FPSB

FINANCIAL PLANNING STANDARDS BOARD

FIRST EDITION

JOURNAL of Financial Planning IN INDIA

JULY 2019

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INSIDE:

- In the Absence of Value, Cost is an Issue
- Breaking Barriers to Financial Planning
- 7 Traits in the Making of a Financial Planner
- and more!

Letter from FPSB Ltd. CEO, Noel Maye

Welcome to FPSB Ltd.'s inaugural edition of the Journal of Financial Planning in India!

I am pleased to share with you articles and information from India and around the world to build upon the body of knowledge for financial planning in India and support your efforts to maintain CERTIFIED FINANCIAL PLANNER^{CM} certification. Whether providing insights into how to build trust and deepen professional relationships, decoding the traits and behaviors that add value to clients, or highlighting practice aids every financial planner can use, our Journal is designed to benefit you in your daily practice as financial planners.

As part of a global community of over 180,000 CFP professionals, FPSB Ltd. is committed to bringing you thought-provoking articles and best practices not only from India, but also from around the world. I'd like to thank FPSB Network organizations in Australia, Canada, Hong Kong, Malaysia, Singapore and South Africa, the Financial Planning Association in the United States and Dr. Alok Kumar, CFP, in India, for generously providing articles for you to read in our inaugural Journal. In additional to bringing you global knowledge on an ongoing basis, we are inviting CFP professionals in India to submit articles on financial planning topics, which we will publish in future journals – see inside for more information.

Once you've read the articles, we invite you to take the continuing professional development (CPD) quiz at the back to earn four CPD credits towards the 15 credits per year you need to complete as part of your CFP certification renewal.

We're on an important journey together to build a global financial planning profession to ensure that the public in India, and all over the world, will have access to advice from competent, ethical financial planners, who put clients' interests first. I hope you'll join the global community in celebrating and promoting World Financial Planning Day this October and to promoting how financial planning can give people confidence, help them stay on track with their financial goals and, ultimately, live well.

I hope you enjoy this edition of FPSB Ltd.'s Journal of Financial Planning in India. And please check out my video message above (just click to play).

Thank you.

धन्यवाद

Noel Maye
Chief Executive Officer
Financial Planning Standards Board Ltd.

About the Journal

The purpose of the Journal of Financial Planning in India is to expand the knowledge base of CERTIFIED FINANCIAL PLANNER^{CM} professionals and those interested in the profession.

Future contributions will span a variety of areas including industry interviews, viewpoint columns, insightful articles and peer-reviewed technical papers. We wish to provide content that is interesting, original and, most importantly, beneficial to CFP^{CM} professionals and their work on behalf of their clients.

Journal of Financial Planning in India is published by Financial Planning Standards Board Ltd. (FPSB Ltd.)

Call for Articles

You can be a voice of support in the worldwide financial planning community by contributing to the growing body of knowledge created and delivered BY financial planning practitioners FOR financial planning practitioners!

Writing Guidelines for Contributions:

Articles:

We welcome written submissions that pertain to one of these areas of financial planning: tax planning, debt management, cash flow management, education planning, retirement planning, investment planning, insurance planning or estate planning.

The ideal article length is between 1,000-3,000 words. Supporting imagery and graphics are encouraged. Articles must be written in English and be relevant to Indian CFP^{CM} professionals and/or the global CFP^{CM} community.

Audience:

You are writing for people like you – other CFP^{CM} professionals! Please provide timely and accurate information that has practical implications.

Style:

Journal of Financial Planning in India is focused on providing and promoting easy-to-comprehend, professionally written work. A contributor's thoughts, comments, ideas and graphics should be easy to understand and structured for flow.

Elements to be included for submission:

Due Date: Anytime! We review submissions year-round and determine which articles fit best with the publication's general theme.

Send to: IndiaCFPCertification@fpsb.org

Format: When submitting an article please include: author name(s), mailing address, email address, phone number, brief biographies of the author(s), and an executive summary.

Executive Summary: The executive summary is not a sales pitch for the article, but instead, a summary telling the reader what to expect: the purpose, topic, the why, and the important practitioner implications. Executive summaries should be no more than 250 words.

Graphics: No more than five graphics per article.

Endnotes/References: Please be sure to use references and endnotes, as appropriate.

Author Release: By submitting an article for publication, all article authors (individually and collectively the Author) agree as follows:

In consideration of having Author's article reviewed and evaluated for publication, Author grants to Financial Planning Standards Board Ltd. (FPSB Ltd.), its affiliates, agents and assigns, a non-exclusive irrevocable, fully paid, worldwide right and license, but not the obligation, to use, copy sublicense, transmit, distribute, publicly perform, display, publish, edit modify, and create derivative works of the submitted article or any portion thereof in any media now known or hereafter devised for any purpose without compensation. Author further certifies that the article is original to the Author, does not violate or infringe the rights of any third party and that Author has full authority to submit the article for publication. If selected for publication, Author will execute a formal release in the form provided by FPSB Ltd.

FINANCIAL PLANNING STANDARDS BOARD

Our Work with Clients

Which Words Change Customers' Minds?

Behavorial Ethics: The Joy of Compliance

Breaking Barriers to Financial Planning

Which Words Change Customers' Minds?

FP Canada™
Advancing Professional Financial Planning

By Shelle Rose Charvet

Have you ever been with the perfect potential client and inadvertently used the wrong words, and lost the opportunity? Increasingly, as clients have become more skeptical, harder to please and more worried about their financial futures, financial advisors and financial planners need a better way to understand them, and to create credibility and trust.

That's why I have been teaching advisors and planners how to identify what motivates their clients, how they think and how they make decisions, using the LAB Profile®, short for Language and Behavior Profile. It is a psycho-linguistic tool that is based on the words people use, which can help advisors and planners better relate to their clients and avoid misunderstandings. I presented this technique at FP Canada's CFP® Professional Symposium during Financial Planning Week 2018.

Money and Motivation Triggers

Canadians often worry about money and want to avoid making bad decisions. This is what is called an "away from" motivation. They want to "move away from" loss, not having enough when they retire, etc. If an advisor or planner inadvertently uses goal-oriented language with this type of potential client, rapport and credibility will be lost.

On the other hand, some clients are focused on what they want to achieve through investing. For example, they may want to make money, increase their net worth or save more to have enough money when they retire. These clients, who are focused on moving "toward" their goals, respond best to goal-oriented language, such as "this plan will enable you to have more when you retire", or "this will get you what you want". They would respond poorly to language which emphasizes problems to avoid and escape from, such as "you won't have to worry" or "avoid making a mistake".

Knowing what motivates your clients will help you maintain great rapport with them and prevent misunderstandings.

Case Study: Mutual Fund Company

A mutual fund company had the following problem: They were generating leads for high-value new clients from their investment advice program, but they were not happy with their closing rate.

They hired me to help them and I interviewed prospective clients who phoned the company and said “yes” to investing and prospects who also phoned but didn't end up saying “yes”. From these interviews I uncovered the key LAB Profile Motivation Triggers™ for each group. I adapted their sales process to incorporate these keys and proposed a series of keywords to use on their website and in the television program that they are still using today, 15 years later.

And the results? Their closing rate increased by 50%.

What Motivates Your Clients?

To find out what motivates your clients:

First ask them: What is important to you about …? What do you want? Listen and note their answer.

Then ask: Why is that important? Listen to determine whether the person is moving “toward” a goal or moving “away from” something.

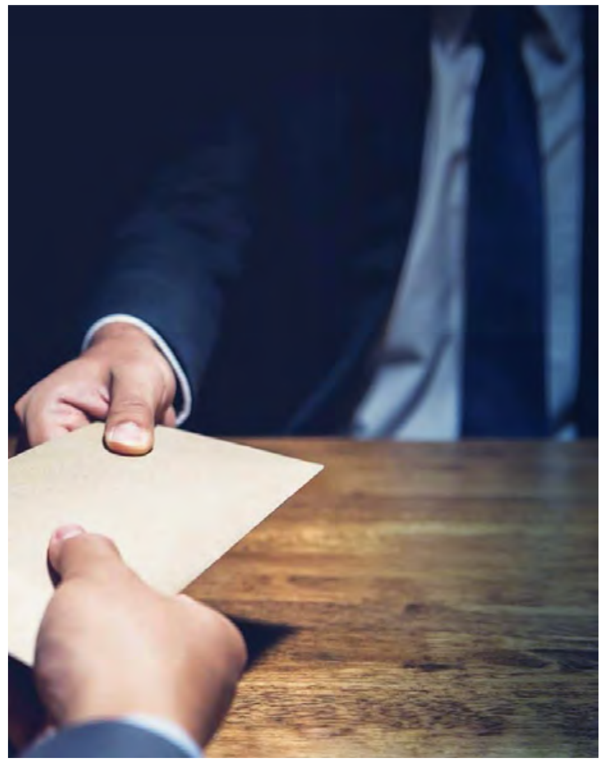
To learn more about Motivation Triggers and how to work with them, check out my new YouTube Channel by searching for Shelle Rose Charvet on YouTube, or by clicking here.

Shelle Rose Charvet is a professional speaker and is the bestselling author of Words That Change Minds and Words That Change Customers’ Minds. She has created a number of advanced techniques used to: enhance rapport, trust, credibility and influence that enable people to prevent conflicts, avoid stalemates in sales and negotiations and help everyone get what they need. Her website is: www.successtrategies.com

Behavioural Ethics: The Joy of Compliance

FPAM
FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

Past financial crises have shown that institutional codes of ethics, as key drivers of integrity, are fundamental to success.



As the worlds of finance and business overlap and grow more competitive every day, sound ethical values have unfortunately been pushed aside in pursuit of greater profits or investment returns.

This encourages fraudulent activities and transactions among both service providers and clients, resulting in huge losses to organisations and even society as a whole.

A Problem of Perception

Although no shortage of companies worldwide have solemnly pledged to inculcate stronger compliance cultures, compliance itself is seen as an inconvenient “obstacle” on the road to larger financial or business goals.

With these misperceptions still rampant, how do behavioural ethics play a role in stopping under-the-table dealings while allowing businesses to leverage on compliance to ensure their success and profitability?

This question has become a key talking point among players in the financial industry, even as regulators worldwide address the question of how ethical frameworks can be strengthened amid regulatory divergence and an increasingly complicated financial landscape.

From the 2008 Bernard Madoff investment scandal in the US, which resulted in JPMorgan Chase & Co being slapped with a fine of US$2.6 billion, to Malaysia’s infamous 1MDB fiasco, which saw AmBank being fined nearly RM53.7 million by Bank Negara: where were the ethics, and why didn't banks report or halt suspicious funds moving in and out of the financial system?

Sadly, it would seem that the illicit profits involved were so attractive that the role of compliance was completely ignored. This points toward money laundering as a primary concern for the industry in Malaysia, with illegal funds from compromised sources being 'washed' by passing through financial institutions and service providers, enabled by the failure of financial professionals in detecting or reporting such transactions.

This begs the question: are criminals getting smarter in finding loopholes in or subverting our financial systems, or are financial service providers just turning a blind eye to potential criminal activities just to achieve their business targets?

Consequences of Noncompliance

If Malaysian financial players fail to implement effective countermeasures to stop crooks and money launderers, this will have serious repercussions for the financial services industry in the long run. A number of players have already had their licenses revoked for blatantly ignoring red flags in the interests of protecting business revenue from high-networth or politically-connected clients.

For example, the banking licences of BSI Bank and Falcon Bank in Singapore were withdrawn by the island nation's central bank in 2017 for serious breaches of antimoney laundering requirements and poor management oversight of banking operations, as well as gross misconduct by bank staff.

It is here that codes of ethics for the financial industry can play a preventive role, holding industry players including financial planners to high standards of integrity while maintaining stakeholder confidence in the financial system.

For these reasons, regulators have made it compulsory for financial professionals to undergo continuous training and in-house classes, including certification programmes, to upgrade their levels of competency and integrity.

Financial Planners and Compliance

Transparency is perhaps one of the most effective deterrents against noncompliance, and underscores the importance of honest and open dealings by all financial professionals. By practising transparency, it is harder for unscrupulous agents to hide acts that can damage the reputation of or bring discredit to an entire organisation.

In addition, financial planners must exhibit accountability and trustworthiness in every aspect of their conduct and behaviour when managing and dealing with financial products. For example, there should be no instances of hidden clauses, illegal charges or fees, or even manipulation of financial product terms with the intention to mislead consumers.

It is important that every client is respected and treated in a professional manner. At the same time, financial professionals should screen potential clients before onboarding them to ensure that the interests of the financial institution or services provider employing them are not adversely affected in the future.

