Module 1

Introduction to Financial Planning

FINANCIAL PLANNING

PROCESS

-UNDERSTAND CLIENT'S CIRCUMSTANCES
-IDENTIFY GOALS
-ANALYZE COURSE OF ACTION
-DEVELOP RECOMMENDATIONS
-PRESENT RECOMMENDATIONS
-IMPLEMENT RECOMMENDATIONS
-MONITOR RECOMMENDATIONS

SCOPE OF ENGAGEMENT

-ESTABLISH RELATIONSHIP
-EFFECTIVE COMMUNICATION
-RESPECTING CLIENT'S TIME
-EMPATHY
-INTRODUCTORY MEETING
-ENGAGEMENT LETTER
-GATHERING DATA
  -INTERNAL DATA
  -EXTERNAL DATA
-IDENTIFYING GOALS

REGULATION

REGULATORY AUTHORITIES

-SEC
-FINRA
-INSURANCE COMMISSION
-IRS
-AICPA
-MSRB

CERTIFICATIONS

-CFP®
-ChFC®
-PFS™
-AFC

FINANCIAL PLANNING PROFESSION

STANDARDS

-SUITABILITY STANDARD
  -BROKER/DEALER
-FIDUCIARY STANDARD
  -DUTY OF CARE
  -DUTY OF LOYALTY

BENEFITS

-FINANCIAL PLANNING BENEFITS
  -INVESTMENT MANAGEMENT
  -RISK MANAGEMENT
  -CASH FLOW MANAGEMENT
  -WELL-BEING
-BENEFITS OF PLANNING PROCESS

Introduction to Financial Planning

Module 1
Chapter 1

1

1

Objectives

- Obj I: The Financial Planning Process
- Obj II: Scope of the Financial Planning Engagement
- Obj III: Regulatory Authorities and Compliance
- Obj IV: Fiduciary Standard
- Obj V: Benefits of the Financial Planning Profession

2

2

The Financial Planning Process

3

3

Client-Planner Relationship

- Before beginning the financial planning process, a relationship must be established with the client.
- Planners should:
  - Outline responsibilities of both parties.
  - Discuss the scope of the relationship.
  - Disclose their compensation method.
  - Clearly define who is and isn't their client.
    - Aging parents, adult children, etc.

4

4

Financial Planning Process

- Steps in the financial planning process:
  - 1. Understanding the Client's Personal and Financial Circumstances.
  - 2. Identifying and Selecting Goals.
  - 3. Analyzing the Client's Current Course of Action and Potential Alternative Course(s) of Action.
  - 4. Developing Financial Planning Recommendation(s).
  - 5. Presenting Financial Planning Recommendation(s).
  - 6. Implementing Financial Planning Recommendation(s).
  - 7. Monitoring Progress and Updating.

5

5

Understanding Client's Circumstances

- The first step is Understanding the Client's Personal and Financial Circumstances.
- The planner gathers client data during this step.
  - Personal and financial.
  - Qualitative and quantitative.
- Data can be verified with tax returns, account statements, pay stubs, etc.

6

6

Identifying and Selecting Goals

- The second step is Identifying and Selecting Goals.
  - Clients may find it difficult to articulate goals.
- Planner can help client explore potential goals and determine how goals impact each other.
  - Planner helps client select and prioritize their goals.

7

7

Analyzing the Course of Action

- The third step is Analyzing the Client's Current Course of Action and Potential Alternative Course(s) of Action.
  - Determine if the client on pace to meet goals.
  - Determine actions that could improve the current situation.
- Planner considers alternative courses of action, and the advantages and disadvantages of each.

8

8

Developing the Recommendations

- The fourth step is Developing the Financial Planning Recommendation(s).
  - Planner must identify and consider alternative strategies for meeting clients' goals.
- The planner evaluates if the recommendations are appropriate for the client.
  - Must consider the timing and priority of their recommendations.
- Outside experts should be consulted, if necessary.

9

9

Presenting the Recommendations

- The fifth step is Presenting the Financial Planning Recommendation(s).
  - Recommendations are communicated to the client.
  - Planner must ensure the client understands the recommendations.
  - May need to revisit previous steps in the planning process.
- After agreeing to a course of action, the planner drafts a financial plan.

10

10

Implementing the Recommendations

- The fifth step is Implementing the Financial Planning Recommendation(s).
  - Amount of assistance needed by the client depends on the complexity of financial plan.
- Advisors may perform some implementation themselves.
  - Can seek assistance from other professionals.
  - Can provide products directly or supply ongoing counseling.

11

11

Monitoring Progress and Updating

- The final step is Monitoring Progress and Updating.
  - Goals are updated as needed.
  - Additional recommendations may be provided.
- Over a lifetime, client's needs and goals will change.
  - Revise the plan and begin the process again.

