AN EMPIRICAL STUDY OF

FINANCIAL PLANNING THEORY AND PRACTICE

by

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Abstract

The purpose of this study was to identify foundational theories of financial planning and the theories' applications and disciplines of origin. It is a step in creating one of the hallmarks of an advanced profession, a written body of knowledge that is generally recognized by the members of the profession and that extends beyond that of the layperson. In this sequential exploratory mixed methods study, twelve pioneers (1969-1984) of the profession, including almost all of those still alive from the founding meeting in 1969, were interviewed in person. The interviews were analyzed qualitatively to identify foundational theories. The findings were compared to quantitative importance ratings of related questions on the CFP Board of Standards 2004 job analysis survey of 3,859 CERTIFIED FINANCIAL PLANNERS™, revealing the CFP Board examination topics as an extensive compendium of components of the profession's body of knowledge. Among foundational theories identified are strategic management, modern portfolio theory, life cycle finance, permanent income hypothesis, law of large numbers, prospect theory, decision analysis, time value of money, counseling theories, behavioral finance, and others. As a result of the findings, a comprehensive definition of financial planning was created and the financial planning process was defined as strategic management processes applied to personal finance.

Dedication

I dedicate this dissertation to my husband, Mardiros Hatsakorzian, who supported me with love, comfort and a fervent belief in my abilities throughout the effort to achieve our goal, and to my mother, Dr. Elise Brinkley, who taught me to be curious, work hard, take responsibility for what I do, behave ethically, pay attention to detail, and be precise in language, all the while loving me unconditionally as only a mother can.

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Thank you to the CFP Board of Standards, Inc. which gave permission to use both the contents and results of the 2004 Job Analysis survey. The dedication of the management and staff to the advancement of the financial planning profession never wavered and the support that I received from them was unstinting. Thank you especially to Ms. Katherine Ioannides, Mr. David Livran, and Ms. Colleen McArdell.

Thank you to my colleagues at New Jersey City University who were helpful throughout the process. Special thanks to Professor Marilyn Ettinger and Dr. Sandra Bloomberg, both of whom encouraged me and were patient sounding boards.

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CHAPTER 1. INTRODUCTION

Personal Financial Planning (PFP) for individuals, families and small businesses owners is a profession that has been gaining in the number of practitioners and clients, and in acceptance since its formal inception on December 13, 1969 (Dunton, 1986). One of the reasons for this rapid expansion of the personal financial planning field is due to increasing complexity in managing personal financial matters in the past 40 years (Greenspan, 2003). Furthermore, since the primary consumers of personal financial planning are the affluent middle class (Warschauer, 2002), the social change from single wage-earner families with one partner full-time at home to dual-career families and single parent families has resulted in people having less personal time in which to manage their financial affairs (Townsend, 2002). As a result, individuals, families and business owners turn to financial planners. Some do so to take advantage of the planner's expertise beyond that of the average layperson in a variety of financial topics. For others, engaging a financial planner offers a way to outsource a task viewed as boring and onerous. All are looking for a professional who can help them reach their financial goals (Consumer Federation of America, 2002) and look to the financial planner to help them achieve financial security.

As the demand for financial planning services has grown, so has the profession. As of July 2005, there were 94,507 CERTIFIED FINANCIAL PLANNER™ professionals world wide, including more than 48,000 in the United States, the country where the financial planning movement originated. The countries with the next largest number of CFP® professionals were Canada and Japan, with 15,988 and 12,345 respectively. ("Worldwide CFP® certificant growth," 2005). According to one source (Miller & Montalto, 2001), approximately one in five Americans has consulted a financial planner.

During this growth period, the financial planning profession also has become increasingly sophisticated. In addition, although it has roots in finance and economics along with numerous other fields, it has become a separate discipline. There is a broad literature of financial planning represented by several journals and professional magazines that suggests that there is an assumed systematic body of theoretical knowledge agreed to by the profession. The result has been a flourishing profession with its basic theoretical foundation assumed but unsaid.

This study explored and identified major theoretical bases of the financial planning profession. An important part of this study was to investigate the theoretical basis for the financial planning process and its fundamental importance to the practice of Professional Personal Financial Planning. The reason for a particular interest in the financial planning process was that it is mentioned first as an essential part of financial planning in almost any article concerning the foundations of the financial planning profession, but its origin has been obscure. The CFP Board of Standards, Inc. regulatory body (CFP Board of Standards, 2006b) considers the financial planning process essential. The process was also deemed essential in 1972 when the College for Financial Planning was established. The stated purpose of the College was to train financial planners in the financial planning process (Brandon Jr. & Welch, 2003; Dunton, 1986). The financial planning process was also identified as being particularly important by the International

Association for Financial Planning, one of the predecessor organizations of the present Financial Planning Association, the membership organization for financial planners (Dunton, 1986).

The purpose of this study was to articulate, insofar as possible, the theories that are basic to the profession of financial planning Thus it should contribute to the establishment of a recognized theoretical body of knowledge, essential in the development of a profession (Greenwood, 1957, pp. 45-46), This study investigated these theories through personal interviews with pioneer financial planner professionals and a review of the literature, including, in addition to professional journals, trade publications, text books, personal writings of financial planners instrumental in the founding of the profession and other historical papers that were available. The results of this qualitative research were compared with the outcomes of a survey of the actual tasks performed by practicing Certified Financial Planner™ professionals, as reported in a major external survey.

Background of the Study

What is Financial Planning?

While the need for the profession has been growing and the profession itself expanding, there is some ambiguity among the general public and academicians as to who is a financial planner and what a financial planner does. Probably the most common misconception is that a financial planner is simply a portfolio manager. Financial planning is a process of developing an integrated financial strategy for the client, whether that client is an individual, a family or a business. It examines all aspects of the client's financial resources, goals, arrangements and attitudes as they relate to the current and projected economic and financial environment in terms of risk management, employee benefits, investments, taxation, retirement and asset transfer both during life and through the estate. The purpose of financial planning is to optimize the financial situation for the client in current and possible future environments in a manner consistent with the client's values. Professional Personal Financial Planning has been defined variously by different authors, but one functional definition that appears to encompass important points in the others is:

> Financial Planning is the process that takes into account the client's personality, financial status and the socio-economic and legal environments and leads to the adoption of strategies and the use of financial tools that are expected to aid in achieving the client's financial goals. (Warschauer, 2002).

Another definition is: "Financial planning is the process of meeting your life goals through the proper management of your finances." (CFP Board of Standards, 2005a).

The expanded definition above was the one that was used initially for this study, since it gives more complete articulation of some of the considerations necessary for the good management mentioned in the CFP Board of Standards, Inc. definition. However, one of the questions that was asked of the interviewees was to define financial planning, and based on their answers and the literature review a comprehensive definition based on strategic management was developed.

Financial Planning Organizations and Credentials

The study focused on CERTIFIED FINANCIAL PLANNER™ professionals, since determining all the people who practice financial planning is difficult. The Bureau of

Labor Statistics (2004-2005), estimated that there may have been as many as 298,000 financial analysts and advisors in the United States in 2002, and that 40% of that number are financial advisors. While some of those individuals might be considered stockbrokers or insurance agents, rather than full-time professional financial planners, this data indicates that there could have been as many as 119,200 individuals in the United States alone who were practicing as financial planners or else used personal financial planning technology in their occupations. There are more than 60 designations for investment professionals alone (National Association of Securities Dealers, 2005) and many additional credentials for other aspects of financial planning. In this confusing credentials universe, however, it has been generally agreed that the CERTIFIED FINANCIAL PLANNER™ certification is the premier certification and has had the most acceptance by the public as being the mark of the financial planning professional (Clements, 2004; Levitt, 2002; T. Mason, 2003; Most, 1999; Smith & Hebert, 2005). Therefore, this study was of CERTIFIED FINANCIAL PLANNER™ professionals.

Additionally, although the CFP® certification is international in scope, the study was limited to the United States, which has the largest single-country group of CFP® professionals in the world. This made the study more manageable and it was expected that the effect on theory would be negligible. Even though clients in different countries may have varying priorities due to cultural, economic and legal differences, the process and rules for giving financial advice internationally are not substantially different from the U.S. This is partially due to the fact that the countries that have a large group of CFP® professionals are generally those with more open and capitalist societies, such as Australia, the United Kingdom and Japan. In the literature, interviews with representatives from other countries show remarkable similarities in concerns ("Steve, Sanjay, Raoul, and David: A look at the international financial planning community.," 2005).

Articles about theory per se that do appear in the financial planning literature, plus the topics tested on the examination for CFP® certification and suggested topics for the curriculum for education programs registered with the CFP Board of Standards, Inc. are a good starting point for discovering the basics of the fundamental body of theoretical knowledge of the profession. The CFP Board of Standards describes the knowledge on the examination as that that a newly certified professional, practicing alone, would be expected to know, almost defining the scope of a basic body of theoretical knowledge. However, some more advanced ideas of financial planning are not included the examination topics (Warschauer, 2002), and it is in this area that more pragmatic articles published in peer-reviewed journals can give insight into possible additional theory.

One reason for the absence of a theoretical body of knowledge in the scholarly literature is because there has been limited academic interest in the profession as separate from finance in general, as evidenced by few degree programs and few scholarly publications dedicated to personal financial planning as a field separate from strategic planning for corporations and other large organizations. For example, Texas Tech University in Lubbock, Texas is the only university that offers a doctorate in financial planning, and even there the degree is actually called a Ph. D. in Consumer Economics, and is offered in their College of Human Sciences.

At the time that this study commenced, there were only 38 Master’s degree programs in financial planning or that offered a specialization in financial planning in the

United States (CFP Board of Standards, 2005b), most of which started within the past 5-10 years, compared to 113 Master's degrees in Finance, 56 MBA programs with a specialization in Finance and 31 Ph. D. programs and 28 DBA programs in Finance (Educational Directories Unlimited, 2005). Other financial planning programs that colleges and universities offer are generally continuing education certificates, which are usually "taught to the exam." The cause of this lack of academic programs is somewhat circular in that the lack of a clearly articulated theoretical base is cited as the reason for the lack of academic programs, (Black Jr., Ciccotello, & Skipper Jr., 2002) and the lack of academic programs contributes to the lack of specific articles about theory.

In 1969, the founders of the profession left their meeting having created an organization of professional financial planners, the International Association for Financial Counseling, Inc. and with the concept of the College for Financial Planning outlined as being designed to teach financial planners the financial planning process (Dunton, 1986). The College would grant the CERTIFIED FINANCIAL PLANNER™ certification. (The certification was later turned over to the CFP Board of Standards, Inc., an independent not-for-profit organization founded to benefit the public.) Although this study concentrated on those who have earned the CERTIFIED FINANCIAL PLANNER™ certification, it should be noted that there are organizations other than the CFP Board of Standards, Inc. that grant credentials that focus on professional financial planning (Hayden, 1999).

Nearly 40,000 individuals, generally those with an insurance background, have qualified for the Chartered Financial Consultant® (ChFC) credential, a financial planning credential granted to those who complete the course of study offered by the American

College in Bryn Mawr, Pennsylvania since 1982 (American College, 2005). However, one of the reasons for having chosen the CFP® certification is that it is not limited to professional education graduates of one institution. Despite the fact that there is no question of the academic excellence of the studies required for the Chartered Financial Consultant (ChFC®) designation, nevertheless the International Standards Organization holds that the certifying organization should be separate from the organizations that do the training for the certification to avoid so-called diploma mills (*ISO/IEC 17024:2003, conformity assessment -- general requirements for bodies operating certification of persons.*, 2003). For that reason, despite their large number and general professionalism, ChFC® charter holders who are not also CFP® professionals will not be considered in this study.

Another group that is growing rapidly is the International Association of Registered Financial Consultants. According to the organization's web site (IARFC, 2006), growth is 3% per month, and it was announced at their May 17, 2006 conference that membership had surpassed 8,000 members. To become a Registered Financial Consultant, an individual must already hold a financial planning credential such as CFP®, ChFC, or CLU, or else complete a course of study similar to that of the CERTIFIED FINANCIAL PLANNER™, have four or more years of experience in the financial services field and take an examination. All prospective members must agree to abide by the IARFC Code of Ethics and to maintain proficiency by no less than 40 hours each year. The organization also offers a Registered Financial Associate program for those who can meet the other requirements but do not yet have the required experience. Since many of the members of the IARFC are also CFP® Professionals, it was decided to limit the scope of this study to RFC® professionals who are also CFP® certificants.

A fourth group that clearly practices professional personal financial planning is the approximately 3,300 CPAs who have qualified for the American Institute of Certified Public Accountants Personal Finance Specialist (CPA/PFS) credential, which is for CPAs engaged in professional financial planning (AICPA, 2005). Since presumably accounting is these individuals' primary field, consideration of them is limited to those who have also earned the CFP® certification.

The Chartered Financial Analyst® charter is occasionally mentioned as a desirable credential for a person practicing financial planning to have (Hayden, 1999). The purpose of the Chartered Financial Analyst® charter is to provide a global standard for measuring the competence and integrity of investment professionals(AIMR, 2002). While investment allocation and management are important tasks in the process of strategically managing a person's financial affairs, as noted above, they are not the only concerns of the professional financial planner. Therefore, while the CFA® charter would be a plus for a professional financial planner, it does not encompass the entire spectrum of expertise required.

Statement of the Problem

The problem addressed in this study was that there is not a written common understanding or agreement on the theoretical base of the financial planning profession or of the financial planning process that is the core process used by professional financial planners. A dearth of scholarly literature on theories of financial planning hampers the full development of the profession of financial planning, particularly in academic institutions, as an advanced profession and discipline in its own right. As a profession, financial planning needs to exhibit characteristics that distinguish professions from vocations for credibility and validity. One of these characteristics is to “possess a mastery of a defined body of knowledge that extends beyond that of a layperson” (Yam, 2004, 979). This lack has been recognized in the scholarly literature in the past few years (Altfest, 2004; Black Jr. et al., 2002; Warschauer, 2002), but there has not been a catalog of appropriate theory articulated. Given the social need for personal financial planning, an assessment of the recognized theoretical bases for financial decision making today would provide a foundation for an increasingly sophisticated profession.

Purpose of the Study

The purpose of this empirical sequential exploratory mixed method research study was to explore and determine the theoretical bases of the financial planning profession. The goal is to document the theories from multiple disciplines that contribute to financial planning’s current body of theoretical knowledge and the extent to which those theories are in use by the financial planning profession as evidenced by the practices of CERTIFIED FINANCIAL PLANNER™ professionals. Altfest (2004), discussing the origins of personal financial planning, has stated that it would be extremely useful if a separate theory of personal financial planning were articulated. Warschauer (2002) has called upon the universities to help remedy this shortcoming. Part of the purpose of this study was to provide the essential basic research necessary to enhance the perception of financial planning as an advanced profession and separate discipline and also to provide a foundation for further articulation and research.

Research Questions

1. What are the major theories and disciplines upon which the financial planning profession is based? Specifically, what is the theoretical basis for the financial planning process?
2. What current practices of CERTIFIED FINANCIAL PLANNER™ professionals are based on the theoretical foundations discovered in the first question?

Nature of the Study

The first part of this study was a qualitative exploration via interviews, academic literature and historical documents of the ideas that were instrumental in the development of the financial planning profession. As theories that are relevant to financial planning were discovered, similarities and differences between each theory as articulated in another field and in financial planning were examined, although a fully detailed analysis would require research beyond the scope of this study.

In the second phase, once relevant theories were identified, tasks related to the use of that theory in practice were identified and related to answers to the job analysis survey conducted by Thomson Promedia, Inc., a professional survey and statistical analysis organization, under the auspices of the CFP Board of Standards, Inc. in 2004. That study resulted in replies from 3,850 CERTIFIED FINANCIAL PLANNER™ professionals. Examination of that study determined if that theory is one that most financial planners use. Furthermore, the use of the survey provided a measure of triangulating reliability and validity of the qualitative study, since the data emerged on the survey was obtained by a third party.

Since financial planners enjoy considerable autonomy, and some clients of financial planners seek advice on a particular matter and not comprehensive financial planning, given that not all of the planner's time will be spent in actual financial planning, and that the questions on the survey ask how important the planner considers a particular idea or task, there needed to be a less than 100% threshold for accepting whether a particular practice reflects widespread recognition and use of a particular theory. The need for a particular technique in an individual's practice, furthermore, may be limited, since not every client needs every technique, and that might affect a planner's view of whether a particular idea or task was important. On the CFP Board Survey, the respondents were given the choice of considering an item Of No importance, Of Little Importance, Of Moderate Importance, Important and Of Great Importance which were numerically designated from 0 to 4. Using standard statistical methods, the data was analyzed for significance. Since, if more than 68.3% of a normal distribution represents one standard deviation from the mean in both directions, if more than 70% of the planners who responded choose Of Moderate Importance, Important, or Of great importance on a Likert scale concerning the tasks that would be considered to be derived from a particular theory or of the concept itself, that would be evidence that that theory is important in the financial planning profession.

To further clarify the nature of this study, a graphical representation of the conceptual framework for the study is shown in Figure 1. The conceptual framework was based upon information found in the literature review and knowledge from the researcher's more than 30 years of experience in the financial services industry and financial planning profession. It is a roadmap of the avenues of exploration of the field of financial planning that took place in the qualitative study, and presents a guide to the written and oral material that was examined to identify themes and theories. In addition, the relationship of the qualitative portion of the study to the quantitative portion (the survey performed by Thomson Promedia) is indicated.

As is often the case in qualitative or mixed method studies, it represents a knowledge claim of the informed observer who has intimate knowledge of the subject matter of the study, a common feature of a socially constructivist philosophy of qualitative research (Creswell, 2003) (Robson, 2003), since the researcher is a CERTIFIED FINANCIAL PLANNER™ professional with more than 30 years experience in the field. The philosophical assumptions of the mixed methods design will be discussed in more detail in Chapter 3.

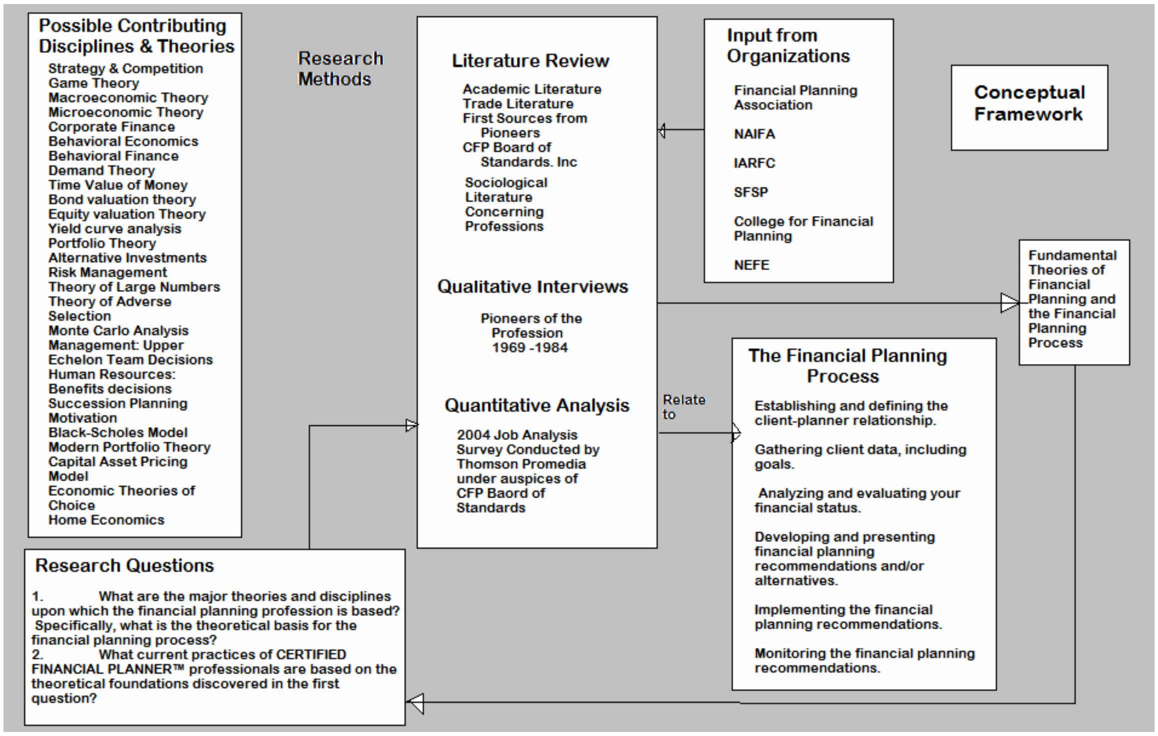

Figure 1. Conceptual Framework of the Study

Significance of the Study

The financial planning profession as it has evolved is vital to the well-being of many individuals and families, who depend on financial planners to help them make decisions which will affect their comfort and security for many years. It has well-defined Ethics and Standards of Practice as delineated by the CFP Board of Standards, Inc. However, it lacks a defined common ground as to what are the theories behind the practice of financial planning, since most professional articles focus on techniques of practice and not the development of theory. As a profession, a body of theoretical knowledge generally recognized by members of the profession is essential, since it benefits the public that relies upon the financial planners' expertise and ethics by assisting in consistent practice.

