Book Review

The Process of Financial Planning: Developing a Financial Plan

Deena Katz

Authors: Ruth H. Lytton, John E. Grable, and Derek D. Klock
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The Process of Financial Planning: Developing a Financial Plan is the first academic book I have seen that tackles the design and writing of a financial plan with a clear focus from a practice management viewpoint. The book contains sample practice documents, tips, and other tools to integrate the practice of planning with the development of a financial plan. This is a powerful teaching tool since very few academics have financial planning field experience and even fewer are able to convey the realistic professional judgment that is integral to the planning process.

The structure of the book is ideal for use in a classroom situation, with learning objectives, key terms, and discussion questions included. Unfortunately, some key terms have changed since publication; for example, NASD is now FINRA. Yet, this is to be expected in a young, growing profession. It's not a big issue, however, if you keep up-to-date. In any case, the lesson-plan design makes adopting this book for the classroom an absolute breeze.

The authors begin by providing a history of financial planning and explaining the organization and regulatory changes that formed the development of planning from the start. Chapter 1 briefly discusses business models and compensation structures, along with licensing requirements to familiarize students with various firms for which they might practice financial planning. This backdrop becomes a compelling argument for why someone would select the financial planning profession as a career choice.

The obligatory discussion of ethics, regulations, and laws is discussed in Chapter 2 but with samples of disclosure statements and brochure samples that provide a practical framework for the material. The authors even provide writing tips for designing proprietary materials for ultimate use in a planning firm. Included are sample fee schedules and a great chart describing the NASD (FINRA) arbitration process that every diligent planner should understand. However, it would have been good to include the CFP® disciplinary process as well, since many of the students reading this book will probably be pursuing the CFP® marks . Tips from recordkeeping to rebating help the planner understand the sobering complexity of managing a financial planning practice from a compliance perspective.

Chapter 3 covers client communication and explains the subtle blending of technical and counseling skills necessary for planners to accomplish successful planning experiences with their clients. This unique skill requirement sets financial planning apart from other related professions and attracts people with abilities to synthesize complex issues to this field.

Chapter 4 continues the communication aspects by exploring various approaches to the decision making process. This discussion includes the traditional approach of stochastic modeling and Monte Carlo simulations to the behavioral finance approach of applying heuristic biases (mental shortcuts) in the process. The summary of heuristics is good, but a more practical discussion of how to use these decision traps in the discovery process with clients would complete the applied professional framework the authors have chosen in other chapters. For example, a

Deena Katz, CFP®, Associate Professor, Texas Tech University, Personal Financial Planning Division, Akron and Broadway Streets, MS 1210, Box 41210, Lubbock, TX 79409-1210, deena.katz@ttu.edu, (806) 742-5050, ext. 237

dialogue between advisor and client demonstrating how the heuristic "representativeness" could lead the client to faulty conclusions might be helpful.

The systematic process of financial planning is reviewed in Chapter 5 which includes an explanation of where, specifically, the planner must apply his professional judgment to the design and development of each plan. The chapter also describes the "six-step" process of planning but reorients the reader to the mechanics of the critical thinking surrounding the steps. For example, the authors offer seven key questions that must be addressed in making recommendations to the client. These are:

1. Who should implement the recommendation?
2. What should be done?
3. When should the recommendation be implemented in place?
4. Where should the client or other party implement the recommendation?
5. Why should the recommendation be implemented? Specifically, why is it important to the client's financial future?
6. How should the implementation take place?
7. How much should be purchased, saved, or invested to implement the recommendation? Specifically, what is the cost of the recommendation?

Finally, in this chapter, the authors review the differences between a cash flow and a goals-based orientation in the plan. They point out that the strategies are interdependent since one of the primary aspects of planning is to stabilize the cash flow across the client's planning period. But without the framework of goals, the client may lack the motivation to stay the planning course.

Chapter 6 is devoted entirely to the data gathering process and supplies, not only samples, but also discusses realistically how this process might be accomplished. The authors caution novice planners against overwhelming the client with data collection and against relying solely on the quantitative or qualitative data. The authors walk the reader through the data collection process, explaining why certain information is needed and how it will be used within the plan. This discussion follows the "Client Intake Form" in the Appendix, which probably should have been named the "Data Gathering Guide" or just "Data Guide," because that is how it is generally referred to in the industry. In this chapter, the book introduces the concept of risk tolerance and briefly discusses how different planners address this issue with their clients. Although the authors provide an example in the Appendix, it would have been useful to see more examples of what planners use since this is a critical aspect of determining the asset allocation for the financial plan.

