

The Financial Planner as Decision Maker

Financial planners are decision makers, both as individual practitioners and when working with clients or staff. Deciding what recommendations to give clients based on analyses of their situations is arguably the most important professional function of financial planners. However, the author has found little attention given to appropriate decision-making methods specifically for financial planners who must recommend a course of action for clients and create consensus among colleagues. This article explores decision-making for and by financial planners, and suggests criteria for evaluating the quality of this process in a financial planning context.

by Glenn Kautt, CFP, EA

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We started making choices early in life. Our parents remember us starting to make up our minds—termed by behavioral scientists as *making decisions*—at home when we entered the terrible twos. As children, many of us played a game called "King of the Hill," where being the leader was based on our ability to get control of a particular area. Often, this was a contest of physical prowess and strength, but sometimes it was a matter of intellect and strategy. In the game "Mother, May I?" we needed to follow instructions given by "Mother" to win. The process was pretty much black or white. We found out early in life that decisiveness is difficult for some but intriguing for others.

The ability and desire to make decisions attracts many to the financial services industry. That's not surprising, as exploring and exercising options are critical functions of a financial planner, arguably the most important. This appeal is not without problems, however. In every industry and profession, decision-making is one of the easiest things to get wrong. Making wise choices separates the merely adequate from the truly great. Those in positions of public responsibility are regularly evaluated by the quality of their judgment, often by a critical media. You would think, then, that people who aspire to positions of success, leadership and increasing responsibility in their businesses would learn better decision-making skills.

In fact, formal research suggests most senior executives often get it all wrong.¹ Why is that? In many cases, it's because financial planners and other professionals who make a living by making decisions really don't know better—they think they really *did* learn everything they need to know in kindergarten. Nothing could be further from the truth.

What we learned in "Mother, May I?" has very little relation to financial planning today. Decision-making is rarely a black-or-white, all-or-nothing event. Yet some people in positions of considerable responsibility, such as financial planners, assume that making a decision is an event leading to a discrete choice, which takes place at a single point in time and leads to a single outcome. In some ways, this classic view parallels the use of deterministic financial planning models—a discrete outcome based on a set of inputs that do not change. This is not unexpected. Every competent planner has crunched a significant amount of numbers and feels quite comfortable making decisions based on "hard data."

This author has written previously about financial planning modeling.² As financial planners know, a planning model develops an outcome based on input assumptions. Deterministic models give a single answer. The inherent weakness of these models stems from the fact they do not consider the possibility of changes in the actual behavior of the input variables. The difference in the outputs of financial planning models that do and don't consider the possibility of future variability is striking.

The difference between professionals who make good decisions and those who don't is also striking. Unfortunately, some financial planners view decision making as a single event where inputs are considered and—*cha-ching!*—out comes a decision. Those who operate in this framework overlook the larger social and interpersonal context that often determines the ultimate success of the decision. Making a good decision isn't a mystery, but it is a process. Good decision makers recognize this and develop the framework to manage the process. Poor decision makers live in a world where they believe they control the event and outcome themselves.

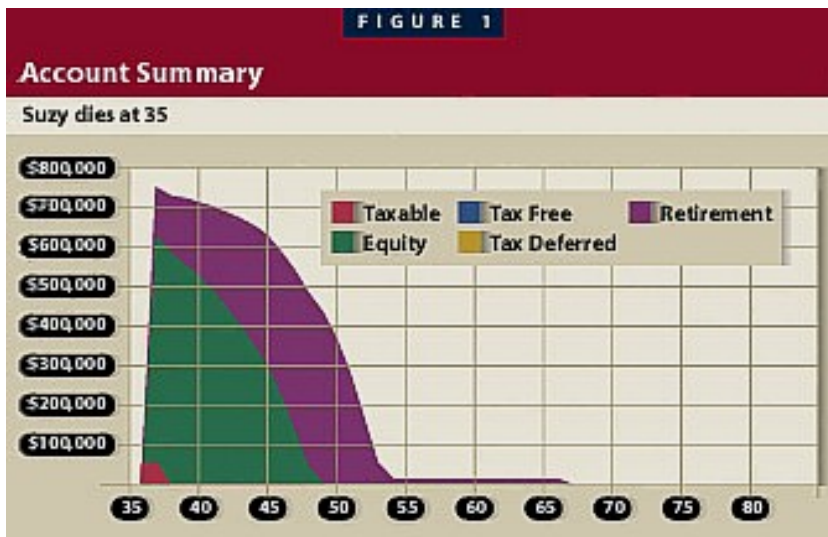
2 + 2 = 4...or Does It?