Since the actual tasks performed by CERTIFIED FINANCIAL PLANNER™ practitioners in planning for clients were examined in the light of theories identified in the qualitative phase, this study identified the major theoretical foundations of professional financial planning and determined which are most closely related to current practice. As explained by Warschauer (2002), who provided examples where research conflicts with what is commonly thought to be true, the study clarified the theoretical basis for the financial planning profession as used by CFP® professionals, provides a basis for further theoretical research, and should ultimately benefit the public by giving dedicated professionals a common base of informed expertise in assisting clients in financial decision making.

Definition of Terms

The following terms will be used in this study.

Asset allocation. Asset allocation is the process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institution's specific situation and goals.

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Estate planning process. Estate planning is the process of arranging for an orderly disposition of assets after death, in such a way so as to avoid legal and financial complications, excessive fees and expenses, and, in some cases, taxes. The client's desires as to who should receive particular assets are the important factor in the estate plan, but reducing expenses to the estate is almost as important. The estate planning process is a sub-process of the financial planning process, and follows similar steps.

Fiduciary. A fiduciary has rights and powers which would normally belong to another person. The fiduciary holds those rights which he or she must exercise solely to the benefit of the beneficiary. A fiduciary must not allow any conflict of interest to infect their duties towards the beneficiary and must exercise a high standard of care in protecting or promoting the interests of the beneficiary. Fiduciary responsibilities exist for persons other than trustees such as between attorney and client and principal and agent.

Financial planning. Financial planning, as used in this study, is the professional practice of giving objective expert advice to clients who are individuals, families or small, closely-held businesses concerning achieving financial goals consistent with the client's values using the financial planning process. Financial Planning is a process of developing an integrated financial strategy for the client, whether that client is an individual, a family or a business. It examines all aspects of the client's financial resources, goals, arrangements and attitudes relating to risk management, employee benefits, investments, taxation, retirement and estate asset transfer. The purpose of financial planning is to optimize the financial situation for that client in current and possible future environments consistent with the client's values.

Financial planning process. The following definition of the financial planning process is adapted from the CFP Board of Standards, Inc. (CFP Board of Standards Inc., 2004) This is an evolved definition that has added a step crucial to the engagement of a professional financial planner by the client, and has combined the steps of establishing goals and gathering data into one step.

The six steps in the financial planning process are:

1. Establishing and defining the client-planner relationship.
2. Gathering client data, including goals.
3. Analyzing and evaluating his or her financial status.
4. Developing and presenting financial planning recommendations and/or alternatives to the client.
5. Implementing the financial planning recommendations.

6. Monitoring the financial planning recommendations, the client's changing life events and making adjustments to the existing financial plan as needed.

Human life values. In the context of finance and life insurance, human life value is a measure of a person's potential economic value to others. This concept is important in relation to key-executive insurance, as well as to personal insurance in general. It is most often calculated by forecasting the person's future income stream, subtracting that portion of the income stream that would be used to sustain the person, and then computing the net present value of the result. This is a purely economic view of the person and does not include intangible values.

Income tax planning process. In the context of this study, the income tax planning process is a sub-process of the financial planning process. Income tax planning encompasses several areas: Understanding the structure and operation of tax laws, calculating and filing of federal and state income tax returns, planning to minimize income taxes and other forms of personal taxation. The objective is to minimize tax payable consistent with life goals.

Investment planning process. In the context of this study, the investment planning process is a sub-process of the financial planning process. It is similar to investment analysis by pension fund and mutual fund managers, but subject to the constraints of more limited assets available to individuals, families and small businesses. Concerns about tax efficiency of investments play a larger part of the investment process for individuals than for many institutional investors, since institutional managers are often tax-exempt. Since financial planning includes personal values, social perspectives on the appropriateness of the enterprise to the moral code of the client are often a part of the investment planning process.

Modern portfolio theory. Modern portfolio theory (MPT)is also sometimes called modern investment theory. It is concerned with a comprehensive investment strategy that seeks to build an optimal portfolio (defined as one that gives the highest potential reward consistent with the risk acceptable to the investor) by considering risk and return, although Nawrocki considers it to simply be a group of statistical tools (1996). In its simplest form, MPT provides a framework to construct and select portfolios based on the expected performance of the investments and the risk posture of the investor. This theory suggests that the risk of a particular asset should not be judged individually, but rather in relation to how that particular asset's price varies relative to the prices of the other assets in the client's portfolio. The theory claims that given an investor's preferred level of risk, a particular portfolio can be constructed that maximizes expected return for that level of risk. This is called the efficient market frontier. Modern portfolio theory (MPT) is based on germinal work by Markowitz (1952) and was further developed by Sharpe (1964) and has been developed further developed and expanded over the years since (Rambaud, Pacrez, Granero, & Segovia, 2004).

Pioneers of the Profession. Historically, financial planning as a separate profession was established at a meeting at Chicago's O'Hare Airport in 1969 (Jamieson, 2001). It was further developed by the founding of the College for Financial Planning in 1972, and the organization that became the International Association for Financial Planning (IAFP) in 1974 (Dunton, 1986). For the purposes of this study, pioneers of the profession will be individuals who participated in the early development of the financial planning profession during its first 15 years, 1969 – 1984.

Profession. A profession is an occupation, the practice of which directly influences human well-being and requires mastery of a complex body of knowledge and specialized skills, requiring both formal education and practical experience. Its prestige and status is dependent upon the degree to which its members have authority over decision making, experience autonomy in their work, and possess a mastery of a defined body of knowledge that extends beyond that of a layperson (Yam, 2004).

Related financial planning credentials .Financial credentials, such as the Chartered Financial Consultant (ChFC®), Certified Asset Manager, Registered Financial Consultant (RFC®), Chartered Retirement Planning Counselor, etc. that pertain to one or more aspects of financial planning, but are not the CFP® mark. As of July 2004, in the financial services industry/profession, there are at least 87 Designations, Certifications and Degrees and 85 Financial Services Associations and Professional Institutions ("Financial designations and associations.," 2004).

Retirement planning process. Retirement planning is a sub-process of the financial planning process. It seeks to maximize income and security in the retirement phase of a person's life consistent with current life goals. It follows a six step process similar to the financial planning process.

Risk management (Insurance). In the insurance sector, risk management is management of the pure risks to which a company or person might be subject. It involves analyzing all exposures to the possibility of loss and determining how to handle these exposures through such practices as avoiding the risk, reducing the risk, retaining the risk, or transferring the risk, usually by insurance.

Risk management (Portfolio theory). Since investing by its nature is to assume risk in hopes of a better than average return, risk management in portfolio theory is not to avoid risk completely, but to choose which risks to bear. Starting with germinal work by Markowitz (1952) and expanded and enhanced by numerous researchers in the past 50 years, risk management (sometimes called risk budgeting) is one of the major purposes of modern portfolio theory.

Strategic Planning Process. Strategic planning is a management tool used to provide a disciplined method of defining an organization's goals and objectives and to assist in decision making that affects the organization's overall purpose. According to Mintzberg, planning is a formalized procedure to produce an articulated result, in the form of an integrated system of decisions. (Mintzberg, 1994). Although Mintzberg claims that strategic planning is no longer valid in a world of rapid change, strategic planning is still regularly used by both businesses and not-for-profit organizations, and refinements to the process continue to be developed (Hall & Lawson, 2003). Currently, strategic planning is more often referred to as strategic management rather than strategic planning in much of the literature.

Survivor Needs Analysis. Survivor needs analysis is a method of determining the need for life insurance by analyzing the income required by the survivors who are dependent upon the insured. The needs of spouse, children and other family members are assessed as if the insured were to die today, taking into account time value of money concepts, investment yield and inflation.

Theory. The definition of theory used for this research study is definitions 3 and 5 from the *Oxford English Dictionary:*

> **3.** A conception or mental scheme of something to be done, or of the method of doing it; a systematic statement of rules or principles to be followed and
>
> **5.** In the abstract (without article): Systematic conception or statement of the principles of something; abstract knowledge, or the formulation of it: often used as implying more or less unsupported hypothesis (cf. 6): distinguished from or opposed to *practice* (cf. 4b). ***in theory*** (formerly ***in the theory***): according to theory, theoretically (opp. to *in practice* or *in fact*). (Oxford English Dictionary Online, 2007).

The importance of this definition is that prescriptive processes (e. g. the financial planning process) are considered to be theory.

Assumptions and Limitations

In this study, it was assumed that the practice of financial planning for individuals, families and small enterprises is a multi-disciplinary profession that draws upon theories from many related disciplines in its theories and practices. Among the disciplines whose theories were examined are strategic planning, strategic management, finance, economics, behavioral economics, behavioral finance, accounting, law, decision theory, group dynamics, organization and behavior, and others. See figure 1. It was also assumed that a theoretical body of knowledge for financial planning existed, and that it was primarily articulation of that theory that was lacking.

As part of the rationale for seeking to discover and articulate as many of the theories underlying financial planning as practical, it was assumed that consistent practice of any profession is grounded in theory. It was further assumed that because there are so many variations in human beings' goals and comfort levels with risk that while theory might suggest one course of action, that there would still be variations in application due to these behavioral factors.

As an example, consider the problem of dealing with the risk of financial loss due to an automobile accident. Theory says that the best way of handling this risk is the use of the insurance mechanism, transferring the risk. A particular individual may not trust insurance companies. In practice, state law permitting, the practitioner might help this person make an alternative arrangement such as a reserve fund. Theory has not changed, nor has best practice, even though this might be the right solution for that particular client. Thus, theory will lead to consistent practice subject to variations due to circumstance.

This study was limited to CERTIFIED FINANCIAL PLANNER™ professionals in the United States. Financial planners who are not certified, or who hold related financial planning credentials without also holding the CFP® certification were specifically excluded. Although it was assumed that CERTIFIED FINANCIAL PLANNER® professionals in other countries would use the financial planning process and have the same theoretical bases, cultural, economic and political constraints may cause some differences in application and practice.

Since financial planning is a multi-disciplinary field, with many areas of interest, it was anticipated that there would not be sufficient space to discuss in depth the theories that were identified nor would every theory that is recognized in the profession be identified. In fact, it was assumed that that would be the province of further research. This study identified and cataloged theories and made some comments if the topic had been transformed from the original field, but for the most part, the nuances and theoretical framework of the theories were not discussed.

Given that there has been more than 35 years of evolution of financial planning theory and practice since the founding of the profession in 1969, it was not anticipated that all theory underlying financial planning will be identified and articulated by this study. Instead, those theories mentioned by the founders and pioneers of the profession in their interviews and confirmed as being used in practice by the 2004 survey of practicing CERTIFIED FINANCIAL PLANNERS™ were identified and articulated.

The qualitative interviews were expected to identify the most prominent theories and it appears that it did so. However, there were other theories that were identified in the literature search for this study, and subsequently in the CFP Board survey, and they provide a foundation for further research. Since the amount of information from these interviews calls for an interpretive and integrated summary rather than for the counting and correlation that one would use in a quantitative survey (Weiss, 1995), those theories mentioned in the literature review that are not mentioned in the interviews are enumerated in the findings in Chapter 4.

Organization of the Remainder of the Study

In the remainder of this study, a review of the literature relevant to financial planning and the financial planning process (FPP), plus those aspects of strategic planning, modern portfolio theory, behavioral finance and economics, decision theory and other fields that appear relevant to the financial planning process was conducted in Chapter 2.

Chapter 3 details the research method used. It includes interview questions designed to elicit answers to the research questions. The interview questions were designed based on the review of the literature and an evaluation that used a small group of CFP® professionals to review the questions for clarification and to eliminate bias. The CFP® professionals used in the pilot study and field test are individuals with a minimum of 15 years experience and participation in professional financial planning or who have been active in the development of the profession over the past 15 years or more, such as academics concerned with financial planning. The results of the pilot study and field test are presented in the results portion of the research, but are clearly separated from the results of the interviews with the pioneers of the profession, not because of the qualification of the interviewees, but because those interviews took place prior to the refinement of the final interview questions.

Once the pilot study was concluded and the interview script refined, interviews were solicited with pioneers of the profession and conducted. The interviews were recorded and transcribed. The transcripts of those interviews were coded using standard qualitative research techniques and examined for emerging themes and theories.

Based on the results of that qualitative investigation, questions from the CFP Board of Standards, Inc. sponsored 2004 Thomson Promedia, Inc. job analysis survey that pertain to the emerging theories of financial planning were chosen. Examination consisted of using descriptive statistics of the results to ascertain the extent to which the theories are identified by financial planning professionals as important in financial planning practice today. This portion determined to what extent current practice and thinking reflects the theoretical basis discovered in the interviews and how consistent theory and application are.

The results of the quantitative study were integrated with the results of the qualitative study, and the findings reported in Chapter 4. Conclusions were drawn from these integrated results and were used to generate recommendations for further research and the action within the profession in Chapter 5.

CHAPTER 2. LITERATURE REVIEW

The field of Personal Financial Planning (which includes planning for closely held businesses) draws upon and encompasses a number of fields, the most relevant of which are discussed in this literature review. To determine which fields are most relevant and provide support for the content of the interview questions that will be used in the first stage of the mixed methods study, this literature review examined the areas most commonly mentioned in the financial planning literature, bringing in information that appears relevant from other fields.

There are only a few peer-reviewed journals that are specifically for financial planning, although articles on personal financial planning also appear in journals from banking, accounting, economics and other fields and there is a wealth of trade journals that are generally recognized as being authoritative. The best known of those peer-reviewed journals devoted to personal financial planning are the *Journal of Financial Planning* and the *Journal of Financial Services Professionals*, which was originally concerned primarily with insurance and estate planning, but has now become a recognized peer-reviewed journal of financial planning. The most theoretical of the journals is the *Financial Services Review,* published by the Academy of Financial Services. Another prestigious journal is *Financial Counseling and Planning,* which is the research publication of the Association for Financial Counseling and Planning Education (AFCPE), which promotes the education and training of professionals in financial management. The AFCPE grew out of the consumer sciences field, and many of its members are financial advisors employed by the government to advise the military. Unfortunately, archival copies of this journal are not widely available. Finally, the *Journal of Personal Finance*, published by the International Association of Registered Financial Consultants, is a peer-reviewed journal dedicated to financial planning.

Trade publications that publish articles pertinent to personal financial planning include *Financial Planning* magazine, *Wealth Advisor*, *Investment Advisor*, *Investment News*, *Worth*, *Institutional Investor*, *Employee Benefit News*, and many more.

In the material from the literature that follows, it becomes clear that the planner is using analysis of financial resources and internal and external environmental constraints to devise a strategy for that particular client. A picture of the financial planner as an outsourced CFO for the individual or family enterprise emerges. It is also evident that financial planning is a discipline which uses theory from many other disciplines to achieve that end. In this review, several of these disciplines were explored for theories that appear relevant to the financial planning profession.

Since the purpose of this literature review is to identify and explore the theoretical bases of the financial planning profession, investigation was not limited to review of the scholarly literature of financial planning. In addition to the formal professional literature of financial planning in books and journal articles, also included were other writings of the members of the profession, trade publications, the professional literature of related fields, textbooks commonly used in the registered education programs for potential CERTIFIED FINANCIAL PLANNER™ professionals, and historical documents relevant to the background of financial planning. Finally, there was an exploration of the similarities and differences between theories identified in the review of financial planning literature to those in the originating discipline, although detailed examination was reserved for future research.

In addition, since part of the purpose of this study is to enhance the perception of personal financial planning as a profession, the literature concerning professionalism was explored, comparing the present state of the financial planning profession to what sociologists have identified as characteristics of advanced professions. This provided part of the rationale for undertaking the research.

Categories of Financial Planning Theory and Practice

First, those financial planning articles that have discussed financial planning theory per se were examined and the theories suggested by those authors identified, articulated and compared to what is available in the financial planning literature. Next, the financial planning process was discussed on its own, due to its importance to the profession. Then, the planning literature for each of the nine categories of financial planning expertise as defined by the CFP Board of Standards in its educational topic list (CFP Board of Standards, 2005d) were explored with the aim of identifying, insofar as possible, the theories that contribute to that category. The complete topic list is shown in Appendix C. It must be recognized that the topic list is copyrighted by and is the property of the CFP Board of Standards, Inc. If areas of theory emerge from the literature review that are not included in the nine categories, they will be mentioned at the end of the literature review.

Although the Financial Planning Process is part of the General Principles of Financial Planning category, it was addressed first and separately because of its importance. This means of structuring the literature review was chosen because the categories in the educational program have changed little over the entire history of the profession, and therefore probably represent the most common areas of professional theory and practice. If the interview portion of this study identifies other areas of theory, the literature concerning those areas will be explored in the results section in Chapter 4.

Articles Concerning Financial Planning Theory Per Se

Only a few articles were found that identified themselves as discussing financial planning theory per se, although there were articles found about theory that were not identified as such. The most comprehensive article discussing the foundational theories of financial planning appeared in *American Economist* (Altfest, 2004). Altfest traces origins of financial planning theory to Modigliani, Becker and Markowitz (among others) and to the classical economics of choice.

Financial Planning and Home Economics

Altfest (2004) pointed out that in the first half of the twentieth century, some economists started to apply classical economic theory to the management of the household, using the term "home economics." Milton Friedman, in his Nobel Laureate autobiography, says this concerning his work in 1937:

> The catalyst in combining my earlier consumption work with the income analysis in professional incomes into the permanent income hypothesis was a series of

> fireside conversations at our summer cottage in New Hampshire with my wife and two of our friends, Dorothy S. Brady and Margaret Reid, all of whom were at the time working on consumption. (Friedman, 1976, p. 11)

The Margaret Reid that Friedman mentioned (1976) is considered one of the founders of the Home Economics movement. Most of the founders of Home Economics were either Professors of Economics or government economists. There is a wealth of information in the Hearth archives in the Cornell library, and research there unearths many examples of such early literature on what has become known as financial planning. One particularly compelling example is Mary Hinman Able's book, *Successful Family Life on the Moderate Income: Its Foundation in a Fair Start. The Man's Earnings. The Woman's Contribution. The Coöperation of the Community* (Abel, 1921). In this book, the economic roles of the members of the household were examined, there was advice on decisions about banking and investment, and to a reader today it is evident that this is a book about personal financial planning. Most of the literature from this period was extremely pragmatic in nature and designed to help consumers and is not concerned with theory, however.

This origin in home economics is surprising to some in the academic disciplines of business administration and finance, who do not usually think of home economics in those terms. However, if it is noted that many, if not most, of the early leaders of the home economics movement were either government economists or economic professors (Grossbard-Shechtman, 2001) who were simply applying their discipline to the home, it becomes more a more understandable origin.

This home economics background resulted in the long-standing inclusion of advice on consumer economics in Department of Agriculture programs such as Home Demonstration Agents, and explains why financial planning programs are sometimes in the Human Sciences departments of universities rather than business departments as might be expected by those who concentrate on the portfolio and finance aspects of planning. Thus, there are two traditions that contribute to financial planning as it exists today: one from the consumer economics field, and the other from the finance and financial services field that was identified in Chapter 1.

Becker and Decisions within the Family

Gary Becker was a theoretical economist at Columbia who applied economics to decisions within the family (Becker, 1974a, 1974b, 1988, 1992). While Becker and the early home economists both looked upon the family as a productive unit as well as a consumption unit, Becker was primarily concerned with the impact of family decisions on macroeconomics and national policy. The home economists, however, applied their chosen field of economics as a microeconomic exercise as if the family were a factory, seeking to maximize production and make the economic processes more efficient for the managers of that factory.

As noted by Altfest (2004), Becker added richness to the concepts of resource allocation within the family by his work on the allocation of time in non-work activities. Becker (1965) postulated a basic theoretical analysis of choice that considers the cost of time on the same footing as the cost of market goods. One of the key features of his 1965 article was the recognition that the decision of using the time of a member of the family was using a resource of production. He envisioned the family as a small factory that combines “capital goods, raw materials and labor to clean, feed, procreate and otherwise produce useful commodities” (Becker, 1965, p. 94).

Later Becker was one of the people who recognized that decisions within a family are often not unanimous, but are negotiated among family members on the basis of sometimes conflicting aims and cultural altruism (Becker, 1992). Since Becker was an economic theorist, he almost never did empirical work to confirm his theories, yet was quite definite in his ideas about the effects of decisions within the family and their effects on the national economy and society.

For instance, he claimed that the higher earning power of women outside the home was responsible for a decline in the family, since higher earnings by the woman made the choice to have children more expensive and the cost of her labor within the family higher. He considered the gender division of labor essential to the stability of the family (Becker & Tomes, 1986).

