

Update: The State of Financial Planning: A Grassroots Perspective

Nancy Opiela

December rolls around and the word “trends” gets bandied about more than usual in editorial meetings everywhere. From finance to fashion, cover stories seek to recap the year just ending and look to the future by answering the questions, What’s in, what’s out? What’s hot, what’s not? Rather than offering an individual’s top-down view of the industry, the Journal of Financial Planning decided to conduct a little bottom-up, inside research. We asked a handful of planners across the country, with practices large and small, to respond to three questions: What changes and challenges have you experienced in your business this year—and what changes do you see in the industry? What will be your focus in the year ahead? And how can the Financial Planning Association, as a professional organization, help you? Accordingly, what follows is a practitioner’s portrait of the state of financial planning.

Challenges and Changes

What’s been the biggest challenge of 2002? Planners had one predictable response: the market. Says Damon Dyas, CFP, of American Express Financial Advisors in Southfield, Michigan, “It’s been a challenge to keep clients calm and help them understand what’s going on. Our clients don’t study historical returns. For them, history begins when they invest in the market. Their historical perspective relates to the question, How much did I invest and what is it worth now? As advisors, we’re frustrated—we wonder when the market is going to turn around and we have almost run out of answers. Our clients are listening to the same refrain: ‘We don’t know when things will turn around—maybe another six months.’”

Ellen Fairbanks, CFP, of the Acacia Group in Pittsburgh, Pennsylvania, agrees that it’s getting difficult to deliver the same advice again and again. “We’ve lost just a few small accounts and everyone else is sitting tight, but they want to know if there’s anything else they can do,” she says. “Some clients may put retirement off if this downturn continues.”

Susan O’Grady, CFP, of Equipoise Wealth Management in Denver, Colorado, notes that many of her clients are expressing frustration “far beyond the patience we request of them.” She says, “None of us has crystal balls and none of us knows for sure how long this downturn is going to last. Some of my clients have given up and are on the sidelines with the idea that, in all likelihood, they will not go back into the market. They are not blaming us, and that’s the good news. They are just saying, ‘This is not where I should be right now.’”

Just as their clients re-evaluate investment plans, many advisors who saw revenues decrease in 2002 have taken steps to ensure the continued profitability of their practices. Explains Patrick J. Horan, CFP, ChFC, of Horan & Associates Financial Advisors in Towson, Maryland: “Because we are primarily fee-only money managers who integrate financial planning with our asset management services, we have been affected by declines in equity prices. Fee-based revenues have fallen significantly in the last two years as the S&P 500 has declined by 40 percent through August 2002. While revenues have not fallen by as much, due to diversified holdings among our client portfolios, they are off nonetheless. To preserve free cash flow and firm profitability, we have dramatically trimmed variable expenses and reduced non-essential staff. We have also increased our direct marketing efforts and seminar schedules.”

Adds Dyas, “In spite of the down market, our expenses are increasing and that’s putting a squeeze on a lot of services that we’d like to offer clients.”

Client Shifts

Yet, while fees for assets under management have decreased, many planners are reporting more knocks at the door. Through August 2002, Jim Sandager, CFP, of Syverson Strege Sandager & Co. in West Des Moines, Iowa, estimates that his firm has talked to 80 prospects, compared with 30 people last year. Still more impressive is

that of the 80 prospects, nearly half became clients, a percentage that is also up significantly from last year. “We’ve increased our follow-up, but the public also has an increased interest in the role that a financial planner plays in making sure clients have clarity about their goals. A planner also can give clients the confidence to build a game plan so that when times are a challenge, they’ll be on track,” says Sandager.

Adds Robert Miller, CFP, of Financial Advisors in Newburyport, Massachusetts, “Many of those folks who two years ago figured they were going to retire in five years said, ‘Thanks, but no thanks.’ Now they are coming back.”

Planners note, however, that many of these prospects have a very different “investor mentality” than some of their current clients. Horan notes that investors have adopted a bunker mentality as they prepare for a potential war with Iraq.

Explains Horan, “In the early 1990s, investors seemed to be very open to investment advice. From 1991 through 1996, it was easy to attract and add clients. But as the bull market soared from 1997 to 1999, investors felt as if they could do it themselves, as virtually any stock or equity mutual fund saw significant appreciation. They did not feel the need to depend so much on financial advisors or brokers in 1998 and 1999 as investing became easier.”

Horan continues, “Beginning in March of 2000 through 2001, investors began to hold tight and not make changes to their portfolios, waiting for the correction or bear market to end. Some began to realize that they could not afford the waiting game or stay invested as they watched their tech-heavy portfolios drop 50 to 95 percent in value—and some of these investors sought financial help. Now, those investors who have not already sold off all their stocks, retreating to cash or real estate, are becoming more firmly entrenched, deep in the foxhole, afraid to even peer over the edge to see what is happening.”