For planners, many decisions appear relatively clear-cut when based on numerical analysis. For example, the traditional insurance analysis conducted by many financial planners is based on assumptions for future living expenses, current insurance coverage and the expected longevity of the survivors. The analysis yields a surplus or shortfall—indicating a need for more or less insurance. Straightforward? Yes. Always correct? Probably not. Let's examine the process of deciding whether to purchase a certain amount of coverage.

In the early years of a person's working career, they usually make insurance purchases to replace some or all of their earning power. The decision by the buyer is always based on how much is needed, right? In reality, a substantial amount of insurance is bought based on what the buyer can afford, or is limited to the employer-provided program offered. That admittedly poor decision-making process is an example of a discrete choice taking place at a single point in time, which yields a decision likely to be inaccurate and inappropriate.

Insurance professionals and financial planners use a better decision-making process—a capital needs analysis, which leads to a recommendation for a specific amount of coverage. As an example, let's look at the case of Suzy, a 35-year-old, married woman with two children. Using a capital needs analysis from a typical CFP curriculum, we use inputs for how long she will work; the budget necessary to support her family if she dies; and other factors, such as tax rates, inflation, rates of return on the invested proceeds from the policy, longevity and whether she will choose to keep the insurance past the point necessary to support the family. (Read that decision process as estate planning.) If she purchases permanent insurance, there are other choices to make that affect the outcome, such as the selection of a level or variable benefit, payment options and so forth.

Using a commercial financial planning program, we enter the appropriate variables to determine the shortfall.³ Let's see what happens with the following typical assumptions: She makes \$100,000 before taxes each year and she has invested assets of \$100,000 in her retirement plan plus \$50,000 in after-tax savings, with an annual after-tax budget of \$62,500. This includes annual contributions of \$12,000 to her company 401(k) and all the living expenses she contributes to the household for herself and children. She will work until age 65 and intends to pay for a college education for her children, now aged five and nine. Her annual portion of each child's college expenses will be an additional \$8,000. Both of these expenses will be gone after each child finishes college. If she dies, living expenses will not diminish, as her personal budget will be replaced by the costs for a live-in housekeeper for the children. Figure 1 shows the results in the form of a graph of remaining assets, which last until the 5-year-old is 21. This translates to a current need for insurance coverage of \$500,000.



This result is typical of an analysis from any competent financial planner. So, we're done with this and the decision is easy, right? Actually, we're not quite done.

Is That Your Final Answer?

We really can't be sure about the quality of our judgment until we validate the methodology. At this point, let's look at the insurance planning example a bit more.

Completing the decision-making process demands answers to questions outside the traditional capital needs analysis. For example, does the client have a budget limitation for insurance? How's her health? What are her emotional needs regarding insurance? Has she drastically under- or overestimated the necessary expenses for a specific lifestyle and financial security for her children? What is the expectation for her financial situation in the future? Will there be another marriage in the near future? Will there be more or fewer financial obligations? And so on and so forth.