Becker’s theories have influenced financial planning in several ways. For example, the economic value of the work of the homemaker and consequent need for life insurance on the homemaker who does not earn a wage originates in Becker’s ideas. His work on human capital and education decisions (Becker & Tomes, 1976) is evident in the almost universal assumption that parents want to save for their children’s educations. In more recent theoretical explorations, new concepts in financial planning concerning education not discussed in the classical economic literature include considerations of eligibility for financial aid and tax considerations, neither of which were considered when the focus was on the implications for public policy.(Hogan & Kroeger, 2005).

Modigliani and Friedman: Expenditure,Savings, and the Life Cycle

Another theoretical source for financial planning mentioned by Altfest (2004) was Franco Modigliani, who was awarded the Nobel Prize in 1985 for his work on savings and the life cycle. Modigliani postulated that decisions on consumption and savings were made by the individual consumer based on anticipated lifetime earnings and consumption, not just on that year's needs (F. Modigliani & Brumberg, 1954). This premise would explain the almost universal consumption beyond their means of many young people, not in terms of immaturity but in their high expectations. Although the premise seems simple, the results of this hypothesis have far-reaching implications for the national economy, one of which is that the percentage of income that the population of a nation saves does not depend upon the level of national income, but on the public's perceived rate of growth of national income, since they assume that their own income will grow accordingly.

Milton Friedman in 1957 presented the Permanent Income Hypothesis. Subsequently, economists have tested this premise econometrically (Kotlikoff, Spivak, & Summers, 1982) with varying results, although most have tended to confirm it.

A corollary of Modigliani's life cycle premise is that the rise of Social Security benefits has been a contributing factor to the decline in savings in the United States since pension wealth tends to reduce savings (Attanasio & Brugiavini, 2003). This life-cycle view of consumption is the basic premise on which financial planning bases retirement planning. Financial planning turns the premise from an economic theory of how people will naturally behave into a guideline: the individual or family should avoid consumption and save in the early years of life so as to have sufficient resources for consumption in later life. Recently, Teslik (2006).has speculated that financial planners who set unrealistically high retirement goals have an effect of causing people to give up on saving for retirement. She stated that people give up because they feel that it is impossible to save enough and because it goes against human beings naïve natural tendencies.

Textbooks in financial planning use Modigliani's life-cycle theory when doing capital needs analysis to determine the amount that a client needs to save and invest for retirement (Dalton, Dalton, Cangelosi, Guttery, & Wasserman, 2003; Mittra, Kirkman, & Seifert, 2002).

One difference in life cycle theory in economics and in financial planning is in perspective. Like Becker, Modigliani appears to have been more interested in the implications for macroeconomics and public policy than is the financial planner who is dealing with one individual or family at a time. An article that combines in its assumptions both Becker's theories of decision making within families and Modigliani's life cycle analysis with the pragmatic concerns of the practicing financial planner appeared in the *Journal of Financial Planning* in 2001 (Opiela, 2001). That article discussed the "tough choices" of saving for retirement and saving for college, and suggested that it was best to counsel saving for retirement.

In 2004, a retrospective study of household income and the retirement decision (Lahey, Kim, & Newman, 2003) from the financial planning point of view indicates that the concept of life cycle consumption patterns is an entrenched part of retirement planning in financial planning practice. Furthermore, the determination in this study that 40% of post-retirement income is earnings of other family members is consistent with financial and economic theories of altruism and choice in decision making within the family as proposed by Becker (1965). Those theories were sustained in a quantitative study of transfers of money and time within households (Schoeni, 1997). Thus the financial planning literature confirms that Altfest's (2004) assertion of the contributions of home economics, Modigliani and Becker to financial planning theory is correct and that financial planning is firmly grounded in economic theory.

Modern Portfolio Theory and the Capital Asset Pricing Model

Altfest (2004) continued his investigation into financial planning theory into the field of finance. He cites Modern Portfolio Theory (MPT) (Markowitz, 1952) as another foundational theory. MPT is a normative theory that asserts that investors choose investments based on discounted future expected returns and that for maximum risk adjusted returns, investors should diversify across industries and asset classes. The theory itself is simple, but application has many variations and refinements to accommodate circumstances and can be quite difficult to achieve. Transaction costs and tax implications affect the utility of Modern Portfolio Theory in individuals' portfolios.

An explicit application and implementation of MPT in personal financial planning appeared in 2001. It was a methodology for producing balanced portfolios using alpha, beta and R-squared statistics that was published in *Financial Planning* magazine (Israelsen, 2001). (*Financial Planning* is not a peer-reviewed journal, but nevertheless often publishes scholarly articles.) These three statistics are the cornerstones of most implementation of MPT. The express purpose of Israelsen's methodology was to make it possible for an investor to always have a fund available for withdrawals that would be up in the current market, thus avoiding permanent loss of value due to bad timing (Israelsen, 2001). The massive databases and fast computers that are available today have certainly contributed to the almost universal use of MPT among institutional portfolio managers (Fabozzi, Gupta, & Markowitz, 2002) and as personal computers have become more powerful have placed the technology within the financial reach of most financial planners, even solo practitioners.

MPT was further refined by Sharpe and Tobin into the Capital Asset Pricing Model (CAPM) (Sharpe, 1964; Tobin, 1958). In the CAPM, mean-variance analysis by investors is assumed. While the CAPM grew out of MPT, and is widely accepted, it is however, not the only asset pricing model that exists. The CAPM decomposes the risk of an investment into two kinds of risk, systematic and specific. Systematic risk is the risk of investing in the market in any security, and cannot be avoided by choosing a particular asset or groups of assets. Specific risk is the risk that arises from a particular asset due to its individual business position, financial structure or other factors. In the CAPM, Sharpe said that the market does not reward specific risk, since specific risk can be offset by diversifying the portfolio. In contrast to the normative nature of MPT, the CAPM is a descriptive theory of equilibrium relationships between expected rates of return and risk. Basically, the CAPM says that the premium return (the expected rate of return on the asset minus the rate of return of a riskless asset) on an asset is proportional to its beta.

Beta is a measure of the sensitivity of a security's rate of return relative to changes in the overall market. A beta of 1.0 would mean that the security changed return at the same rate as the market. A higher beta implies that the security is more volatile than the market, and a beta less than 1.0 implies that the security is less volatile. In portfolio management, the efficient frontier is that portion of the yield curve where expected return and risk are in equilibrium. All investors seek to find the point of greatest return for their acceptable level of risk.

The problem for financial planners is that the CAPM has some rather heroic assumptions: it does not take into account taxation or transaction costs, is interested in securities over only one period, and assumes riskless borrowing. The CAPM was further refined (Black, Jensen, & Scholes, 1972) by empirical testing from which emerged a modification that did not assume riskless borrowing. Over time refinements have improved the model. One discussion that was concerned with strategic management listed seven assumptions that of the CAPM that should be remembered when applying it (Oviatt, 1989).

This theory and its refinements, particularly a widely-quoted article that asserts that 90% or more of the return of a portfolio is due to the allocation among asset classes (Brinson, Hood, & Beebower, 1995) were fully accepted in the finance community and form the foundation of many decisions in institutional investment, asset allocation and portfolio management. However, Markowitz (2005) himself has recently challenged the ascendancy of the CAPM, saying that it is based on unrealistic assumptions and that when those assumptions are replaced by ones that more closely reflect the real processes of the market that the results are less dramatic. He asserts that one of the key ways that the CAPM fails to reflect the real world is that it assumes that “taxes, transaction costs, and other illiquidities can be ignored for the purposes of this analysis” (Markowitz, 2005, p. 18).

It is of course totally unrealistic to assume that these very important concerns can be ignored in the portfolios of most individuals and families, and choosing the location of certain classes of assets in different accounts based on their tax status has been shown to yield 20 basis points higher return than the common practice of allocating the asset classes equally across a person's or family's multiple accounts (Daryanani & Cordaro, 2005). Therefore, while the CAPM may be useful in designing institutional portfolios, it is less appropriate for the individual and family portfolios that characterize personal financial planning. This conclusion is further reflected in personal financial planning articles that discuss tax efficiency in mutual fund portfolios (Opiela, 2002; Riepe, 2000).

Another expression of the relevance of MPT to financial planning is evident in an discussion of issues facing financial planning and of financial planning theory in the *Financial Services Review* (Black Jr. et al., 2002). The authors of that article claimed that financial planning was well-grounded theoretically, but that research that would guide the application of theory was lacking. Modern portfolio theory was cited as the foundational theory, based on a larger view of the decisions concerning consumption and deployment of net worth into assets of all types, not just securities, including the residence, personal possessions and other use assets. Although this theory is plausible and makes theoretical sense, as the authors themselves stated, no empirical research substantiating it appears to be available.

In addition to appearing in articles that discuss foundational theories of financial planning, modern portfolio theory is explicitly mentioned in dozens of articles in the *Journal of Financial Planning* over the past 20 years. Nawrocki (1996) discussed the use of portfolio theory and the limitations imposed by the mathematical Godel's Theorem of Incompleteness on ever getting to the bottom of a system of mathematics. Nawrocki

(1997) later discussed the limitations of the Capital Asset Pricing Model and application by the financial planning practitioner.

Despite the fact that there is some concern about applying Modern Portfolio Theory in the form of the CAPM, which ignores taxes and which is posited on a single period for investment to individual portfolios in which taxes are an important consideration and in which long term goals must be achieved for the family's comfort and security, it is still the main theoretical basis for portfolio management in financial planning. Expanding the theory to include all assets as suggested by Black, Ciccotello and Skipper (2002) to include use assets and human capital expands MPT beyond its basis in finance into an application that is unique to financial planning.

Hence, from the existing literature, despite concerns about the predictive nature of MPT and its appropriateness to individuals' portfolios, Modern Portfolio Theory and the Capital Asset Pricing Model can be added to the life cycle view of Modigliani and the decision theory of Becker as being foundational theories of financial planning. The recent critique of the CAPM by Markowitz calls for a re-examination of the usefulness of the CAPM in designing individuals' portfolios, but that critique has yet to be recognized fully in the financial planning literature. Having accepted these theories as foundational based on the literature review, the next section explores theories concerning the financial planning process and areas based on the Educational Topic List of the CFP Board of Standards, Inc.

Educational Topic List of the CFP Board of Standards, Inc. as a Guide for Exploration

The educational topic list has changed little over the life of the profession, and the changes that have taken place consist mostly of additions as the complexity of the tax code, family arrangements, and financial products has increased. The original curriculum of the CERTIFIED FINANCIAL PLANNER™ program at the College for Financial Planning included the following categories of knowledge: Regulation and Ethics, the Financial Planning Process, Risk Management and Insurance, Retirement Planning, Employee Benefits, Investments, Taxation, and Estate Planning (Brandon Jr. & Welch, 2003).

The categories in the latest topic list (CFP Board of Standards, 2005d) (see Appendix C for the complete list) does not vary much from that original list, especially given that 34 years have passed. Regulation and Ethics and the Financial Planning Process are now both part of a category called General Principles of Financial Planning. That category now also includes topics such as cash flow management, time value of money, financing asset acquisitions (including real estate and mortgages), financial institutions and macroeconomics, all of which were included in earlier versions of the topic list in different places.

The remaining topics are Insurance and Risk Management, Employee Benefits, Investments, Income Taxes, Retirement Planning, and Estate Planning plus two topics that are not tested on the exam, but are recommended in the educational curriculum, Client and Planner Attitudes, Biases and behavioral characteristics and impact on financial planning, and Principles of Communication and Counseling.

As can be seen from the broad nature of the nine categories and their sub-categories, Financial Planning is a profession that requires a multi-disciplinary approach. From its original conception it was designed to be an integrative and comprehensive process. Anthes, an early president of the College for Financial Planning said,

> Financial planning is not merely estate planning that provides for one's estate after death. It is not merely budgeting to determine how one's money is being or should be spent. Nor is it simply retirement planning, or the purchase of or sale of equity products, or the informed acquisition of insurance in one of its many forms. Financial planning may include those things; but it is much more. Financial planning is a process. It is not something that is fixed at a point in time. It is not something that one establishes and then forgets or discards. As one planner stated so well, personal financial planning is not a destination; it is a journey. (Dunton, 1986).

As a further example of the multiple theories that populate the theoretical bases of financial planning, *The Journal of Financial Planning*, the oldest of the professional journals in financial planning, has a subject index to its articles for its online archive ("Journal of financial planning subject index," 2005). There are 23 subjects listed, including four that have to do with investing, and five that have to do with managing the professional practice or the relationship of the profession to society: Business Planning, College Planning, Economics, Estate Planning, Insurance, International, Investing, Investing—Bonds, Investing—Mutual Funds, Investing—Stocks, Legislation, Litigation and Liability Issues, Marketing Your Practice, Miscellaneous, Personalities, Practice Management, Professional Issues, Psychology/Client Relationships, Real Estate/Mortgages, Retirement/Benefit Planning, Specialized Financial Planning, Taxes, and Technology.

Discarding those categories that have more to do with running a financial planning business than with theoretical basis, and consolidating the various investment categories still leaves the following areas to explore: Business Planning, College Planning, Economics, Estate Planning, Insurance, Investing, Psychology/Client Relationships, Real Estate/Mortgages, Retirement/Benefit Planning, Specialized Financial Planning, and Taxes. All of these are included in the nine categories of the current educational topic list, although some are subtopics.

The nine subject categories from the examination topics list gave the structural framework to the remainder of exploration of theoretical origins of financial planning in this literature review. For some categories, the discussion became lengthy. Those are the topics that seem to have a strong relationship to financial planning theory, not simply the application of existing techniques. For those topics where the non financial planning discipline is simply applied without modification, the techniques used will be mentioned but not explored. To keep the study manageable, not every topic within each of the categories will be addressed. The selection of those topics addressed will be based to a certain extent on the frequency with which that topic is discussed in the literature, but also by the admittedly researcher biased criteria of importance.

For the reason of importance, the financial planning process will be explored and compared with strategic management and strategic planning before investigation of the nine subject categories.

Financial Planning as Strategic Management: The Financial Planning Process

As noted in Chapter 1, the financial planning process is strategic management of the client's financial resources. It appears to be a derivative of the strategic planning process that is well-known in both the organization and management field and the finance literature. This assertion of origin appears even more likely when the business literature at the time that the financial planning process was conceived is examined. If it is agreed that the financial planning process is a special form of strategic planning and strategic management, the financial planning process is now theoretically defined. Furthermore, there are more than 50 years of theoretical writings concerning strategy in the organization and management literature that could be immediately used to further refine the financial planning process.

Thus this literature review explores the theoretical basis of the financial planning process based on how it relates to a review of the literature of strategic planning and strategic management.

Financial Planning, Strategic Planning and Management: Similarities and Differences

As recently as 2005, strategic planning for the family business was the topic of an article in the *Journal of Financial Planning* (Jaffe, 2005). The relationship to strategic planning is not new. Going back to the origins of professional financial planning, when the business environment of the late 1960s is examined, it is clear how strategic planning could have evolved into financial planning.

Concurrent with the beginnings of the profession, the 1960s and 1970s were a period in which business strategy emerged as a matter of great interest, and the strategic planning process was enjoying wide acceptance as a technique for businesses. According to Lerner (1999), corporate America was “obsessed” with strategic planning in that time period. In 1966, for example, the use of strategic planning for small businesses was discussed in the *California Management Review* (Gilmore, 1966). A version of the strategic planning process that is quite similar to the financial planning process appeared in *Banking* in 1968 (Gibbs, 1968). An article concerning dealing with the problem of strategic plans being ignored by managers was also published in 1968 (Hekimian & Mintzberg, 1968).

In the same year, an article describing the problems of the strategic planner appeared in *Harvard Business Revi*ew (Mainer, 1968), which published articles on strategy, strategic planning, and strategic management regularly from 1965 until well into the 1970s. Ansoff's classic *Toward a Strategic Theory of the Firm* was published in 1969, building on earlier work by Chandler (Chandler, 1962). The interest in strategic planning and its attendant process continued through out the 1970s, and its application to small business was not neglected (Robinson, 1979).

Because of the ubiquitous discussion of strategic planning in business journals and magazines, any group of successful businesspeople in the late 1960s could be presumed to be familiar with the strategic planning process. In April of 1969, some six months before the meeting establishing the financial planning profession and the CERTIFIED FINANCIAL PLANNER® credential, the task of the corporate planner was identified as making "a study of the organization's environment, (opportunities and threats), its resources (strengths and weaknesses), its personal values and its ethical and social responsibility." (R. O. Mason, 1969, p. 109). Note that there was already concern over values, ethics and responsibility, and also note the anthropomorphic transformation of the organization into a person. From an environment permeated by strategic planning, the application of its concepts to the deployment of personal financial resources would be a seamless transition.

In examining the techniques of strategic planning that were transferred from strategic planning to financial planning, one of the most important was the process of the environmental scan and analysis of resources, organized into four categories, strengths, weaknesses, opportunities and threats. This "SWOT analysis" is characteristic of the prescriptive design school of strategy (Mintzberg, 1990) and is still explicitly mentioned in two of the more widely used textbooks of financial planning (Dalton et al., 2003) (Mittra et al., 2002). One further illustration of the relationship of financial planning to strategic planning is stunningly evident when the steps in the financial planning process (minus the recent addition of establishing the relationship) are compared to the steps in the strategic planning process as stated more than 25 years ago (Bourgeois III, 1980). Table 1 compares steps of each process. Based on these comparisons, the origin of the financial planning process is evident. This conclusion will be compared to the responses of the pioneers of financial planning in Chapters 4 and 5.

Table 1.

Comparison of Strategic Planning and Financial Planning Processes

Strategic Planning Process (Bourgeois III, 1980)	Financial Planning Process (CFP Board of Standards, 2006b)(omits establishing the client relationship)
Environmental Scanning: Objective setting	Gathering data, including goals.
Distinctive Competence selection	Analyzing and evaluating your financial status.
Power distribution: (Within the organization, determining who will have authority and subordinate relationships).	Developing and presenting financial planning recommendations and/or alternatives. (What to do and who will do it.)
Resource Allocation (Deployment of financial and physical resources to carry out the strategy.)	Implementing the financial planning recommendations. (Allocating resources between investment and consumption in accordance with the plan. Allocating resources earmarked for investment among investments.)
Monitoring and control of outcomes	Monitoring the financial planning recommendations.

Criticisms of Strategic Planning and Their Applicability to Financial Planning

Having identified financial planning as an application of strategic planning from the literature and concluded that therefore the financial planning profession can benefit from the years of research into the strategic planning process; the financial planning process should also answer the criticisms of strategic planning.

Strategic planning is currently being used in many corporations and not-for-profit institutions, and new articles and books are being published concerning strategic planning are being published constantly. Nevertheless, there have been criticisms of the strategic planning process over the years, most notably evidenced by Mitzberg's declaration of its death in the *Rise and Fall of Strategic Planning* (1994) and prior works. Opposing Mintzberg's view of strategic planning over the past 30 plus years has been H. Igor

Ansoff, who even went to the point of changing the name from strategic planning to strategic management to emphasize the processes that answer some of Mintzberg's criticisms of strategic planning (Ansoff & Mintzberg, 1991; Lerner, 1999).

In the discussion below, it will be shown that as the evolution of strategic planning into strategic management and strategic thinking occurred, similar changes were occurring in the financial planning process. However, unlike the metamorphosis of strategic planning into strategic management and strategic thinking, the changes occurred in the financial planning field and wee accepted without a change of name.

One of the earliest articles concerning strategy and growth was H. Igor Ansoff's famous 1957 *Harvard Business Review* article, "Strategies for Diversification," which was followed by his book *Corporate Strategy* a few years later (Ansoff, 1965). One of the earliest investigators of the strengths and weaknesses of strategic planning was Harry Mintzberg. As early as 1967, Mintzberg was critical of strategists and strategic planners (Mintzberg, 1967). He observed that planners always seem to consider the time in which they are working to be extremely turbulent, in contrast to prior decades. His conclusion was that since planning is about control, that anytime the environment does not behave as expected thus lessening control over it, the planner considers the times to be turbulent. Back then, Mintzberg was calling for more research into how the manager makes strategy and discussed a visionary process.

Over the years, as he continued his investigations into strategy, Mintzberg became even more critical of strategic planning (Mintzberg, 1994). For example, Mintzberg's most vehement criticisms have to do with the separation of formulation from implementation, based on the ideas that consultants come in and after investigation, formulate the plan and present it to the management of the organization.

On the surface, that could describe the actions of the financial planner as well. However, unlike the situation in organizations where the management consultants, having designed and presented the plan, pack their bags and leave, financial planning, because of its personal nature, is constantly re-adjusted and the relationship with the financial planner is usually continued over a long period of years (Morrow, 1994). This is more in line with what Mintzberg calls strategic thinking and Ansoff listed as a critical aspect of strategic management.

What all too often happens in organizations once the consultants leave is that the strategic plan is placed on the shelf and not used as a guideline for decisions, nor are results measured against the objectives of the plan. The strategies are not internalized by the management, become irrelevant and the plan fails at the job of guiding decision making in the firm toward the firm's goals.