Horan finishes his thought: “The current market and economic conditions have investors very concerned and confused. If we do not see a rebound in the overall stock market before year end, this will be only the third time in history when the U.S. market (S&P 500 index) has had negative returns for three years in a row.”

If O’Grady has seen any changes in prospects and clients, it’s been a general willingness to save more. “There are those who are still throwing caution to the wind and spending as they were several years ago with the idea that whatever will be will be. Most are being a little more pragmatic and reviewing and cutting expenses.”

Miller adds that he’s seen the level of clients’ sophistication increase when it comes to financial planning. “Prospects today understand what their options are—they can open a brokerage account, come to us to help build the portfolio, and so forth. Time was when we had to define financial planning and let them know what to expect from the process. Now, prospects tend to know what they’ll get out of financial planning. What they want to know from us is how our firm differs from others and what our strengths are. Also, I think clients’ expectations are greater than ever before. I’m not talking about investment performance, but in terms of the relationship—how often we talk, what service they get, and what connections I can provide to other professionals.”

Strategic Moves

The market downturn has planners refocusing their business and implementing a range of new strategies. Chief among those strategies is tax-loss harvesting. Sandager notes his firm’s current approach to withdrawals. He explains, “Let’s say the portfolio is 60 percent equities and 40 percent fixed income. Usually on a withdrawal, we’d take out, proportionally, 60 percent from equities and 40 percent from fixed income. However, since equities are so low and fixed-income so high, we’ve been taking 100 percent of the distributions from the fixed-income portion, to the extent that the client has a large enough fixed-income portion, so we don’t sell stocks when they are down. It’s the reverse of dollar-cost averaging.”

Sandager’s firm hired two business development people to focus on a niche area of the market: helping charities educate donors about philanthropy. In addition, they have also more fully embraced “values-based planning.” Says Sandager, “We want to ensure that clients know what’s important to them because it affects what we do from a planning perspective. We’ve gone through training for this approach and this year we have come into our

own, truly for the benefit of the client.”

Lloyd Painter, CFP, of Louisville, Kentucky, spent time and effort in 2002 finding alternative investments for his clients. “You have to kiss a lot of frogs to find a prince. We kissed a lot of frogs last year, but we finally found a prince—an alternative our clients feel good about—and that’s equity-indexed annuities,” he says.

Painter also began talking to clients about long-term care insurance. As a result of their positive response, Painter will set up a separate business in an insurance agency in 2003. Painter says, “In a down market, we asked ourselves, ‘What else do our clients need that we can help with?’ Because of our efforts, 2002 will be our best year ever, with a 25 to 30 percent increase in revenue. That’s primarily from cultivating business from existing clients.”

Across the board, however, at the core of these diverse new strategies, remains the value of the financial plan. Says Robert Miller, “Not that I needed to be reminded why what we do is a tremendously good thing, but it has been nice to see that, if clients make a financial and time commitment to a financial plan, they will be in good shape and achieve their goals. This is not to say that we can avoid market problems, but clients don’t get killed the way so many people have in the last few years. We’d all like stocks to be doing better, but all in all, our clients are satisfied.”

Neal Frankle, CFP, of Wealth Resources Group in Woodland Hills, California, has noticed that people are much more focused on their ultimate financial goals rather than beating the market. Explains Frankle: “People realize now that trying to beat the market without paying attention to the other side of the equation—risk—can be treacherous. Until 2000, few clients were willing to discuss the idea of risk and the inability to reach their financial goals as a result of possible risk. Now, it’s all they want to talk about. Ultimately, this is a healthy change.”

Finally, Damon Dyas notes that clients are more open to meeting in person. “In previous years, clients would look at their statement and figure there was no need to meet as long as the account was up. Now, clients are more willing to come in—that gives me the opportunity to talk about their financial plan. In fact, I’m acquiring business from brokers who just sold investments and didn’t provide a plan and advice. Clients are more willing talk about their goals in light of their investments being down. They now realize that a 401(k) is not a financial plan, it’s just part of the puzzle.”

Industry Impact

How has the industry changed in the last year? As Dyas’ remarks indicate, for many consumers, it’s been a movement from hot stock to big picture. In general, planners report prospects are more willing to pay a fee for advice because they can no longer “throw darts and succeed.” Continues Dyas, “Consumers are beginning to understand that investing is more complicated than picking the best-performing mutual fund. This market has people more open to active management and to the value of diversification.”