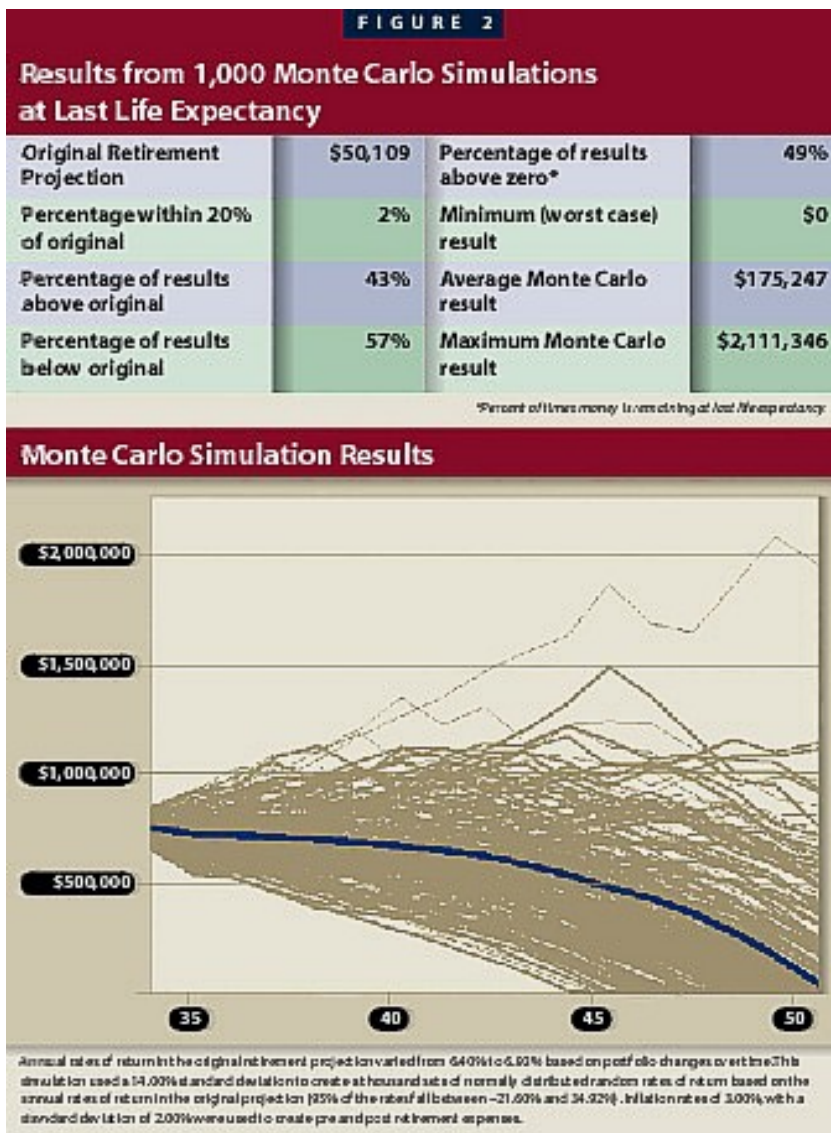
Clearly, this decision cannot be made in a vacuum. To solve most problems, the decision-making process requires collaboration between planner and client. Let's assume we have asked the client every pertinent question and have collaborated to consider all the alternatives she may have control over or that she desires as the outcome. Even if we have done all these things, a deterministic capital needs analysis gives an answer that does not consider the real uncertainty of the future. From a decision-making perspective, the actual future experience may vary substantially from the analysis' projection. In short, we realize the single-point answer just doesn't cut it.

Today, financial planners are at a professional crossroads. Tools are now available to help improve the process, but these new tools generate results that fly in the face of the traditional, single-point answer. Because this is the case, planners are faced with an important choice in decision-making: Are they emotionally ready to employ a better analytic process because they realize they can't figure out the one right answer—the "perfect" solution? Can they surrender to the "fuzziness" of the process and outcome, rather than play to their professional egos, which demand they deliver the one right answer? The answer needs to be yes, because good decision-making requires it.

Because the future is uncertain, we have "fuzzied up" our insurance needs analysis by applying a stochastic forecasting process.⁴ Using this process, we can inject a number of uncertain variables, such as the return from her investment portfolio, longevity or the budgetary needs of her children if she dies. For purposes of clarity and illustration, we allow only one parameter, the return on her investment portfolio, to vary. However, it is just as reasonable to change the other parameters.

Some readers may be wondering, *why be concerned with investment return? Isn't the death benefit from the policy fixed? I'm not interested in some variable life policy!* In this example, we're not interested in it either. Remember, after the client dies, the assets must last long enough to provide for the children's living and educational expenses. Thus, the proceeds of the policy must be invested for a period of time, so future investment return is a key uncertainty. The output of the stochastic model gives us a range of answers expressed as the probabilities of specific financial outcomes. Given the inputs we have used, we see a 49 percent probability the children will not have enough money for living and college—it is highly likely they will run out of money before they finish school.⁵

In Figure 2, we see a large number of individual lines, each representing one possible financial outcome over time, which have merged on the paper because of their close proximity. Even if we cannot discern each individual line, it is clear many of the lines fall to zero before the year of the last child's graduation from college, at the client's age 52. The top right of the figure states "Percentage of results above zero." This number is 49 percent of all the lines. The overall result is not a specific number, but a range of possible outcomes.