Admittedly, in the early years of professional financial planning, the situation was often very much like the organizational one. Financial planners produced books that the clients never read and plans that were never implemented. This was particularly true in the large investment broker-dealers of the late 1970s, who took the planning process away from the account executives who solicited and serviced the accounts. The account executive would solicit the sale of the plan, much like any other financial product, gather the data on a pre-designed form, and send it to a back office that used impersonal software to produce "the book." It would then arrive on the account executive's desk to be presented to the client.

The concept was to use the plan as a tool to sell financial products, and the plans produced showed that bias (Overton, 2006).

The Evolution of Financial Planning to Strategic Financial Thinking

In true personal financial planning, as opposed to so-called plans that are produced to present selling opportunities, where the management of financial resources is the product, the financial planner continues to work with the clients to implement the plan, and continually monitors and adjusts the plan as both the internal and external environment changes.

The financial planner essentially becomes part of the management team of the family or individual when it comes to finances, and works to make sure that financial decisions are made that are consistent with goals that were identified earlier. This is a key distinction and is evidence of strategic thinking and using the plan to guide not only decisions but also thinking when unforeseen circumstances present themselves. In literature concerning strategic planning the need for annual review is often mentioned (Burkhart & Reuss, 1993). In financial planning, it is assumed.

Financial planners have performed analyses of the profession and self-criticism that parallels the criticism in the strategic planning field. In fact, the relationship of financial planning to strategic planning was implicitly accepted in a critique of the financial planning profession in 2003 (Cumbie). In that article, Cumbie quotes from Mintzberg (1994) and calls for the financial planning profession to incorporate into our professional body of knowledge a number of topics, some of which are:: "strategic thinking, the concept of risk, developing vision, emotional intelligence, change management, scenario planning, social safety nets, theories of taxation and redistribution and active and empathic listening." (Cumbie, 2003, pp. 21-22)

Of course, some of these topics are already in the profession's body of knowledge. For instance, scenario analysis has been the topic of numerous articles in the financial planning literature (Opiela, 2004; Spitzer & Singh, 2003) and the use of Monte Carlo analysis, an extremely thorough method of scenario analysis has also been the subject of many articles (Boinske, 2003; Booth, 2004; Kautt & Wieland, 2001; Tezel, 2004).

Addressing Mintzberg's assertion that strategic planning is dead (Mintzberg, 1994) is important if one accepts that the financial planning process is a natural progression from the strategic planning process or possibly just the application of strategic planning to the family as a firm, as both Becker and the home economists might have asserted. Strategic planning as a technique has been long-lived, and despite Mintzberg's assertion that it is no longer viable (Mintzberg, Ahlstrand, & Lampel, 1998), continues to be used in many organizations today and to be discussed in academic journals (Hall & Lawson, 2003; Nickols & Ledgerwood, 2006; Rose, 2004). It appears that the distinction between Mintzberg's concept of strategic planning and strategic planning as it is practiced today is to a certain extent semantic. It is based on assumptions and a definition of strategic planning that are outdated when compared to practice.

Strategic planning as originally formulated was static: Strategic management or strategic thinking is dynamic. However, one starts the strategic management process by employing the techniques of strategic planning. In a later article (Mintzberg & Lampel, 1999) the idea that strategic management has become a more eclectic process, cutting across the schools of strategy, is asserted. The differentiating step that is added to the strategic planning process that makes it dynamic and become strategic management is constant monitoring and revising as circumstances change using a creative and innovative approach rather than a formulaic one. An increasing emphasis on values as guidelines for strategy is evidence of that transformation.

Interestingly, monitoring the plan (which implies revision as necessary) has been one of the steps in the financial planning process since the beginning and is emphasized in financial planning textbooks (Dalton, 2003; Dalton et al., 2003) (Mittra et al., 2002) and iterated in articles (Haas, 2000a). Note that by 1980, Bourgeois had also incorporated monitoring outcomes into his version of the strategic planning process (Bourgeois III, 1980). This addition is possibly one of the reasons that strategic planning has survived in organizations despite the misgivings of Mintzberg and other management experts.

Ansoff coined the term strategic management as an alternative to strategic planning specifically to emphasize that analysis was only part of the process (Ansoff, 1988). Since one of the criticisms of strategic planning was that it failed to work in turbulent times, some companies and management experts had rejected it completely. Others tried to find out why strategic planning did not work. The inherent logic of strategic planning implies that the future will be similar to the past, and what worked then will work again. This makes sense to most people since it is the basis of learned behavior. However, when conditions change, continuing to use old paradigms is often incorrect, jeopardizing chances of success.

One of the ways in which Ansoff (1988) differentiated strategic management from strategic planning was to say that strategic management is concerned with results while strategic planning is concerned with strategic decision making. This difference has been incorporated into financial planning without changing the name. So, while the financial planning process appears remarkably similar to the strategic planning process, comparing Ansoff's differentiation between strategic planning and strategic management yields some interesting observations.

From its earliest days, financial planning has focused on annual, semi-annual or even quarterly reviews to monitor the plan and make adjustments to the plan as client objectives and environments changed (Morrow, 1994). This could be interpreted as organic, ad hoc management, but appears to be more in the nature of strategic management. The focus has always been on the result, generally that of allowing the client to live the life he or she wants without financial worry. If strategic management not only focuses on things to do but on psychological, sociological and political variables (Ansoff, 1977; 1987), personal financial planning is by definition personal strategic financial management.

Any financial planner who has practiced knows that the client's psychological state, position in society and political biases affect the plan. Thus financial planning has followed the same process as strategic planning. In the words of one author, "Strategic Planning isn't dead – It changed" (Wilson, 1994). Wilson stated that strategic planning has changed dramatically since its inception in the early 1970s. According to him, it has evolved into a viable system of strategic management (or strategic thinking) after surviving its earlier design flaws.

By a similar process of evolution, financial planning has also become strategic personal financial management for the client. The difference is that the changes in the process resulting from the maturation of the discipline have occurred; the process has not taken on a change of name as happened in strategy.

Strategic thinking is intuitive and creative, looking for ingenious and innovative ways to achieve goals (Liedtka, 1998). The added value that a financial planner renders to the client is not only knowledge, but creative use of that knowledge to achieve the clients' goals.

However, one must have done the environmental and resource analysis (SWOT) that is the hallmark of strategic planning to have enough information to do the creative thinking. According to Liedtka (1998), there are five characteristics that define strategic thinking: (a) A systems or holistic view (b) A focus on intent. (c) Thinking in time, including scenario planning (d) Hypothesis-driven (e) Intelligently opportunistic.

Strategic thinking incorporates the steps and analyses of strategic planning into a more dynamic and change responsive process of monitoring, adjustment and creative innovation, coupled with contingency planning in the form of Monte Carlo analysis and scenario analysis, for example. Financial planning has always been concerned with an integrative and holistic approach to the entire spectrum of the client's financial life, including the client's values. A focus on intent is evident in the way that the financial planner seeks to optimize the client's resources to meet the client's goals. It has already been established that financial planning theory includes Monte Carlo and other scenario analysis, thus thinking in time.

Financial planning is hypothesis driven. For example, there has been a hypothesis about the proper way to determine client withdrawals to fund retirement expenditures and still preserve purchasing power and sufficient reserves, that is now being challenged

(Evensky, 2005; Opiela, 2004) and alternate hypotheses of the correct manner of achieving this important task are being tested. The final criterion, intelligent opportunism, to a certain extent defines part of what the value added of a financial planner to his or her client is. Because of their expertise and devotion to the field of personal finance and planning, financial planners must be creative and seek new opportunities for their clients while continuing to safeguard their assets against undue risk.

This discussion of the literature of strategic planning and management with comparisons to the literature concerning the financial planning process makes it evident that the financial planning process is the application of theories of strategic planning and strategic management to the financial affairs of individuals, families and closely-held businesses. Thus, the financial planning process, a foundational theory of financial planning, is firmly grounded in strategic management theory. Furthermore, theories concerning Monte Carlo Analysis and scenario analysis are evidence that financial planning uses theories of strategic thinking.

General Principles of Financial Planning

Having discussed the core theory of personal financial planning, the financial planning process, the other topics in the General Principles of Financial Planning category can now be addressed. This category and its topics represent 11% of the material tested on the CFP® certification examination (CFP Board of Standards, 2005d) It includes the financial planning process, the code of ethics, disciplinary procedures and standards of practice, personal financial statements, cash flow management, financing strategies, functions, purposes and regulation of financial institutions, education planning, financial planning for special circumstances, economic concepts, time value of money concepts and calculations, financial services regulations and requirements, business law and consumer protection laws, with subtopics in each of those topics (CFP Board of Standards, 2005d). While this is a miscellaneous category, many of the topics included are extremely important.

Personal Financial Statements

Personal Financial Statements are a basic analytical tool of professional personal financial planning, are used as part of the analysis of the financial resources of the client, and differ from corporate financial statements. The practice suggested in most major textbooks (Dalton et al., 2003; Leimberg, Satinsky, LeClair, & Doyle Jr., 2002; Mittra et al., 2002) follow the American Institute of Certified Public Accountants (AICPA) guidelines for preparing these statements, which since 1987 have required that assets be shown at fair market value (Kinsman & Samuelson, 1987). The AICPA guidelines were specifically designed for accountants who were preparing the statements for individuals and families and were established to meet the needs of clients needing statements for lenders to evaluate their financial condition; there has been no need for modification of this tool from its discipline of origin. Thus the generally accepted accounting standards for personal financial statements are the underlying theory accepted by the financial planning profession.

Although current practice is to follow the AICPA guidelines explicitly, an interesting application of Becker's concepts of human capital was, however, recently proposed in an argument that said that human capital is an important resource and should be counted in the person's or family's balance sheet as an asset (Washer & Nippani, 2004). This view is consistent with the consumer science or home economics tradition, which has concerned itself with the human capital within the family throughout its history. The application of the financial planning process outlined in the 1980s at the College for Financial Planning had a list of factors to consider in analysis of resources that included personal parameters such as health and education. Part of the analysis process as taught at that time was to determine the parameters for each of the factors (College for Financial Planning, 1986).

Financing Strategies

In an era when car leasing has become more popular than car ownership and the refinancing of a home mortgage has become popular as a topic for cocktail party conversation, the study of financing strategies within the family or small business is increasingly relevant. The use of credit cards, as noted before, has resulted in a consumer debt burden unprecedented in American history. When determining the best strategy for a client, consumer studies are the source for financial planners attempting to make an appropriate recommendation. These issues are discussed in the family resources management literature and in the financial management literature as well. The decision to lease equipment or purchase is familiar to corporate financial managers.

Most of the discussions center on and are based on the time value of money, one of the mainstays of the study of finance in general, and the object of lengthy discussion in undergraduate textbooks in corporate finance (Ross, Westerfield, & Jordan, 2004) and accounting (Warren, Reeves, & Duchac, 2006). The reliance on time value of money concepts is a necessary corollary to the capital needs analysis and life-cycle theories of Modigliani that were already discussed.

In addition to straight time value of money issues, the consideration of the life cycle theory is also considered in such decisions as the length of home mortgages versus higher or lower interest rates, the advisability of making additional mortgage payments and similar decisions (Larsen, 2004; Storms, 2000).

It is clear from this literature review that time value of money and life cycle theories are theories that are foundational to financial planning.

Remaining topics in this category

The remaining topics in this category are straightforward applications of tools from other disciplines. Functions, purposes and regulation of financial institutions are simply money and banking from the classical economics curriculum.

The economic concepts required such as monetary policy, supply and demand are standard topics from macroeconomics and are absolutely essential in understanding the environment in which the client's decisions will be made.

Business law is just what it seems. Every financial planner needs to understand the basics of contracts, liability, negligence, torts and the consumer protection laws. Education planning is a combination of taxation, investments and portfolios and macroeconomics.

Financial services regulations and requirements are not theory but simply rules to be followed, and financial planning for special circumstances simply uses the same investment management, risk management, time value of money and economic concepts as the retirement planning process that will be discussed later for managing circumstances of incompetence or physical disability instead of retirement.

Insurance Planning and Risk Management

This category represents 14% of the material tested on the CFP® certification examination. It includes principles of risk and insurance, analysis and evaluation of risk exposures, property, casualty and liability insurance, health care insurance and health care cost management (individual), disability income insurance (individual), long-term care insurance (individual), life insurance (individual), income taxation of life insurance, business uses of insurance, insurance needs analysis, insurance policy and company selection, and annuities, with sub-topics within each of these topics.(CFP Board of Standards, 2005d)

Risk management, usually with the insurance tool, is the first category that the financial planner analyzes and discusses, since there is little point in planning the client's investments or retirement if all they own could be wiped out by some risk that was not properly handled. The textbooks used in financial planning education in this area are the same ones used by schools of insurance (Vaughan & Vaughan, 2002).

For example, actuarial concepts such as the law of large numbers, capital needs analysis, and risk management techniques are taught and used by financial planners just as they are by people whose only field is insurance (Goodman, 2002). Understanding the law of large numbers, the basis of the insurance mechanism, is a necessary theoretical concept of financial planning, as is the methods of handling risk. Articles in the financial planning literature on insurance questions, for the most part, could be just as easily published in insurance journals, and many articles from insurance journals concern financial planning.

Once again Modigliani's life-cycle concepts and resulting analysis play an important part of the advice that financial planners give their clients, since the decision to purchase long-term care insurance, for instance, is a method of transferring the risk of not having enough assets to maintain a high cost of living late in life.

Probably the most frequently performed risk management calculation by financial planners, however, is determining life insurance need, and the tools used are the same as the life insurance industry (Elger, 2003). It is clear where the source theory of this portion of financial planning was developed.

Accounting has also contributed to risk management and insurance, especially in devising criteria and ratios for judging products (Alexander, 1998; Godfrey III, 2001) and studies of the implications of tax changes on the use of insurance (Barens & Morris, 2003). Many CFP® professionals started their careers in the insurance field, recognized the need for holistic financial planning and transformed themselves into financial planners. The *Journal of Financial Services Professionals*, which started as a journal for life underwriters and estate planners, is now a recognized peer-reviewed journal of financial planning. It includes articles on every aspect of financial planning, not just insurance and risk management. Although the public would probably mention investment analysis and planning as the most important function of the financial planner, the professional would not be doing the job of optimizing the client's use of his or her financial resources without including thorough consideration of the principles of risk management and insurance.

Employee Benefits Planning

This category represents 8% of the material tested on the CFP® certification examination. In the educational program curriculums, it is not usually a separate course. It is often combined with the insurance planning and risk management topics into a single course, since many of the employee benefits use the insurance tool, or else combined with the retirement planning category, since many of the other employee benefit topics concern retirement and long-term investment. It includes topics of group life, medical and disability insurance, income tax implications of employee benefits (for both employer and individual), other employee benefits such as flexible spending accounts, pre-paid legal services and cafeteria plans, employee stock options, stock plans, and non-qualified deferred compensation with subtopics below these topics (CFP Board of Standards, 2005d). Employee benefits professionals generally come from the human resources management, corporate finance or insurance fields and their focus tends to be on maximizing the benefit to the employer at the lowest cost.

From the employer's point of view, the purpose of employee benefits is to attract and retain high-quality employees. While the financial planner needs to understand the same tax laws and ERISA regulations, the perspective is different. First, if the client is an individual or a family, the analysis will focus on what the existing employee benefits mean to the client, not to the employer. When the client is a closely-held business, often the owner is an employee-owner and is interested in the benefit from both perspectives.

As of yet, there does not seem to be research that integrates the theories of risk management (in the insurance sense) and the tax and ERISA concepts inherent in employee benefit analysis with the capital needs and time value of money theories into a coherent model. Such a model would be a creative and useful contribution to financial planning theory.

Investment Planning and Portfolio Management

This category is the one that most laypeople associate with financial planning, and it represents 19% of the material tested on the certification examination. It includes characteristics, uses and taxation of investment vehicles, types of investment risk, quantitative investment concepts, measures of investment returns, bond and stock valuation concepts, investment theory, portfolio development and analysis, investment strategies, asset allocation and portfolio diversification, and asset pricing models (CFP Board of Standards, 2005d) (Torre & Rudd, 2004). Most of these theories are used just as they come from the finance discipline, although such topics as portfolio tax efficiency for individuals (as opposed to the institutional ability to virtually ignore tax issues in investing), small portfolio problems, and making withdrawals last though the entire retirement period of life are clearly financial planning problems, not corporate finance.

Some academic articles have postulated that there is ample evidence of financial planning theory based in modern portfolio theory. Modern portfolio theory, which was developed by Harry Markowitz and published in the *Journal of Finance* in March 1952, and then further refined by William Sharpe, focuses on the risk of a portfolio as well as return. Modern Portfolio Theory has already been discussed in detail.

Demographics have caused the topic of conversion of assets into an income stream in retirement to be a subject of increasing interest to both financial planners and the general public. Increased life expectancies and the prolonged nature of the stock market decline that started in March 2001 have emphasized the need for a more definitive way of identifying a safe drawdown of assets, since most people are not in the position of being able to avoid invading principle. A recent article (Booth, 2004) explored this problem in a theoretical manner, using a constrained portfolio model combined with Monte Carlo simulation to consider the problem in a probabilistic manner. The result was a repudiation of Samuelson's constant portfolio result model, and, in fact, seemed to vindicate the "your age in bonds" rule of thumb that is used by many financial planners. Samuelson's germinal paper (Samuelson, 1969) pointed out that Modern Portfolio Theory as outlined in Markowitz' original paper (Markowitz, 1952) and the liquidity assumptions of Tobin (1958) assumed investment over a single period. He then examined investment over a long period of time (i.e. a lifetime) and determined, by isoelastic marginal utility analysis, that the long time horizon would not in and of itself, increase risk tolerance.

This finding is key to financial planning professionals, since contrary to Samuelson's findings, there is a commonly held belief that young people, due to the many periods in which they can make up any losses, will have a higher risk tolerance than those nearing the end of their lives.

One of the reasons that portfolio theory is useable at the personal financial planning level is the advent of powerful personal computers. When financial planning first started, the kinds of computations that would have been required to apply Modern Portfolio Theory to a personal portfolio would have been prohibitively expensive. Now, software can be purchased for less than $1,000 that will figure asset allocation on the efficient market frontier and also do Monte Carlo analysis to determine the probability of reaching a particular goal, bringing these sophisticated techniques within the reach of even independent financial planners practicing alone.

Booth's article (2004) implicitly assumed that Monte Carlo analysis is well-known and used by financial planners. Monte Carlo analysis is explicitly mentioned in the topic list in probability analysis in the portfolio development and analysis section of the CFP Board Topic List.

Monte Carlo simulation is risk assessment technique that performs a simulation many times using a random selection of variable values. It uses a mathematical model to calculate a distribution of likely results. The technique is used in many fields, from medicine to urban planning, to determine the probability that desired futures will not be attained. The outcome of any one trial is not known, although there can be limits on the number of possible outcomes. For example, in tossing a coin, the limit of outcomes is either heads or tails.

In the types of simulations that financial planners would do, the *likely* range of the variables, such as interest rates or return on the stock market or even inflation, are known, although it must be remembered that the 18% and 20% short-term interest rates of the 1980s were largely unpredicted and would have been inconceivable only a few years earlier.

Combining two of the categories from the CFP Board financial planning topic list, retirement planning and investments, consider the situation of guiding a client in choosing a withdrawal rate for retirement income from a portfolio. Most basic financial planning textbooks (Dalton et al., 2003; Leimberg et al., 2002) suggest that the planner apply deterministic methods of problem solving, rather than simulation, to estimate the future value of retirement investments. These tools typically use historical investment returns over long periods of time and project a value for future investment balances by applying those averages equally for a number of years on a current portfolio balance.

In a simple example, assume that a participant has a $100,000 portfolio that is allocated 50% to fixed income assets and 50% to equity assets. Further assume that equity returns over the past 20 years have averaged 8% per year, while fixed income returns have averaged 6% per year. A typical deterministic model would create weighted average historical portfolio return (in this case 7%), compound that over the number of years until the client's retirement date, and calculate a single projected value for the portfolio upon retirement. The planner then calculates the effects of systematic distributions from the account after retirement, while assuming that the remainder of the portfolio continues to grow at the average historical rate.

Lately, it has been questioned whether this method gives a true picture of what withdrawal rates should be (Connelly, 1998), since it is patently obvious that returns fluctuate over the business cycle. Connelly also used chaos theory to discuss the patterns and cycles in the securities markets and how they affect financial planning practice (Connelly, 1996). Once again it must be recognized that how individuals view risk and fluctuations is quite different than institutional investors, and that for the individual, wide swings in valuation of the portfolio can be disastrous. It is far more dangerous to the future income of a retiree to have negative years early in the retirement period than later, yet the average yield on the portfolio might be the same.

In the first issue of *Financial Services Review*, Markowitz himself examined the differences in individual investing and institutional investing (Markowitz, 1991). More recent articles in the *Journal of Financial Planning* and the *Financial Services Review* discuss other methods of determining the probability of a particular investment return and for regulating withdrawal rates from a retirement portfolio (Booth, 2004; Goodman, 2002; Opiela, 2004; Tezel, 2004). One of these articles mentions the application of actuarial mathematics to financial planning, particularly for retirement planning (Goodman, 2002), thus suggesting another discipline from which financial planning theory derives its body of knowledge.

