port. Mgmt	Trading & Rebal	Inv. Analytics	Risk Tolerance	Doc Mgmt.
1-5	22.4%	**50.6%**	15.4%	5.8%	3.2%	1.9%	0.6%
6-10	**44.0%**	30.6%	17.2%	3.2%	3.8%	1.3%	0.0%
11-20	**47.2%**	22.5%	20.0%	6.6%	1.8%	1.3%	0.8%
20+	**45.0%**	20.5%	23.4%	6.4%	2.3%	1.1%	1.3%

Data from ACP Technology Survey 2017

Successful ACP Planner Technology Profile

CRM:
Grendel, Redtail, XLR8, WealthBox

Financial Planning:
eMoney, MoneyGuidePro, RightCapital, ACP Toolkit

Portfolio Accounting Systems:
Morningstar Office, PowerAdvisor Tools

Additional Resources

2018 T3 Tech Survey (updated annually)