To satisfy the client's needs, we must collaborate with her to determine what level of probability she is willing to accept. Before you jump up and say, "She has no idea how to do that!" remember that people make probability-based decisions every day when they listen to the weather forecast and decide whether to take the umbrella, ski parka or sunglasses. The point is not whether they can make these kinds of decisions. The point is that, to make good decisions, the decision-making effort must be thought of as a process that examines a number of possible outcomes where a collaborative solution is developed with input and consideration from all participants. Implicit in this type of process is understanding that actual future experience is unknown and subsequent recommendations will be modified in the future. In this way, the planner acknowledges the inevitability of future uncertainty and incorporates it into the decision-making process with the client.

Do You Know the Way to San Jose?

How does this kind of tool help us? To answer that question, let's focus on the ways we arrive at our recommendations. In the broadest sense, for financial planners, good decision-making is a process that unfolds over time—in some cases, years. When it involves more than one person, it is generally carried out in one of two ways: using advocacy or inquiry. The major features of each are compared in Table 1.

	Advocacy	Inquiry
Concept of decision making	• A contest	• Collaborative problem solving
Purpose of discussion	• Persuasion and lobbying	• Testing and evaluating
Participants' role	• Spokespeople	• Critical thinkers
Patterns of behavior	• Strive to persuade others • Defend your position • Downplay weakness	• Present balanced arguments • Remain open to alternatives • Accept constructive criticism
Minority views	• Discouraged or dismissed	• Cultivated and valued
Outcome	• Winners and losers	• Collective ownership

Source: "What You Don't Know About Making Decisions" /Harvard Business Review, September 2000, pp. 106-116.

Let's look a bit closer at the differences in these approaches. Behavioral scientists have divided the process into three major areas of activity: (1) the initial discussion that often promotes conflict, (2) the melding of various ideas and positions in the discussion that lead to consideration of each participant and (3) ending the discussion and analysis in order to reach a conclusion and have closure.

Conflict. Conflict comes in several forms. Professional educators talk about "cognitive conflict" and how it is a useful paradigm for learning both basic and advanced subjects.⁶ Another form of conflict called "affective" has been widely reported as detrimental to learning and team performance.⁷

Cognitive learning and cognitive conflict both involve thinking—hence the key descriptive word from *cognitio* ("to get to know, learn").⁸ Behavioral scientists describe cognitive conflict as a process that starts with a set of ideas, laws, beliefs and attitudes. The conflict is precipitated by a "crisis" where someone criticizes established positions, theories or ideas, leading to the conflict. Conceptual change comes when competition between the old and new lead to a new set of ideas and solutions. In a decision-making context, this is like a case study where the total amount of information makes simple solutions—such as "Mother, May I?" with its yes or no answer—unacceptable. A solution may address one part of the problem but create another one. For example, in our insurance analysis, the client may want a 95 percent probability of financial security for her children, only to discover the cost for that level of coverage creates a budget problem.

Cognitive conflict requires the planner and client to focus their attention on assumptions underlying a particular issue. They engage in discussion rather than debate, presenting their views. Using cognitive conflict, the planner and client examine, compare and reconcile substantive, issue-related differences. The proper goal is to advocate but then drop their advocacy to arrive at consensus. The final consensus should not be an advocacy position "cast in concrete," never to be altered. This is critical in the face of the uncertainty of the future.

Even for many experienced financial planners, this will be a new way of thinking about engaging with a client. The hallmark of a good financial planner is the ability to sort through myriad data, sift through emotional issues and present one or more feasible recommendations. The problem is that over half the planners in business today are compensated in whole or part by the sale of financial products. Implementation of recommendations is a requirement for these planners' income. Because of this, sometimes planners must ensure that recommendations are implemented and products purchased. As a result the planner's recommendations are presented in an advocacy framework. This is unfortunate.

At this point, many planners are thinking, *I'm paid to give advice, right? Why wouldn't my client want to take my advice?* Actually, there are several reasons. One is the result of another kind of decision-making process, which employs the alternative, "affective" conflict. Affective conflict is harmful and counterproductive. These unfortunate conversations center on disagreements over personalized and individually oriented matters. Discussions of this sort are usually debates over incompatible personal positions and can degenerate into heated discussion with little

resolution. Generally the use of affective conflict results in a decision based on the most persuasive argument. At its worst, this can degenerate into avoidance, distrust or even anger for clients. If a planner and client experience affective conflict, there is typically little or no commitment to decisions or recommendations. How could such a conflict possibly happen? It could happen if a planner assumes his or her analysis is absolutely correct and the resulting narrow-minded bias precludes any discussion.