In addition to Modern portfolio theory and the Capital Asset Pricing model, a key theory from finance that has been embraced by many financial planners is the Efficient Market Hypothesis (EMH), which has been an important factor in thinking about stock prices and market behavior since the 1970s. EMH ignores the effect of irrational behavior on the markets, and posits that investors almost always make rational decisions. Those who make irrational decisions are “noise traders” and the effects of their activities on the market as a whole are assumed to be random and of little consequence in asset pricing.

After the excesses of investor sentiment during the Internet bubble, it is difficult to believe that investor sentiment does not affect the market. However, the EMH is widely accepted. *A Random Walk Down Wall Street* (Malkiel, 2004),originally published in 1973, is the basic text of the EMH, and the financial planning world is divided on whether the efficient market hypothesis reflects reality. Those who accept the EMH believe that it is impossible to outperform the market, since information is freely available and the pertinent factors about a stock are already incorporated in its price. They therefore use asset allocation and index funds for investments. Others assert that active investment does work since the markets are not really efficient, only semi-efficient. Therefore, they look for value-added investment managers.

An article in the October 2005 issue of *Financial Planning* (Carosa, 2005, pp. 56-57) generated what was probably the greatest flurry of reader responses of any article in recent history. In that article, the authors asserted two major flaws in previous studies of the active vs. passive strategy models, (1) snapshot in time issues and (2) the equally weighted anomaly. Furthermore, the authors asserted, "An analysis of ***investment*** return data from January 1975 through June 2004 shows active investors in U.S. equity funds performed better than the S&P 500 two-thirds of the time and by an average of 2 percent annually."

Lo and Lin (2005) show quantitatively that investor sentiment does affect security pricing. Therefore they conclude that a contrarian view of the market is one strategy for higher than market returns, along with investment in smaller capitalization stocks and undervalued stocks. In the financial planning literature, the controversy of active versus passive financial management goes on, but clearly even if a particular planner rejects the EMH, he or she needs to understand it and have a valid theoretical reason for rejecting it.

Regardless of what the ultimate answer to the questions concerning active and passive investment strategies may be found, each investor has to make a decision concerning which strategy he or she will choose (Keane, 1986). The financial planner clearly needs to understand the major theories of finance, investments and portfolio design and analysis to effectively advise clients on their investments even if the financial planner is not the portfolio manager. Modern portfolio theory, the capital asset pricing model, and capital markets theory are only the beginning of the knowledge required. It is for this reason that there is a sense within the profession that a master's degree should be the minimum requirement for education (Warschauer, 2005).

Income Tax Planning

This category, which is ever-changing, accounts for 14% of the material tested on the certification examination. It includes topics of income tax law fundamentals, tax compliance, income tax fundamentals and calculations, tax accounting, characteristics and income taxation of business entities, income taxation of trusts and estates, basis, depreciation and cost recovery concepts, tax consequences of like-kind exchanges, tax consequences of disposition of property, alternative minimum tax, tax reduction and management techniques, passive activity and at-risk rules, tax implications of special circumstances, and charitable contributions and deductions, with an array of subtopics(CFP Board of Standards, 2005d). This topic is largely dependent on tax laws and regulations.

It is not theoretical per se, but rather a matter of applying the rules set by the legislature. Where the tax topics fit into financial planning is in such issues as tax efficiency of portfolio management and decisions on when to dispose of certain assets. In addition, the tax laws affect retirement planning since they determine which assets enjoy tax deferral or avoid tax on build-up altogether as do Roth IRAs. The effects of tax have to be factored into the decisions, but minimizing tax is not a theory issue.

Retirement Planning

This is one of the two most substantial categories on the certification examination, representing 19% of the material tested. It covers retirement planning from both the standpoint of the individual and from the point of view of the employer providing a qualified (ERISA-compliant) or non-qualified retirement plan. Its topics include retirement needs analysis, Social Security, types of retirement plans, qualified plan rules and options, other tax-advantaged retirement plans, regulatory considerations, key factors affecting plan selection for businesses, investment considerations for retirement plans, and distribution rules, alternatives and taxation. Naturally, each of these topics has many subtopics (CFP Board of Standards, 2005d).

The retirement planning topic includes application and creative use of the tax code to add value for the client, and the investment management of retirement assets is more like the management of institutional assets. The differences in the handling of risk, the income taxation constraints that exist on the individual or family as opposed to the institution have already been discussed. Also, other major assumptions that affect retirement planning, the lifetime income hypothesis and Modigliani's life cycle theory, have already been fully discussed.

Estate Planning

This category, which is fraught with legal, tax and emotional concerns for the client, represents 15% of the material tested on the certification examination. Despite its title, the category includes far more than simply the disposition of assets after death. Also included among its topics is planning for incapacity, a topic which can be even more emotionally difficult for the client to address than death. Additional topics included are characteristics and consequences of property titling, methods of property transfer at death, estate planning documents, gifting strategies, gift tax compliance and tax calculation, estate tax compliance and tax calculation, sources for estate liquidity, powers of appointment, types, features, and taxation of trusts, use of life insurance in estate planning, valuation issues, marital deduction, deferral and minimization of estate taxes, intra-family and other business transfer techniques, generation-skipping transfer tax (GSTT), fiduciaries, income in respect of a decedent (IRD) , postmortem estate planning techniques, and estate planning for non-traditional relationships.

Obviously, many of the theories and techniques of estate planning come from the field of law, and also from the field of insurance and risk management. Many insurance agents who transform themselves into financial planners first embrace the estate planning or investment categories and then find that giving that kind of advice only makes sense in the context of integrative financial planning (Haas, 2000b). Some estate attorneys have become CFP® professionals to integrate their legal advice with other aspects of financial planning.

Although it is quite complex, estate planning is another area that has more to do with interpreting external rules than with the application of theory. What distinguishes the expert in estate planning from the novice is the knowledge of techniques to take advantage of quirks in the rules.

Client and Planner Attitudes, Values, Biases and Behavioral Characteristics and Impact on Financial Planning

The length of the title of this topic reflects some of the reluctance to discuss the emotional aspects of personal financial planning among some members of the profession, although all recognize that emotional and attitudinal factors affect the financial planner's attempts to optimize the use of financial resources to achieve the client's goals. This topic, one of the two new categories recommended for inclusion in the financial planning education curriculum but which is not tested on the actual certification examination, reflects increasing recognition of the counseling and educational nature of the client-planner relationship. The topic includes cultural, family, and emotional factors, life cycle and age, the client's level of knowledge, experience and expertise, risk tolerance and values-driven planning.

There was recognition of the importance of dealing with investor bias and risk aversion in early years. By 1971, James Johnston had completed writing the first course in the Certified Financial Planner® curriculum for use at the College for Financial Planning that opened the following year. That first course was entitled *Counseling the Individual – Basic Financial Planning* and had six sections: 1. Fundamentals of Financial Counseling, 2. Money Management and Personal Financial Reports, 3. Reviewing the Financial Media, 4. The Investment Model, 5. Considerations in Effective Financial Planning and 6. Counseling and Consumer Behavior (Brandon Jr. & Welch, 2003). Client communications was still part of the first course in financial planning at the College for Financial Planning in the 1980s. (College for Financial Planning, 1986).

After taking on lower importance for a number of years in which the profession concentrated on quantitative methods, the part that behavioral and attitudinal characteristics of both the client and the planner play in the success of the plan is increasingly recognized (Connelly, 1997; Matson, 2002; Schooley & Worden, 2003). This recognition is evidenced in the addition of two categories, Client and Planner attitudes and Principles of Communication and Counseling, in the most recent articulation of the topics to be covered in a professional financial planning curriculum, although they will not yet be tested on the certification examination. Those two "new" categories may affect the application of theories from other fields such as corporate finance and risk management.

Whether or not investor sentiment affects the market as a whole as Lo and Lin asserted, there is no question that investor behavior, biases and attitudes affect the financial well-being of the individual or the family. People make irrational financial decisions every day: They buy the stock du jour, they panic and sell on sudden dips that may be transitory in nature, they forgo additional earnings by refusing to take reasonable risk, or they take risks that are wildly inappropriate to their overall financial situation. These bad decisions are not just in the securities markets, but in all aspects of managing their financial resources. They continue to operate losing businesses long after it would be reasonable to close them and try something else, they refuse to accept offers on real estate because of a price in their heads when the taxes and other costs of holding onto the property more than make up the difference in price over only a few months and they take on excessive debt for consumption. Trying to understand why people make irrational decisions, and how to keep them from doing it, is the thrust of this aspect of financial planning.

The father of behavioral finance is Daniel Kahneman, who received the Nobel Prize in 2002 for integrating insights from psychological research into economic science. Kahneman & Tversky's original article in *Econometrica* was an examination of how economic decisions are made in risk situations (Kahneman & Tversky, 1979) and developed a new model of decision making that was called prospect theory. Some 21 years later, Kahneman himself recommended that financial advisors should guide investors in making decisions that will best serve the investor's interests (Kahneman &

Riepe, 1998). This represents a rare instance in which a well-known academic recommends the inclusion of a theory from the parent field to the practitioners of a new field that has emerged from it.

One of the great mysteries of financial behavior is why the same choice presented in a different way will result in a different decision by the person making the decision. For example, the same person who might drive 10 miles to save $5 on groceries might not drive even five miles to save $5 on a television set. The immediate reaction might have to do with the percentage saved, but that does not explain the difference in decision either. Behavioral finance and behavioral economics have identified several reasons why people make these poor decisions – anchoring, sunk cost fallacy, confirmation bias and simple overconfidence (Belsky & Gilovich, 2000).

Based on the long history of concern with client communications, consumer behavior and decision making, many theories from those fields definitely should be recognized as foundational theories of financial planning. The attitude of the client towards risk is one of the key factors in determining what the optimum strategy for that client is.

Principles of Communication and Counseling

This is the second of two new categories recommended for inclusion in the financial planning education curriculum but which is not tested on the actual certification examination. It includes types of structured communication, including interviewing, counseling and advising; essentials in financial counseling, which includes establishing culture, creating rapport, and recognizing resistance; characteristics of effective counselors, which encompasses unconditional positive regard, accurate empathy, and genuineness and self-awareness; nonverbal behaviors; attending and listening skills; and effective use of questions.

This area of expertise owes much to psychology, sociology and management and organizational behavior. It is the least discussed in the professional literature, possibly because of the discomfort that some quantitatively oriented financial planners experience when dealing with it, yet it is critical to the successful practice of personal financial planning. This topic seems to have less to do with financial planning theory and more with practice management. While the financial planner may apply some of the findings in the communications fields to his or her practice, there is not a theoretical basis that is inherently one of financial planning. Therefore, there was not an effort to find theoretical principles of client communication.

This portion of the literature review has concerned itself with topics from the CFP Board of Standards, Inc. list for the educational curriculum and the certification examination. There are aspects of financial planning practice that are not included in those topics, such as practice management, the sales aspects of financial planning (even by fee-only planners), computer skills, etc. While it may be that a complete educational experience would include these additional topics, it appears that they, like the communications skills, would have less to do with financial planning theory and more with practice. Therefore, while not losing sight of the importance of these topics to being a successful financial planner, they will not be explored in the search for financial planning theory. The remainder of this literature review concerns a topic for which the articulation of theory is extremely important, the increasing professionalism of financial planning. While this area of exploration does not articulate financial planning theory, it explains and delineates the importance of that articulation to the profession.

Professionalism and Financial Planning

Part of the purpose of identifying the body of theoretical knowledge of financial planning profession is to establish an aspect of professionalism that has been somewhat lacking in the field. Although the Personal Financial Planning profession is very close to achieving the professional status of medicine, law and accountancy, and is widely accepted as a profession, that move to the ultimate professional status has yet to be recognized as such by the public. Achieving that recognition is a desirable outcome for its practitioners since professionals control their own work and enjoy/ *-+enhanced prestige in society (Macdonald, 1995). Furthermore, there is a demonstrated correlation between professionalism (in terms of characteristics such as honor, altruism and integrity) and life satisfaction that is greater than that between personal monetary gain and satisfaction in the same field. (Krieger, 2005) Thus, the motivation for members of an occupation to have it considered a profession is easily understood and the drive to form associations for the purpose of recognition as a profession is evident. Since the identification of a recognized body of knowledge is an important characteristic of a profession, this study should enhance the professional status of financial planning.

Because of that relationship between the subject of this study and the characteristics of a profession, this literature review also explores the manner in which financial planning meets the criteria for a profession. In examining professional status, it should be recognized that the traits that cause an occupation to be considered a profession are possessed to some degree by occupations that are not professions, and there is a continuum from craft to technician to semi-professional to professional (Greenwood, 1957). To complete the movement of financial planning along the continuum from occupation to professionalism to the pinnacle of high-status professionalism, leaders of the financial planning profession need to address the attributes of a profession and take steps to assure that financial planning has satisfied each one. Since there is ample academic study of the attributes of a profession and the transition to professionalism in the sociological literature, an examination of that literature will inform action.

The study of professions within society has a long history. Considering that the concept of a profession only really emerged in the late nineteenth century, it appears that the first social scientist to analyze systematically the transition of diverse occupations from vocation to profession was A. M. Carr-Saunders (Vollmer & Mills, 1966) . In a lecture at Oxford in 1928, Carr-Saunders stated that one of the motivations for the formation of professional associations is that those of the vocation who possess a better craft wish to distinguish themselves from those who have less or none. Thus, they form associations that demand certain minimum qualifications. Carr-Saunders also stated that another characteristic that causes members of a vocation to form professional associations is to enforce reasonable and honorable standards of conduct.(Vollmer & Mills, 1966). He stated that professional associations, by guiding social conduct and policy, raise ethical standards and widen the social outlook. He concluded that professional associations provide a benefit to society.

Thus the drive to professionalism is not simply to benefit the members of the profession (although that may often be the primary goal of the members) but benefits society as a whole by raising standards in that field. In the case of financial planning, the journey to full professionalism therefore started when the financial planning profession formed its first association in 1969, The Society for Financial Counseling, Inc. That association had a Code of Ethics from the beginning (Dunton, 1986), and the College for Financial Planning, which came into existence in 1972, also adopted a code of ethics from its inception, so those who earned certification as a CFP® professional already met two (1. ethics and standards and 2. education controlled by the profession) of the requisite attributes of a profession. Today, the CFP Board of Standards, Inc., the present professional regulatory authority, enforces a comprehensive and stringent Code of Ethics and Standards of Practice (CFP Board of Standards, 2004), and enforces that code and those standards through disciplinary procedures that can result in loss of the certification. In this area, it is clear that the requirements of the highest level of professionalism have been met.

Characteristics of a Profession

In a germinal work still often cited today, Greenwood (1957, 1966) identified five elements that distinguish a profession: (1) systematic body of theory, (2) professional authority, (3) sanction (approval) of the community, (4) regulative code of ethics and (5) professional culture sustained by formal professional associations.

The characteristics outlined by Greenwood (1957, 1966) have stood the test of time. Although there seems to have been less interest in the study of professionalism and the movement of occupations to professions in the sociological literature after 1980, in a discussion of the movement of nursing from a semi-profession to a profession (Yam, 2004), the traits of a profession were expanded to include: an extensive theoretical knowledge base, a legitimate expertise in a specialized field, an altruistic commitment to service, an unusual autonomy in work, a code of ethics and conduct overseen by a body of representatives from within the field itself, and a personal identity that stems from the professional's occupation. These clearly owe a debt to Greenwood's formulation, although Yam cites Goode (1957) and Etzioni (1969). Because of the more extensive nature of these attributes, and the basis in research beyond Greenwood's original article, the Yam criteria are used in this study in addition to Greenwood's criteria in assessing the progress to full professionalism of the financial planning profession. Goode's (1957, 239) formulation of the attributes of a profession was:

1) Its members are bound by a sense of identity.

(2) Once in it, few leave, so that it is a terminal or continuing status for the most part.

(3) Its members share values in common.

(4) Its role definitions *vis-à-vis* both members and non-members are agreed upon and are the same for all members.

(5) Within the areas of communal action there is a common language, which is understood only partially by outsiders.

(6) The community has power over its members.

(7) Its limits are reasonably clear, though they are not physical and geographical, but social.

(8) Though it does not produce the next generation biologically, it does so socially, through its control over the selection of professional trainees, and

through its training processes it sends these recruits through an adult socialization process. (Goode, 1957)

Since Yam drew from Goode, the more expansive explanations from Goode should be used in interpreting Yam's criteria. It is interesting to note that through the requirements of the CFP Board of Standards, Inc., the regulatory body concerning CFP® professionals, the financial planning profession meets the criteria in Goode's eighth attribute: producing the next generation socially. This attribute not cited by Yam. This assertion stems from the following facts: Four things are required to become a CFP®: experience, education, examination and ethics. To meet the requirement of education, potential CERTIFIED FINANCIAL PLANNER™ professionals must either complete a course of study in a CFP Board registered program or have previously achieved a related credential that is deemed sufficiently professional to allow the candidate to sit for the examination, such as the CPA or Chartered Financial Consultant (CFP Board of Standards, 2003, 2005d). There is some opposition to this "challenge" status as being inappropriate to a profession. While it is agreed that on a personal basis it seems fair to allow someone with substantial knowledge relevant to the field to sit for the examination, it is argued that doing so lowers professional standards (Warschauer, 2002).

To become registered with the CFP Board of Standards, Inc., an educational program must meet requirements as to number of hours of instruction and a detailed list of required topics must be covered, including the Code of Ethics and Standards of Practice and the Disciplinary Procedures. Syllabi must be presented to the CFP Board in advance for each course and the entire curriculum approved before a program can be registered (CFP Board of Standards, 2005b). Therefore, the socialization of the next generation of financial planners is done by trainers and educators that must meet CFP Board standards. Thus, that criterion from Goode is met.

For CERTIFIED FINANCIAL PLANNER™ certificants, the profession holds power over its members, since the Board of Professional Review within the CFP Board can discipline a certificant that violates the Code of Ethics and Standards of Practice, even to the point of withdrawing the certification. In their application for certification, CFP® professionals have agreed to submit to the authority of the CFP Board of Standards. In addition, there is a sense of identity among the members of the profession, since they proudly put the designation after their name.

An example of the identification of members with the profession is that a few years ago, there was a controversy over a proposed lesser designation of Associate CFP (dubbed "CFP Lite" by its opponents) that was proposed by the CFP Board at the urging of the broker-dealer industry (Svaldi, 1999). The protest over this dilution of the CFP® identity was immediate and vociferous. In the end, the CFP Board chose to withdraw the proposal (Weinberg, 1999). This controversy clearly demonstrated that sense of identity characteristic of professionals. Interestingly enough, the opponents to the weakened designation included consumer groups who saw the associate designation as providing less protection for the consumer (Weinberg, 1999).

Sanction (Approval or Endorsement) by the community

A key area in which financial planning needs to make progress toward professional recognition is sanction (approval) by the community. Sanction is the term used in the sociological literature for approval or endorsement, despite the negative connotation of sanction in everyday conversation. Every profession strives to persuade the community to approve and endorse its authority by conferring upon the profession powers and privileges. The ultimate in power occurs when that position is reinforced by the community's police power (Greenwood, 1957). Certified Public Accountants, attorneys and medical doctors are all licensed by their respective states. Most states still do not require a license to practice as a financial planner, so in those states, regardless of training or lack of it, anyone can practice and hold themselves out to the public as a financial planner and there is lack of formal sanction of the profession's standards.

Although most CERTIFIED FINANCIAL PLANNER™ professionals are already overwhelmed by regulatory paperwork due to the multiplicity of roles involved in their practices, such as registered investment adviser, registered securities representative, insurance agent for life, accident and health, etc., it is clear that state or federal licensing of financial planners would enhance the perception of the public of financial planners as professionals. That the current situation presents opportunities for non-certified individuals to practice in a manner not up to the desired competency and ethics of a CFP® professional is obvious. This lack of consistency in qualifications for practice diminishes the profession in the eyes of the public.

Nevertheless, there is some evidence of the emergence of a certain level of sanction by the community. Every state (37 total) that requires an examination for a state license as a registered investment advisor recognizes the CERTIFIED FINANCIAL PLANNER™ certification as sufficient qualification and exempts CFP® professionals from the examination (CFP Board of Standards, 2005c). In addition, in some states, CFP® professionals are excused from the insurance licensing examination or insurance continuing education requirements based on their certification, and in a few are also exempt from examination for the Series 7 or 24 registered securities representative or registered securities principal examinations. Although this is a start, compare this sanction by the community to the absolute requirement of state licenses for doctors, attorneys and CPAs. This is an area where the profession needs to exercise its powers to enhance the prestige of the profession.