12

12

Practice

- In what order should the steps in the financial planning process occur?
  - I. Understanding the Client's Personal and Financial Circumstances
  - II. Presenting the Financial Planning Recommendation(s)
  - III. Developing the Financial Planning Recommendation(s)
  - IV. Analyzing the Client's Current Course of Action and Potential Alternative Course(s) of Action
  - V. Monitoring Progress and Updating
  - VI. Implementing the Financial Planning Recommendation(s)
  - VII. Identifying and Selecting Goals
    - A. VII, II, I, IV, III, VI, V
    - B. VII, I, II, III, IV, V, VI
    - C. I, VII, IV, III, II, VI, V
    - D. I, II, III, IV, V, VI, VII

13

13

Scope of the Financial Planning Engagement

14

14

Establishing the Client Relationship

- The financial planning engagement begins by establishing and defining the planner-client relationship.
  - Planner and client should identify their responsibilities when they establish the relationship.
- Keys to establishing a relationship:
  - Effective communication.
  - Respecting the client's time.
  - Demonstrating empathy.

15

15

Effective Communication

- Effective communication is the most important skill an advisor can bring to a meeting with a client.
  - Without clear communication, may not properly identify goals.
- Advisor should actively listen to the client.
  - Focus on both verbal and non-verbal communication.
  - Understand what, why, and how.

16

16

Respect the Client's Time

- Respecting the client's time involves:
  - Being on time – regardless of where the meeting takes place.
    - Meeting with a prospective client is like a job interview.
  - Staying on time – provide a general itinerary or agenda of the meeting.
  - Leaving on time – be strategic with which issues are addressed during the meeting.

17

17

Demonstrate Empathy

- Empathy is vital for building rapport and trust with the client.
  - Express interest in, understanding of, and feeling for the client.
  - Can be expressed verbally and nonverbally.
- Best practices:
  - Avoid being combative or defensive.
  - Share past experiences and stories.
  - Avoid disclosing specific details about previous or existing clients.

18

18

Introductory Meeting

- Goals of an introductory meeting:
  - List information the client must provide.
  - Assist client with establishing goals.
  - Discuss client values and how they fit into client goals.
  - Establish communication plan.
  - Discuss planning process and fees.
  - Provide relevant and required disclosures.
  - Answer client questions.

19

19

Scope of Engagement

- Advisor and client should mutually define the scope of the engagement.
  - Should occur after the introductory meeting and before services are provided.
- Scope may encompass:
  - Short-term goals.
  - Long-term goals.
  - Personal financial statements.
  - Special need situations.

20

20

Engagement Letter

- Legal agreement prepared by advisor.
  - Signed by both advisor and client.
- At a minimum, should include:
  - Parties involved in the engagement.
  - Services to be provided.
  - Conflicts of interest.
  - Advisor's fees, costs, and other compensation arrangements.
  - Client's and advisor's responsibilities.
  - Duration of engagement.

21

21

Gathering Client Data

- After signing the engagement letter, the next step is to gather client data.
  - Internal – information specific to the client.
    - Quantitative – objective data that is verifiable and free from bias.
    - Qualitative – descriptive data that can be observed.
  - External – economic, political, legal, sociological, and technological.
    - Includes interest rates, inflation, and laws.

22

22

Identifying and Selecting Goals

- Goals must be clearly identified and defined.
  - Objective.
  - Realistic.
  - Prioritized.
- Examples of goals:
  - Well-defined – contribute $400 per month into a savings account for three years.
  - Poorly-defined – save for retirement.

23

23

Identifying and Selecting Goals

- Multiple competing goals will need to be prioritized.
  - Priorities may change throughout lifetime.
  - Clients tend to under-prioritize risk-management goals and over-prioritize large purchases.

24

24

Practice

- Which of the following financial planning goals is the most clearly defined?
  - A. To have the necessary insurance protection.
  - B. To travel more.
  - C. To get out of debt soon.
  - D. To save $1,000 per month in a Section 529 plan for the next five years.

25

25

Practice

- External data would include:
  - I. Local cost of living.
  - II. Stage of the business cycle.

26

26

Regulatory Authorities and Compliance

27

27

Business of Financial Planning

- Financial planning business may include:
  - Financial planning.
  - Insurance sales or advice.
  - Investment sales or advice.
  - Tax preparation or advice.
  - Debt management and budgeting.
  - Real estate management or advice.

28

28

Regulation of Financial Planning

Planning Area	Regulatory Authorities		Planning Area	Regulatory Authorities
Investment advice	Securities and Exchange Commission (SEC); State securities administrator		Accounting services	State Society of CPAs; American Institute of CPAs (AICPA)
Sale of securities	SEC; Financial Industry Regulatory Authority (FINRA); and State securities administrator		Real estate law	State real estate commission
Sale of insurance	State insurance commission		Banking	Office of the Comptroller of Currency (OCC); Federal Reserve Board (FED)
Income tax preparation	Internal Revenue Service (IRS)		Adviser to ERISA qualified retirement plans	Department of Labor (DOL); Internal Revenue Service (IRS)
Legal advice	State Bar Association; American Bar Association (ABA)		Municipal securities	Municipal Securities Rulemaking Board (MSRB)

29

29

Regulation of Financial Planning

- Planners providing investment advice register either with SEC or state securities administrator, depending on volume of assets under management.
  - <$100 million – register with state.
  - Between $100 million and $110 million – can choose to register with SEC or state.
  - >=$110 million – register with SEC.
    - Federal covered adviser.