In the context of financial planning, ask yourself these questions:

- Is decision-making a collaborative effort in my firm or is it more of a contest?
- Am I "selling" my analysis, or am I evaluating outcomes with the client?
- Do I have alternatives to my recommendations, or is it "My way or the highway"?

At times, all of us are guilty of forgetting the art of persuasion and using the emotional or verbal equivalent of a sledgehammer. Nevertheless, striving for collaboration is critical to the most effective decision-making process between client and planner.

Consideration and closure. Effective decision-making considers all positions and provides a mechanism for closure as part of the process. Even when the planner has a clear idea of what should be done to achieve what is best for a client, consideration creates a much better chance of implementation success. Consideration is the act of allowing all positions and ideas to be heard. Using the inquiry form of decision-making shown in Table 1, minority views are cultivated and valued.

Consideration does not mean giving every input equal weight, however. In a recent discussion with junior professionals at our firm about "being heard" during company meetings, my vice president of planning said, "Clearly state the problem and deal only with that one issue. Build a case and present your evidence (use facts, not intuition). Argue your position and why things should be changed, or not changed, or done a certain way." In this fashion, the participants remain open to alternatives, realizing they will not prevail simply because of a more forceful argument. Ultimately, everyone has "ownership" of the decision because of consideration. Without consideration of all sides, the outcome will not have the highest acceptance by all parties.

Closure is a necessary part of the process to bring the inquiry and constructive conflict to a conclusion. Closure in the inquiry mode is acceptance of the inputs. Closure comes after the ideas and proposed solutions have been critically evaluated, tested, and either accepted or rejected. In one sense, closure is a foregone conclusion; yet timing closure is anything but simple. To be effective, closure must not come too early or too late in the discussion.

We've all heard the expression: "Act in haste, repent in leisure." The same is true in discussion. Closing it too quickly can happen when the participants are not willing to engage in vigorous discussion on the issues. This is especially true for planners whose subordinates are yes-people, unwilling to raise concerns or legitimate objections, or for planners whose clients are not used to cognitive conflict. As a defense against early closure, the planner might ask for a minority view or suggest the participants consider a "what-if?" scenario. Even a simple question, such as "What do you think?" is often enough to get the ball rolling on a constructive discussion.

The planner must know when enough is enough, when to close the discussion and come to a conclusion. If the discussion is among staff and if the same arguments or positions are being repeated or the debate is deadlocked, it is usually time for closure. Just as in legislative debate, there must be a procedure for "calling the question" that signals the end of discussion and the decision by the person in charge. For clients, closure happens after all the sides of an issue have been discussed and analyzed, viewpoints heard and possible outcomes considered.

On the other hand, closure in an advocacy mode leads to a victor and vanquished. While this may feel good professionally to the planner who "wins" the argument, the long-term impact on the relationship can be devastating. Financial planners who choose advocacy instead of inquiry may win the battle and lose the war. I have personally asked hundreds of planners, "Have you ever had clients who did not do what you told them?" Without exception, every planner has experienced this sort of relationship. If the decision-making process had been different, would the client and you have reached the same conclusion and implemented the decision?

Back to the Future, Financial Planning-Wise

Comprehensive financial planning has been around for decades. Lately, much of the literature has referred to "life planning," which is really another way of saying comprehensive planning. By my reckoning, most experienced CFP professionals have been practicing comprehensive life planning much of their careers. Nonetheless, many haven't always used the inquiry method of decision-making or collaborative efforts with clients. Let's examine and compare two different exchanges between a planner and client as they discuss an issue where, first, the planner uses advocacy, and then uses the inquiry/collaboration method of decision-making.

Advocate! Advocate! Dance to the Music!

Lotta, a 64-year-old about-to-rotate registered nurse walked into her planner's office. "Hi Sheila!" she exclaimed. Sheila Right, CFP, had been working with Lotta for five years and was ready to present a retirement analysis. "Lotta, it's good to see you again. Please come into the conference room." Once they had exchanged pleasantries, Sheila got right to the subject. "Lotta," she said, "I've finished the retirement analysis we talked about at our last meeting. This report"—she pointed to the notebook on the table between them—"is the output from the planning program we use at the firm. I'm going to go over it with you and explain what it says and what it means." Sheila pushed the notebook toward Lotta, who leaned forward with interest.