On another front, the confidentiality of financial information or records has become a much more sensitive area in the financial industry today, as breaches of secrecy among financial services employees have risen in number over the years, reflecting poor ethical standards.

It is a serious ethical lapse to divulge financial information to unauthorised parties without the consent of the client. Aside from the ramifications for the client themselves, such unethical behaviour will also hurt investor confidence, while tainting the reputation of financial institutions and all investment professionals as a whole.

Moving Towards the Future

Objectivity and moral judgment must be developed further within the industry for financial services providers to acknowledge the need for higher standards of integrity and compliance.

The perspective of profit as a benchmark, at the expense of honesty, should never be tolerated, and only when this is practised will we see a new breed of financial professionals emerge to drive the country to the next level of development.

As such, financial planners should never allow any conflict of interest, bias or undue influence to override their business and professional judgement.

The mindset of financial industry players must change, as the future of financial services providers lies in the ability to harmonise compliance and business development. This balancing act, while ever-challenging, is what good governance demands from financial professionals.

Vijayaraj R Kanniah Director cum Principal Trainer of Visioon Business Solutions Sdn Bhd; Managing Partner of Messrs Sheila Hussain Vijay & Partners

Breaking Barriers to Financial Planning

In recent years, the financial services industry has seen a growing demand for online tools, particularly with the rise of self-directed investing, robo-advisors and hybrid advice models. Although digital platforms can streamline the financial planning process, they can also inadvertently create obstacles for investors that might delay them in reaching their financial goals. Dr. Laurence Ashworth, Associate Professor of Marketing at Queen's University's Smith School of Business, and Dr. Lynnette Purda, Associate Professor and RBC Fellow of Finance at the Smith School of Business, have teamed up to research the ways that psychological barriers, in particular, can discourage or prevent Canadians from obtaining financial planning advice. The project is being funded by the FP Canada Research Foundation—an independent registered charity dedicated to funding and disseminating original financial planning research for the benefit of Canadians. "We know that technology is used as a tool for financial planning and we want to identify any potential dangers with its use or any ways that it can supplement the traditional face-to-face interaction with a financial planner," Dr. Purda says. To help understand the nature of these barriers, Dr. Ashworth and Dr. Purda are conducting interviews with a wide range of consumers and financial planners in addition to a largescale survey that will identify both similarities and differences in these barriers across population sub-groups. The second part of their research will examine how financial organizations can reduce barriers that prevent consumers from accessing advice and undermine the quality of advice received. Research is still in preliminary stages, but some potential barriers could cause investors to get stuck in the data collection process, Dr. Purda says. For instance, investors might walk away from online tools if they have privacy concerns, since they may not want to provide certain private details if they don't trust the platform is secure. Another potential barrier could be inherent in the methods online platforms use to collect information. For example, a digital tool might ask for an investor's net worth, but the investor may not readily have that information.

“EVEN SIMPLY ASKING THAT QUESTION CAN IMPOSE A BARRIER THAT IS LIKELY TO CAUSE PEOPLE TO STEP AWAY FROM WHAT THEY WERE TRYING TO DO. WE KNOW FROM RESEARCH ON CONSUMER BEHAVIOUR THAT AS SOON AS PEOPLE STEP AWAY, THE CHANCE OF THEM CONTINUING CAN BE MUCH LOWER.”

Dr. Laurence Ashworth, Associate Professor of Marketing at Queen’s University’s Smith School of Business

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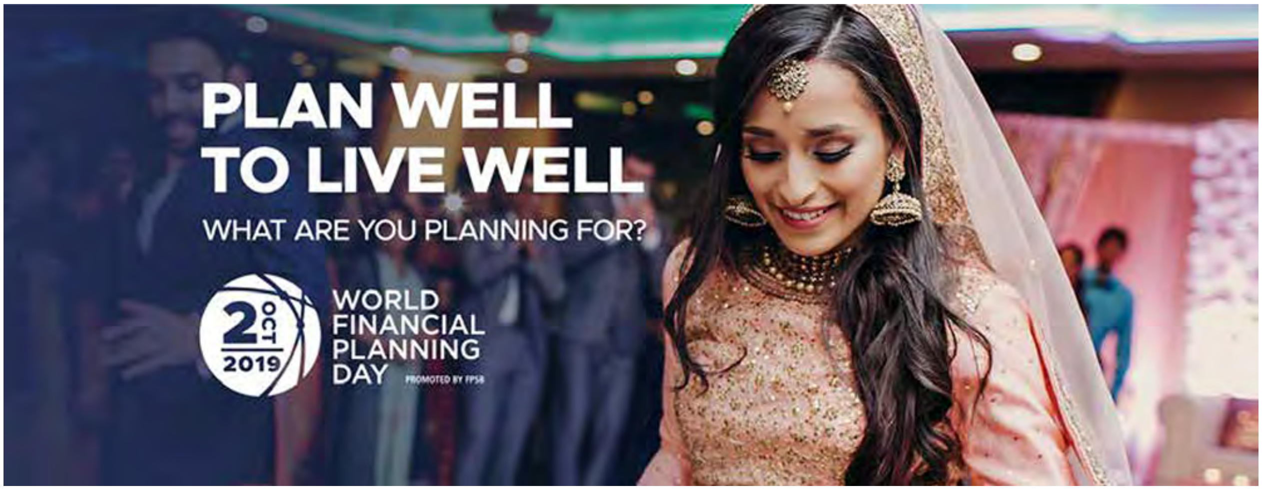
“That might seem like a simple question from a financial planner’s point of view, but for most people, they have no idea how to calculate that,” Dr. Ashworth says. “Even simply asking that question can impose a barrier that is likely to cause people to step away from what they were trying to do. We know from research on consumer behaviour that as soon as people step away, the chance of them continuing can be much lower.” The researchers plan to explore potential strategies to avoid these types of barriers by performing experiments once they’ve collected their initial data. In the above scenario that involves obtaining an investor’s net worth, Dr. Ashworth and Dr. Purda might try asking alternative questions, such as the value of an investor’s house or if they have any outstanding debts, to see if they can obtain the same data while making the process easier on the client. The end goal of this research is to provide a suite of tools or techniques that can help better facilitate the financial planning process, Dr. Purda says. The outcome could be guidance for financial planners and firms, such as how to effectively frame questions, or broader in scope, such as direction on how to effectively engage different demographics.

Our Global Presence

World Financial Planning Day 2019

FPSB Network Growth



Financial Planning Standards Board Ltd. to Launch World Financial Planning Day 2019 on 2nd October

Financial Planning Standards Board Ltd. (FPSB Ltd.) and the global community of professional financial planning bodies representing over 181,000 CERTIFIED FINANCIAL PLANNER^{CM} professionals worldwide are pleased to host the third annual World Financial Planning Day (#WFPD) on Wednesday, 2 October.

The FPSB network will partner with the International Organization of Securities Commissions (IOSCO) to promote financial literacy and capability through World Financial Planning Day 2019, which takes place during IOSCO's World Investor Week, a global campaign from 30 September – 6 October designed to raise awareness about the importance of investor education and protection.

Global consumer research conducted by FPSB Ltd. found that just 22 percent of consumers feel strongly confident that they will achieve their financial goals, only 17 percent believe strongly in their financial knowhow, and only 19 percent feel they are successful at sticking to their financial strategies.

FPSB Ltd. launched WFPD in 2017 as part of the global financial planning community's commitment to increase levels of consumers' financial literacy and capability, and to promote how financial planning can help the public take control of their finances, increase their confidence and stay on track with their financial and life goals.

“FPSB Ltd. and the global financial planning community are pleased to join IOSCO for the third year in empowering more consumers around the world to take control of their finances and their futures,” said FPSB Ltd. CEO Noel Maye. “On World Financial Planning Day, the FPSB network and thousands of CFP^{CM} professionals around the world will help raise awareness of the value of financial planning, of having a financial plan and of working with a competent and ethical financial planner who puts clients’ interests first.”

Said José Alexandre Vasco, Chair of IOSCO’s Committee on Retail Investors: “We are proud of events like World Investor Week and World Financial Planning Day that highlight the value of investor education and the work being done by securities regulators and others to increase investor financial literacy. By recognizing financial planning as a global citizenship skill, World Financial Planning Day has the potential to help millions improve their futures and financial wellbeing through savings and investments.”

During WFPD, FPSB Ltd.’s global network of over 181,000 CFP professionals in 27 countries and territories will provide programs and events to promote consumer awareness and understanding of the value of financial planning, covering topics such as debt management, financial emergency preparation, home ownership, saving, investment planning and retirement. In addition, FPSB will host a #PlanWell2LiveWell video contest in which consumers are prompted to share what living well means to them.

Further details about the video contest, WFPD and FPSB’s network-wide programs and events will be available on FPSB’s Facebook and Twitter accounts, as well as on worldfpday.org, beginning 1 July.

FPSB
FINANCIAL PLANNING STANDARDS BOARD

181,360* CFP Professionals in 26 Territories Worldwide

** 2018 year-end figures*

5,787 annual increase over 2017 • **3.3%** growth rate

FPSB Vision

To establish financial planning as a global profession and the CFP marks as the global symbol of excellence in financial planning.

FPSB Mission

FPSB benefits the global community by establishing, upholding and promoting worldwide professional standards in financial planning. FPSB's commitment to excellence is represented by the marks of professional distinction – CFP, CERTIFIED FINANCIAL PLANNER and CFP

"To establish financial planning as a recognized global profession, FPSB has set itself an ambitious goal to have 250,000 CFP professionals in 40 territories by 2025," said Noel Maye, CEO of FPSB. "With a global CFP professional growth rate of 3.3% within FPSB's 26-territory network, talks underway in several new territories and the rollout of FPSB pathway education and certification programs last year, FPSB is making solid progress in its efforts to increase the public's access to competent and ethical financial planners who work in their clients' interest."

Noel Maye, FPSB CEO

CFP Professionals by Territory

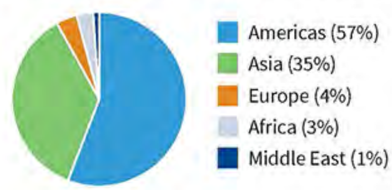
Rank	Territory	Count	Rank	Territory	Count
1	United States	83,106	14	Chinese Taipei	1,540
2	Japan	21,631	15	India	1,513
3	China	20,047	16	Germany	1,511
4	Canada	16,419	17	Singapore	963
5	Australia	5,694	18	U.K.	915
6	South Africa	4,744	19	Ireland	642
7	Hong Kong	4,489	20	Austria	343
8	Brazil	4,001	21	Switzerland	325
9	Rep. of Korea	3,893	22	New Zealand	285
10	The Netherlands	3,305	23	Thailand	261
11	Malaysia	2,287	24	Israel	160
12	Indonesia	1,729	25	Colombia	10
13	France	1,547	26	Turkey*	-

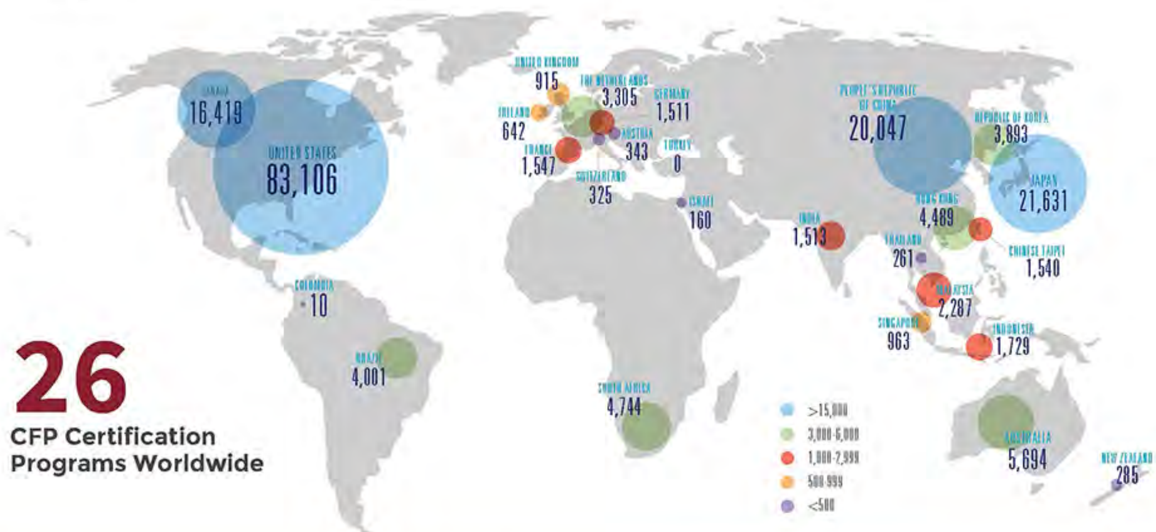
**Preparing to offer CFP certification*

6 FPSB affiliate organizations added >200 CFP professionals

United States +3,071
China +2,524
Brazil +592
Japan +480
Chinese Taipei +310
Indonesia +225

CFP Professionals by Region





26
CFP Certification Programs Worldwide

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Our Changing Marketplace

Financially Sound Households Use Financial Planners, Not Transactional Advisors

New Funding Approach Needed to Improve Financial Literacy

Fintech: Friend or Foe?