Legitimate area of expertise

Financial planning is an integrative and comprehensive process incorporating many disciplines. As outlined in Chapter 1, there is, however, an unfortunate belief in society as a whole, fostered by the popular financial media that makes its profits from consumers seeking financial information, that most individuals, if they put their mind to it, can perform all the tasks performed by the financial planner (Foland, 2005). Clearly, however, there is lack of expertise among the general public as evidenced by a doubling of bankruptcies and a 56% inflation-adjusted growth in consumer debt over the 10 year period ending in 2005, a period in which the population grew only about 13.3%.

This erroneous perception is currently being challenged by the shift of investment risk from the employer to the employee that takes place when defined benefit plans are replaced with defined contribution plans such as 401(k) plans. This change in employer retirement plans since 1980 places more pressure on the individual to perform the job of portfolio manager and to forecast retirement needs, functions that the majority of individuals are unprepared to assume. Government officials have called for greater financial literacy and education (Greenspan, 2003), and William Sharpe, the Nobel prize winner in finance for modern portfolio theory, has stated that individual investors need low-cost institutional advice to meet this challenge (Sharpe, 1997b).

In addition to the initial analysis required of participants whose occupation may have nothing to do with financial planning, finance or investments, there is the ongoing responsibility for decisions concerning the deployment of 401(k) resources based on continual re-assessment of progress toward financial goals. While this is a lifelong duty that is necessary to optimize the use of financial resources, a person who has worked hard all week in his or her own job or profession is often unwilling to spend his or her own diminishing measure of leisure time in reading about revisions to the tax code, the latest investment vehicle or the details of insurance coverage. He or she would rather go to the ballgame, spend time with family or pursue an enjoyable hobby. Even when capable of understanding the large and varied body of expertise, most people are simply unwilling to put their mind to it and spend the time to acquire knowledge and expertise.

In addition to the evident need for professional financial planning from statistics about consumers and the pressures on them, a review of articles concerning Personal Financial Planning also supports the notion that it represents an area of legitimate expertise. In addition to the peer-reviewed journals specifically dedicated to the field such as *Financial Services Review, Financial Counseling and Planning,* the *Journal of Financial Planning,* and the *Journal of Financial Services Professionals,* articles concerning personal financial planning have appeared in many peer-reviewed journals from other disciplines such as *American Economic Review* (Tversky, Slovic, & Kahneman, 1990), *American Economist* (Altfest, 2004), the *Journal of Risk and Insurance* (Schleef, 1989), the *Journal of Accountancy,* the *CPA Journal* and *the Journal of Finance* (Casamatta, 2003) among others. The titles of these journals and articles demonstrate the breadth and depth of comprehension required to be knowledgeable about personal finance and to stay current in the profession.

Despite this evidence, a belief in the ability to do it yourself, fostered by the consumer financial media ("Rational investing, irrational behavior, and media conflict of interest.," 2005), undermines the professional authority of the financial planner. Recognition of the expert nature of financial planning's theoretical bases and the breadth of theory and information which must be understood and integrated to make sound financial decisions should help in community sanction. While no financial planner would advocate less consumer information, just as articles in consumer magazines about health issues do not preclude going to doctors for advice, members of the media professions need to be educated that continually advocating the do it yourself attitude is neither a public service nor a circulation builder. This is a prime area where the CFP Board can fulfill its mission of educating the public and the Financial Planning Association can represent its members.

Commitment to Altruism

The commitment to altruism is much more difficult to assess, particularly in a financial field. One would expect that people who find money interesting enough to choose a financial profession would also be interested in financial gain. Whether that is the primary motivation and whether altruism has a place in the decision to become a financial planner has not been determined, despite the bald statement by Loren Dunton that a financial planner is altruistic. (Dunton, 1986).

However, there is evidence that financial planners consider themselves to be in a helping profession. First, the tone of literature from schools looking for students in financial planning educational programs stresses the helping nature of the profession. "If you are interested in establishing a financial planning career dedicated to helping your clients manage their finances to achieve their financial goals, consider this program." states the online brochure for one financial planning certificate program ("Certificate in financial planning," 2005, p. 1). A discussion of career paths for financial planners (Guyton, 2001, p. 150) states "a large and growing number of consumers have concluded that financial planning can help them improve the quality of their lives." The CFP Board booklet (CFP Board of Standards Inc., 2002, p. 2) for people considering becoming certified "As a CFP® practitioner, you will help clients discover and solve financial problems and achieve life goals as a counselor and coach." It goes on to state,

> If you are interested in becoming part of a profession that helps people gain control over their lives and their futures; if you are a big picture thinker and a good listener; and if you are looking for a career filled with opportunities and challenges – then choosing to become a CERTIFIED FINANCIAL PLANNER ™ practitioner is the career for you. (CFP Board of Standards Inc., 2002, p. 2)

While this is not conclusive evidence of altruism, it does suggest that altruism and a desire to help people are fairly major motivations in choosing the profession. Further evidence of altruism is the pro bono actions of many financial planners following the September 11, 2001 terrorist actions against the United States. CFP® professionals helped many of the survivors deal with the financial stresses on the survivors' families, some of whom had no income, during the early period. They assisted with the filing of papers for short-term sources of funds, and additionally helped prepare documents for submission to the government's special master.

Those papers were technically difficult and the actuarial details required were well beyond the skills of the majority of the attorneys who were also assisting the survivors. CERTIFIED FINANCIAL PLANNER™ professionals spent hours of toil on research, analysis and preparation. They also helped survivors in planning the management of the resulting lump sum settlements, a non-trivial process, since historically people who receive large sums of money suddenly are often broke within three years and suffer unexpected stresses (Green, Doherty, & Gerber, 2003). The Financial Planning Association and the CFP Board of Standards both took steps to assure that the pro bono activities were truly pro bono. The pro bono assistance of the survivors continues in workshops and personal consultations, all without charge. Further documentation of the pro bono efforts of financial planners can be seen at the Financial Planning Association web site: http://www.fpanet.org/public/support/probono.cfm.

In addition to response in disaster scenarios, local FPA chapters often provide public education days in cooperation with local colleges and universities and media as a pro bono effort. The CFP Board of Standards, Inc. is currently offering grants to universities to implement programs designed to educate the public on financial planning. (CFP Board of Standards, 2006a). All of these activities are consistent with the concept of altruism.

Traits of Financial Planning as a profession

After examining all of the above evidence, it is clear financial planning meets the criteria for a profession. Correction of the less than optimal public recognition and increased sanction by the community in the form of licensing can be met by public relations and lobbying of public officials. The other requirements, altruistic nature, legitimate area of expertise, unusual degree of autonomy in work, a personal identity with the profession, a code of ethics and professional responsibility overseen by a body of representatives from within the profession itself, and a legitimate expertise are all met. In Table 2 below, the traits of the financial planning profession are mapped against the attributes of a profession as identified by Yam (2004) and Greenwood (1957). The area concept of an extensive body of theoretical knowledge will be explored and identified in the remainder of this study, with an outcome that is expected to substantially increase the recognition that such a basis exists.

Table 2.

Traits of Financial Planning vs. Traits or Attributes of a Profession

Required Trait of a Profession (Yam, 2004)	Required Attribute of a Profession (Greenwood, 1957)	Traits of the Financial Planning Profession
An altruistic commitment to service.		An altruistic commitment to service is a hallmark of the CFP® professional. (Dunton, 1986).
An unusual degree of autonomy in work		In 2003, 43.2% of CERTIFIED FINANCIAL PLANNERS™ were independent contractors (*Euromonitor International*, 2004). Many of the rest have created small independent firms (AuWerter, 2003).
A personal identity that stems from the professional's occupation	Professional Culture	Financial planners tend to identify themselves as CERTIFIED FINANCIAL PLANNERS™ before stating any company affiliation, suggesting that they identify with the profession.
A code of ethics and conduct overseen by a body from within the field itself.	Regulative Code of Ethics	The CFP Board of Standards, Inc. has established a Code of Ethics and Standards of Conduct that every CFP® professional is required to espouse (CFP Board of Standards, 2004).
A legitimate expertise in a specialized field	Professional Authority (from the professional's education and specialized knowledge)	There are hundreds of articles over 25 years concerning the technical aspects of financial planning published in peer-reviewed and trade journals.
An extensive theoretical knowledge base	Systematic Body of Theory	Generally theory is not explicitly stated and can only be inferred from peer reviewed articles.
	Community Sanction (training and licensure that requires the profession's approval)	Control over its training centers (by virtue of the CFP Board's registration requirement of educational programs preparing candidates for examination) is met, but government licensure is not.

This literature review has explored the professional journals and books for articles concerning financial planning theory, and has furthermore reviewed the topics included on the professional examination by the CFP Board of Standards, Inc. for the theories relating to those topics. A number of theories have been identified and cataloged as being essential to the practice of financial planning as evidenced by the literature, and those theories will be further addressed in the interviews with prominent financial planners, and any unpublished literature from the formative years of the profession that they may be able to make available. The relationship of financial planning theory to professionalism was explored. In Chapter 3, the methodology of this study will draw upon the results of this exploration of the literature for interview questions relative to the research questions outlined in Chapter 1.

CHAPTER 3. METHODOLOGY

Purpose of the Study and the Research Questions

The purpose of this study is to explore and discover the theoretical bases of the financial planning profession and particularly the financial planning process, through a qualitative study of interviews, academic literature and historical documents. There are two research questions:

1. What are the major theories and disciplines upon which the financial planning profession is based? Specifically, what is the theoretical basis for the financial planning process?
2. Is the current practice of CERTIFIED FINANCIAL PLANNER™ professionals based on the theoretical foundations discovered?

Research Design

The use of a sequential mixed methods process is dictated by the nature of the research questions. “What” and “How” questions imply a process of discovery (Creswell, Plano Clark, Gutmann, & Hanson, 2003), and exploratory qualitative study is the research method of choice for discovering theory. For that reason, the use of qualitative interviews of persons widely agreed to be knowledgeable about the field of financial planning was appropriate to the goals of this study. Specific questions that postulate that something exists (usually using the verbs “is” and “are’) indicate that a quantitative study is appropriate. To determine the actuality of use of a particular theory in application (Creswell, 2003), it was decided to investigate what theories are actually used by financial planners in practice. The combination of an exploratory qualitative study with a quantitative study based on the results of the discoveries in the qualitative phase is the definition of a sequential exploratory mixed methodology study (Tashakkori & Teddlie, 1998). The interpretation of the entire analysis should provide a solid basis for theory and application in financial planning and suggest avenues for research in the future (Creswell, 2003).

This study was designed to discover themes and theory from both interviews with prominent financial planners instrumental in the development of the profession and written documents. Among the written documents that will be explored are scholarly journal articles from the *Journal of Financial Planning*, the *Financial Services Review* and the *Journal of Financial Services Professionals.* Articles on financial planning topics from such journals as *American Banker*, *Harvard Business Review, the American Economic Review, and The Journal of Strategic Planning* etc. will also be explored. Other writings such as books, commonly used textbooks, older textbooks and study guides, trade magazines such as *Registered Rep, Wealth Advisor,* and *Financial Planning*, correspondence, proceedings of conferences and personal correspondence will also be explored where available.

One of the questions that will be asked of the interviewees will be “Do you have any papers that I can examine from the formative years of the profession.” Since each will have been in business during the years 1969 -1984, the formative period of the profession, it is expected that some papers will be made available during the interview process, thus adding richness to the publicly available sources that will already have been explored in the literature review.

Selection of Participants

The interviewees will, insofar as possible, be people who attended the 1969 formation meeting that formally launched the Certified Financial Planner® designation and the practice of professional financial planning. Since there were only 13 individuals originally, and at least half of those are dead or disabled, it is unlikely that saturation could be achieved simply from interviewing the survivors. Therefore, it was decided that further interviewees would be chosen from those who were active in the profession during the first 15 years, from 1969 – 1984. Being active in the profession does not necessarily mean that they were themselves practicing financial planners, but they may have contributed in some other manner such as setting academic standards, designing curriculum for financial planning study or writing books on financial planning. Participants who were these pioneers will be asked to name potential participants that they believe to have been significant contributors that would be appropriate for interview. Some interviewees may be selected based on the interviewees' reply. Potential interviewees with the most experience and who add diversity in terms of background and training will be asked and interviewed first. Interviews, as is common in qualitative research, will continue until saturation is reached.

Saturation is a somewhat vague term, but is recognized as a state when little new is being learned from additional interviewees. Qualitative researchers usually work with small samples of people from within a given group who are studied in depth, unlike quantitative researchers who always attempt to get large samples so that their results will have statistical significance. In addition, the persons interviewed in qualitative research are not chosen at random, but instead are chosen to meet the purpose of the study. That is the reason for choosing the people with the longest history in the financial planning movement. It is contended that they will have the best perspective on the origins of financial planning practice and theory (Creswell, 2003).

In addition, the sample size is not usually specified in advance in qualitative studies. The list of members of the sample and the number of interviewees usually develops as the field work is done, although the researcher tends to have an idea of which persons and how many will be included in the sample. It is expected that for the purposes of this study, saturation can be achieved with 10 or fewer interviewees, possibly as few as eight. (Miles & Huberman, 1994).

Trustworthiness is another issue in qualitative research design. In the quantitative positivist point of view that still shapes much of researchers' attitudes (Lincoln & Guba, 1985), validity and reliability are based on the concept of the objective observer producing reproducible results. Since in social constructivist thought, the perspective of one actor will be different from that of another (Arbnor & Bjerke, 1997) the underlying assumptions almost guarantee that it will be impossible to reproduce exactly the results of interviews by one observer to a different observer, even if the same subjects were still available.

Therefore, it is necessary that the results of the interviews be trustworthy. Lincoln & Guba (1985) suggested four criteria for determining if the results of an inquiry are trustworthy: credibility, transferability, dependability and conformability. Note that qualitative researchers do not differentiate between measurement quality and inference quality as do quantitative researchers (Tashakkori & Teddlie, 1998). In this study, trustworthiness will be achieved by several means. First, the interviews will be fairly long, allowing for the same idea to be addressed from different perspectives. Thus, it will be possible to judge if the interviewee is being consistent with his or her own statements. Also, because of the many years of engagement in the profession of the researcher, statements can be judged on plausibility and the observer can ask for elaboration on statements deemed surprising. Second, since most of the participants will be prominent in the field, there will be their own writings and public statements against which to judge the interviews for candor and consistency. Since two of the methods for judging trustworthiness of qualitative research are prolonged engagement and persistent observation, both of these conditions will add to the trustworthiness of the design.

Referential adequacy is another criterion for trustworthiness that will be met in the research design. Audiotapes of all interviews will be stored for future researchers to review, as well as the transcriptions of the tapes. In addition, should documents not normally available to the public be made available to the researcher, the documents will be scanned and saved in electronic media, since the documents themselves might only be available for viewing and not for retention.

While the qualitative research alone should yield reliable and valid conclusions concerning the theory of financial planning, the addition of the quantitative comparison of responses to a survey concerning job tasks of practicing financial planners should add information on the application of that theory in practice and make the study richer.

The survey used will be a survey in which 3,850 CFP® professionals participated in 2004. The study was sponsored by the CFP Board of Standards, Inc. and conducted by

Thomson Promedia, a nationally known professional survey and research firm. The purpose of the study was to identify the tasks that are performed by the majority of financial planners in their practices. A copy of the questions asked in the survey is attached in Appendix A. The strengths and weaknesses of the research design are that the two methods, which have seemingly incompatible epistemological premises, will provide triangulation and enhance the validity and rigor of the study. (Tashakkori & Teddlie, 2003). The socially constructivist view of inquiry is that almost all human actions arise out of the social setting and situation in which the individual finds himself or herself. Thus the individual's perceptions are the key to learning about people in a given situation. Quantitative researchers tend to view reality as fixed and look for large sample sizes and random selection to make their observations capable of being generalized to the entire population (Arbnor & Bjerke, 1997). Pragmatists have been combining the two methods as a way of incorporating both the richness of experience elicited by the qualitative study in its paradigm and the duplicability of the quantitative method of inquiry. In addition, there is a pragmatic aspect to the use of mixed methods study. There is less concern with the philosophy of inquiry than with what works.

That does not mean, however, that the researcher can fail to be punctilious in record-keeping. To the contrary, explicit records must be kept as a means of justifying the conclusions (Creswell, 2003). All actions of the researcher will be recorded in either contemporaneous notes or on audio tape. Given that proper precautions for ensuring the reliability of the conclusions of the study, thus the first part of the study should discover theories of financial planning and the second part inform as to what degree those theories are actually applied in practice.

Research Procedures

Interviews will be face-to-face unless there is some compelling reason why the interviewee cannot be interviewed in person and the interviewee is one of the original founders or is thought to have extraordinary knowledge of the financial planning field. All interviews will be recorded and then transcribed. NVivo, a computer software package designed for this type of qualitative research, will be used to assist in coding the transcribed interviews. From this analysis, there should emerge several theories used in the profession. The attached interview script was field tested by asking currently licensed prominent CFP® professionals to evaluate the script and make suggestions.

To be chosen as an evaluator for the field test, a professional had to have a minimum of 15 years experience in the field and have demonstrated commitment to the profession by having served as volunteer in one of the professional organizations such as the Financial Planning Association, its predecessor organizations or the CFP Board, Inc. In addition, to assure that there was diversity among those asked to evaluate, evaluations were solicited from CFP® professionals from California, Florida, Illinois, Kansas, New York, and Texas. Furthermore, the practices and backgrounds of those chosen as evaluators were varied. For example, included were an estate attorney/financial planning professional, a general practitioner with a heavy emphasis in retirement planning in his practice, a portfolio manager with a high net worth practice, an academic with a strong insurance background and experience in dealing with highly professional and experienced insurance professionals, a practitioner whose background was as a stockbroker, and another academic with experience and outstanding success in educating traditional students in financial planning. Evaluation requests were sent to 10 CFP®

professionals, of which 5 responded. The responses were positive and thoughtful, and the structured format as now constructed incorporates some of their suggestions.

For example, one practitioner suggested a second open-ended question at the beginning of the interview (beyond the original "tell me a little about yourself") to let the interviewees just talk about what was on their mind at the time that the profession was developing as a way of both collecting information that had not been anticipated and to put them at ease. That question is now in the interview format. An academic suggested that definition of theory should be given to the interviewees, pointing out that the financial planning process is a process, not a theory. Based on his comments, it was decided to add this to the introductory statement, using the first two definitions of theory listed in the online version of the *American Heritage Dictionary* (American Heritage® Dictionary of the English Language, 2004):

1. A set of statements or principles devised to explain a group of facts or phenomena, especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena.
2. The branch of a science or art consisting of its explanatory statements, accepted principles, and methods of analysis, as opposed to practice (*American Heritage® Dictionary of the English Language*, 2004).

Thus, the concepts behind a practice are the theory: The practice itself is application.

Other comments

Following the interviewing of pioneers of the profession, themes and categories identified will be used to select the survey questions that appear to relate to the discovered theories of financial planning.

The Thomson Promedia survey invitation was sent to all 38,000 then currently licensed CERTIFIED FINANCIAL PLANNER™ practitioners (some CFP® professionals such as academics are not practitioners) in the United States. Its purpose was to determine the actual practices of CFP® professionals as part of a job analysis to determine curriculum and certification standards for registered educational programs and the certification examination. Using this data has the advantage of its huge sample size and the professional collection techniques of recognized experts in research surveys. The results of the Thomson Promedia survey are presented in terms of the percentage of respondents choosing a particular response plus the percentage not responding to that question (100% = 3,850).

It will not be possible to perform outlier analysis, since the data is not presented by respondent. Since the design of the survey was to give the most information possible about the practice tasks performed by the financial planner, the results should be informative about the use of various theories by financial planners as well. The detailed results of this survey are used with the express written permission of its owner, the CFP Board of Standards, Inc.

Frequency distributions of the answers to questions identified as relating to a certain theory will be employed to determine if there is a relationship between tasks performed and the theoretical foundations of financial planning. The job analysis survey did not ask the specific question, “Do you use the theory of ------- in your practice?” so the process will of necessity be inferred from the tasks associated with each step of the process. A particular theory (for example, Monte Carlo analysis) requires that certain tasks be performed. Once the qualitative analysis is concluded, the theories identified as in common use will be stated and certain tasks about which the survey asked will be matched against the theory.

If a strong majority (70%) or better of the participants in the study responded sometimes, frequently or always (or equivalent) on a Likert scale, the use of that theory by the profession will be considered to have been established. Since not every client of a financial planner engages the planner for comprehensive financial planning, but often wants only advice on a specific matter, it is unlikely that an honest respondent would ever reply Always to the majority of the questions unless the respondent interpreted the question as only applying to comprehensive financial planning engagements and not as encompassing the financial consulting clients. In addition, there may be theory that relates to a client need that is infrequent or rare. Identifying those theories will be deemed to be beyond the scope of this study, although if such a theory is mentioned in the interviews, the mention will be noted for further research.

