Clients Turn to Planner for More Comprehensive Money Management Services

Do You Need a Financial Plan?

by Alexandra Armstrong, CFP

It's difficult to believe that 30 short years ago, the profession of financial planning was just getting started. There was no regulation, no certification, no ethics standards. Today we have all of these, but people are still confused about what's involved in the financial-planning process and how to select a financial planner who can give them relevant financial advice. In this month's article, I'll discuss what's involved in the financial-planning process. Next month, I'll review how to select a financial planner.

Who is a financial planner?

Some people in the media and even some professionals often confuse the term *financial planner* with *financial adviser.* The primary function of a financial adviser is to manage your investments. A financial planner takes a more comprehensive point of view. He looks at your total financial picture. He helps you define your financial goals, prioritize them and then work out a written plan to help achieve them on an ongoing basis. After he prepares a financial plan, he may also manage your investments.

Why would you seek the advice of a financial planner?

Most people are motivated to seek the services of a financial planner because of a particular life event. The most common motivator is preparing for retirement. You might want to retire at a certain age but don't know whether you can afford to do so and still maintain your lifestyle. Other motivating life events include the death of a spouse, an inheritance, a job change, the birth of a child, a marriage or a divorce — or a severe market decline.

A financial planner's initial job is to sit down with you and help you define your short- and long-term financial goals. Once you've determined where you want to be financially and when, the planner creates a plan to help you achieve those goals. The initial financial plan is the starting point. To be effective, the plan should be reviewed regularly to make sure it's adjusted for changes in the economy, tax laws and your own circumstances.

What's involved in the financial-planning process?

Working with a financial planner isn't a simple process. It requires your time and effort as well as that of the planner's. First, you need to fill out a financial questionnaire that covers all aspects of your financial life. This would include listing your assets and liabilities, your income and expenses, your insurance coverage and your tax and legal documents. The more accurate the information you provide, the better your plan will be.

Once you provide this information to the planner, he'll meet with you and spend some time reviewing the financial data together. If you're married or have a partner, he'll want to meet with both of you. He'll also help you both define and prioritize your goals. Sometimes, a couple may have different priorities as to their goals, which come out in this initial meeting. He'll also want to know your tolerance for taking risk and may even ask you to complete a risk-tolerance questionnaire. (We've found that many clients who previously declared themselves risk takers have become more conservative since the 2008-2009 downturn.)

After this initial meeting, the planner combines your personal and financial information and prepares a written financial plan that gives you a picture of where you are now. In the same document, he projects whether your financial goals are obtainable in the desired time frame given your current situation. A typical plan will include a current balance sheet listing what you own and what you owe. It would also provide you with a taxable income and cash flow statement.

We think there should be two cash flow projections. The first would reflect this year and the next two years, but then there's a longer-term cash flow projection that will cover the rest of your projected life expectancy. We use 100 years to make sure you don't run out of money. The plan would include an assessment of your current investments and would make specific recommendations for remedial actions you should take to better achieve your stated financial goals. The plan would also include recommendations for estate and tax planning, as well as reviews of your insurance coverage.

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Once the plan is prepared, the planner would meet with you again to make sure the plan meets your needs and would make any necessary adjustments. We mail the plan to the client before our meeting so the client has time to review it before the meeting, but other planners prefer to present it in person.

Next, the planner helps you implement the plan recommendations. Some recommendations involve the help of another professional such as an estate-planning attorney or accountant. Typically, the planner would help you with changes to your investments. Finally, the planner updates your plan periodically to make sure that the plan is still working for you to make sure you are on target to reach your financial goals.

Do I have to receive a comprehensive financial plan — or could I receive planning advice about retirement planning only — or even meet with a planner on an hourly basis for consultation?

Most planners offer all three approaches. After the planner meets with you and helps you establish your financial goals, he can tell you what he thinks you need — a comprehensive financial plan or a simpler, more targeted plan. He might even think the regular hourly consultation is the best approach.

Why can't I do this myself?

You can do some of it yourself. There are computer programs that can be helpful to you, particularly for retirement and college planning. Certainly doing this is better than not doing anything. A computerized plan can only do so much, however. For instance, the program might tell you that you can't retire at 55 as you wanted to do. But the planner could show you changes you could make to achieve your goal.

For example, if you curtailed your spending and rearranged your investments, you might be able to retire sooner rather than later. The planner could also help you understand the tax implications of any corrective actions you're taking.

Further, a planner can provide you with objective advice. For example, spouses may disagree about financial matters. One may think it's more important to leave money to their children than to travel now, while the other may think the opposite. In these instances, the planner can try to help the couple find a compromise.

Conclusion

Since I'm a financial planner, I admit I'm biased on the subject, but I think everyone can benefit from receiving financial-planning advice. When you're young, you could start out meeting with a planner annually to ensure you're making intelligent decisions as you build your assets. These decisions would include how to budget, what insurance coverage you should have and how to invest your retirement assets.

As you get older, you'd consider what kind of house you could afford to buy and how to plan for the education of your children. When you reach middle age and have accumulated more assets and responsibilities, a more comprehensive financial plan may be more appropriate. As you near retirement, you can focus on retirement planning. After you retire, you can plan for the rest of your life, which would include more estate planning.

As pointed out above, financial planning is a lifelong process. To achieve your financial goals, we think you need independent advice as to how to survive market turbulence as well as adapt to tax law changes. We think having a professional financial planner by your side as you deal with life's events should make it easier for you to do so.

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Alexandra Armstrong is a certified financial planner practitioner and chairman of Armstrong, Fleming & Moore, Inc., a registered investment advisory firm located at 1850 M St. N.W. in Washington, D.C. Securities are offered through Commonwealth Financial Network, a member of FINRA/SIPC. Investment advisory services are offered through Armstrong, Fleming & Moore, Inc., an SEC-registered investment adviser not affiliated with Commonwealth Financial Network. Consult your personal financial adviser before making any decisions. The author can't answer individual inquiries, but she welcomes suggestions for future article topics. This material has been provided for general informational purposes and does not constitute either tax or legal advice. Investors should consult a tax or legal professional regarding their individual situation.