Financially Sound Households Use Financial Planners, Not Transactional Advisers

by David M. Blanchett, Ph.D., CFA, CFP®

David M. Blanchett, Ph.D., CFA, CFP®, is head of retirement research at Morningstar Investment Management. He is an adjunct professor of wealth management at The American College. He is a recipient of the Journal's *2007 Financial Frontiers Award and its 2014, 2015, and 2019 Montgomery-Warschauer Award.*

Executive Summary

- Financial advisers can add significant value for clients, but empirical evidence documenting this effect is mixed.
- This paper explores how household financial decision-making varies by four sources of information: financial planners; transactional financial advisers; friends; or the Internet.
- Five aspects of decision-making were explored: portfolio risk levels; savings habits; life insurance coverage; revolving credit card balances; and emergency savings using the six most recent waves of the Survey of Consumer Finances (2001 to 2016).
- Households working with a financial planner were found to be making the best overall financial decisions, followed by those using the Internet, while those working with a transactional adviser were making the worst financial decisions.

Households are becoming increasingly responsible for myriad financial decisions, such as determining how much to save for retirement, how to invest those savings, when to retire, etc. Given the complexity of these decisions and the general lack of financial literacy among U.S. households (Lusardi and Mitchell 2014), financial advisers should seemingly be well-positioned to help improve household financial decision-making. Indeed, a growing body of theoretical research has noted the *potential* value of financial advisers in a variety of domains, however empirical evidence on the topic is mixed and generally suggests households with financial advisers do no better (or even worse) than those without, especially in investment-related domains.

The general lack of empirical evidence on the improved outcomes or decision-making for households working with financial advisers is not positive for the financial advice profession. Empirical evidence on this topic is lacking for a variety of possible reasons. One could be that the empirical research, which is largely investment-focused, is not capturing value created in other domains (e.g., savings rates or life insurance coverage). Another could be that certain types of advisers are providing valuable services (e.g., financial planners) that are not consistently captured in the relatively broad "financial adviser" description.

This paper used the six most recent waves of the Survey of Consumer Finances (2001 to 2016) to explore how household decision-making across five financial planning domains (portfolio risk level, savings habits, life insurance coverage, revolving credit card balances, and emergency savings) varied across four information sources: financial planners, transactional financial advisers, friends, or the Internet. By decomposing financial advisers into two types, it is possible to better understand if any differences exist by the type of the advice engagement.

The analysis focused on the soundness of various household financial decisions (e.g., does the household have any revolving credit card debt?) versus more outcome-oriented variables (e.g., wealth or level of savings). Focusing on decisions better captured differences in multiple domains, reduced issues associated with reverse causality (because clients with more wealth become increasingly attractive to financial advisers and it may be difficult to determine the role of the financial adviser with respect to the wealth creation), and controlled for the fact that higher wealth (or more savings) doesn't necessarily imply the household is behaving optimally (e.g., adequate life insurance may reduce available savings, but it is a vital component of a sound financial plan for most households).

Households working with a financial planner were found to be making the "best" financial decisions, in the aggregate as well as in four of the five domains considered, while households working with a transactional adviser were making the "worst" financial decisions. Selection bias is a potential issue with the results, since the decision to work with a financial planner is a positive indicator of financial decision-making and potentially endogenous to variables considered; however, these findings do at least suggest financial planners are adding the most value among the information sources considered, especially compared to transactional advisers.

Households using the Internet scored second to financial planners on overall financial soundness. This is noteworthy given the growing use of the Internet as the primary information source for households included in the analysis, increasing from 3 percent in 2001, to 40 percent in 2016, as well as given its relatively low cost (especially compared to many financial advisers). However, the better outcomes associated with the Internet have been declining over time (from 2001 to 2016), so it is not clear to what extent this relation will persist in the future.

All financial advice is not the same; nor are adviser types. Thus, one shouldn't expect the potential value of advice to be uniform, either, so research that does not attempt to control for advice type may likely produce biased results.

Overall, the basic question "Do financial advisers add value?" is not necessarily well-defined in the empirical literature, given the significant differences in the scope of services provided by financial advisers. It is likely that potential and realized benefits of financial advice vary by adviser type. This paper will explore this specific topic in greater detail.

Literature Review

The lack of financial literacy of U.S. households (Lusardi and Mitchell 2014) would suggest financial advisers have the potential to add significant value, both in investing and non-investing domains. For example, from an investment perspective, Odean (1998) found that investors tend to underperform by selling winners too soon and holding losers too long, a tendency labeled the "disposition effect" (Shefrin and Statman 1985). A financial adviser who is aware of this effect can either make clients aware of it to help mitigate it, or take discretion of the account (assuming the adviser is not disposed to the same effect).

Exploring the potential value of financial advice is a growing field of research. Theoretical research on the value of financial advice has focused on the potential value of making optimal financial decisions compared to some type of naïve benchmark (i.e., what the household would be assumed to do without the adviser). For example, Hanna and Lindamood (2010) and Blanchett and Kaplan (2013) both used utility-based models to explore the potential value of financial advisers. Both found that the value of financial advice can be significant and potentially exceed common financial adviser fees, although the true expected value will vary by client. Additional research by Kinniry, Jaconetti, DiJoseph, and Zilbering (2014) and Grable and Chatterjee (2014) also explored the potential value of financial advisers.

Households that work with a financial adviser tend to have higher incomes, be wealthier, more educated, older, and more financially literate (Burke and Hung 2015). These individuals also tend to have higher risk tolerance (Hanna 2011). Research on consumer financial decisions increasingly points to the importance of financial sophistication as a determinant of sound financial decision-making (Campbell 2006), therefore controlling for household demographics is an important aspect of any type of empirical analysis.

One problem with identifying any type of empirical benefit associated with working with a financial adviser is that the decision to hire a financial adviser is not random and is potentially endogenous to whatever outcome variable is considered. For example, it may be that wise and financially prudent decision-makers are more likely to hire financial advisers. Similarly, an investor who was already making sound financial decisions may hire a financial adviser with the goal of helping him or her make even better financial decisions. For these investors, it would be difficult to disentangle the actual impact of the adviser on decisions, had the investor not hired the adviser (i.e., correlation does not necessarily imply causation).

Early empirical evidence on the value of a financial adviser focused largely on investment-related domains and noted mixed findings. For example, research has noted positive (Grinblatt and Keloharju 2000; Shapira and Venezia 2001; and Barber, Lee, Liu, and Odean 2008), and negative (Bergstresser, Chalmers, and Tufano 2009; Mullainathan, Noeth, and Schoar 2012; Hackethal, Haliassos, and Jappelli 2012; and Chalmers, Johnson, and Reuter 2014) effects of advisers on investment outcomes. However, the majority of research has suggested investors using financial advisers are no better off (or potentially worse off, especially after fees) than those without.

The possible benefits of a financial adviser extend beyond investment domains, and some research has explored these areas. For example, Warschauer and Sciglimpaglia (2012) noted how advisers can assist with emergency fund management, debt management, insurable risk reduction, investment risk control, goal assessment, and tax and estate assessment. Engelmann, Capra, Noussair, and Berns (2009) suggested financial planners may help clients focus on long-term goals by reducing short-term anxiety from market volatility. Burke and Hung term goals by reducing short-term anxiety from market volatility. Burke and Hung (2015) suggested that working with a financial adviser helps improve financial and savings habits.

Research by Martin and Finke (2014), Finke, Huston, and Waller (2009), Cho, Gutter, Kim, and Mauldin (2012), among others, has noted a positive relationship between the use of financial advisers and savings. Additional research on decisions surrounding life insurance (Finke, Huston, and Waller, 2009), emergency savings (Bhargava and Lown 2006), and disability insurance (Scott and Finke 2013) have also noted better outcomes for households working with financial advisers. Most of these studies, though, did not control for selection bias. Marsden, Zick, and Mayer (2011) attempted to control for simultaneity bias and reverse causation and found no statistically significant difference in self-reported retirement savings or short-term growth in retirement account asset values for those using a financial adviser. However, they did note that meeting with a financial adviser was associated with setting long-term goals, calculating retirement needs, retirement-account diversification, use of supplemental retirement accounts, retirement confidence, and higher levels of savings in emergency funds.

Recall that empirical evidence on the value of working with a financial adviser is weak for a variety of reasons, such as misaligned incentives, lack of general ability, and segmentation/identification.

With respect to incentives, depending on the domain explored, it may not actually be in the financial adviser’s best interest to help the client make the optimal decision, if that decision does not align with the adviser’s method of compensation. For example, Del Guercio and Reuter (2014) noted how brokers face a weaker incentive to generate alpha, and Christoffersen, Evans, and Musto (2013) suggested fee sharing alters broker incentives and can be particularly harmful to investors when brokers’ incentives are not aligned with their clients’ interests.

Financial advisers may also not be as capable as they should be. For example, Linnainmaa, Melzer, Previtero, and Foerster (2018) found financial advisers make the same poor investment decisions as their clients (such as frequent trading, return chasing, use of active funds, and under-diversification).

No state or federal law requires financial advisers to hold designations.[1] Of the one million financial services professionals in the U.S. today, only approximately 80,000 financial advisers hold the Certified Financial Planner (CFP®) designation.[2]

80,000 financial advisers hold the Certified Financial Planner (CFP®) designation, the most popular financial advising designation, followed by the Chartered Financial Consultant (ChFC) designation, with 55,000[3] designees (Raskie, Martin, Lemoine, and Cummings 2018). Job titles also often provide little insight into the scope of services provided by the adviser, at least partially due to lack of regulatory requirements.

Identifying the scope of the advice engagement (i.e., the type of financial adviser) can be difficult, especially when using well-known publicly available datasets (Heckman, Saey, Kim, and Letkiewicz 2016). Limited research documents how households fare using different types of financial advisers. Martin and Finke (2014) is one example. They noted households using more comprehensive financial advisers generated more wealth than those without any help, as well as versus those advisers providing less holistic services.

Sources of Financial Information for Households

Robust data on household financial information sources may be found in the Survey of Consumer Finances (SCF). The SCF is a triennial cross-sectional survey of U.S. families conducted by the Federal Reserve Board that includes information on families' balance sheets, pensions, income, and demographic characteristics. Heckman, Saey, Kim, and Letkiewicz (2016) evaluated the validity of the measures of financial planner use in publicly available datasets and suggested the SCF was one of the two most promising datasets, as there are a variety available.[4]

This specific question in the SCF asks the respondent about the source of financial information:

> *The response to this question was used to determine a household's source of financial information.[5] If multiple sources were provided by the respondent, the first response provided was assumed to be the primary information source.*

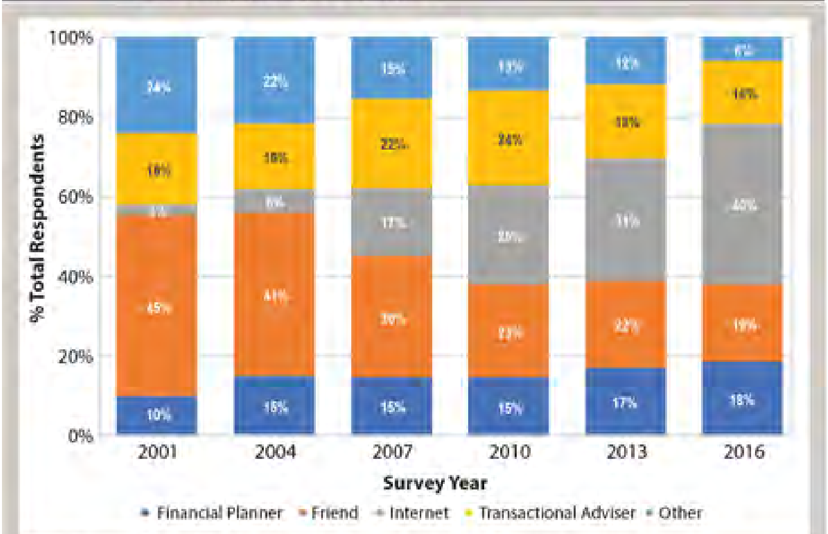
Financial advisers were classified into two types: financial planners and transactional advisers. If "financial planner" was the response, the financial adviser was deemed to be a financial planner. If "banker" or "broker" was selected, the financial adviser was deemed to be transactional. Lawyer or accountant responses were not included in either financial adviser group because these are not professions typically associated with financial planning.