By the nature of the sequential exploratory mixed methods study, the specific steps for a quantitative analysis cannot be developed until the first phase of the study is complete. Therefore, the hypotheses will be presented in Chapter 4. To prevent the interviewer from overly influencing the answers (completely eliminating bias is deemed unlikely), the first questions in the interview sequence are open-ended. For example, “What is the most important theory to you?” This will give the participants an opportunity to articulate the theories and practices that they consider important on their own. There are specific questions about the financial planning process, since it is considered the key process used by financial planners and there is no written explanation of how it evolved in the literature. In addition, to make certain that important ideas are not left out inadvertently, there is a condensed list of the topics covered on the CFP® certification examination that will be presented to them following the open-ended questions to refresh their memory of the many areas involved. This condensed list is displayed in Appendix D.

This study will be deemed to have been completed when saturation is reached (additional interviews are not yielding significant new information) or when those founders and significant pioneers that are reasonably available have been interviewed, whichever occurs first. In an article attempting to quantify saturation in interviews, it has been suggested that for identifying overarching themes that as few as six interviews are sufficient, and that even when interviews were conducted over two separate countries in an effort to refine metathemes, that 12 interviews would have been sufficient (Guest, Bunce, & Johnson, 2006). Others suggest that there is no set number (Seidman, 1998). Given that there are very few people who meet the criteria for these interviews, and that due to age, some may be incapacitated, no more than 12 interviews are anticipated.

Data Collection

The data collection for the qualitative portion of the study will be by personal interview. All interviews will be conducted by this researcher and no assistants will be used. All interviews will start with the same introduction by the researcher and with the same questions. However, as is often the case in qualitative research, if the answer to a prepared question elicits an answer that is unanticipated or that gives new information, the researcher will follow up with further inquiry. This is one of the differences between interviewing as a qualitative technique and that of surveys, which are most often a quantitative technique. The instruments of the interview will of necessity include the researcher, whose years of experience in the field and knowledge of financial planning applications will shape the nature of the questions and the progress of the interviews (Seidman, 1998). It is hoped that the similarity of background, age and professional status of the interviewer will put the interviewees at ease and elicit more revealing responses.

The coding of the responses will start with the financial planning process plus the nine categories of topics identified from the CFP Board topic list described in Chapter 2, and be expanded as additional themes or categories are identified. In the quantitative portion of the study, data analysis will be based on tasks that would support the theories identified in the first stage, and the percentage response to sometimes, most of the time and always categories (or their equivalent) on a Likert scale. The quantitative data will be processed using SPSS software. Task questions can be eliminated if the data appears to have enough outliers that the survey question may be ambiguous.

Ethical Issues

There are few ethical issues to be considered for this study. It is anticipated that participants in the qualitative study will agree to identification in the dissertation based on professional qualifications for inclusion. This is important in presenting the findings since the participants are well known enough within the profession that who said what is an important part of the richness of the qualitative data. It is anticipated that the participants will be flattered to be asked to participate.

The results of the quantitative study, however, will not include personally identifiable material, such as comments that reveal the nature of the individual's practice, since this data was not collected by the researcher and the permission to use the data was given with an understanding that personally identifiable material would not be used. Since every person interviewed will be an adult answering questions about the profession in which he or she engaged much of their lives, there is not much opportunity to harm the participants. As a quid pro quo for allowing the use of the Job Analysis survey, the CFP Board of Standards, Inc. will be given a free copy of the dissertation for its archives and permission to use the research in its operations. No grant for the research has been received from the CFP Board and none is anticipated.

CHAPTER 4. FINDINGS

SUMMARY OF RESEARCH DESIGN AND METHODS USED IN THIS STUDY

The purpose of this empirical sequential exploratory mixed methods research study was to explore and determine the theoretical bases of the financial planning profession. This chapter describes the findings that derive from investigating the two research questions:

> Research Question 1: What are the major theories and disciplines upon which the financial planning profession is based? Specifically, what is the theoretical basis for the financial planning process?
>
> Research Question 2: What current practices of CERTIFIED FINANCIAL PLANNER™ professionals are based on the theoretical foundations discovered in the first question?

There were two stages to the process. The first stage was a study that collected, summarized and analyzed content of qualitative data obtained from interviews with pioneers of the profession. Then, the second stage mapped the concepts discovered in the qualitative stage against a pre-existing quantitative survey of contemporary CFP® practitioners conducted by a recognized authority in the field of job analysis, Thomson Promedia. Permission to use this data was specifically granted by the CFP Board of Standards, Inc. who commissions this type of survey every five years. As is usually the case in a sequential study (Creswell, 2003, p. 213) priority was given to the first stage and the results of the two stages are integrated in the interpretation of the findings.

Since the survey used had already been conducted, to avoid bias in the interviews in this study, the findings from the CFP Board study were not examined until after the process of coding and identifying themes from the interviews was completed. This is consistent with the distinct phases typical in sequential mixed methods designs (Tashakkori & Teddlie, 1998) and with the procedural strategies described in Creswell (2003, p. 196) for validating the accuracy of the findings from qualitative research. In the organization of this chapter, the overall findings of will be discussed first, and then the qualitative stage with respect to the two research questions and finally the findings from the second stage will be added. The interpretation in Chapter 5 will meld the two sets of findings.

When the results of the CFP Board survey were opened, it was discovered that in addition to quantitative analysis of the survey questions, there was a large body of narrative answers to open-ended questions by the participants in the survey. It was decided to process this data by coding it in a separate hermeneutic unit from the interviews, but in manner similar to the processing of the interview and historical data. It was not expected that there would be a high degree of congruency of the findings from these comments from survey participants to the comments by the participants in the interviews, since the comments and concerns would be affected by the many changes in the external environment affecting financial planning over the past 38 years. These differences in methodology and focus indicated that if there were similarities in the comments of the contemporary planners to those of the pioneers, there would be further validation that the concepts that were identified are fundamental to the body of knowledge of the financial planning profession. The results of the analysis of this serendipitous data are incorporated in the interpretation of the findings in Chapter 5.

Before discussing the findings, first, the process of choosing persons to be interviewed, how they were contacted and the manner in which the interviews were conducted are discussed. This description includes the structured interview script and how it changed over the course of time as the interviews yielded information and the responsiveness of the people to certain parts. This level of description in qualitative studies lends understanding to the discussion of the process of analysis (Patton, 2002, pp. 502-505).

In addition to interview data, the participants presented the researcher with extant material from the 1969 -1984 period, most if it their own published material, including several books, to supplement their responses to the interviews. Some material gathered were photocopies of meeting agendas, early curriculum materials and even some pages from a draft for a book by Loren Dunton, considered by many to be the father of financial planning. These written materials, since the participants clearly considered them their own voice, were examined once themes were identified to see if they reflected those themes.

It was impractical to code and process entire books, but they were used in the analysis stage to confirm that the coding reflected the participant's ideas.

The use of Atlas.ti, a computer aided qualitative data analysis software (CAQDAS) package is described to identify and summarize themes. Next, the themes, categories, relationships and assumptions found in the qualitative stage are discussed.

Finally, to answer the second research question, those concepts and themes discovered from interviews with pioneers of the profession were then mapped against the responses to questions from an extensive survey of contemporary Certified Financial Planner™ professionals that related to the tasks and concepts used by them in their practices. The questions in the quantitative survey were examined to see which questions related to the themes, categories and assumptions that had been discovered.

Since there were more than 3, 850 respondents to the survey, from throughout the United States, an assumption that their consideration of a particular idea, concept, tool or technique as important is representative of the entire population of practicing Certified Financial Planner™ professionals is considered reasonable. The data available concerning the survey sample demographic distribution is included in Appendix J.

Interviewee Selection and Procedures

For the qualitative stage of this sequential mixed methods study, over the period of July –December 2006, interviews were conducted with 12 individuals concentrating on discovery of theories, concepts, practices and origins of financial planning. Based on the notion of going to first sources, it was decided that the first group of people with whom interviews would be sought were people who attended the initial meeting at which the CERTIFIED FINANCIAL PLANNER™ certification was conceived, the original code of ethics designed, and the International Association for Financial Counseling, Inc. was created in Chicago on December 12-13, 1969 (Brandon Jr. & Welch, 2003). Of the 13 people listed by Brandon and Welch as attendees, five were interviewed. All the persons interviewed were male, reflecting the attendance at the original meeting and the business climate of the time period being investigated.

The remaining attendees of that meeting, with the exception of one man, were all reported as deceased during a lengthy process of tracing their current whereabouts. Remarkably, every person from that meeting who was contacted agreed to be interviewed. The one person with whom it proved impossible to achieve contact is now a playwright, who by all reports participated in the meeting as a public relations specialist, and apparently never practiced as a financial planner, although he did later become the New York State Superintendent of Banking. He is currently living in New York City, but efforts to contact him over a period of seven months failed.

Every individual who was interviewed was a person of prominence and an acknowledged leader in the financial planning profession. As such, they all explicitly agreed to be quoted by name in this study and in future studies that use the material from the interviews. Since the individual's background in financial planning and in related professions affect their viewpoint, personal identification adds richness to the study by an understanding of perspective.

The five original attendees who were interviewed were Lewis G. Kearns, of Bradenton, Florida, a prominent attorney who was formerly a senior vice president of Wellington Group and the chair of the original meeting; James R. Johnston, of Oakland Hills, Washington, who became the first president of the College for Financial Planning; Herman (Hy) Yurmin, of St. Petersburg, Florida, formerly senior vice president of PetroLewis (a company that created oil and gas limited partnerships as tax shelters) , author of several books on financial planning (including the first book), and one of the co-authors of the first curriculum for the College of Financial Planning; Herb Abelow, of Del Ray Beach, Florida, at the time of the meeting the head of the largest organization selling Dreyfus Funds in the 1960s, an investment advisor and later founder of Abelow Ihasz & Co in New York; and Robert Leshner of Cincinnati, Ohio, an investment advisor and founder of Leshner Associates, a registered investment advisor firm, who later became President and CEO of Countrywide Industries, Inc.

To insure that the participants would be as comfortable as possible, with the exception of Mr. Leshner, each individual was interviewed in person. The interviewees were given the choice as to the location of the interview. It developed that interviews were held in various venues from their homes to vacation homes to public places for convenience since the men travel frequently. Mr. Leshner was not located until very late in the research process so a telephone interview was chosen to permit his inclusion in the study.

The remaining interviewees were people who made significant contributions to the financial planning profession in the years 1969 – 1984 either by publications, participation in professional organizations or other action in the profession. Some of these pioneers were chosen based on recommendations from the original group of interviewees and others from prominence in financial planning circles. The order in which people were interviewed was dictated by the ease of contacting them, their schedules and by time constraints of the individuals involved. The order does not imply importance. There were other people who would have been interviewed based upon similar contributions to the profession, but who were not interviewed since saturation had been achieved in the interviews included here. Saturation was determined when interviews no longer were yielding additional concepts and ideas.

These remaining pioneers of the profession included Jay Lewis of New York, New York, founder of Nathan & Lewis, an investment broker-dealer for independent advisors and a founder of the New York Chapter of the International Association for Financial Planning, Inc.; Edwin Morrow of Middletown, Ohio, President and CEO of Financial Software, Inc., CEO of the International Association of Registered Financial Consultants, and a pioneer in the use of technology in financial planning; Henry Montgomery of Minneapolis, Minnesota, CEO of a financial planning broker-dealer and former President of the Institute of Certified Financial Planners and former member of the board of the International Association for Financial Planning, Inc.; Harold Evensky, Chairman of Evensky & Katz Private Wealth Management in Coral Gables, Florida, a past Chair of the CFP Board of Governors, and a frequently published author on financial planning practice; Michael R. Dalton, of St. Rose, Louisiana, author of more than 56 books on accounting, tax, and estate planning, including one of the most widely used textbooks on financial planning and a former member of the CFP Board of Governors; Benjamin Baldwin, of Arlington Heights, Illinois, a highly regarded insurance expert and educator, President of Baldwin Financial and the author of several books, including the *Life Insurance Investment Adviser*; Colin (Ben) Coombs, a member of the first class of CERTIFIED FINANCIAL PLANNER™ graduates and a Past President of the Institute of Certified Financial Planners, who has taken a lead role in the Financial Planning Association in mentoring young advisors.

The people contacted were sent the letter shown in Appendix C by e-mail or the U. S. Postal Service, often as a follow-up to an initial telephone call during which the subject of being interviewed was broached using the phraseology of the letter. This was usually followed by a second telephone call with each participant, which was necessary to explain the project further and to answer their questions concerning the manner in which the interviews would take place. For example, the term theory was ambiguous to some participants who were accomplished business leaders but not academically inclined. Therefore, the words “concepts, practices, principles, ideas and notions” were often used in the telephone conversations explaining the purpose of the interview.

Most of the people interviewed asked for a copy of the interview script prior to the interview, although not usually until the day before or on the day of the interview appointment. The brief time that they had the interview script did not give them time for highly prepared interviews. The majority of the interviews took place in August and September 2006. James Johnston was interviewed on July 31, 2006, Harold Evensky and Colin “Ben” Coombs were interviewed at the Financial Planning Association annual meeting in October, and Robert Leshner was interviewed in December.

Interviews lasted from 1 to 4 hours. The structured interview script in Appendix A was employed with some modifications in all interviews, although the interviewees often deliberately deviated, and as research was conducted, the script was found to be lengthy and was shortened somewhat. Since the intention was to interview as near as possible to 100% of the population who attended the original meeting and there were only 13 attendees at that meeting, a pilot study was impractical. Therefore, this interview script was tested prior to the study by sending it to six Certified Financial Planner® professionals who each had more than 20 years experience in the field. They were requested to make comments and suggestions for improvement. The suggestions received were incorporated into the final script.

Those suggestions included obtaining more biographical information in the interview and then asking open-ended questions before asking questions that mentioned categories of knowledge from the CFP Board Certification Examination. The suggestions proved to be sound, since the majority of the findings came from the open-ended portion of the interview. Obtaining biographical data often took a long time, and the people being interviewed did not have patience for the detailed category by category questions originally envisioned. Because of the open-ended questions, the actual substance of the interviews varied greatly. Due to the length of the script, the interview was usually broken into segments to give the person a chance to relax for a few moments before proceeding.

Media and Software Used

Three types of media were used to record the interviews. A Logitech notebook computer webcam was employed to make a video of the interview; it was recorded on a Sony digital voice recorder, and also on a Sony analog cassette tape recorder. Transcription accuracy was enhanced by the redundancy. Digital audio files were produced from the analog cassette tape recordings using Adobe Audition 2.0 to digitize the files.

Once the interviews were transcribed and corrected, they were coded using a computer aided qualitative data analysis software (CAQDAS) package, *Atlas.ti.* The decision to use *Atlas.ti* over other possible software was predicated on its long history of use and refinement (more than 10 years) and its reputation for particular usefulness content analysis. According to its manual, *Atlas.ti* t is designed for systematic organization and analysis of material that cannot be analyzed by statistical methods.

Unique among CAQDAS, it allows for more than one code for the same text string, which reflects the manner in which many interviewees think, and later enhanced the summarization of the data into conceptual families and emergent themes.

Funding for the study

There is no conflict of interest due to funding sources. Funding for the study was completely from the researcher's own funds. No monies from any other source were received. The use of the job analysis survey would not have been possible without permission from the CFP Board of Standards, Inc., but that permission was freely given in the spirit of scholarly inquiry and there was no pressure of any kind for a particular set of findings.

Findings

This section describes the final findings first and then gives the detailed analysis leading to those findings as commentary following the table. The final step in generating these findings was to map the themes from the qualitative stage to the responses to related questions in the CFP Board 2004 Job Analysis Survey. This mapping yielded relationships of theories, areas of knowledge and tasks to the theories and concepts discovered in the qualitative portion of the study and contributed additional information used in analyzing the second research question (what current practices of CERTIFIED FINANCIAL PLANNER™ professionals are based on the theoretical foundations discovered in the first question) and to assess whether the theories and principles discovered in Stage 1 continue to be used in financial planning practice as it has evolved from those early years.

The results of this mapping are displayed in Table 3, which shows that most of the tasks and areas of knowledge mentioned by the pioneers interviewed were also queried in the survey and were rated as important or very important by at least 70% of the practitioners who responded. Those concepts not assessed in the survey were generally not queried because they were not relevant to the purpose of the survey, which was to perform a job analysis for the purpose of developing topics for the CFP® certification examination.

Table 3.

Groups and Themes Identified in Qualitative Interviews, Related CFP Board Survey Questions and Percentage of Survey Participants Rating at Top Levels

Groups & Themes Identified in Qualitative Interviews	Related CFP Board Survey Questions	Mean Percentage Rating at Top Two Levels*
Group 1: Financial planning principles	Domain D: 1, 2, 3, 4, 5, 6, 7, 8 Domain E: 1, 7, 8, 11,	92.25
Principle 1: Client-centered	Domain D: 1, 4, 9, 10, 12, 13, 14, 15, 17, 20, 24, 25, 26, 27, 35	95.94
Principle 2: Helping profession	Characteristics of the profession were not addressed in the survey since that was not its purpose.	
Principle 3: Systematic process.	Domain D: 1-37	92.13
Principle 4: Comprehensive.	Characteristics of the profession were not addressed in the survey since that was not its purpose.	
Principle 5: Definitions of financial planning.	Not addressed in survey since survey was looking for importance of topics and this one would be assumed.	
Principle 6: Ethics.	Domain E: 2, 3, 4, 5	82.71
Group 2: The financial planner	Not addressed in survey since it was not the purpose of the survey to determine characteristics of the financial planner.	
Theme 1. Possesses broad knowledge.		

Table 3. Continued

Groups and Themes Identified in Qualitative Interviews, Related CFP Board Survey Questions and Percentage of Survey Participants Rating at Top Levels

Groups & Themes Identified in Qualitative Interviews	Related CFP Board Survey Questions	Mean Percentage Rating at Top Two Levels*
Theme 2. Characteristics of the planner.		
Good communicator	Showed up as comments in response to open ended question	
High moral character		
Understanding of mathematics		
Group 3: Financial planner education	Not addressed in survey since it was not the purpose of the survey to determine the parameters of education other than the topics.	
Theme 1: Needs to be more in depth.		
Theme 2: Needs to be educated in practice management	Was mentioned by the survey participants in response to open ended questions	
Theme 3: Weak in risk management and insurance.		
Group 4: Financial planning practice		
Theme 1. Excellent communication with the client.	Domain D: 1, 2, 3, 4, 5, 6, 7, 8	92.25
Theme 2. Client behavior and behavioral finance	Domain D: 9,10,14,15 Domain E: 11	95.06
Theme 3. Relationships and trust.	Domain D: 2,3,5,6	91.07
Theme 4: Technology.	Domain D. 19	89.30
Theme 5: Techniques of practice management.	Domain D: 4,5,6,7,8,9,10,11,12, 13,14,15, ,18,19, 22,23, 24,27,29,30,31, ,32,33	93.60
Group 5: Financial planning process		
Theme 1: Systematic process.	Domain D: 1-37	92.13
	Domain E: 1	96.27
Theme 2: Client goals.	Domain D: 9,10,12,13	98.24
Theme 3: Risk tolerance.	Domain D: 15	96.06
Theme 4: Origins	Not addressed in survey	
Group 6: Areas of knowledge		

Table 3. Continued

Groups and Themes Identified in Qualitative Interviews, Related CFP Board Survey Questions and Percentage of Survey Participants Rating at Top Levels

Groups & Themes Identified in Qualitative Interviews	Related CFP Board Survey Questions	Mean Percentage Rating at Top Two Levels*
Theme 1. Insurance & risk management	Domain D: 16N	94.46
	Domain E: 26 - 39	79.07
Pooling of risk and Law of Large Numbers	Domain E: 26	91.60
Survivor needs analysis (capital needs analysis)	Domain E: 33, 36	81.96
Small certain loss to avoid possible large loss (Don't pay a lot to save a little.)	Domain E: 26, 27	91.82
Risk transfer, avoidance and retention	Domain E: 26,	91.60
Uninsurable risk	Domain E: 27	92.04
Protection from risk as a priority re investment performance.		
Theme 2. Investments.	Domain D: 16L	97.48
Modern Portfolio theory (Markowitz, 1952)	Domain E: 53, 56	88.42
Systematic and Unsystematic risk (CAPM)	Domain E: 49, 52, 53	81.99
Asset pricing anomalies (Fama & French)	Domain E: 52, 53, 57	75.71
Asset allocation as primary determinant of portfolio performance (Brinson, Hood and Beebower)	Domain E: 56	95.93
Black-Scholes	Domain E: 53, 57	73.14
Theme 3: Retirement Planning	Domain E:74-81	89.38
Theme 4: Business Planning	Domain E: 18,22,27,28B,40-46	75.25
Theme 5: Employee Benefits	Domain E: 40-46	71.68

Table 3. Continued

Groups and Themes Identified in Qualitative Interviews, Related CFP Board Survey Questions and Percentage of Survey Participants Rating at Top Levels

Groups & Themes Identified in Qualitative Interviews	Related CFP Board Survey Questions	Mean Percentage Rating at Top Two Levels*
Theme 6: Estate Planning	Domain E: 82-103	78.68
Theme 7: Taxation	Domain E: 58-73	84.73
Theme 8: Theories from Other Fields		
Time value of money concepts (mathematics, finance)	Domain E: 17	93.65
Value Studies	Domain E: 11G	82.53
Decision theory	Domain E: 16, 23	71.72
Monte Carlo	Mentioned in responses to open-ended question: no importance rating	
Life Cycle Hypothesis	Domain E: 10,	89.95

These findings are directly related to both the first and the second research question. They identify foundational theories and concepts of financial planning as mentioned by the pioneers. They then show that the theories deemed important by the pioneers are also deemed important by contemporary financial planners and used in practice.