Chapter 6 also covers the qualitative interview and discovery aspects that are necessary to the data gathering process. The authors suggest a prepared list of questions to frame the discussion and explain the importance of using Socratic questioning methods to allow the clients to talk through their issues. Sample document tracking forms and goal ranking forms help provide practical application ideas for the data gathering process. For students or novice planners, these samples can be invaluable to assist in adopting styles and methods of discovery.

Following the six-step planning process, Chapter 7 covers the analysis of the data and provides, for the purpose of a comprehensive financial plan, a complete chart of core financial planning content areas that need to be addressed. As in Chapter 5, the authors provide questions that the planner should answer as he reviews each content area. These questions include:

1. What is the client's planning need?
2. What assumptions are relevant to the client's planning need?
3. Can the client's planning need be quantified?
4. How is the planning need currently being met?

These questions put a systematic frame around the development of the financial plan and guide the planner in the selection of product or procedural strategies for the plan. There is a complete chart of products and product features that can be very useful for illustrative and instructional purposes. To further educate, the chart titled "Typical Recommendations that Have Multiple Impacts on a Client's Financial Situation" demonstrates how one recommendation can affect many aspects of the financial plan. Another helpful chart is the "Recommendation Planning Checklist" which reminds the planner of solutions available for the different aspects of the plan. The chart includes questions about all the usual planning recommendations and also has a "Cross Planning Analysis" that addresses overlap situations such as the need for insurance based on estate planning and net worth.

Again, following the conventional planning process, Chapter 8 outlines the implementation and monitoring issues but carefully explains the practice management issues around it. While this chapter does discuss the implementation process, the focus is on the various levels of service the planner might complete and which he or she might refer to others. Advisors should look for accountants, attorneys, insurance agents, or other professionals who would complement the planner activities while understanding the importance of these strategic alliances and referral networks in the implementation of the client's plan. It is equally important for the planner to be able to convey to the client why some goals should be implemented and completed immediately, such as drawing up a will where there is none, versus others that can be delayed without worry, such as selecting a 401k salary deferral. Particularly valuable is the discussion of how the advisor might work with and motivate clients who do not choose to implement a concept that most new advisors never even consider. Sample implementation worksheets for various time-frames help to demonstrate the importance of consistent client reminders of unfinished tasks.

Chapter 9, the final chapter, offers specific guidelines for designing and developing a financial plan. It covers everything from the writing style and voice to what font would be easiest to read. Chapter 9 demonstrates the importance of the plan architecture from cover page to appendices and discusses what each component should convey. As with other chapters, checklists and task lists abound.

At first review, one might be tempted to see this book as an introductory level financial planning textbook. It certainly provides an overview of the industry, complete with regulations and ethics. It also explains the need for financial planning and explains the six-step process that most planners have adopted. Furthermore, it addresses the uses of various tools and techniques for analyzing and drafting the plan. However, the book assumes a level of experience and a frame of reference that would be more suited to upper-level academic students in a capstone or professional practices class where the primary goal is for students to engage in the development of their first financial plan. Frankly, the format with learning objectives and review questions included makes developing the lesson plan for this class a snap. The templates and checklists are particularly useful in providing a framework for instructors to keep the planning process on track and can also be used to assist students in campus financial counseling or clinic situations where a formalized and systematic approach is mandatory. For those purposes, this book is ideal.

Finally, new practitioners should find *The Process of Financial Planning: Developing a Financial Plan* helpful in understanding the mechanics of developing a plan, particularly if they have not had this experience in a classroom setting. While most planning today is accomplished with sophisticated software and many plans are delivered collaboratively and interactively, it is still important for practitioners to understand the process and discipline of plan development in order to ensure that boilerplate drivel is not being disseminated to the public. This book is definitely worth the read. The authors recently released a companion case book which will be reviewed in *Financial Counseling and Planning* at a later date.