Judging from the changing response to her practice model of charging hourly for as-needed advice, Sheryl Garrett, CFP, of Garrett Financial Planning Inc. in Overland Park, Kansas, suspects that the market may be causing some planners to rethink their money management practice model.

Says Garrett, “When I started going public about how I work—on an hourly, as-needed basis—the feedback I received ranged from ‘That’s silly. You’ll grow out of it’ to ‘That’s interesting, but it’s not for me.’ Recently, I’ve had a few veteran planners say, ‘I’ve been watching and reading about you and I am starting to rethink how I charge.’ What our industry needed was for a few people to become role models.”

In fact, Garrett’s firm is busier than ever, with more revenue and more clients. She stopped taking on new clients at the beginning of 2002 and added another CFP practitioner and paraplanner to her staff. “Because of the way we are positioned, accessible to everyone and charging by the hour, our revenues increased over the past few years at a steady clip. Those planners who charge for asset management or have a retainer-based arrangement are positioned more as money managers rather than financial planners, and consumers are looking back and

asking, 'What did I get for what I paid you?' I'm really blessed that I decided to be a holistic financial planner and not an investment manager."

Through the two-year-old Garrett Financial Planning Network, Garrett has offered her expertise to 113 planners across the country and interest continues to build. "You don't have to sell products or gather assets, you can be a financial advisor," she says.

Miller, too, notes a movement back toward the value of the financial plan. "In the last three to five years, I saw planners who used to construct thoughtful financial plans moving away from that to become money managers," he says. "Lost in all that was the client and his or her goals. Our profession got away from the fundamentals and that movement continues to plague some planners. If we call ourselves financial planners, there has to be more to it than just getting the money under management. Written financial plans are the backbone of what I do. Everyone commits to a financial plan if they want to become a client. How can you give advice without understanding the entire financial situation?"

Goals for 2003

What challenges will the new year hold? Miller's goals are to continue to balance developing the infrastructure of his practice with bringing in new clients and assets. "I'm not sure anyone knows if they do this properly on an ongoing basis," he comments. "Managing growth during an unsettled time is a particular challenge. Although our clients are satisfied today, we wonder how much more of the market decline can they take before they pull out."

Patrick Horan notes that the biggest challenge of 2003 will be to convince investors to "trust the stock market again after 29 months of decline, corporate scandals and tremendous uncertainty created in part by the events of 9/11." The real challenge, he says, will be to get investors to embrace the premise of long-term investing. "Even young people adding to their 401(k) plans have their doubts," he says. "Just this past Saturday at a wedding, a 27-year-old woman at my table told me, after she learned I was a financial advisor, that she had shifted her entire 401(k) plan assets to the government securities mutual fund in her plan. This is not the first time I've heard this from younger investors."

Balance is also 2003's challenge for Neal Frankle. He says, "For clients to reach their goals, they will have to hold equities and have a strategy for managing risk. In the past, people talked about 'equities for the long haul' and they were willing to accept the risk—as long as it was hypothetical. Once risk was translated into significantly lower account values, people's focus shifted. Now they are looking at safety and many are extremely risk-averse. I fear many will throw out the baby with the bath water. Balance is required in terms of temperament and approach. People need to have equity in their portfolio in order to achieve their goals—it is not a luxury but a necessity. They also need some strategy to take their emotions out of the equation and to manage risk. While before, many people paid no attention to risk, now it's all many think about. That will translate in zero tolerance for capital fluctuation and it will hurt the American investor."

Garrett plans to keep her half-time schedule on the financial planning side in 2003 and dedicate the remainder of time to development of the Garrett Financial Planning Network, which added 50 planners in 2002. Says Garrett, "I used to get calls from all over the country from people who wanted to work with me but, for a \$500 engagement, it just wouldn't make sense for me to get registered in the state of Mississippi. I didn't have any place to refer them to. My network has given me a place to send these people and in the 14 months since we launched a geographic locator on our Web site, we've had 16,000 hits."

Garrett also will spend time promoting her new book, *Garrett's Guide to Financial Planning: How to Capture the Middle Market and Increase Your Profits*. (National Underwriters).

Having obtained his LTCP (Long-Term Care Professional) designation, Lloyd Painter plans to broaden his outreach with long-term care in the year ahead. "We recognize what a tremendous problem long-term care is and therefore what a great opportunity," he says. "We'll buy a mailing list and from that try to get more people into seminars. Ultimately, the long-term care business will feed my money management business."

How Can FPA Help?

Planners' responses to the question of how the Financial Planning Association (FPA) could lend a hand, particularly in this down market, varied greatly and, in a large sense, depended on each advisor's business model and years in the business. However, all expressed appreciation of FPA's historically strong support on the education and regulatory fronts.