The term “transactional adviser” was used, versus the actual response of banker or broker, to reflect the likely scope of services associated with the advice. Being a broker (or banker) and a financial planner is not mutually exclusive; many advisers work for a broker-dealer (who are technically brokers) that provides comprehensive financial planning services. Therefore, the response to the question was assumed to be based on the nature of services being provided, where the advisers providing more holistic services were referred to as “financial planners,” and advisers who are less holistic in nature, and likely more transaction-oriented (e.g., broker or banker) were “transactional advisers.” The “Internet” was also considered an information source (for those who selected the Internet) and a “friends” information source was created as a combination of the “call-around” and “friend/relative” responses.

Instead of including all available households, the test group was limited to households that were assumed to be potentially interested in considering financial advice, as well as those that would consider guidance among the five domains considered. To be included, the respondent must have been between ages 25 and 55;[6] the household must have had at least $5,000 in financial assets and retirement assets (note these assets are not mutually exclusive); and the household had to have wage income and normal wage income above $25,000 annually (again, these definitions are not mutually exclusive). All values were converted to 2016 dollars. These filters created a dataset that was not representative of the entire U.S. population, yet likely better reflected the cohort of investors who would potentially be interested in working with a financial adviser (e.g., it is unlikely a household with no income and no savings would seek the services of a financial adviser).

Figure 1 includes information about the distribution of the use of these four advice sources for the six waves of the SCF included in the analysis. Household weights were included when estimating the percentages.

Figure 1: Sources of Investment and Savings Information for Households Ages 25 to 55



Source: Survey of Consumer Finances

As shown in Figure 1, the Internet appears to be displacing the “Friends” and “Other” sources of financial information since 2001. For example, Friends and Internet were 45 percent and 3 percent of information sources in 2001, respectively, but changed to 19 percent and 40 percent, respectively, by 2016. This suggests that households who may have asked a (relatively unsophisticated) friend a financial question historically are increasingly going online to find an answer instead.

The growth in the use of the Internet has been relatively similar across age groups within this dataset. An additional analysis (not included in Table 1) was conducted where households were split based on respondent age—those above and below the age of 40. The results were very similar for both groups. One reason for the relatively large growth in the use of the Internet for this analysis was that only relatively young households were included (all are age 55 or younger). This relation may not hold at all ages (e.g., respondents over the age of 80).

The percentage of households using a financial planner increased over the study period, from 10 percent in 2001 to 18 percent in 2016, while the percentage using transactional advisers remained relatively unchanged. On average, approximately 34 percent households were using either type of financial adviser—a financial planner or a transactional adviser—over the entire period.

Collins (2012) noted financial advice usage in the U.S. was 20 percent to 33 percent based on different sources, while Hanna (2011), using data from SCFs from 1998 to 2007, noted advice usage from 21 percent to 25 percent. The likely reason this estimate of financial adviser use (34 percent) is higher than other research is because households that do not meet the previously noted income or asset requirements were excluded from the analysis (recall that the dataset is not representative of all U.S. households, rather households that are more likely to be investors).

Who Uses Each Information Source?

To better understand which household attributes were associated with the selection of each of the four potential information sources, a series of logistic regressions were performed. The dependent variable for the logistic regressions was the information source selected. The independent variables were respondent age, total household income, total household financial assets, respondent years of education, whether the respondent was female (this is a dummy variable that equals one if the respondent is female), whether the household was single (this is a dummy variable that equals one if the household is not married), and whether the household was non-white or Hispanic (also a dummy variable). All values were translated in 2016 dollars. Only households that met the previously noted criteria were included in these regressions. The results of the logistic regressions are included in Table 1.

Table 1: Logistic Regression Where the Dependent Variable Is the Information Source

	Financial Planner		Friend		Internet		Transactional Adviser	
Source	**Value**	**Odds Ratio**	**Value**	**Odds Ratio**	**Value**	**Odds Ratio**	**Value**	**Odds Ratio**
Intercept	−2.040**		−2.192**		1.037		0.188	
Age	0.002	1.002	-0.006	0.994	0.005	1.005	0.002	1.002
ln(Income)	−0.011	0.989	0.164**	1.178	−0.341**	0.711	−0.126	0.882
ln(Financial Assets)	0.029	1.029	−0.009	0.991	0.029	1.030	0.018	1.018
Years of Education	0.002	1.002	−0.039**	0.961	0.107**	1.112	−0.042**	0.959
Female?	0.362**	1.436	0.068	1.070	−0.348**	0.706	0.244*	1.277
Single?	−0.320**	0.726	0.118	1.125	0.072	1.074	−0.228*	0.796
Non-white/Hispanic?	−0.012	0.988	−0.004	0.996	0.152*	1.164	−0.026	0.974

Notes: * Significant at the 5% level; ** significant at 1% level.

Although it is common to use the repeated-imputation inference (RII) method to correct for underestimation of variances due to imputation of missing data (Montalto and Sung 1996) when running regressions using the SCF, the logistic regressions in this study were based on a single aggregated value for each household. (Additional information about the household-level aggregation approach is provided in the analysis section.) Using a single value for each household decreased the standard errors for the regression.

The logistic regression results in Table 1 are somewhat inconsistent with past research exploring who uses a financial adviser. For example, Burke and Hung (2015) noted that households with a financial adviser tended to be wealthier, have higher incomes, be more educated, older, and more financially literate (through a meta-analysis). The logistic regressions shown in this analysis (Table 1) suggest that households headed by a female and those who are married are more likely to use a financial planner or transactional adviser, but there is no statistically significant relation between age, income, or financial assets. With respect to the use of friends as an information source, these households tended to have higher income levels but lower levels of education. For the Internet, these households had lower levels of income, more education, and were more likely to be male and not white.

Analysis

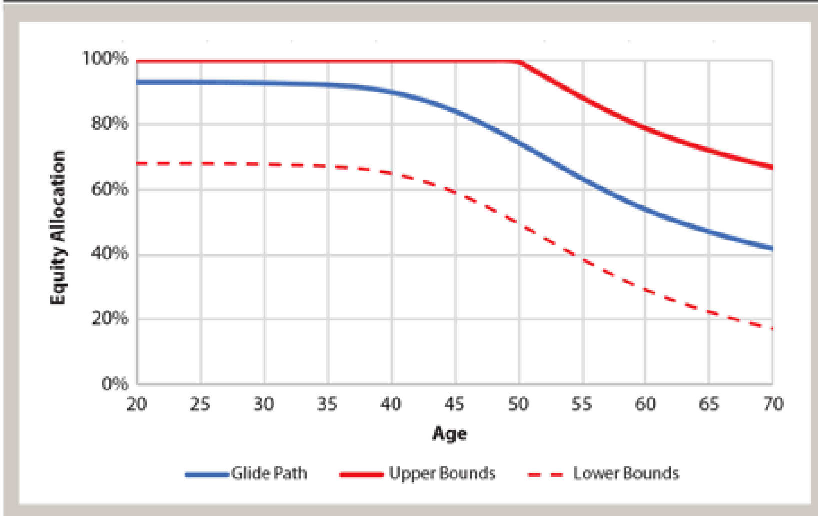
Determining the soundness of financial decision-making for a household is subjective. This analysis focused more on household decisions (the process), versus more outcome-oriented variables (wealth or savings levels). Focusing on decisions reduced potential issues associated with reverse causality, because clients with more wealth become increasingly attractive to financial advisers and it may be difficult to determine the role of the financial adviser with respect to the wealth creation, as well as the fact more wealth doesn't necessarily imply the household has made (or is making) optimal financial planning decisions.

As noted previously, the analysis used data from the 2001, 2004, 2007, 2010, 2013, and 2016 waves of the SCF. To be included in the analysis, the respondent had to be between the ages of 25 and 55, have children, have a minimum of wage income and normal income of $25,000, and at least $5,000 in financial assets and retirement assets. Five financial decision-making domains were considered for the analysis: (1) portfolio risk appropriateness; (2) savings habits; (3) life insurance coverage; (4) revolving credit card debt; and (5) emergency savings. These tests are introduced below:

Portfolio risk appropriateness. This test determined if the household's retirement assets were invested in a portfolio that had a risk level that would generally be considered prudent, given the respondent's age. For the analysis, the equity level of retirement assets (e.g., 401(k)s, IRAs, etc.) was determined and compared with the Morningstar® Moderate Lifetime IndexSM based on the respondent's age, assuming a retirement age of 65.

To be considered prudently invested, the equity level must be within 25 percentage points of the Morningstar Moderate Lifetime Index (25 points above or below the glide path, bounded by 100 percent and 0 percent, respectively). The glide path, or equity target, for the Morningstar Moderate Lifetime Index and the respective upper and lower bounds targets are included in Figure 2.

Figure 2: Target Retirement Assets Equity Allocation (Morningstar® Moderate Lifetime Index℠ Glide Path)



This was effectively a test that the portfolio was diversified and reasonably consistent with a general target risk level given the investor's age. Only retirement assets were considered because these are typically savings directed toward a single goal (retirement) with a relatively similar begin date (approximately age 65). There will of course be situations where the allocations should deviate from the target; therefore, this was viewed more as a general test to ensure the household had their retirement assets invested in a reasonable manner. The 25-point band created a relatively wide range that would include virtually every target-date mutual fund family series in the U.S. market.

Savings habits. This test focused on whether the household had a savings plan in place. The specific text of the SCF question was: "Which of the following statements on this page comes closest to describing your (and your husband/wife/partner's) saving habits?" There were six potential responses such as not saving at all, saving whatever is left over at the end of the month, or some type of savings plan (e.g., saving the income of one family member, saving non-regular income, and a regular savings program). For this analysis, so long as the household had some type of savings plan in place, it was considered to have good savings habits. Savings habits were the focus, versus the amount of savings, to simplify the analysis and because of SCF data limitations related to savings variables.

Life insurance coverage. This domain focused on whether the household had face value life insurance at least equal to the total wage income of the household.

All households in this analysis had children; therefore, it is reasonable to assume that some level of life insurance would be desirable for most households. The ideal level of coverage was not estimated. The vast majority of households in this dataset should have more than the relatively low threshold of just one times wage income. This test showed whether the household had thought about life insurance enough to make even a relatively de minimis purchase. It is likely that some households may have no need life insurance; however, the analysis controlled for basic demographic data and the target was a relatively low threshold.

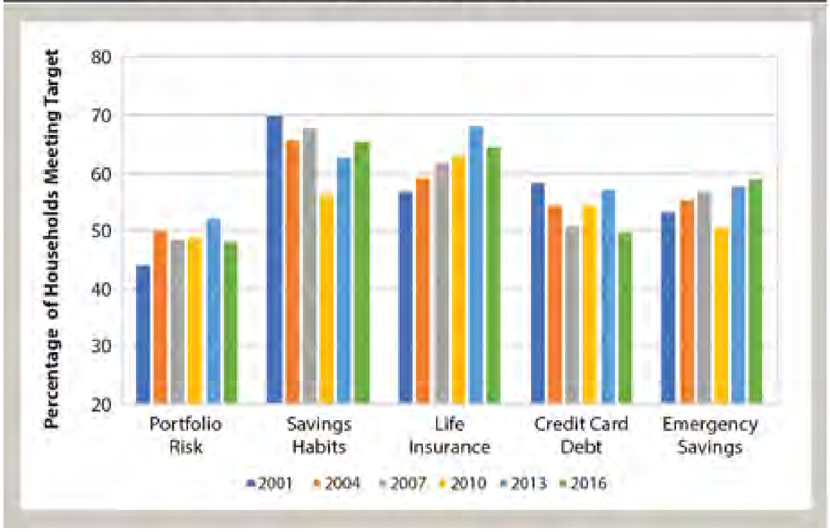
Revolving credit card debt. This question focused on whether the household had any revolving credit card debt at the end of the month. Interest rates on credit cards typically exceed 15 percent[7]—a "return" the household is highly unlikely to achieve through investing in the markets (especially on a risk-adjusted and after-tax basis). Therefore, it was assumed the households should not maintain any revolving credit balances. If the household did maintain any revolving credit, it was assumed the household was making a poor decision in this domain.

