Financial Planning
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Smart Ways to Use 'Hidden' Client Assets

When wealth manager Bryan Wisda took on a new client, 98-year-old widow living in a Scottsdale, Arizona, retirement community, he asked her a battery of routine questions. One of them was if she knew anyone famous.

The standard question yielded a less standard answer. Her grandfather, it turned out, was a Civil War general, and when she was in her 20s, he dictated his autobiography to her. Not knowing what to do with it, she stashed the manuscript in a shoebox in her closet for over 70 years.

Eureka! Wisda and his team at Summit Wealth Management, an RIA in Carefree, Ariz., devised a plan to use her resources to create a foundation honoring her grandfather. The widow, who has no living relatives and over $5 million in assets, would publish the autobiography and then donate the book to the foundation, using the deduction to offset current income taxes.

There's more to financial planning advice than doing it by the numbers. It helps to think outside the "shoebox" and explore your clients' assets for hidden value. But to get there, you need to explore.

"You need to go through a discovery process, taking a consultative approach, asking about their personal assets, not just their investment assets," says Wisda. Uncovering previously unrecognized assets, he adds, "draws your clients closer to you."

In this case, creating a foundation was a novel solution. The manuscript will be self-published through Amazon's Kindle store and iTunes, and the foundation will honor her grandfather and develop other exhibits pertaining to the Civil War.

Says Wisda: "We could have taken the simple route and donated it to a museum, but that wouldn't guarantee it would get published. By creating a foundation, her interests are maintained."

USING GIFTS CREATIVELY

Another out-of-the-box strategy that might not be immediately obvious involves gifting.

Take the tax strategy devised by Woodward Financial Advisors, an RIA in Chapel Hills, N.C., that allowed their client to use capital gains to escape Uncle Sam's outstretched hand.

As Woodward planner Austin Brown explains, the client, who's in a high federal tax bracket, was planning to pay down his daughter's $18,000 student loan out of his own income.

The daughter, however, was in a much lower 15% bracket, and the client was holding appreciated stock that qualified for long term capital gains.

So rather than have the client use cash, which would have been subject to his ordinary income tax rate, "We suggested the client gift the appreciated stock to his daughter," says Brown.

"Because the adult child was in the15 percent tax bracket and lives in a state with no income tax, the long-term capital gain on the stock was zero," the planner says. "This strategy allowed the client to help pay down the loan while minimizing the tax consequences."

SELLING UNUSED PROPERTY

Martha Ferrari, a principal of Partners for Planning, an RIA in Princeton, N.J., provides another example of this sort of innovative thinking. She worked on a retirement planning program for a married couple who owned a home on more than five acres near metropolitan Philadelphia and didn't want to move, but did not need all their property.

The couple also owned a condominium in New York City, which they wanted to expand. To fund this project, two other advisors had previously recommended that they sell investment assets to cover the cost. But the clients were uncomfortable with this, as they were concerned about holding onto enough funds to maintain their lifestyle.

The alternative approach that Ferrari suggested entailed selling a parcel of their unused property near Philadelphia and using the proceeds to fund their condo expansion in New York, minimizing the tax consequences in the process. This resolved the issue to the clients satisfaction.

USING A BROKERAGE ACCOUNT AS COLLATERAL

Another creative stratagem was devised by Financial Principles LLC of Fairchild, N.J., when the firm discovered that under certain circumstances brokerage accounts can be used as loan collateral. The firm used this unusual funding strategy to help two different clients float money for real estate purposes.

As outlined by Bradley H. Bofford, the firm's managing partner, one client, with a net worth of approximately $1.5 million, was having difficulty securing a new construction loan and didn't want to liquidate his brokerage account and pay taxes on the gains.
"Instead, by using the client's brokerage account as collateral, we were able to float the money needed through Nationwide Bank," says Bofford. "Once the construction was completed, the client was able to obtain a conventional mortgage and pay back the loan against the brokerage account."

In the second case, Bofford relates, a client's daughter was purchasing a new home and needed funds for the closing, but had yet to sell her current home in which she had her equity.

By using his brokerage account for collateral, this client was also able to loan the money to his daughter for the closing liquidating his brokerage account and triggering taxes. Once the sale closed on her original home, the daughter was able to pay off the loan balance.

"Both clients," Bofford says, "appreciated that we were able to bring an out-of-the-box strategy to bear on their short-term cash flow needs."

Is there an overriding lesson here? Yes, says Summit's Wisda. "Advisors need to think about what business they're in. Are they in the investment business; are they just financial planners? Or are they true wealth managers?" If the answer is the latter, he concludes, then they have to recognize that "Wealth management encompasses many different processes."

Bruce W. Fraser is a New York-based financial writer. He is writing a book about the ultra-wealthy.

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