Sheila began with a short review of the budget Lotta had given her after their last meeting. Sheila noticed Lotta's small grimace as she read the numbers, which alerted her. Sheila said, "These are the numbers you gave me, aren't they?"

Lotta nodded. Sheila continued, "Well, let's go over each line item to make sure it's okay." Although she had not planned to do so, Sheila took a few extra minutes going over each small detail of the proposed budget. Lotta nodded in the affirmative for each line item, but continued to have a faint frown. Since Sheila had allotted 90 minutes for the presentation, she pressed on to her next topic after receiving an affirmative nod for the total budget sum.

"Lotta, the graph here shows the total amount of savings and investment you will have in the future, given our assumptions we used for the model." Sheila grabbed a piece of paper and reviewed the input assumptions for rate of return, longevity and so forth, for Lotta. "Unfortunately, given these assumptions, there's a problem." Sheila pointed to the graph, where the line representing Lotta's investments went to zero at Lotta's age 76. "What this means is that your investments won't quite last long enough given this scenario. We're going to have to do something about it."

With that, Sheila triumphantly turned to the next section in the report, which showed the investment line lasting well into Lotta's nineties. "I've fixed the problem!" Sheila said with a smile. "This graph shows your investments lasting until well past your actuarial age."

With that last comment, a look of puzzlement replaced the concerned look on Lotta's face. "How did you do that? What did you do?" she asked.

Sheila replied, "Well, we changed the current mix of investments, using a bit more ambitious mix to get a slightly higher long-term rate of return. Unfortunately, I had to reduce your budget somewhat. That was really the only way I could make the outcome work." With that last comment, the puzzled look on Lotta's face was replaced by the slight frown Sheila had seen before.

"You reduced the budget? I'm not sure I can live on the budget I gave you before!" Lotta exclaimed.

Sheila's voice turned soothing. "I realize this is a difficult thing to face. But there really isn't anything we can do. I've also had to increase the rate of return on the portfolio and it's about as high as I think we can plan on."

Lotta asked again, "How did you do that?"

"What we had to do was change your current mix of investments and add a higher component of stocks, which should improve the longer-term return." Lotta's countenance did not improve. Sheila saw that, so she continued quickly: "Lotta, I know you've told me you don't really like stocks, which is why we didn't have that much in your portfolio before. But if we don't do these things"—Sheila once again turned to the first chart and pointed to it—"you're going to

run out of money. We can't have that!"

Lotta sat back in her chair. "This is a lot to take in. I'm going to have to think about it for a while."

Sheila replied with a smile, "I understand." As she ushered Lotta out, Sheila gave her a reassuring squeeze on her hand and said, "We'll work our way through this together."

What elements of decision-making were present in this exchange? While there wasn't much of a contest, several elements of advocacy were clearly present:

- Sheila's smooth delivery was designed to be highly persuasive: persuasion and lobbying.
- Sheila was a spokesperson for her analysis. She is the advocate.
- She defended both her analysis and recommendation, with virtually no discussion.
- Lotta's concern with a diminished budget and a portfolio mix that left her visibly uncomfortable was dismissed.

Sheila clearly won the logical presentation, but did she win Lotta's agreement to implement the plan?

Collaborate! Collaborate! Dance to the Music!

Let's have this meeting again. This time, however, Sheila will use inquiry and cognitive conflict in the decision-making process. "Lotta, it's good to see you again. Please come into the conference room." Once they had exchanged pleasantries, Sheila got right to the subject. "Lotta," she said, "I've finished the retirement analysis we talked about at our last meeting. This report"—she pointed to the notebook on the table between them—"is the output from the planning program we use at the firm. We've got quite a few things to talk about!" Sheila pushed the notebook in front of Lotta, who leaned forward with interest.

"I tell you, Lotta," Sheila began, "I'm concerned with the outcome of our analysis."

Lotta replied, "Why is that?"

"Well, the only way we seem to be able to get the numbers to work is to reduce your budget and increase the volatility of your portfolio. Let me tell you exactly what we had to do in our model." Sheila then described the inputs and the changes to the assumptions she had used to come up with an output that lasted well past Lotta's 90th birthday. She continued, "I can see this isn't making you very happy, right?" Lotta nodded.

