

Defining 'Real' Planning: Who Are The Real Financial Planners?



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Who is a real financial planner? There is nothing wrong with managing client assets and being paid for it. But if you're following the siren song from planning to AUM, then call yourself something other than a financial planner.

I have long hoped the profession would find a way to distinguish between advisors who are doing real planning work for their clients and those who aren't. There are many categories of people who I believe should not have "financial planner" on their business card, but two stick out: commissioned salespeople who do just enough planning work to justify the sale of the product they already know they will recommend, and advisors who focus primarily on the portfolio rather than the client.

I struck a nerve in June when I wrote that advisors who abandon the hard (and not always highly profitable) planning work for clients should stop calling themselves planners. My words sparked a long thread on the FPA discussion forum, and the FPA's annual conference actually held a related session on my FP column. The wisdom of the crowd has taken the discussion to new levels. Let me address a few of the questions critics have been raising.

DEFINE 'REAL' PLANNING

Who elected you to define what is "real" financial planning?

Nobody. If I were voted czar of the profession, and given the task of defining "real" financial planning, my first act would be to demand a recount.

But the much more important issue here is: Where will the profession itself eventually draw that line? Is it even possible to draw it? As I see it, we don't need a precise definition of "real" financial planning in order to identify real planners. Real planners follow a process that evaluates (with some degree of rigor) a client's goals and objectives - as well as taxes, insurance, current portfolio and future liabilities - and they create (and oversee the implementation of) a plan to get there.

I haven't seen anything superior to the traditional six-step process, but there should be room for creativity. Some advisors focus on one piece of the puzzle at a time and deliver a plan, bit by bit, over the course of a year. Others start the relationship with a document.

I hope we don't ever define "real" planning so precisely that we squelch the creativity of the advisor community. Let's recognize that this isn't the goal, because if we don't, it will block any progress toward the more important goal of identifying real financial planners.

STATUS QUO WOES

What harm is there in the status quo?

If it creates a tendency for advisors to gradually give up the hard, valuable work of planning, then there is harm to consumers who think they'll get this service but won't. There's also a risk to advisors. Those who base their client relationships on planning and a deep understanding of clients' goals and lives will keep their client base intact when the markets sink and AUM clients are unhappy and looking for a better return. Pursuing the easy AUM money may be a great short-term profit strategy, but it always seems to fail in the long run. Any returns-based relationship is subject to the whims of the market.

The profession seems to learn this lesson again and again and then forget it. I'm hoping that, with this debate, we can finally push the long-term value of planning services into the profession's longer-term memory.

If the status quo is a lot of people calling themselves financial planners who actually don't do planning with any rigor, then this is a mislabeling issue for consumers. Why shouldn't we fix it? We don't let companies put the word "organic" on products that haven't met certain standards. We don't let drug company wholesalers call themselves "doctors."

Whenever I bring this up, I hear from commissioned salespeople who ask me why I hate them. I've actually had people come up to me after I've given a speech with fire in their eyes. I'll sit in the back of the room and ask some earnest questions: Selling good investment and insurance products is an honorable profession, is it not? You believe in what you're selling, don't you? Are you ripping off your customers? Well then, why do you need to label yourself a financial planner?

Here's what they typically come around to saying: Many consumers have had bad experiences with bad commissioned salespeople, and I don't want my own reputation to be associated with those problems. And, yes, many of those harmful folks are now calling themselves financial planners. They've fouled one nest; now they're fouling another. These conversations make my case better than any dialogue I've ever had with planning professionals.

EDUCATION CHALLENGE

The public is so confused about financial planning. People think the service is about managing assets. How do we educate them?

Years ago, if you said "financial planner," a random person on the street would word-associate: "life insurance agent." Then it was "tax shelter salesman." Now it's "asset manager." That tells me the public takes its cue directly from the profession.

If the majority of the people with "financial planner" on their business cards are doing something different, that's what the public will think the profession does. If everybody who calls himself or herself a planner actually did planning, the public would catch on pretty quickly.

But I also think advisors need to shift their communication from "Here's what I do" to "Here's the benefit to you if you work with me." The only way I know to do that is tell stories. Redact the names, of course, but tell success stories about clients who came to you with interesting challenges - and who, after working with you, are now on the path to success. Those stories are not about how you helped somebody achieve a 1% additional return on his investment portfolio; they're about real-life situations, which are inherently more compelling.

LABEL COP

How would we enforce the distinction between real planners and people who are misapplying the term for marketing or other purposes? I think you can arrive at the best way to enforce it by exploring the other options. Should we rely on people who are posing as planners to stop if we ask them nicely? Is there a voluntary way to make it happen? Probably not.

At the other end of the spectrum, should we have the government define financial planning and then create laws that prevent others from using the term? I don't know about you, but I distrust the process. If lawmakers propose something in Congress, the brokerage industry will be handing over large bags of cash and dictating how they want that definition to be written. Pretty soon the people I would consider to be "real" financial planners would be prohibited from using the term, unless they were selling toxic mortgage pools or gathering assets for their wirehouse.

Somewhere in the middle, I can envision a professional organization that would only allow people to become members if its credential-checking staff is satisfied that they are doing real financial planning. Doctors belong to the AMA. Lawyers register with the bar. Planners would register with this organization - and if you're not a member, then the public has the right to presume that you're not a real financial planner.

This could be a subset of an existing membership organization like NAPFA or the Financial Planning Association; in fact, the American Institute of Certified Public Accountants has a section devoted to people who offer personal financial planning, which could be expanded or serve as a model. Or the profession could form a new organization entirely.

Wouldn't that exclude a lot of great people? Yes, absolutely. But all professions are, by definition, exclusive. And hey, those who are not planners are free to form their own organizations: one for professional asset managers, another for those professional salespeople who are not fouling anybody's nest. And maybe those who don't qualify for these groups can form their own umbrella organization. I'll even throw out a catchy working title: The IAPIABWTITIPTCIF, The International Association of People in the Investment Advice Business Who Think It's a Terrible Idea to Put Their Clients' Interests First.

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