Emergency savings. The final test explored whether the household had adequate emergency savings. This was calculated by dividing total liquid savings—which included balances in checking accounts, savings accounts, money market mutual funds, and money market demand accounts—by average normal income. The goal was to have at least three months income set aside in emergency savings.

Each household in the SCF had five implicates, or observations. Each of the five tests were conducted for each implicate, resulting in 25 total tests for a household. The results of the test for each implicate were combined, based on implicate weights, to get a "pass rate" for the respective domain. Pass rates ranged from 0 percent, where none of the implicates passed, to 100 percent, where all the implicates passed. The scores at the individual domain level were then averaged to get the aggregate financial soundness score for the household. Demographic control variables (e.g., total financial assets) are also created using the implicate weights (i.e., the weighted average of the implicate values for that household) so that each household had a single set of values.

Figure 3 provides insight into the percentage of households that passed the respective tests for each of the six SCF datasets included in the analysis.

Figure 3: Percentage of Households Passing the Respective Financial Planning Test by SCF Year



In Figure 3, most of the tests (except for savings habits) have approximately a 50 percent pass rate. This was somewhat intentional to ensure there was dispersion in each domain across households (i.e., all households were not passing or failing for a given domain). The fact that only approximately half of households passed each test would suggest there is a large potential benefit for financial advisers to help the households make better financial decisions.

Results

Regarding results for the five individual planning domains, while there was significant variation in the aggregate results, the individual metrics were largely binary. For example, the percentage of households where all implicates either passed or failed the individual metric ranged from 76.8 percent (for portfolio risk) to 99.9 percent (for the savings test). Therefore, given the relatively binary nature of the individual results, the values were transformed and a logistic regression was performed.

For the logistic regression, for each domain, a value of 1 was assigned for that test if the pass rate for the household was 50 percent or greater, otherwise, it was assigned a value of zero. Note, this transformation was only performed for individual domain tests. The aggregate values were much more varied; only 9 percent of households had a score of zero or 1. Therefore, this transformation was not necessary when reviewing the aggregate results.

Similar to the logistic regressions exploring information source usage in Table 1, a number of independent variables were included in these next logistic regressions, including age, household income, total household financial assets, respondent years of education, whether the respondent is female, whether the household is single, and whether the household is non-white or Hispanic. In addition, the four sources of financial information were included as dummy variables, which is whether the household financial information source was a financial planner, a friend, the Internet, or a transactional adviser. For each information source, the coefficient was set to equal 1 if the household used that information source, otherwise it was zero. Weights for each household were included in logistic regressions. The results are included in Table 2.

Table 2: Individual Metric Logistic Regression Results

	Portfolio Risk		Savings Habits		Life Insurance		Credit Card Debt		Emergency Savings	
	Value	Odds Ratio	Value	Odds Ratio	Value	Odds Ratio	Value	Odds Ratio	Value	Odds Ratio
Intercept	−1.725**		−8.605**		1.601**		−3.043**		−1.148*	
Age	0.003	1.003	−0.032**	0.969	−0.007*	0.993	−0.019**	0.981	−0.038**	0.963
ln(Income)	0.059	1.061	0.448**	1.565	−0.254**	0.776	−0.086	0.918	−0.749**	0.473
ln(Financial Assets)	0.041	1.042	0.496**	1.642	0.220**	1.246	0.356**	1.427	0.917**	2.502
Years of Education	0.017	1.017	0.071**	1.074	0.056**	1.058	0.067**	1.070	0.103**	1.108
Female?	0.094	1.099	−0.021	0.979	0.119	1.126	−0.364**	0.695	−0.044	0.957
Single?	−0.018	0.982	0.318**	1.374	−0.989**	0.372	0.399**	1.491	−0.029	0.972
Non-white/Hispanic?	0.005	1.005	0.141	1.152	0.017	1.017	−0.172**	0.842	−0.159**	0.853
Financial Planner?	0.203*	1.225	0.082	1.085	0.261**	1.298	−0.031	0.970	0.202*	1.224
Friend?	−0.054	0.947	−0.074	0.928	0.093	1.097	−0.146*	0.865	0.007	1.007
Internet?	0.087	1.091	−0.068	0.935	0.209**	1.233	−0.006	0.994	0.144	1.155
Transactional Adviser?	−0.003	0.997	−0.310**	0.733	0.118	1.125	−0.102	0.903	−0.051	0.951

Notes: * significant at the 5% level; ** significant at 1% level.

The sign and statistical significance of the coefficients varied by test. The coefficients for years of education and financial assets were always positive and significant for four of the five tests (all but portfolio risk). This suggests households with more education and more financial assets tend to make better financial decisions.

The coefficient for age was negative (and statistically significant) for those same four domains (all but portfolio risk), which suggests older households are making worse decisions; however, the odds ratio was not that different from 1, which implies the economic impact of age is relatively low. There was quite a bit of inconsistency across some of the other variables. For example, the sign and statistical significance of the income variable varied across domains.

The financial planner coefficients were the most positive for all but the credit card metric (where it was second), but only statistically significant for three of the five domains. The Internet coefficients were the second best for all but the credit card metric (where it was first), while the transactional adviser and friend coefficients were generally the worst or second worst coefficients.

For the portfolio risk appropriateness domain logistic regression, only the financial planner coefficient was positive and statistically significant. This suggests the planner coefficient was positive and statistically significant. This suggests the probability of having a portfolio that is even generally consistent with age was higher if the household used a financial planner, but effectively random for the other information sources.

Individual test results may be interesting; however, the aggregate financial soundness metric was the primary focus of this analysis. For this, an ordinary least squares (OLS) regression was performed where the dependent variable was the average pass rate across the five domains for each household. The same independent variables as past regressions were included in these regressions, and the regressions include household weights. Four separate regressions were performed, each including different sets of available independent variables. The results of the OLS regressions are shown in Table 3.

Table 3: Average Financial Planning Score OLS Regression Results

	Model 1		Model 2		Model 3		Model 4	
	Coeff	t stat	Coeff	t stat	Coeff	t stat	Coeff	t stat
Intercept	21.445**	4.340	58.024**	90.244	55.044**	37.922	20.273**	4.068
Age	−0.319**	−10.545			0.071*	2.290	−0.322**	−10.643
ln(Income)	−3.720**	−7.569					−3.611**	−7.344
ln(Financial Assets)	7.424**	31.774					7.400**	31.723
Years of Education	1.250**	11.125					1.210**	10.755
Female?	−0.781	−0.898					−0.776	−0.893
Single?	−2.613**	−3.588					−2.536**	−3.486
Non-white/Hispanic?	−1.022	−1.889					−1.072*	−1.983
Financial Planner?			3.405**	3.715	3.383**	3.691	3.087**	3.754
Friend?			−0.636	−0.805	−0.625	−0.791	−0.341	−0.481
Internet?			2.283**	2.663	2.281**	2.660	2.014**	2.613
Transactional Adviser?			−1.266	−1.462	−1.280	−1.480	−0.549	−0.707
Observations	8,078		8,078		8,078		8,078	
R^2	19.91%		0.56%		0.63%		20.28%	
Adjusted R^2	19.84%		0.51%		0.57%		20.17%	

Notes: * significant at the 5% level; ** significant at 1% level.

Households that make better financial decisions tended to be younger, have lower incomes, more financial assets, higher levels of education, have a male respondent, are married, and are white. The most significant variables were financial assets and years of education, both of which had positive coefficients (which is consistent with past research). The negative coefficients for age and income potentially warrant greater study, given that both are typically positively associated with financial sophistication.

The base demographic variables (e.g., Model 1) explained a significant degree more of household financial soundness than the financial information source (e.g., Model 2), as evidenced by the R^2 values (see Table 3). This suggests while the source of financial information is important, other household attributes were materially more so.

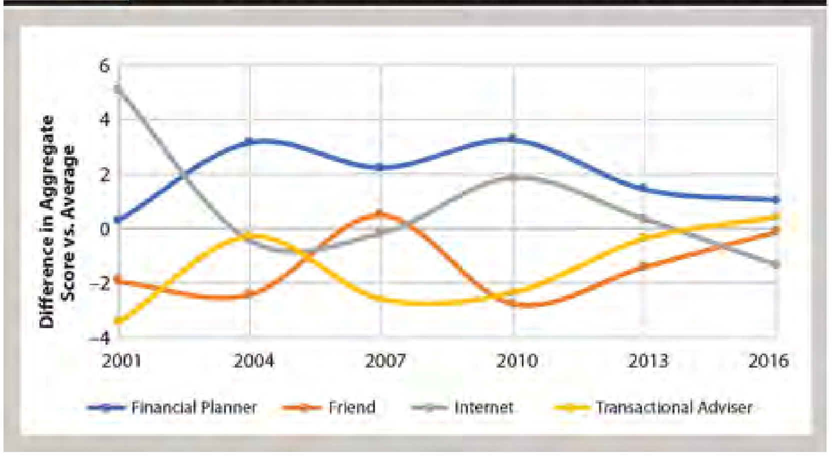
Households that used financial planners as their financial information source were making the best decisions of the groups studied, followed by those using the Internet. Households that were using a transactional adviser were making the worst decisions, and households using friends were the second worst.

It cannot be concluded that working with a financial planner is the reason those households were making better financial choices due to potential selection bias; the outcome could be endogenous to the selection of the information source. However, these findings at least imply that working with a financial planner can help households make better financial decisions, while working with a transactional adviser may actually result in worse decisions.

It is not known why households working with a transactional adviser were making the worst decisions of the groups studied; although one can speculate. One possibility is that these households may have a false sense of confidence about their financial soundness because they get advice in a few domains and think that are covered in all domains when they are, in fact, not. One problem with this hypothesis is that households working with a transactional adviser were doing the worst in effectively every domain considered. In other words, it's not that households working with a transactional adviser were doing one thing really well and everything else poorly; they were doing everything poorly. It's possible there are aspects of households that selected transactional advisers that were not controlled for in this analysis or other areas where they improve outcomes affecting these results. Future research may provide clarity here.

A secondary analysis was performed to see how the aggregate scores have changed across the four information sources. This analysis was similar to the information in Figure 3; however, instead of looking at the individual results, this analysis compared the average aggregate score for each household, based on household information source, and then controlled for the SCF year. This approach ensured the average score among the four sources for each SCF was zero. The results are shown in Figure 4.

Figure 4: Relative Aggregate Financial Planning Score Across SCF



Overall, the time varying results in Figure 4 are relatively similar to the regression results shown in Table 3, where the financial planner values were consistently the highest, and the transactional adviser and friend were typically and consistently the lowest.

Note, however, the reduction the average score among households that used the Internet. Households using the Internet as the primary information source scored almost 5 percent higher than the average in 2001, while households using the Internet in 2016 scored 2 percent below average (which was the worst among the four sources considered). There are a variety of potential reasons for this. One may be that the benefits associated with the Internet were due largely to "early adopters," and as usage increased, the caliber and intentions of Internet users have declined. This gets to the fundamental issue around selection bias that is difficult to control for in this type of analysis. This topic is also likely worth exploring in future research.

Implications for Financial Advisers

The results of this analysis are consistent with the growing body of research that working with a financial adviser can result in better outcomes, as well as empirical research suggesting that financial advisers can actually make some households worse off. How it is possible that financial advisers can both help and hurt their clients? This is largely due to the relatively ambiguous nature of the term "financial adviser." Financial advisers can provide significantly different scopes of services and advisers can be compensated in myriad ways. This heterogeneity creates significant issues when attempting to empirically assess the "value" of financial advice.

These findings strongly suggest that financial advisers who focus on financial planning are having a positive impact on households, especially compared to financial advisers that are more transactional in nature. These results should not be misconstrued to suggest financial advisers cannot provide value if they are paid primarily through commissions, or that certain types of adviser registration methods are worse than others. What matters are the services being provided to the client and consequently how the client perceives the nature of the relationship. Helping clients accomplish goals typically requires more than just selling a product, such as a mutual fund or annuity—it requires a financial plan with ongoing management. Financial advisers that provide these services are not likely to be described as transactional in nature; rather they are likely be described as financial planners.

Conclusions

This paper explored the quality of five household financial planning decisions (portfolio risk level, savings habits, life insurance coverage, revolving credit card balances, and emergency savings) across four information sources (financial planners, transactional financial advisers, friends, or the Internet). The quality of household decisions was found to vary across information sources. Households using a financial planner made the best decisions, followed by the Internet. Households using a transactional adviser made the worst decisions.

It cannot be concluded that using a financial planner entirely explains better decision-making of those households due to implications around selection bias. However, these findings do suggest that the potential value associated with working with a financial adviser could differ significantly by adviser type.