"Lotta, what can we do about this?" Sheila asked.

Lotta thought for a moment. "Well, I've had second thoughts about the original budget I gave you. I'm concerned I won't be able to live with what I gave you. Those numbers aren't going to make much sense if I have to cut back even more!"

Sheila nodded in agreement. "I understand. Let's talk about this budget thing." Sheila started to discuss each line item with Lotta, asking whether it was important and made a few notes. "I have a new thought," Sheila said. "Since all your kids are grown and have moved out, would you consider a housemate? What I mean is, you've got that great downstairs bedroom. Why not rent it out for, say, \$350 a month? That could make a big difference in your net cash flow." Lotta looked a bit skeptical. "I'm not sure I could do that."

Sheila shrugged and replied, "Well, it's an idea. Think about it. I have another thought. I know you're ready to end your career at Shady Oaks Hospital, but have you considered some part-time work"—she paused for effect—"...as a teacher?" Lotta shot her a surprised look. "What I mean," Sheila said with a smile, "is you instructing nursing at Northside Community College. I was looking in their catalog the other day and I noticed they're offering an 'Intro to Nursing' course. They might need instructors."

Lotta looked at Sheila thoughtfully. "That sounds interesting. I never thought of that."

Sheila continued, "It might not pay very much and it sounds like the courses are at night. May not be very attractive."

Lotta replied, "Yeah, you're probably right. Maybe I should just go with the roommate. Still, I like the idea of teaching. I used to tutor other students when I was in college."

Sheila replied, "Hmm—we might be getting somewhere here. Possibly you could tutor students like you used to? The state university is only about 20 miles from here and I'm sure there are nursing students over there who would pay dearly to be helped. You know, if you started tutoring in your home, you might be able to have a small business and convert a room to an office. There might be some tax savings here!"

Lotta smiled. "I like that idea!"

The financial planner and her client continued discussing both the budget and her lifestyle for the next 20 minutes, tossing ideas back and forth. At the end of the scheduled 90-minute period, Sheila drew up a list of the ideas and concepts they had discussed during the meeting. "You know, Lotta, you're going to have to do some 'homework.' Why don't you look at these ideas and check out the current tutoring programs at all the schools around here? Who knows—something else might turn up while you're looking. Let's get back together in about a month and look again at the budget numbers. We still are going to have to discuss the portfolio design, but that can wait until we come up with your next career!" she said brightly. Lotta smiled in agreement and promised she would call for an appointment as soon as she finished her research.

What elements of decision-making were present in this exchange? In this case, the elements of inquiry and constructive collaboration occurred:

- Sheila delivered the analysis, but her focus was on *collaboration* to solve what she perceived as continuing problems. She did not come to the meeting with a set position for which she was the advocate.
- Sheila and Lotta both presented *alternative ideas and viewpoints*.
- After proposing the idea of teaching, Sheila was *realistically critical* of teaching's income potential.
- Sheila got Lotta to think "outside the box," almost as if she was talking about someone else. In this sense, they took *equal responsibility* for solving the budget problem.
- Sheila and Lotta are both *open to new alternatives*, even after this discussion. It's clear there are more issues to consider, so the collaboration will continue.

Is That All There Is, My Friend?

Decisions forged in the crucible of debate, whether by advocacy or inquiry, cannot be judged until the outcome has been evaluated in some fashion. There are few, if any, real-time feedback loops for many decisions, such as those made during combat or where there is a long lead-time to completion, such as with major construction projects. For the planner faced with making a recommendation about a client's future that will unfold over 40 years, making the correct decision can be a daunting task.

In the face of this, what can planners do to find out early on whether they're headed in the right direction? Fortunately there are some proven techniques for evaluation of the process. Regardless of the technique, some sort of periodic evaluation works best.

"Quo vadis?" Someone once said, "If you don't know where you are going, you probably won't like it when you get there." Decision-making requires a well-defined set of objectives and goals. If goals are not established, few benchmarks for future testing and evaluation exist. Planners sometimes fall into that trap by constructing an elaborate financial plan, but base their performance (and client satisfaction) solely on the returns on the investments. This could be likened to comparing apples and oranges. If the objective is financial independence, evaluate that, not raw returns from a portfolio.⁹

"Just the facts, ma'am." Planning models are full of assumptions. Often, we confuse "facts" supplied by clients with data that has been tested and verified as true. For some clients, the proffering of a future budget is a wild guess, yet it is being used in a model as a verified fact. Thus, assertions must not be confused with facts, and periodic review of the assumptions can tell whether the original evaluation included reasonable facts that remain valid as time goes on.

