



# My Plumber Is a Financial Planner?

by Norman M. Boone, CFP

A couple of months ago, I was sitting in a Practitioner's Advisory Council meeting of the IAFP and the question came up: "What is financial planning?" We had been brainstorming about key issues for practitioners. A few of us realized that one of the most critical things the new Financial Planning Association (FPA) could do would be to promote our version of financial planning; we then realized, however, it was something no one was clear about.

The reason this was an important question was we had come to realize that one of the most important things we, as a committee, or the FPA, as a whole, could do would be to create an overall definition of financial planning. Once we had defined financial planning, then we could promote it to the public, educating consumers about

- What a financial planner is (and is not)
- What consumers should be able to expect from an engagement with a financial planner
- What benefits consumers could derive from working with a financial planner

From my perspective, the financial planning model of acting in the client's best interests, providing advice and products arising solely out of the client's needs and desires, and taking a comprehensive view of the client's circumstances to develop integrated solutions has won out over the traditional models coming out of the brokerage, banking, insurance and accounting professions. Clients who have experienced both approaches, or who have researched both, consistently choose the financial planning model. Therefore, it would seem clear that if we actively promote a well-defined impression about

what financial planning is, members of our profession will see their businesses grow and we'll see a rapid expansion of the numbers who offer true financial planning. An effective definition and its promotion would help consumers, the industry and our individual businesses.

## Promoting True Financial Planning

When the Certified Financial Planner Board of Standards announced its initiatives in June—the Associate CFP, firm training and certification programs—it was doing so out of concern for where the financial planning profession was headed, given that it appears as though the financial services industry is about to be overwhelmed by the numbers of accountants, brokers, insurance agents and bankers who are beginning to claim the label of "financial planner" without carrying out the spirit and process that those of us who have been in the business for a while believe is the essence of financial planning. If we don't want to allow their superior numbers to redefine what financial planning should be, then we need to take the reins now.

Doing so would require a single, broadly accepted definition that was actively promoted to the consuming public. Those claiming the mantle of "financial planner" but not actually satisfying its definition would quickly find that knowledgeable consumers were refusing to engage them. In other words, a clear definition of financial planning and an effective promotion of that definition is the most effective possible path to ensure that those who enter the financial planning community will provide true financial planning. We don't need new titles or new accreditation programs, we

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need the broad promotion of a widely accepted definition.

## Regulating on Our Terms

The possibility of government regulation of our industry provides another reason to rally around a single definition and to lead the public to broad acceptance of it. If such regulation ever comes to pass—and many of us believe that proper regulation would help ensure the quality of the profession and the quality of the experience consumers should be able to expect from a financial planning engagement—then it will only happen in one of two ways.

On the negative side, the large brokerage houses, NASD companies and other institutional lobbyists could convince the legislators and regulators that their business model represents the real financial planning and that the profession should be regulated accordingly.

On the more optimistic side, if a definition of financial planning becomes broadly accepted, the regulators would have little choice but to oversee the industry on those terms—our terms. Which is better for the consumer? Which is better for most of us?

## Finding a Complete Definition

Here's the problem: we currently don't have any widely accepted definition of what we do. Sit down with some of your colleagues and see if you can come up with a single definition. Unless you are a whole lot brighter than those of us in our committee or have some skills we didn't have, I expect you'll have a lot of trouble finding agreement among you. Without agreement, then we as a profession don't yet have a clear definition.

Here's why it's difficult: we've been told for years that we encourage would-be planners to follow the six-step financial planning process and the implication was that if they do, then we could define that as doing financial planning. The problem with this is that by that definition, I believe my plumber would qualify. She collects data from me to understand the relevant issues. She identifies the goal(s). She considers the alternatives, evaluates them and presents a recommendation. She implements the advice once I've approved the proposal. And we jointly monitor the success of the solution and, if needed, make further adjustments. And her bill certainly has a financial implication for me. But I think we would all agree, her activity would not meet the definition of financial planning. In other words, just following the financial planning process does not qualify you as doing financial planning.

What are the base criteria of what makes up financial planning? Does the practitioner have to have some minimum level of training or experience, or perhaps hold a specific designation? Is a written plan necessary for financial planning to have taken place? Does it have to have been comprehensive, or could modular planning (such as college planning, estate planning) suffice? If modular planning under some circumstances can qualify to be financial planning, who is to choose when it does or when it doesn't qualify? I'd suggest the fol-

lowing as criteria for how "financial planning" might ultimately be defined:

- The six-step process must be followed.
- The analysis and recommendations must be presented to the client in writing.
- The review of the client's financial circumstances must be comprehensive in nature.
- Single-topic planning cannot be represented as being financial planning, although the planning efforts should be able to emphasize a particular topic (while still considering other financial aspects that may affect or be affected).
- The financial planner must acknowledge being in the position of a fiduciary with respect to the client.
- The client compensates the financial planner for the planning services.
- Alternative recommendations must be considered.
- Likely implications to the client's current and future financial circumstances of the recommended strategies must be evaluated, quantified and presented to the client.

There are lots of fine people providing very qualified advice to clients that would not meet the above criteria because their advice is limited to just one or two of the fields that make up financial planning. While I think it is wonderful that these people are providing such a good service, the profession will continue to lack a guiding definition if everyone who provides advice on any financial topic can call himself or herself a "financial planner" and advertise their services as "financial planning." At some point, we have to be willing to take a stand that won't make everyone happy.

One way to approach the definition of financial planning is to look at what financial planners do. The CFP Board is well on the way to establishing practice standards, defining the professional behavior of a "financial planner." It helps us know what a financial planner should do and therefore who is not a financial planner,

but I don't believe this approach gets us to the final conclusion.

Over the years, different groups have tried to find a definition of financial planning on which members of the profession could agree. None have been broadly accepted.

The CFP Code of Ethics and Professional Responsibility simply defines financial planning as "the process of determining whether and how an individual can meet life's goals through the proper management of financial resources." This is direct enough for a PR campaign, but I'm not sure it's detailed enough for a complete definition.

A few years ago, the IAFP developed the following definition: "Financial planning is the process of providing advice and assistance to a client for the purpose of achieving the client's financial goals.

1. The financial planning process includes six basic steps:
  - a. Data gathering
  - b. Goal setting
  - c. Identification of financial problems
  - d. Preparation of written alternatives/recommendations
  - e. Implementation of the agreed-upon recommendations
  - f. Review and revision of the plan
2. A financial planning client may be an individual, family unit or legal entity.
3. Comprehensive financial planning will include the basic areas of financial planning along with other areas of concern to the client. The basic areas include financial statement analysis, investment planning, income tax planning, risk management, retirement planning and estate planning. Other areas of concern may include cash management, education funding, charitable planning and business planning.
4. The financial planning process can be applied to meet the client's needs on any of the following:
  - a. The full range of client goals on a comprehensive basis.

## Professional Issues

- b. A subset of the client's goals on a more limited basis.
- c. A single client goal on a specialized basis."

My own suggested definition is that financial planning is the advice and service designed to help meet a client's life goals, provided through a written evaluation and analysis of an individual's or family's current financial status, leading to recommendations for strategies and actions, assistance with implementation and subsequent monitoring relating to the client's management of financial resources, including but not limited to investment planning, income tax planning, education planning, retirement planning, estate planning, and risk management, as needed or requested.

Reaching a definition of financial planning and then spreading the word is the single most important thing that can be done to further our profession, both in the breadth of its public acceptance and usage and in the increased professionalism it would encourage.

So what do you think? If the profession is to move ahead, we need a definition of what we in the profession do. We could use your help.



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