These findings also have important implications for future research exploring the value of financial advice, especially in an empirical setting. Any kind of analysis that focuses primarily on transactional advisers may yield significantly different conclusions on the value of financial advice than one focused on advisers that are comprehensive.

Additionally, there is significant evidence that households using the Internet are making better-than-average financial planning decisions, although the benefit does appear to be declining over time. The potential value of the Internet as a source of financial information and advice is notable given the significant increase in usage over the last 15 years or so, especially if its role as an information source continues to increase into the future.

Endnotes

1. See the SEC's "Investor Bulletin: Top Tips for Selecting a Financial Professional," posted August 25, 2016 at sec.gov/investor/pubs/invadvisers.htm.
2. See CFP Board professional demographics data at cfp.net/news-events/research-facts-figures/cfp-professional-demographics.
3. See The American College of Financial Services data at theamericancollege.edu/designations-degrees/ChFC-CFP.
4. The other is the National Longitudinal Study of Youth (bls.gov/nls/home.htm).
5. A similar question in the SCF asks about sources of information for borrowing money or obtaining credit. This analysis only considered the savings and investment question because the majority of tests cover only these domains. Additionally, the household sources vary across the two questions, which would create additional classification groups that would complicate the analysis.
6. This specific filter is important later in the analysis when determining life insurance coverage adequacy as well as savings habits.
7. See current credit card interest rate data at bankrate.com/finance/credit-cards/current-interest-rates.aspx.

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New Funding Approach Needed to Improve Financial Literacy

The IFPHK recently proposed an alternative funding approach to intensify financial education efforts to protect vulnerable senior investors in a rapidly ageing population, says IFPHK Chief Executive Officer Dennis Lau.

Hong Kong spending on promoting financial literacy has remained stagnant due to a lack of funding sources for financial education. Most countries surveyed by Organisation for Economic Cooperation and Development in 2013/14 on progress on financial education reported that their national strategy for financial education is financed by a combination of public and private resources. Hong Kong, however, relies solely on government funding from the Investor Education Center (IEC), formed in 2012 as a subsidiary of the Securities and Futures Commission.

Limited funding is a curb on diversity efforts and stunts actions to expand financial education in Hong Kong. According to the IEC's annual report, its spending on education programmes in 2016/17 was HK$33 million. This is just a small portion of Hong Kong's GDP of HK$628,459 million for the first quarter of 2017.

The lack of funding for financial education poses a challenge for Hong Kong where financial literacy is urgently needed to tackle the growing risks in financial markets and a rapidly aging society. To help tackle the problem, the IFPHK has recently proposed to the Financial Secretary a new funding approach to raise financial literacy of consumers. Instead of just relying on IEC's funding, we proposed the establishment of a Financial Education Foundation Fund with sources coming from levies collected by various financial regulators with the fund administered by IEC. Once adopted, this approach will immediately see an improvement in the funding and lead to new ideas and programmes for continuous financial education in Hong Kong, in addition to the current projects offered by the IEC.

Establishing the Financial Education Foundation Fund

Our proposal for the Financial Education Foundation Fund is in line with the global advocacy of Financial Planning Standards Board (FPSB). FPSB and its network of affiliates, including IFPHK, are committed to improving levels of financial literacy and financial capability among the global public. In Hong Kong, the Institute has tirelessly worked on raising the public's financial literacy to protect investors. As early as 2009, we provided recommendations to the government proposal to enhance the protection of the investing public, following the aftermath of the Lehman Brothers Minibond Saga. In 2010, the IFPHK submitted a response to the consultation paper on the establishment of the Investor Education Council (later named formally as Investor Education Centre). In 2015, we provided comments to map out Hong Kong's Strategy for Financial Literacy. This year we launched the first IFPHK Financial Education Leadership Awards to encourage city-wide efforts to enhance financial literacy in Hong Kong.

With our latest proposal, the IFPHK aims to strengthen protection for senior investors who are more vulnerable to manipulation and fraudulent offers. By launching the Financial Education Foundation Fund, the government can support diversified financial education programmes tailored to different age groups in general and the elderly, specifically. Organizations can obtain funding to support their measures to promote financial wellness. Armed with its rich experience in financial education, the IEC can act as the secretariat for the foundation, and be responsible for establishing funding criteria, approval of applications, and daily operations.

Learning from Overseas Examples

To establish the fund, we refer the government to overseas examples on how they have managed financial education fund in different ways. "Private funding is sometimes collected through a statutory levy on financial institutions (Money Advice Service in the UK) or made available from the collection of fines for contraventions to regulation (South Africa)," said the OECD/INFE Progress Report on Financial Education.

In countries such as Indonesia and South Africa, private financial institutions have to develop financial education as a part of their strategy on social responsibility. In some regions, private institutions provide some voluntary funding for targeted communities or for nonprofit financial education projects, said the report.

In 2012, the Australian government set up a not-for-profit organization to run the Financial Literacy Australia Grants (FLA) programme to support social groups to advance financial literacy in Australia. FLA encourages cooperation between corporate, government, community and education sectors, and allocates funding to financial literacy projects which are innovative and accessible to a wider range of people.

The Securities and Exchange Board of India (SEBI), for instance, demands securities intermediaries to earmark funds for investor protection education. The Reserve Bank of India requires state-owned banks to open financial literacy centres to promote financial literacy on a massive scale via indoor and outdoor activity camps.

Taking Up a Role in Financial Education

In recent years, different NGOs, financial institutions and professional bodies have invested their resources in promoting financial literacy in Hong Kong. The financial education initiatives are mainly driven by non-governmental organizations (47.6%) and business sector (35%), mostly banks and insurance companies, according to the Hong Kong Financial Education Landscape Research Final Report published by the Hong Kong Council of Social Service in 2016.

“One notable example is a collaborative initiative between industry associations engaging CSSA (Comprehensive Social Security Assistance) recipients and low-income families to deliver concepts related to saving, rational spending, budgeting, insurance, investment and Mandatory Provident Fund management,” said the report.

The Family Welfare Society, which recently received the IFPHK Financial Education Leadership Awards, is another role model in addressing the financial education needs of low-income families. In 2016, with funding support from HSBC, the Society established the "Financial Education Centre” to address improper financial management among local youths and families.

The centre piloted a five-year programme, S-QUBE - Youth Financial Empowerment Project, to offer young people and parents with adequate knowledge and engender habits in financial management. They learn good financial habits and can begin working on long-term financial plans. It also introduced the financial social work model from the United States to provide systematic training for social workers to promote financial wellbeing among their clients.

The above examples show that different parties in society can play a role in financial education. To broaden financial education in scale and diversity, the government should encourage the business sector, nongovernmental groups and even statutory bodies to support the funding scheme either by providing funding or delivering courses.

Protecting Senior Investors Through Financial Education

The government should not delay on means for improving financial literacy, especially in times of rapid ageing when a massive number of elderly need financial knowledge to plan for their retirement. The ageing group is growing at an alarming rate in Hong Kong. A cursory visit to any hospital outpatient clinics will offer a shocking sight of silver haired citizens. The number of elderly persons aged 65 and over is projected to grow more than double in the next 20 years, jumping from 1.16 million (16.6 per cent of the total population) in 2016 to 2.37 million (31.1 per cent) in 2036, according to the Census and Statistics Department.

There are no specific laws to protect seniors with regard to financial services in Hong Kong, a situation which is similar to other countries, despite the fact that they are a vulnerable group in the complicated financial markets. A new report, named "Senior Investor Vulnerability", published by IOSCO in March, revealed that seniors are at a higher risk than other investors of losing money to fraud or to being misled by others. It also indicated that the biggest risks to senior investors are unsuitable investments, financial fraud and their diminished cognitive capability to understand what they are being offered. Complex products, deficient financial literacy, and social isolation pose additional risks to senior investors. These vulnerabilities are growing as many investors assume greater responsibility for their retirement and financial future. In light of a rapid increase in so-called retirement products in markets, we are concerned on whether senior investors have the level of financial literacy to make sound decisions in buying such products.

The report urged regulators to deliver more educational programmes and resources targeting senior investors. This is certainly a key step Hong Kong should take to protect our elderly by equipping them with knowledge and understanding of services and products. The 2018-2019 Budget addresses concerns of the ageing population. Among the initiatives is the Life Annuity Scheme to be launched by the HKMC Annuity this year. The Insurance Authority will also encourage the development of the deterred annuity market. With these developments, there is urgent need to increase senior investors' financial literacy on retirement planning and retirement products.

In the Budget, the Financial Secretary has set aside a dedicated provision of HK$500 million to develop the financial services industry. We would like to urge the government to assign part of the fund to launch the proposed Financial Education Foundation Fund to strengthen the public's financial literacy. Nothing is impossible if we have faith and the will to move forward. The government should make a concerted shift in policy to make financial education effective in Hong Kong.

Fintech: Friend or foe?

With technology being part of everyday life, the modern client has shifted their expectations around efficiency. When it comes to financial planning, they desire easier and more efficient interactions. However the planning process that a professional financial planner undertakes has requirements governed by the obligations of the best interest duty and a strict adherence to the fundamental six steps of the financial planning process.

Many of these processes require detailed document construction from the inputs gathered from deep client engagement and exploration of a client's financial world. That process of discovery historically is not a digitised one. Furthermore the components of a client's financial world are often not digital. A challenge presents. For the modern professional financial planner, how do they engage with an increasingly digital client and deliver efficiencies in process and client engagement in a manner that is cognisant of the financial planning process?

In 2013, the FPA sought to raise the bar of professionalism and issued a challenge to the planning community. Guidance was provided around solutions to meet best interest duty obligations. The solutions encompassed processes around, and supporting of, the six step financial planning process.

Human led and digitally powered, fintech presents a real opportunity for our profession. However, what is lacking is a thorough understanding of the solutions on offer to financial planners, AFSLs, associations and regulators, in terms of how they work and whether or not these solutions can deliver on their promises.

The FPA extrapolated these steps, defining what professional financial planners do in their client interactions. Effectively, financial planners at that time were provided a synopsis of what best practice looks like on a daily basis for financial planners, such insights that can only be delivered from a true understanding of what financial planners actually do. These behaviours have a focus in four key areas:

Professional engagement – having transparent conversations with clients about the financial planning process, the financial planner's role and services, competence and experience to determine whether the financial planner can meet the clients' needs.

Professional competence – considering the financial planner's limitations and authorisations and whether their education, professional entry, CPD to maintain competence, experience and expertise, enable them to meet the financial planning needs of the client.

Professional diagnosis – analysing the client's information, strengths and weaknesses, capabilities and preferences in managing money, tolerance and appetite for risk, to identify needs and scope of the engagement.

Recommend in Best Interest – understanding the role of the FPA Code of Professional Practice in placing the client's interests first.

Can these processes of discovery and delivery be digitised? Can an algorithm deliver the necessary analysis that results in a financial plan that places the client's best interests first? Can technology be used to enhance the engagement and therefore the outcomes that a client receives from working with a professional financial planner? Or can the relationship with a financial planner be replaced by a digital portal? By an app? This report examines these questions.

The report unpacks the central premise of best practice financial planning to discover what technology is available to financial planners to support the client journey and outcomes.

There is clarity in what this report delivers:

There is clarity in what this report delivers:

- A navigation through the world of fintech in Australia for financial planners;
- The mapping of fintech companies to the six step financial planning process;
- A snapshot directory of the relevant fintech companies that can be deployed in the six step financial planning process, and;
- An awareness of how Australians are being engaged by fintech companies attempting to win the hearts, minds and wallets of Australians.

This report, because of the very nature of fintech – (being fast paced, dynamic, ever changing, blissfully unaware of financial services regulation, legislation and embedded practice and thus at its core, disruptive) – will be an evolving work. Hence the report has a digital delivery, allowing it to be easily and quickly updated as the landscape, or rather the cloud, shifts and changes formation in the months and years ahead.

The report is also the first step in a collection of work the FPA will be developing for members. Over the coming year, the FPA will be developing tools and resources to assist members take the ideas discussed in this report, and make them operational in their businesses.

Do you know how to fintech?

Here's a statistic that might shock. Since 2010 in the US alone $50b USD has been invested in fintech companies[1]. Many of these companies are scoping to provide financial planning advice to consumers that is relevant, time appropriate, efficient and priced appropriately. The biggest issue for financial planners is not that this is happening. That fact is irrefutable and there is no rewinding of the progress that has been made in the virtual advice forays that has already occurred across markets such as the US. What is and what should be more concerning is that the financial planning solutions that are being provided are purported to be more collaborative, personal and comprehensive than ever before and the suggestion is that they are as such rivalling the face to face proposition of the average planning business.