Miller sums it up this way: "I appreciate that FPA offers different tools and resources for us, knowing that some will work and some won't. Also, I give FPA solid marks for acting as my voice and advocate on regulatory issues and the advancement of the profession—not to say there isn't more that could be done. In the education area, I take advantage of Retreat, read the Journal of Financial Planning, and attend FPA regional meetings—it all pays tremendous dividends."

Planners acknowledged the value of FPA's community building effort and encourage the organization to expand those efforts via special newsletters and online offerings. Says Jim Sandager, "I see FPA as our tool shed. FPA is an excellent resource for cultivating a dialogue with other planners—from the Journal of Financial Planning, to chat rooms, local and national meetings, and study groups. There are a number of planners I call regularly for their input and opinions, and I would not have met them had it not been for FPA. I'm interested in knowing who's doing what I am, and how are they doing it. Is the profession as a whole becoming more comprehensive and more holistic? The feedback I have is, yes, it is."

When it comes to a wish list for FPA, planners' ideas range from services to facilitate their work, to money-saving offers. For example, Miller would like it if FPA could become "our consumer report with respect to all we need to run our practices." He explains, "I've been trying for close to two years to replace the financial planning software I use. I'll try something and put it down and periodically read reviews that are helpful, but I wish there were a source that could boil it down for me and say, 'Here's what might work in a practice like yours.'"

Susan O'Grady draws a distinction between what FPA provides to her as an established planner versus what the association offers to recently minted planners. "It's a different suite of services," she says.

For the established planner, O'Grady suggests that FPA research group insurance. She explains, "We all go out and individually seek coverage that could be offered through the trade association. That way, as small, entrepreneurial boutique practices, we'd have resources available to us without paying an arm and a leg, and would be better able to attract employees."

O'Grady also suggests exploring an FPA 401(k) plan. "I'm not sure this can be done, but it would be intriguing to explore whether FPA as an intermediary could offer a 401(k) plan. I have a SIMPLE and it's working out just fine, but it would be nice to know that there were other options available, especially as our profession has so many sole proprietors and very small practices."

For Horan, the biggest benefit FPA could offer also comes in the form of group pricing for a variety of insurance, such as errors and omissions. He says, "More competitive insurance premiums would be nice. Discounts on software or business products would be welcomed. I think the organization should try to obtain more discounts from third-party vendors."

Frankle suggests that FPA could assist CFP certificants and CPAs in the formation of strategic alliances. "This is a natural alliance and I have not seen any organization carry the ball," he says. "Forging these alliances would benefit CFP certificants, CPAs and clients. I believe that a CPA cannot be both a practicing CPA and an effective money manager or financial advisor. Being a financial advisor is a full-time job, even during tax season. Try to call your CPA in February and ask what he or she thinks about the current investment climate. It isn't going to happen. CPAs need to have a strategic alliance with the right CFP professional, and FPA could facilitate that."

Garrett feels it's important for FPA to continue strengthening career assistance. "It's important that graduates with

degrees in financial planning understand that there are paths other than becoming a registered rep,” she says. “FPA’s Residency program is great, but we need to concentrate on making that level of support available to more people. Because the Residency program is expensive and requires a lot of time away from work and family, it would be valuable if FPA could offer a lighter version of that in a virtual setting to give more people exposure to expertise on how to make the transition from classroom to practice.”

Garrett would also like to see more mentoring programs or networks like hers. “I hear young planners say they don’t feel ready to make a particular career move, but the truth is, they are probably just as ready as they are ever going to be and they need to dive in,” she notes.

For the encouragement and enrichment of those planners just starting a practice or making a transition, Garrett would like to see FPA make available, ideally online, profiles of planners describing how they began their career and structured their practices.

In closing, while the FPA wish list may be long, what also resonates from planners is independence and an entrepreneurial spirit. Says Ellen Fairbanks, “Public relations campaigns are one thing, but there’s no amount of spin that can change the reality that when clients look at their statements, they are down. We have to handle that individually with each client.”

Patrick Horan concludes by putting his own positive spin on what, for most, has been a difficult year: “Like any other professional, the lessons we learn are critical to the assistance we can provide our clients. The current down market will make me stronger in that it adds to my experience. I’ve lived through many different economic situations, tax laws, presidencies and other variables during my 21 years as a financial advisor. The more experiences I have and the longer I live and excel in this business, the more beneficial I will be to my clients.”

Nancy Opiela is a freelance writer, an associate editor of the Journal of Financial Planning, and is based in Medfield, Massachusetts.