30

30

Regulation of Financial Planning

- Financial planners that work in multiple areas must:
  - Report to multiple regulatory agencies.
  - Obtain multiple licenses.
  - Potentially separate business entities for different planning areas.

31

31

Financial Planning Certifications

- Various financial planning certifications exist:
  - Certified Financial Planner™ (CFP®).
    - Oldest and best-known financial planning certification.
    - Overseen by CFP Board.
  - Chartered Financial Consultant (ChFC®).
    - Conferred and overseen by the American College.

32

32

Financial Planning Certifications

- Various financial planning certifications exist:
  - Personal Financial Specialist (PFS™).
    - Available to CPAs.
  - Accredited Financial Counselor (AFC).
    - For advisors serving clients in the areas of financial counseling, credit counseling, and budgeting.

33

33

Practice

- Which one of the following statements is correct regarding the regulation of financial planners?
  - A. The Internal Revenue Service is the primary regulatory authority of the financial planning profession.
  - B. A financial planner with $60,000,000 in client assets under management must register with the SEC.
  - C. A financial planner that sells life insurance may be regulated by several entities, including the state insurance commission.
  - D. A financial planner that holds the CFP® credential is exempt from regulation by any other governing entities.

34

34

Fiduciary Standard

35

35

Duty of Fair Dealing

- Broker-dealers have a duty of fair dealing, requiring them to:
  - Provide suitable recommendations to customers.
  - Receive fair and reasonable compensation.
- Also have a limited duty to disclose adverse facts that he/she may be aware of.

36

36

Suitability Standard

- Broker-dealers are held to a suitability standard.
  - Reasonable basis suitability – must understand investment before recommending it to customers.
  - Customer-specific suitability – must believe recommendation is suitable for the customer based on customer's investment profile.
  - Quantitative suitability – a series of recommended transactions must not be excessive or unsuitable for the customer.

37

37

Fiduciary Standard

- Investment advisors are held to a fiduciary standard.
  - Highest standard under the law.
- Fiduciary duties:
  - Duty of care.
  - Duty of loyalty.

38

38

Duty of Care

- Fiduciary duty of care requires an advisor to:
  - Make reasonable inquiry into client's investment profile before providing advice.
  - Exercise due diligence – conduct a reasonable investigation into the investment strategy or product recommended.
  - Be cost-conscious.
  - Provide advice and monitoring over the course of the relationship.

39

39

Duty of Loyalty

- Fiduciary duty of loyalty requires an advisor to:
  - Act in the client's best interest at all times.
  - Seek to avoid conflicts of interest.
- Advisor must disclose conflicts of interest.
  - Full and fair disclosure of conflicts is required.
  - Client must provide informed consent.

40

40

Fiduciary Relationships

- Fiduciary relationships include:
  - Planner to clients.
  - Executor to estate beneficiaries.
  - Trustee to trust beneficiaries.
  - Investment adviser to clients.
  - Guardian to wards.
  - CFP® professional to clients.

41

41

CFP Professionals

- CFP® professionals are held to a fiduciary standard when providing either:
  - Financial advice.
  - Financial planning.
- The planner or adviser has an affirmative duty of utmost good faith.
  - Must make full and fair disclosure of all material facts.

42

42

CFP Professionals

- Fiduciary duty does not apply when:
  - Acting as a broker to sell investment or insurance products.
  - Speaking with an individual who is not a client.
  - Providing information for the general public.

43

43

Practice

- A financial planner is engaged in a fiduciary relationship with their client. Which of the following is a standard to which the planner must adhere?
  - A. Act in the planner's best interest.
  - B. Act in the client's best interest.
  - C. Act the firm's best interest.
  - D. Act in society's best interest.

44

44

Benefits of the Financial Planning Process

45

45

Benefits from Financial Planning

- Working with a financial planner can:
  - Empower clients with knowledge and skills.
  - Bring objectivity to the financial plan.
  - Increase client's confidence with making financial decisions.

46

46

Benefits from Financial Planning

- Benefits from financial planning:
  - Investment management.
    - Greater returns over investors without a planner.
    - Behavior coaching has a huge impact.
  - Risk management.
    - Planners help clients diversify investments and purchase adequate insurance.

47

47

Benefits from Financial Planning

- Benefits from financial planning:
  - Cash flow management.
    - Planners help clients increase income and decrease expenses.
  - Well-being.
    - A better financial position increases clients' happiness and well-being.
    - Clients have more peace of mind and confidence.

48

48

Financial Planning Process

- The financial planning process helps planners:
  - Identify risks.
  - Establish and prioritize goals.
  - Anticipate where financial needs exist and where new risks may arise.
  - Establish benchmarks.
  - Keep the client focused.
  - Provide confidence that the client can accomplish their financial goals.

49

49

Practice

- All of the following are advantages a financial planner brings to a planner-client relationship EXCEPT:
  - A. The planner is objective.
  - B. The planner relieves the client of decision-making responsibility.
  - C. The planner helps the client better manage their risk.
  - D. The planner provides the client with an increased sense of well-being.

50

50