Alternative scenarios. If your discussion included alternative recommendations, such as for an investment portfolio, you can simply keep tabs on the outcome as if you had chosen the alternative scenario. Just the fact that you have considered alternatives is a sign the decision-making process was effective.

Lead, Follow, or Get Out of the Way!

Many of us have heard the phrase, *lead, follow, or get out of the way!* This pointed statement suggests leaders simply stay out front and, by logical extension, if you are staying on top of your clients' financial situations, you are leading. In a very real sense, financial planners are leaders, leading their clients into unfamiliar financial and emotional terrain. Just as decision-making is not a singular event, leadership of clients and staff is a process.

Not surprisingly, good decision-making is closely aligned with good leadership. Leadership comes in different forms. A recent study of successful leaders has them variously identified as a *pragmatist* (Niccolo Machiavelli), *hero* (Jack Welch), *father figure* (Sigmund Freud), *organizer* (Peter Drucker), *liberator* (Martin Luther King, Jr.) or *people's servant* (George Washington).¹⁰ Is there some specific profile financial planners should follow? Experts suggest different profiles are appropriate in different situations and circumstances. While it is beyond the scope of this article to delve deeply into the different styles, what should not change is the leader/decision maker must use a proven process for formulation of the best decision in every circumstance.

Whether leading clients to a successful financial future or your staff and co-workers to organizational and business success, remember the following key points:

- Effective decisions result from a process, not a singular event.
- To best facilitate the continuing process, decision-making tools, such as analytical software, should recognize the uncertainty of the future.
- Decisions should not be made in a vacuum without consideration of all the non-numerical issues.
- Effective decision-making is a collaborative process, using inquiry rather than advocacy.
- A good decision-making process requires cognitive conflict, careful consideration and effective closure.
- Good leaders are good decision makers. Although leadership styles vary widely, strive to lead your clients and co-workers by making good decisions.
- An effective decision-making process is necessary for both successful relationships with clients and healthy collaboration within a financial planning practice.

Good decisions aren't luck. Take the time, do the work and an exceptional decision-making process will become part of your daily life. After all...it's your decision, isn't it?

Endnotes

1. David A. Garvin and Michael A. Roberto, "What You Don't Know About Making Decisions," *Harvard Business Review*, September 2001, pp. 108–116.
2. Glenn Kautt and Lynn Hopewell, "Modeling the Future," *Journal of Financial Planning*, October 2000, pp. 90–100; Glenn Kautt and Fred Wieland, "Modeling the Future: The Full Monte, The Latin Hypercube and Other Curiosities," *Journal of Financial Planning*, [December 2001](#), pp. 78–88.
3. Deterministic analysis run on *Golden Years*, www.moneytree.com.
4. Glenn Kautt and Fred Wieland, *ibid*. Describes the stochastic process and modeling in detail. See also [Stochastic Modeling: The New Way to Predict Your Financial Future](#) by Glenn G. Kautt (Fairfax, VA: Monitor Publishing, 2001).
5. Stochastic analysis run on *Golden Years*, www.moneytree.com.
6. As an example, see Kwon, Jue-Sooi and Young-Jick Lee, "The Effect of Cognitive Conflict on Students' Conceptual Change in Physics," paper presented at the 1999 National Organization for Research in Science Teaching Conference. www.educ.sfu.ca/narstsite/conference/kwonlee/kwonlee.htm.
7. Wilf Ratzburg, "Team Effectiveness and Affective Conflict," Athens Forum, 2000. www.geocities.com/Athens/

Forum/1650/htmlaffectiveconflict.html.

8. [*The American Heritage Dictionary of the English Language*](#) (Boston: American Heritage Publishing Co., 1973).
9. One well-thought-out process for evaluating the implementation of a financial plan is the use of a numerical rating system. For an excellent example, see [*The Wealth Management Index: The Financial Advisor's System for Assessing & Managing Your Client's Plans & Goals*](#) by Ross Levin (Burr Ridge, IL: Irwin Professional Publishing, 1996).
10. Barbara Kellerman, "Required Reading," *Harvard Business Review Breakthrough Leadership*, December 2001 pp. 15–24.