Many of the tools being utilised by fintech are available to all financial planners and some have been available for some time. They have to a degree been ignored due to a combination of factors such as confusion about the fintech landscape and the speed of change in technology.

Financial planners today can use fintech to engage clients in complex modelling scenarios to client friendly portals. Yet as an example very few financial planners have adopted the client portal online capabilities of their CRM software.

Our research suggests there are three main initiatives that an adaptive financial planning businesses can enact:

1. They can offer clients a personal financial management site, application or document vault.
These sites and apps, host a clients financial information and provide a complete snapshot and then an assessment of a clients financial position. By adding in expense and income flow, this becomes a valuable resource for a client but also a trigger for planning conversations many of which that can have triggers automated by notifications and thresholds that deliver key information to a client when most appropriate.

2. As a result they can deliver financial plans that are not generic.
By capturing appropriate “vault” and cash flow information, the financial conversations and plans that can be facilitated are not generic but highly tailored. Further they follow life stages and ignore the fall back of generic strategy such as modern portfolio theory recommendations (think a generic balanced fund or fund of fund series across a risk profile that is a snapshot in time of how a client was feeling on a particular day!). Rather portfolios are structured based on lifestyle analysis co-ordinated with real time data on a clients financial behaviour.

3. Communication steps up to the modern age in a modern planning business.
Have you Facetimed anyone lately? We do it with friends and family all the time. Expressions, excitement, anxieties all become very tangible. It’s because you see them eye to eye. Wendy Lea[2] in her book *The new rules of customer engagement* wrote “when the person can see eye to eye, they feel more comfortable and natural”. Wendy was writing about video meeting engagement. According to

Cisco recently[3], the new breed of simple, accessible, high-definition video conferencing has ushered in a new era of face-to-face collaboration over distance. From one-on-ones to team meetings, candidate interviews, training sessions, sales presentations – nearly any meeting you can do in person, you can do over video, and equally effectively. Financial planners around the globe are already forging business models around video meetings and live chat that combined are reducing the cost to serve[4].

Over and above all of this, what technology is doing for financial planners, is allowing them to implement planning models that showcase the benefits of financial planning, and deliver it to clients in an efficient and highly engaging manner and where compliance / regulatory requirements are inbuilt into the process.

DISRUPTION

However in Australia the question that remains is: have financial planners left themselves open to disruption (read: the loss of customers) by:

- Not changing business models and creating efficiencies in their business
- Ignoring technology available (example: CRM customer portals with open access to collaboration tools)
- Employing old processes that are inefficient
- And as a consequence a resultant inability to see more clients / prospects.

ADAPTIVE

We believe that the adaptive financial planner and planning business can:

- Have a CRM that is open to clients for collaboration
- Maximise the data in their CRM for identifying trends and opportunities in their client base
- Map their clients' social and employment circle
- Create news items and alerts to clients and their social circle based on an analysis of demographic and lifestyle factors that tap into social network platforms
- Create efficiencies in advice via virtual meetings
- Minimise advice risk via meeting recordings that are embedded into clients' files and planning documents and communications.

BENEFITS

The benefits for the adaptive financial planner are plentiful:

- Higher conversions from prospect to sale
- Greater retention and no opt in leakage
- Referrals
- Higher than average net promoter scores
- Higher profitability and margins well above the average advice business.

Most importantly they are fintech disruption proof which equals thriving in the face of change and changing client engagement protocols.

Acknowledgements

The FPA invited a wide and diverse group of providers within the fintech community to give input into the direction, development and findings of this work.

This paper has been welcomed by the fintech community who have engaged throughout this process for its relevance in mapping the solutions to the financial planning process, and defining and quantifying the advice process efficiencies, in terms of cost and time for financial planner and client.

The FPA would particularly like to thank Andy Marshall for the time, effort and considerable work he's given to this report. We would also like to thank Advice Intelligence, Astute Wheel, Financial Mappers, Iress, Map My Plan, My Prosperity, Suitebox and YTML for their support and feedback.

1 https://www.slideshare.net/Huxley_BFS/fintech-a-global-perspective

2 https://www.inc.com/wendy-lea/new-rules-of-customer-engagement.html

3 Cisco, Sept 2016

4 http://www.xyplanningnetwork.com/

FINANCIAL PLANNING STANDARDS BOARD

Our Shared Wisdom

7 Traits of a Successful Financial Planner

Excel Functions that Every Financial Advisor Should Use

In the Absence of Value, Cost is an Issue

7 Traits in the Making of a Successful Financial Planner

FPAS
FINANCIAL PLANNING
Association Of Singapore

By Joseph Paul Kennedy, CFP

What are some discernible attributes that you believe sets one adviser apart from another? We are just off the heels of the inaugural FPAS Financial Planner Awards and it is an appropriate time to consider traits that can help you to reach a more successful you. Here is my offering of seven traits that can help you to succeed.

1. Client-centric

We hear so much about being client-centric. It is only natural as our work involves building relationships, developing trust and assisting families to improve their financial health and buoyancy in times of a crisis. Focusing on our client is a basic requirement. As a starting point, address client's issues from their perspective. This often takes time to uncover and requires a willingness to develop a listening ear. [Note to self: Talk less, listen more]. Genuine concern for each client within their own set of values even culture is paramount. Why does he feel a certain way? What experiences has she had to create her current views?

2. Goals-focused

At least once a year step back and take a look at the bigger picture. Determine what you would like to accomplish over the next year. Consider areas in your business that you feel need the most immediate attention. Consider skills you would like to strengthen that can help you reach your goals. Next, break down the goal into monthly, weekly and daily activities that will help you keep on track. You've likely heard the saying "How do you eat an elephant?" - One bite at a time. Remember to record the activity to verify your progress. No matter what has happened in the past, continue to evaluate your results and continue to look at areas that you can control. There will be set backs yet become resilient. Develop an association with others who are like-minded in their resolve to succeed. Seek goals for not only your business, but also your family relationships, physical health and mental health.

3. Embrace & Initiate Change

Okay, so change is happening whether or not we are excited about it. We can expect more technological advances to disrupt our industry and increase in speed. New products will be launched. A welcoming and inquisitive approach will move you to investigate how you can best leverage the new technology and offerings. Determine how they can be used to produce a positive impact on your business and solutions for your clients.

We can also be the force for change and seek to initiate change to improve our business. Take some time to focus on this regularly; perhaps the end of the year is a good time to identify areas that can be improved for the upcoming year. Take a regular and systematic approach to the changes you want to make.

4. Adept at Communication

This involves many aspects: how you communicate, frequency of communication and the message that you are providing to your clients. Verbal and non-verbal communication are provided by both you and your client. What do you tell a prospective clients during the initial phone call and in the first meeting? What is your messaging? Communicate with your clients, regularly and meaningfully. Share short lessons of information that can succinctly educate your clients during a meeting. You may find that a regular newsletter highlighting the “new”, the “often misunderstood”, and the “inspirational” can prove a useful tool. Communicate your value proposition. What is it that you strive to provide your clients? Your clients will have a clearer understanding why they should introduce you to others.

Consider providing a client report to cement the action decided by the client for the upcoming year. It provides a concise track record of successes and shows areas that may still require future action. Without the written report, the decisions and past successes tend to fade away. Use the information in the reports to help clients make better decisions based on facts.

5. Positive Attitude

We all face setbacks. It's how we handle them that moves us forward or halts us into inaction. Our activities won't always produce the results we want. Dig in, take control of what you can control and help your clients solve problems and grow your business. You will find your positive attitude will affect others and your clients and colleagues will enjoy witnessing your progress and success.

6. Motivator

This trait is the ability to influence and persuade others. It goes beyond helping a client become aware of blind spots and helping to create a plan. It brings him to take important action to improve his financial health. In many cases it involves education and anecdotes. Those with the skill of effectively telling a story will likely have the capability to motivate.

Learning sales techniques that help to persuade a client to improve his financial situation moves them closer to their financial goals. Develop an awareness and understanding how and why people make decisions. Read articles and books on financial behavior to improve your ability to understand the decision making process.

7. Entrepreneurial Business Acumen

Make the decision to continuously review your business. Take both a short-term and long-term view that will sustain your practice. Determine the practice you want to create, the services you want to provide and the business approach that is most suitable for you and your clients. Regularly evaluate your offering and keep refining it based on client feedback you receive. Work with a mentor to help you uncover your own biases and blind spots. Leverage on their expertise and views. She could be someone outside of the industry who can give you a fresh perspective. Identify your desired market and delve into the special needs and characteristics of that market. Learn what differentiates you from other financial planners and challenge yourself to make the business decisions that are aligned with your uniqueness.

To increase profitability, consider building your own team or hiring employees so that you can spend more time building relationships and focusing on client development. Is a fee-based approach within your aspirations. Find a way to make it happen if that is what you want.

Assess Your Traits and Strengths

These seven traits are all important. Yes, there are others. I encourage you to reflect on your own talents, interests and even shortcomings and take the time necessary to plan and take action for greater success. I dare say: you, your clients, your prospective clients, colleagues, family and friends will all come out the winner. Good luck!

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Excel Functions Which Every Financial Advisor Should Use!

By Dr. Alok Kumar, Ph.D, CFP, MBA

One of the powerful quotes from Warren Buffet says - *"The most important investment you can make is in yourself"*. This single line of wisdom is highly impactful across people's age profile, geographic divides, work areas and it continues to hold true across all time frames. A simple mantra for achieving success is to follow this quote; which actually translates that we should keep learning while continuing with our respective tasks in hand.

In today's context, computers have proven to be a very resourceful ally. It is so very important to leverage the simple tools available to us in our computers. As a financial advisor, many times we find that clients are not comfortable with numbers spread all across, and the calculations seem daunting for them to understand – unless we convince them by taking through the entire set of calculations. For this, MS Excel proves to be a very handy tool.

In this article I would like to quickly run through some of the financial functions of Microsoft Excel, which I recommend to be used by our financial advisor fraternity. These functions have proved to be quite effective while discussing financial goals, desired corpus, proposed investments, cash flows and other similar aspects with the clients.

While most of us would already be taking help of these functions, a quick recap of some of my favourites might just be worth imbibing for others.

1. Determining the Corpus (Future Value of an Investment)

The first thing any client would like to know is what his capital would become if invested for a certain time frame, assuming a certain growth rate. This might not be simple for a financial advisor to answer from market perspective. But, for the client's satisfaction, a numerical value can be easily arrived at by using the (=FV) function in the MS Excel spreadsheet, taking assumptions, wherever required, as shown in Graphic 1a below.

(Graphic 1a)

FV | fx =FV(B2%,B3,B4,B1,0

	A	B	C	D
1	Money proposed to be invested i.e. Present Value	-100000	Rs.	
2	Proposed Annual Growth Rate (CAGR)	10	%	
3	Investment Tenure	5	Years	
4	Any intermitent payments (PMT) - No.	0	Rs.	
5	Corpus after 5 years i.e. Future Value	=FV(B2%,B3,B4,B1,0		
6				
7		FV(rate, nper, pmt, [pv], [type])		
8	=	161051	Rs.	
9				

This is an important tool which helps to highlight the importance of long-term investing and the benefits of compounding for creating wealth.

Future Cost of A Goal: The same function can also be interpreted conversely in cases where the client shows curiosity to know how much money would be required by him to meet his future financial goal, or the future cost of a goal, taking inflation into consideration (refer Graphic 1b).

(Graphic 1b)

FV | fx =FV(B2%,B3,B4,B1,0

	A	B	C
1	Today's cost of the financial goal (Present Value)	-100000	Rs.
2	Expected annual Inflation Rate	5	%
3	Time period of the goal (years ahead)	10	Years
4	Interrmitent payments (PMT) - No.	0	Rs.
5	Cost of goal at the end of the time period (Future Cost)	=FV(B2%,B3,B4,B1,0	
6		FV(rate, nper, pmt, [pv], [type])	
7			
8	=	162889	Rs.

By making the client realize that cost of his every financial goal is escalating on account of inflation, we can once again re-emphasise the importance of systematic long-term investment to him.

2. Determining the Present Value of Future Receivables (XNPV)

The function (=XNPV) is useful to derive the present value of money, designed to be received at future time lines. It allows us to apply specific dates to each receivable cash-flow (of the future), and then discounted to the present date.

While NPV assumes that the time periods between the cash-flows are equal, for situations where the cash-flows are NOT spaced evenly, XNPV will help us to find the Present Value of such future receivable cash-flows. Graphic 2 illustrates one such scenario.

