

Financial Life Planning: Moving to Q2 Inquiry

by Roy Diliberto, CFP, and Mitch Anthony

Roy recently facilitated a Financial Life Planning workshop for T.D. Waterhouse clients and was discussing how qualitative discovery is at the core of all good advice. “Quantitative recommendations and technical expertise,” he pointed out, “are tools that should be judiciously used to help people achieve their goals and dreams. They are the means, not the ends.”

One of the participants shared that she was very uncomfortable with her mortgage debt, wanted to pay it off, and had the resources to do so, but her accountant advised her to not do that because she needed the tax deduction. In other words, he convinced her that her satisfaction and peace of mind were not nearly as important as that write-off.

Each year when this woman and her accountant met, she would express her discomfort, and the advice never changed: “Keep the debt or lose the valuable deduction.” While this decision didn’t feel right to her, she followed the accountant’s advice because “that’s why I hired him.”

Roy could not have created a clearer example of quantitative advice gone astray than the one shared by this woman. By the way, the last piece of information she disclosed was her age. She was 81 years old! While we have never met this CPA, his actions remind us of something written by Oscar Wilde: “Some people know the cost of everything, but the value of nothing.”

As the above story illustrates, the public has been told that all their money issues should and can be solved through a myopic focus on mathematics. “Let’s take your age, the amount of money in your portfolio, run some calculations and presto! Here’s the answer for your life.” The financial services profession and its practitioners share some responsibility for this perception, along with the media, as too often we rely exclusively on calculators to solve problems that are better weighed by conscience.

The over-emphasis on quantitative factors results in a process that is skewed more toward what a client has than who a client is. How can we begin to balance the books between quantitative and qualitative factors in developing a financial plan? By moving toward a process that forms the foundation for financial life planning, which Mitch refers to as the “q2 inquiry.”

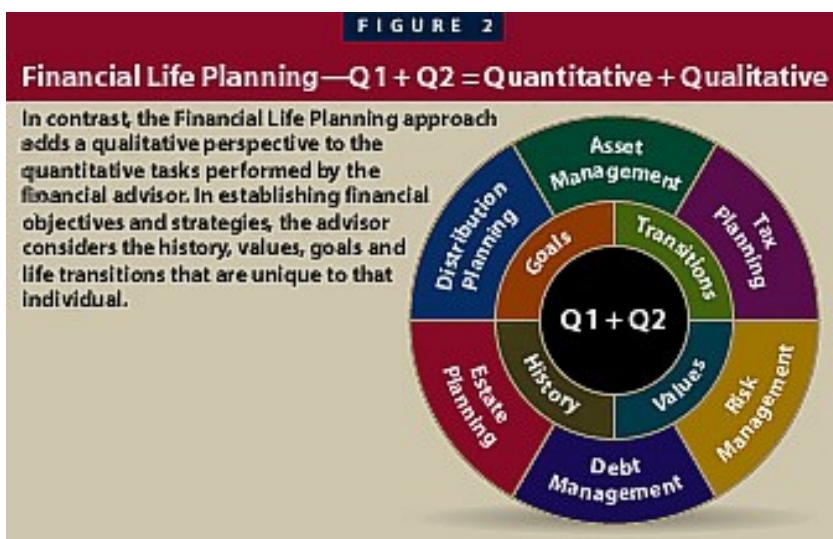
The goal of quantitative inquiry is to establish objectives as expressed in mathematical terms (such as amount needed, return expected, time needed and time for accumulation). These calculations are necessary for the client but are not waterproof, unless we also have performed sufficient qualitative inquiry—the establishment of objectives as expressed in emotional terms regarding the concerns, goals and principles unique to that client. When this balance is achieved, you have optimized the dictum, “know thy client” and entered into q2 inquiry. It takes equal and accurate measure of both mathematical and “life” factors to develop a plan that will work at both the quantitative and qualitative levels.

In the financial planning model, shown in Figure 1, we seek to help the client in the areas of asset management, risk management, debt management, tax planning estate planning and distribution planning. Although each of these areas is critical to financial well-being, there is an underlying assumption inherent in the quantitative approach used to perform these functions. The assumption is that Roy and Mitch are essentially the same, and the only thing that really needs to change in developing their plans are the numbers. Is this an assumption you would want someone to make about you—compared with the businessperson just down the road?



As good as Roy’s principles may be, Mitch is not comfortable with the assumption that his values and principles about money are the same. Neither is he comfortable with the assumption that his history, present circumstances and future hopes are the same. Yet, by virtue of a process that leans too heavily on mathematical function, these assumptions are made unwittingly thousands of times a day across the financial planning landscape.

How can we avoid making such assumptions? By inquiring at the qualitative level before inquiring at the quantitative level. After all, the numbers are important only from the standpoint that they deliver the quality of life the client desires. The numbers should not exist to drive the life, but to support it. If we believe this, we must place primary emphasis on qualitative issues, and a secondary, supportive emphasis on the quantitative. This, in a nutshell, is the philosophical footing of financial life planning. (See Figure 2.)



Four Cornerstones

At the core of the financial planning process is the life of the unique human being for whom that process is being used. Financial life planning recognizes four arenas of that life need to be understood in order for the financial

processes to be “spot on” and lead to fulfillment for both client and planner. These four life cornerstones are

- The client’s history
- The client’s present circumstances (transitions)
- The client’s hopes and goals
- The client’s principles and values toward life and money

Historically, the financial planner’s inquiry process, at the qualitative level, has been largely focused on the “goals” question. Roy used to believe that he was fully addressing the qualitative issues by discovering his clients’ goals. But he learned that inquiring only about goals—without balance being given to history, present circumstances, and the value set of the client—can and often does lead to disappointment. What is the point of building a plan around a goal, which will be quickly usurped by a present circumstance the client is facing but not disclosing? Do we really serve a client by developing an estate plan that arranges for optimal distribution but does not express optimal distribution of the client’s values and principles?

Mitch recalls a conversation he had with a retiring ranch couple, Doug and Harriet, who were uncomfortable with their estate plan. They had paid good money to have their plan drawn up, and they had spent many sleepless nights and anxious days wrestling with what they had committed to on paper. They told Mitch about how many families they had seen torn apart over the money after the parents died. Doug said, “I’d rather die broke if it meant having the kids stay together. But if I did that, they wouldn’t be too happy with me, would they?”

Doug and Harriet’s problem could not be solved by more quantitative inquiry. Whoever facilitated this process simply neglected to lay the proper foundation with necessary qualitative inquiry. Consequently, the end result was anxiety for the clients instead of the peace of mind they were promised. What if the planner who facilitated this process had started with a financial life planning perspective? What difference would it have made? The financial life planner would have inquired into their history, present circumstances (transitions), hopes and goals, and values and principles to ensure that the recommendations were a tailor-made life fit—which paid emotional dividends as well as material dividends.

Following are the reasons these four inquiries are indispensable to serving the client’s life needs:

Inquiry #1: History – Learning about your clients’ pasts reveals...

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- The culture their values are rooted in; how their character was formed
- The formative experiences that shaped their ideas
- How they value money
- Their past experiences with financial service providers

Inquiry #2: Transitions – Learning about your clients’ present circumstances reveals...

- Obstacles they may now be facing
- Situations that could undermine future goals
- Their areas of stress and concern
- Insight into their ability to prepare

Inquiry #3: Hopes/Goals – Learning about your clients’ hopes and goals reveals...

- Their fondest wishes for the future
- The troubles they hope to avoid
- What they value most with their lives
- What they hope money will provide

Inquiry #4: Principles/Values – Learning about clients’ principles and values reveals...

- How they want their money managed
- Whether you have a values match or mismatch with them
- What ideals they want to shape their legacy plan
- Their ethics regarding work, family and society

Every question that arises from qualitative inquiry has financial implications for the client in that you are attempting to develop a plan that reflects who they are as well as what they have. This is why we use the term “financial life planning” to describe this process. If the answers to the questions did not have financial implications, then the financial planner has no real business asking the questions. We have made the observation, however, that the majority of questionnaires employed in financial services “ask much, but tell very little about who our clients are.”

You as CFO

Imagine that you are approached by a young, flourishing enterprise to act as their chief financial officer. Before taking that assignment, we would imagine that you would want to interview some of the key players at the company—including the founder—to learn as much as you could about the life of that firm. You would want to know, before agreeing to invest your life in their life...

- The reasons for starting the business and how it arrived at its present state
- The traumas and growing pains the business was experiencing, as well as expected transitions
- Goals for product development and market expansion, and their history of meeting goals
- The ethos by which the company was run

This business analogy fits the clients you serve. In the above scenario, your inquiry would be concerned with the history, transitions, goals and principles of the firm before you invested time in running the numbers. Financial life planners recognize that they are acting as CFOs as well as a CFP professionals for the enterprisers who come to them for help. They also recognize that running the numbers can, in fact, be an exercise in futility, if the life of the client is not properly understood.

Once clients experience the q2 inquiry process, they feel like the planner is in touch with who they are and not just what they have or where they’re headed. Client understanding and client connection become the foundation for the advisor/client relationship—as opposed to numerical expectations.

The financial life planner recognizes that there are many questions that must be answered in order for the process to be a perfect fit:

- Who is this person I am working for?
- Why do they want this done?
- How should it be carried out?
- What do they need?
- How much will be needed and how long will it take?

The wisdom of financial life planning is in knowing which questions should be answered first.

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