(Graphic 2)

FV | fx =XNPV(C2,B2:B8,A2:A8

	A	B	C	D
1	Dates	Cash flows	Discount Rate	
2	30/06/19	50000	8%	
3	02/01/20	50000		
4	30/06/20	50000		
5	28/12/20	50000		
6	25/06/21	50000		
7	31/12/21	50000		
8	29/06/22	50000		
9	=XNPV(C2,B2:B8,A2:A8			
10				
11	XNPV(rate, values, dates) = 312739			

3. Determining the Rate of Return on Periodic Investments (XIRR)

'What is the rate of return on my mutual fund investments till now?' This again is a consistent anxiety of many clients. As a financial advisor, while we do try to educate them the difference between absolute return, nominal and effective return, and the CAGR, the tools available in MS Excel will help us calculate, and provide answer to such frequent queries, in an easy and convincing manner.

The function (=RATE) will easily determine the CAGR of the investments done over the time period where the cash-flows have fixed dates (refer Graphic 3a).

(Graphic 3a)

FV | fx =RATE(B3,B2,B1,B4,1

	A	B	C	D
1	Money invested (Lumpsum)	-100000	Rs.	
2	Any intermitent payments (PMT) - Yes	-10000	Rs.	
3	Investment Tenure	5	Years	
4	Current Value of Investments	220000		
5	Rate of Return (CAGR) generated	=RATE(B3,B2,B1,B4,1		
6		RATE(nper, pmt, pv, [fv], [type], [guess])		
7			= 9	%

However, in case of SIP investments, using the XIRR function will allow us to apply specific dates to each cash flow and then provide the CAGR, which is technically referred to as XIRR (refer Graphic 3b).

(Graphic 3b)

FV | fx =XIRR(C2:C19,B2:B19,1

	A	B	C	D	E	F
1		Dates	SIP Amount	NAV	No. of Units held	
2		10/01/18	-5000			
3		10/02/18	-5000			
4		10/03/18	-5000			
5		10/04/18	-5000			
6		10/05/18	-5000			
7		10/06/18	-5000			
8		10/07/18	-5000			

(Graphic 3b)

FV | fx =XIRR(C2:C19,B2:B19,1

	A	B	C	D	E	F
9		10/08/18	-5000			
10		10/09/18	-5000			
11		10/10/18	-5000			
12		10/11/18	-5000			
13		10/12/18	-5000			
14		10/01/19	-5000			
15		10/02/19	-5000			
16		10/03/19	-5000			
17		10/04/19	-5000			
18		10/05/19	-5000			
19	Value of Investment	31/05/19	88234	11.1	7949.0000	
20	SIP Returns		=XIRR(C2:C19,B2:B19,1		= 5.28%	
21	(as on 31/05/2019)		XIRR(values, dates, [guess])			

4. Determining the Optimum Withdrawal from the Corpus (SWP)

Investments are proposed by the financial advisors taking into consideration the financial goals of the client. Building the retirement fund (corpus) is one such goal. It is worked out by considering the client's pre- and post-retirement lifestyle, investment period and years to retirement, longevity, investments proposed and other assumptions such as prevalent market returns for each asset class.

Moving ahead, once the investments are zeroed down for building the retirement fund, the client's immediate query is to know the periodic cash-flows which his retirement corpus would generate, post-retirement, while maintaining his present lifestyle, especially with increased longevity and inflation.

It is here that application of the (=PMT) function comes in very handy. This tool makes it quite simple to calculate, and show to the client, the periodic withdrawals which he can have to meet his post-retirement expenses. It allows us to apply various permutations and combinations by tweaking the size of the retirement fund, investment asset class (equity, debt or balanced for assuming the rate of return), and the time frame for which the withdrawals are sought (refer Graphic 4a).

(Graphic 4a)

FV | fx =PMT(B2%,B3,B1,B4,1

	A	B	C	D
1	Retirement Corpus	-5000000	Rs.	
2	Expected annual rate of return, post inflation, on investment of corpus in balanced fund	5	%	
3	Cash-flows required for 'n' number of years, at the start of every year	20	Years	
4	Future value of the retirement corpus	0	Rs.	
5	Cash-flow permisible each year	=PMT(B2%,B3,B1,B4,1		
6		PMT(rate, nper, pv, [fv], [type])		
7				
8		= 382108		

By tweaking the parameters as per the client's convenience, we can rework and derive the cash-flows till such time he is comfortable (refer Graphic 4b).

(Graphic 4b)

9				
10				
11	Retirement Corpus	-5000000	Rs.	
12	Expected annual rate of return, post inflation, on investment of corpus in balanced fund	6	%	
13	Cash-flows required for 'n' number of years, at the start of every year	18	Years	
14	Future value of the retirement corpus	0	Rs.	
15	Cash-flow permisible each year	=PMT(B12%,B13,B11,B14,1		
16		PMT(rate, nper, pv, [fv], [type])		
17				
18		= 435644		

Conclusion

Conclusion

Likewise there are many other functions and tools in MS Excel which can be leveraged during the discussions with the client. As a financial advisor, we have the fiduciary responsibility of guiding people to achieve their financial goals not only for a few years, but perhaps for their entire life-cycle. In such a scenario, it is all the more important for us to keep ourselves abreast with all the facets of our trade, including regulatory aspect, product dynamics, macro and micro economic picture, technical know-how and soft skills.

We can use the tools discussed above to assist our clients while working with them on their financial plans. This will help us leverage our knowledge and expertise in the best possible way, while keeping the client in the centrum of all our actions.

In the Absence of Value, Cost Is an Issue

Financial Planning Institute of Southern Africa
THE PROFESSIONAL STANDARD

By David Kop, CFP

Consider your favourite restaurant, where only the best quality ingredients are used, and the food is cooked on order to your unique specifications. However, to get this, it costs three times what you're used to, and you need to wait 45 minutes for your meal. Contrast this with a drive-thru takeaway. You get the standard food that is mass produced, precooked and waiting for someone to come collect. The wait time is less than five minutes and the costs are minimal. Which one would you choose? Would you always get the take away because it is cheaper?

If you are looking for the full experience of eating a meal, then the favourite restaurant is the logical choice. If it is the day before payday and you are just in a rush to get a meal in before the next meeting, then take-away it is.

This is why cost should not be focussed on in isolation. Cost becomes an issue where there is a lack/absence of value. So now that our hunger is satiated, how do we apply this to financial planner or financial advisor.

Can working with an adviser help you get better returns?

According to a concept researched and published by Vanguard, named Advisor's Alpha, an advisor can achieve better returns to the tune of about 3% per annum[1]. They have identified three areas in which an advisor can add value namely, Portfolio Construction (asset allocation, cost effective implementation, asset location, total return vs income investing), Wealth Management (rebalancing, spending strategy) and Behavioural Coaching (advisor guidance). I will be focussing on behavioural coaching for the remainder of this article.

Behavioural Coaching

One of the biggest dangers to a financial plan is sticking to a financial plan when emotions run high. There are many examples of investors selling out when there is a dip and thereby locking in losses just before a bounce. A study[2] by Vanguard analysed the performance of 58 168 self-directed Vanguard IRA® investors for a period of five years that ended 31 December 2012. The study showed that period of five years that ended 31 December 2012. The study showed that investors who exchanged money between funds or into other funds had worse performance in their portfolios, when compared to investors who stayed the course.

So, if you are your own worst enemy when it comes to sticking to your financial plan, this is where a financial planner can add the most value.

Back to the analogy

This is where you need to consider your financial plan. Is the financial plan about the numbers or is it about you? Are you getting generic rule of thumb advice or do you have a plan that is tailored to you? There is heighted awareness about what has been termed lifestyle financial planning.

Lifestyle financial planning differs from traditional advice, in that instead of jumping straight into the numbers, the financial planner first takes time to understand you, the client, and what is important to you as an individual, and understanding the lifestyle you want to live now and in the future. Only once this is understood, does the planner jump into the hard facts and numbers and develop a financial plan.

The importance of this process is that, if you get a financial plan that is based on what is important to you and aligned with your personal values and goals, you will be less likely to deviate from the plan, which will lead to better outcomes.

What about six-step financial planning process?

Does lifestyle financial planning make the six-step financial planning process irrelevant? In my opinion, no. The process does not dictate how financial planning must be done, but rather provides a framework in which financial planning could be done.

Step 1 – Establish the relationship

While there are certain legislative requirements that need to happen in this step, the real purpose is that both you and the planner are deciding whether there is a fit and you can work together on your financial goals and needs. After this stage you and the planner would have an agreement to work together understanding what roles and responsibilities each party would have in the relationship.

Questions that could be discussed at this stage[3] are:

1. Who you are?

1. Who you are?
2. How is it you would like the planner to help you?
3. What do are you already doing?
4. In board terms what are you trying to accomplish?
5. What regarding your finances concerns you the most?
6. How on track are you with accomplishing your goals?
7. What is the next step?

Step 2 – Gather Information and Set Goals

In traditional advice process, this is where you would start crunching the numbers. In a lifestyle financial planning process, this stage would be about the financial planner delving deeper and helping the client talk through the life they want to live. This stage is first and foremost about the client's values and then about the numbers.

Step 3 – Analyse the information gathered

The reality is that the analysis stage actually starts in step one and culminates in this step. It is not a step that is done in isolation, but rather through the planner asking probing questions in step one and two, and then only the planner and client will start the analysis process. There may be research that the planner will need to do based on the client's unique circumstances.

Step 4 - Develop and present recommendations

In this step the adviser will present the financial plan to the client. This is where the planner provides guidance and coaching to the client that is needed to achieve their life goals. I have used the words guidance and coaching here, not instructions. It is important that in this step the client is given confidence, that they fully understand the recommendations and in their own mind can justify the action(s) taken.

Step 5 - Implementation

In this step, an agreement is reached on how the plan will be implemented. The implementation could either be trough the planner, other professionals, or if products are needed, directly with product suppliers. The important message here is that action must be taken, otherwise the plan created would become a wasted document.

Step 6 - Review

The review is not just feedback on the performance of the investments that has been implemented. The review process is more of a progress report. The discussion during this step is “When we last met, we agreed that this was the goal, let’s see how we are doing in meeting that goal.”. The conversation is then not about what investment returns was achieved, but rather how you are tracking against your identified goals in your personal drafted financial plan.

Conclusion

If you and your financial planner are in sync about what goals you want to achieve and what lifestyle you want to live, the advice is based on your personal values and the measurement is how you are tracking against your goals, the value that you get out of the relationship will far outweigh the cost. Cost only becomes a problem when there is no value.

References

[1] https://advisors.vanguard.com/iwe/pdf/FASQAAAB.pdf

[2] Most Vanguard IRA® investors shot par by staying the course 2008 -2012

[3] https://www.investopedia.com/articles/financial-advisors/080415/7-questions-all-financial-advisors-need-ask.asp

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Welcome to the quiz! This quiz is six questions long, and you need to answer four out of six correctly to earn four CPD credits. Your quiz results will be provided after you complete all the questions. After you receive your score, you will be able to review the individual questions to see which ones were answered incorrectly. You will be able to take the quiz up to two times.

CLICK HERE to access the online quiz. The questions are also listed below.

Good luck!

Behavioral Ethics: The Joy of Compliance

1. Which of the following was NOT listed as a consideration for trustworthiness in relation to managing and dealing with financial products?

   a. Hidden clauses
   b. Illegal charges or fees
   c. Appropriate risk tolerance
   d. Manipulation of financial product terms

Breaking Barriers to Financial Planning

2. Instead of asking, “what is your net worth?”, why would a financial planner ask multiple questions such as "what is the value of your home?"; “how much credit card debt do you have?”; and “what is your annual household income?”?

   a. To obtain the same data while making the process easier on the client.
   b. To obtain a comprehensive view of the client's financial situation.
   c. To gather accurate data.
   d. All of the above.

7 Traits of a Successful Financial Planner

3. Based on the article, how often does the author suggest that you take the time to review your business?

   a. Once every 10 years
   b. Once every 5 years
   c. Every other year
   d. Every year

7 Traits of a Successful Financial Planner

4. Which trait does the author refer to as the one that has the “ability to influence and persuade others”?

and persuade others".

a. Positive attitude
b. Goals-focused
c. Motivator
d. Adept at communication

Excel Functions which every Financial Advisor should use!

5. What does the function PMT used for on the calculator?

a. An inflow or outflow
b. Variable interest rates
c. Prime maintenance timing
d. The future value of the lump sum payment

In the Absence of Value, Cost is an Issue

6. According to the author, what is the benefit of lifestyle financial planning?

a. It can make the six-step planning process irrelevant.
b. It allows you to integrate more planning opportunities for the client.
c. It results in a financial plan that is based on the client's personal values and goals, which will ultimately lead to better outcomes.
d. It dictates how financial planning must be done.

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