In developing the findings in Table 3, the Theme Groups and themes that were identified in the coding of the qualitative data are mapped against specific questions on the CFP Board survey. For each theme or theme group, relevant question numbers from the survey (Appendix D and Appendix E) are listed. Domain D represents the questions that had to do with tasks, while Domain E represents the questions that had to with Areas of Knowledge. Thus Domain D has to do with application and for the most part, Domain E has to do with Theory.

Which questions are relevant to a particular theme is a matter of judgment on the part of the researcher. In most cases, the relevance is obvious. In some cases, the choice of a question being relevant involved re-examining the memos made about the theme that were made during the analysis of the qualitative data.

To compute the values in the last column of Table 3, the percentage of responses in the top two ratings (Important or Very important) was found for each survey question related to that theme or group, and then the mean of those percentages was found for that group of questions. Except for those noted, all questions had a mean response greater than 2.50 on an importance scale from 0 to 4. This is a conservative cutoff, and in fact, even those questions whose topics that had mean responses of less than this cutoff had a majority of the respondents rating the topic as Important or Very Important.

In all cases, the results are impressive in the agreement among almost 4,000 respondents, with most mean percentages of responses in the top three ratings in the 85% plus range. With that agreement on the importance of aspects of the profession, this mapping represents a quantitative validation of the qualitative findings of the important theories and applications of financial planning from the interviews.

The areas in the table above that were not addressed in the survey were left out of the survey because the aim of the survey is to find out what tasks and areas of knowledge the new financial planner practicing alone should know. The CFP Board was not seeking to discover theory nor judgments about the profession or the professional.

Analysis of the Qualitative Data

In this and the subsequent sections, the full analysis leading up to the findings above are described.

Following the interviews, as the interviews were transcribed, they were brought into Atlas.ti and coded for conceptual content by the researcher. Since the structured interview had been designed to elicit answers to the research questions, it was decided not to anticipate answers in the coding of the interviews by setting up pre-existing codes prior to the content analysis as is suggested by Miles and Huberman (1994, p. 58).

Instead, the transcriptions were scanned line by line, and free codes created as the data dictated, as is suggested by Charmaz (2006, pp. 52-55) although a code was not attached to each line. However, a code summarizing the concept presented by the interviewee was attached to the quotation, which could be a single sentence or several paragraphs. In addition, memos about particular ideas were written so as not to lose nuances of meaning as the codes were used to summarize the data. The first code list generated by the process had more than 1220 codes, so the code list was reviewed and grouped into themes and categories and some of the codes which were simply restatements of the same concept were merged.

The transcripts were then re-examined with the new list and axial coding was performed in which the relationships between codes and ideas were explored. As the level of condensation and abstraction increased, there was a concern that excessive loss of nuance and richness might occur (Hayakawa, Hayakawa, & MacNeil, 1991), so additional memos were written to maintain the depth of the analysis. Those memos were reviewed in the interpretation stage.

Certain codes were separated from the others as having more to do with personal history of the person interviewed and not having relevancy to notions, concepts, practices and theories of financial planning and are not reported here. Other codes were found to be duplicative and merged. As the coding became more focused, certain empirical themes began to emerge. After several iterations of this process, the themes were judged well-defined. There were 38 themes identified.

The themes were once again examined for their relationships and placed into what became nine groups. Three groups that were generated in the coding process pertained to the first research question only as background information that would possibly be useful in the interpretation of the data. They were Historical Background about the Individual, External Environment of the 1960's and 1970s, and External Environment of the 21st century. The remaining themes that were produced are shown in Table 4.

Table 4.

Themes and code groups.

Code Group	Theme
Financial Planning Principles	Client Centered Helping Profession Systematic process Comprehensive Nature Definitions of Financial Planning Ethics
Financial Planner	Financial Planner Characteristics Education of the Financial Planner
Financial Planning Practice	Communication with Client Client Behavior and Behavioral Finance Relationships and Trust Technology Practice Management
Financial Planning Process	Systematic Process Client Goals Risk tolerance Steps Origins
Areas of Knowledge and Analysis	Client Behavior Insurance and Risk Management Retirement Planning Business Planning Investments Employee Benefits Estate Planning Taxation Theories from Other Fields

Among these six remaining groups, there is some overlap between Financial Planning Principles and the Financial Planning Process, and between the description of the financial planner and the practice of financial planning, but it was decided that the differences outweighed the overlap.

In the next section, the findings within these groups pertaining to the first research question are detailed. Although the design of the study had resulted in a pool of persons to be interviewed that represented backgrounds in law, finance, investments, insurance, accounting and academic endeavors, there were many more similarities than differences evident in the content of their comments.

Analysis of Qualitative Findings Relevant to the First Research Question

This section reports the findings from the interviews that are relevant to the first research question: What are the major theories and disciplines upon which the financial planning profession is based? Specifically, what is the theoretical basis for the financial planning process?

Theme Group 1: Financial Planning Principles.

This theme group relates to the first research question in that the items in it form the very foundation of the profession. This group encompasses the definition of financial planning and the paradigms that constrain the profession.

Principle 1: Client-centered.

According to those interviewed, the single thing that made financial planning different than the way financial advice had been given prior to 1969 was the focus on the client and the client's goals rather than on the product being sold. This theme was pervasive and was mentioned at least once by every participant. Robert Leshner described it as "paramount."

Principle 2: Helping Profession.

The primary motivation for the creation of financial planning as a profession was to help people. Although Loren Dunton was the catalyst for getting the original founders together, the major reason that they came to that meeting and that the other pioneers started to practice financial planning was a deep dissatisfaction with the way financial services were being delivered. This was emphasized by several participants.

While the altruistic motive was overriding, these were businessmen and they expected the profession to be profitable. For the ones who attended the first meeting, there was an expectation by the management of the companies involved that this helping orientation would generate more product sales, better persistency in insurance placement and cross-selling opportunities. It was looked upon as a better, more ethical way of doing business, of doing well by doing good. For some of the other pioneers, there was outright hostility to the financial planning concept by their employers. They had to persist despite obstacles to do business the way that they wanted to do it.

Principle 3: Systematic process.

The financial planner uses a systematic process to develop strategies for achieving client goals. It was agreed that the financial planning process was used by the financial planner to deliver the advice and counsel to help the client. While the description of the process varied from one individual to another, the differences largely amounted to consolidation of steps or separation of a step into sub-steps.

The simplest description was that the planner looked at where the client was now (in terms of assets, resources, debts, etc.), then looked at where the client wanted to be (goals and objectives), and then devised strategies for getting from here to there. Looking at where the client was now included the data gathering and goal setting step listed in the current definition of the financial planning process. In addition, there was mention of the engagement in terms of client commitment. Several participants mentioned that the planner must get the client to commit to making the changes necessary. This was most often mentioned in terms of modifying spending.

The idea of a systematic process is clearly relevant to the first research question in the determination of the origins of the financial planning process and will be discussed at greater length later.

Principle 4: Comprehensive

A concept that pervaded the genesis of financial planning was that financial advice needed to be comprehensive and integrated. The client needed to have one person to whom the client could address all their financial questions and it was expected that the client's financial plan would integrate insurance, mutual funds, and estate planning. Some added tax shelters to that list. This concept was expressed repeatedly by the interviewees and also in the historical documents that they supplied. In Chapter 5, this principle will be related to the financial planning process.

Principle 5: Definitions of Financial Planning.

Each person was specifically asked for a definition of financial planning. Similar to what was found in the literature review, there was no one definition of financial planning. Each person interviewed had their own definition, although the definitions given had certain commonalities that will be discussed in the interpretive section in Chapter 5. Goals were sometimes expressed as hopes and dreams, and the knowledge focus varied with the particular expertise of the person being interviewed. These findings will be refined in Chapter 5 into a theoretically based definition that encompasses all the definitions given.

Principle 6: Ethics.

Each person interviewed mentioned ethics in terms of doing the right thing for the client or serving the client's best interests. One of the products of that first meeting was a Code of Ethics. Compensation issues were mentioned but dismissed as not meaningful. There was a sense that if you did the right thing that there would plenty of opportunities to be profitable, and that whether there was a fee or commission was irrelevant if the best interests of the client were being served.

Ben Baldwin discussed some of the conflicts of interest that arise if the planner is a captive agent or if there are better products for the client's needs than the planner's broker-dealer offers. His conclusion was that the planner has a duty to tell the client about those other products. It was generally agreed that all modes of compensation have inherent conflicts of interest. The participants state that some conflicts of interest are more obvious than others, and that it is character and commitment to the best interests of the client that matters. Henry Montgomery mentioned how some persons define as fees what others might see as commissions, for example, charging a percentage of assets under management. All persons interviewed assumed as a basic principle that the interests of the client came first.

Theme Group 2: Financial Planner as an Individual

The second group of themes concerned the financial planner as an individual. Like the first group of themes, this theme relates to the first research question by providing the outlines of the knowledge base required and the personal characteristics expected of a member of the profession.

Financial Planner Theme 1: Broad knowledge:

The financial planner is expected to have broad knowledge of financial topics concerning risk management, insurance, investments, taxation, retirement plans, employee benefits, business planning and estate planning, It was emphasized further that he or she also has a duty to consult with specialists as needed for depth. This finding relates to the first research question by the fact that the planner is the instrument of applying the foundational theories to the client's situation and is related to the theme that financial planning is comprehensive and integrated.

Financial Planner Theme 2: Characteristics of the Planner.

The planner is expected to be a good communicator, both orally and in writing, and must be a good listener. He or she must be adaptable and have an inquiring mind. One interviewee mentioned a need for understanding of mathematics, while another thought that the type of person who would be a good planner probably would not be that mathematical. High moral character was assumed. This finding is less relevant to the theoretical base of knowledge that is the focus of the first research question than some of the others, but in interpretation may give insight into the application of that theoretical body of knowledge.

Financial Planner Theme 3: Financial Planner Education.

Several of the interviewees were critical of current financial planner education, citing a lack of depth in certain areas of knowledge and also lack of education in practice management including sales. Current education in risk management and insurance was considered to be particularly weak. The duty to consult was considered both a part of ethics and a way of correcting lack of depth in certain areas of knowledge. Similar to

Theme 2 in this group, this theme relates to the first research question in that it gives insight into the items deemed most important among the various theories and disciplines in financial planning.

Theme Group 3: Financial Planning Practice

The third set of themes had to do with financial planning practice. Technical competence in the knowledge areas, business acumen and ethics pervaded this area. This group provides answers to the first research question concerning the disciplines encompassed in the financial planning profession and to origins of theories used. Since financial planning was identified and defined as a client-centered helping profession in the first group of themes, this group defines the manner in which ethical practice is to be conducted.

One unexpected idea that arose from the interviews was that the use and understanding of technology is part of the theoretical basis of financial planning. It was considered one of the defining skills of the technical competence required to fulfill the obligation and duty to the client to be an expert and to explore strategies. There was a sense that the advent of lower-cost computers made it possible for persons of more moderate means to have professional advice that had heretofore been limited only to the very wealthy.

Financial Planning Practice Theme 1: Communication with Client.

The ability to communicate complex financial matters to the client was mentioned by every participant as a key to success in the profession and in helping the client. However, communication was not directed only one way. Being a good listener was mentioned several times. Specific techniques for client communication were mentioned. As a sub-theme of communication, educating the client was seen as a primary duty.

Financial Planning Practice Theme 2: Client Behavior and Behavioral Finance.

The addition of the study of client behavior and the relatively new field of behavioral finance or economics was viewed as recognition of something that had been known to be important, but not explained. Although this was not part of the original concepts or curriculum, the participants saw it as important to good practice. The relevance to research question one is that a theoretical basis for what was identified as always being part of financial planning now exists in the theories from psychology that won Daniel Kahneman the Nobel Prize in Economics. The theories of Behavioral Finance give insight into the reasons for irrationality in economic choices that sometimes frustrate the financial planner who is trying to help clients achieve their goals.

Financial Planning Practice Theme 3. Relationships and Trust.

The need for the planner to build up trust and strong relationships came up again and again. No suggestions on how to incorporate this into the body of knowledge were made, but it was repeatedly suggested that it was something that the financial planner needed to know.

Financial Planning Practice Theme 4: Technology.

The intensive use of computers for calculation purposes was assumed by most participants. Herb Abelow mentioned that prior to computer illustrations on demand that he laboriously made up books of illustrations by age so that he could always show the client exactly how the product would work for that client. Thus, he looked upon the computer not only as a tool for investment strategy but as a tool for client communication and of fitting the recommended strategy to the client.

Ed Murrow, as befits the owner of a software company, had a long history of using computers as a tool for financial planning going back to the 1960s and the giant batch processing of that era. He said that you could not do the entire job of financial planning without the use of a computer because it is too labor intensive., and stated categorically that the kitchen-table, yellow-pad method simply was not going to yield the best results for the client. Thus the relevance to the first research question is that knowledge of computer science, even if only as an informed user, is a necessary discipline for the delivery of financial planning.

Financial Planning Practice Theme 5: Practice Management.

Each of the men interviewed considered practice management important enough to mention various techniques and methods for handling the intense time commitment, labor and knowledge required for comprehensive financial planning. The possibility of a group practice that included a CPA and attorney or a strategic network consisting of those specialties plus a property-casualty specialist was mentioned. This was seen as one way of managing the duty to consult concerning matters of law and regulation.

In addition to group practice, there was some feeling among the participants that the separation of the advice portion of the financial planning practice from the implementation portion in terms of compensation might be the best way to assure that the advice given was impartial and fair, even if the implementation would be by the same planner. Others stressed the importance of first securing the client commitment to the idea of a plan that might involve a reduction in current spending before proceeding with the financial planning process. There were many opinions on practice management but all stressed its importance.

One participant stated it this way: "You cannot help people if you cannot make a living, and you cannot make a living unless you have an efficient practice." This is not part of the theoretical body of knowledge of the financial planning profession, and thus irrelevant to the first research question, but could still be an important part of the skill set and knowledge required of a financial planner in application.

The Financial Planning Process

The next group of themes all had to do with the Financial Planning Process. Since use of a systematic process was one of the principles identified in the first Theme Group, and has often been used in defining financial planning, the origins of the Financial Planning Process were a particular focus of the first research question. When asked, most of the participants did not have any idea of the origin of the financial planning process, although there was speculation that it came from the estate planning and insurance fields, the financial analysis field, was just common sense, came from the scientific method, came from strategic planning, or just evolved. Thus the discoveries concerning the origins of the financial planning process that were made in the course of the literature review will be the focus of interpretation in Chapter 5.

Financial Planning Process Theme 1: Systematic Process.

All of the participants agreed that there was a systematic process for performing financial planning, but the number of steps and the exact steps differed. The origins cited were varied and mostly unclear to the participants. Thus, the theoretical origins of the financial planning process, one of the key elements of the first research question, was not answered by the qualitative survey. However, the participants' answers as to the process itself correspond to the finding that was uncovered as part of the literature search: the financial planning process came from strategic planning.

Financial Planning Process Theme 2: Client Goals.

As would be expected from a client-centered profession, defining the goals (or "hopes and dreams" in the words of Ben Coombs and others) were such an important part of the process for the participants that client goals grew into a theme, not just a topic code. Hy Yurman gave important insights into the usual goals of the client in the 1970s (Avoiding high taxes.) as opposed to today's goals (Not outliving one's money.) that underlined the importance of discerning the client's goals in financial planning. As a defining parameter for the financial planning process, client goals are relevant to the first research question and will be shown to be part of the definition of the financial planning.

Financial Planning Process Theme 3: Risk tolerance.

Defining client risk tolerance was mentioned by almost all participants as an important concept in financial planning. It is another defining parameter for the financial planning process and therefore relevant to the first research question.

Areas of Knowledge and Analysis

The final theme group has to do with areas of knowledge and analysis. This theme has the most relevance to the first research question concerning the theoretical knowledge base of financial planning because these are the areas of knowledge and expertise with which the financial planner is to help clients meet their goals. Most use theories from other fields. These other disciplines were well developed prior to advent of financial planning, and financial planning has borrowed theories from those fields, sometimes intact and sometimes with modifications.

It is this area that justifies the conceptual framework outlined in Chapter 1 wherein the qualitative study of interviews with Pioneers of the Profession, the Job Analysis Survey, the existing literature (both academic and non-academic) and information from the CFP Board of Standards and the College for Financial Planning would define the theories that underlie financial planning theory and practice. All of the theories that may have been garnered from these other fields were not necessarily identified, so the following list is not definitive, but in areas of knowledge certain theories were mentioned often and are delineated here.

Area of Knowledge Theme 1. Insurance and Risk Management.

In this area, there were many concepts mentioned by the participants:

a. The pooling of risk and the law of large numbers from insurance and statistics. (Bernoulli, 1713).
b. Concept of survivor needs analysis (also called capital needs analysis) from life insurance theory.
c. "Don't pay a lot to save a little" or the concept of giving up a small certain loss to avoid an uncertain loss in the future.(Bernstein, 1996).
d. Risk transfer, avoidance and reduction
e. Uninsurable risk
f. Risk protection as a priority over investment

All of these are well-known theories of insurance and risk management and were mentioned in the interviews and pertain directly to the first research question.

Area of Knowledge Theme 2. Investments.

It was expected that certain theories of investments and corporate finance would be mentioned by the interviewees, and that expectation was confirmed. The following well-known theories were mentioned.

a. Modern Portfolio theory (Markowitz, 1952)
b. Systematic and Unsystematic risk (This is an element of the capital asset pricing model next mentioned.)
c. Capital Asset Pricing model (Sharpe, 1964) This is the model that relates risk and expected return in the pricing of securities.
d. Fama and French (This could refer to the classic study on Stock Returns (Fama & French, 1992) but could also refer to the work on Asset pricing anomalies (Fama & French, 1996) or even some of their more recent work on the Capital Asset Pricing Model.) Fama and French went back and forth between acceptance and rejection of the Capital Asset Pricing Model, and gave much richness and depth to its application.
e. Brinson, Hood and Beebower – This is the classic study that found in examining the portfolio performance of a number of pension plans that asset allocation, however conceived, had more effect on the performance of the portfolio than any other factor (Brinson, Hood, & Beebower, 1986). There has been some question as to whether it truly is relevant to personal portfolios because of differences in time horizon, taxation and expected distribution, but it still appears to be accepted by many financial planners. One of the participants in this study, Harold Evensky, was the author of an article

concerning the questions about the original Brinson, Hood and Beebower conclusions (Evensky, 2000), and another article in the *Journal of Financial Planning* (Rekenthaler, 2000) the same year summarized the concerns and concluded that the original conclusion was flawed. Nevertheless, knowledge of that study of asset allocation and the controversy over its conclusions should be part of the knowledge of a financial planner.

f. Black-Scholes – This is the three-fold option pricing model with an included equation that describes the price that equity's derivative must satisfy. The Black-Scholes formula is the result of applying the equation to put and call options. The author of the paper that first laid out this model (Merton, 1973), received a Nobel prize. It is called Black-Scholes because Merton called it that since his paper was based on work by them. Most financial planners seem to know this pricing model and some even occasionally use it, particularly for options, but in the main, financial planners are reluctant to use options except as a hedging device. The Black-Scholes model, interestingly enough, is actually a model for the price of a European put or call, but is often used for American put and call options as it is judged that the difference is not significant. (American put and call options can be exercised at any time up to expiration whereas European options can only be exercised on the expiration date.) This model was mentioned by only one interviewee.

Areas of Knowledge Theme 3. Business Planning.

Although this theme came up as part of the expected expertise of the financial planner, no particular theories were associated with the theme by the participants, thus it is irrelevant to the first research question for the purposes of this study. Most of the comments by participants relevant to business planning had to do with the design and selection of pension plans, and to a lesser extent, deferred compensation for executives and other employee benefits. The area that had the most to do with actual business planning that was mentioned by participants was entity selection. The decision of the type of entity a business should be is usually only addressed prior to the formation of the business. It is related to concepts of law such as liability and taxation.

Areas of Knowledge Theme 4. Employee Benefits.

This particular area of knowledge was mentioned in terms of meeting the needs of the employer (when the client is a business owner) and the needs of the employee. In terms of the employer, in addition to providing for the retirement of the owner-employee, the concept of employee benefits attracting and keeping good employees was discussed. However, it should be noted that many of the concepts (particularly retirement benefits) in Employee Benefits are based on Life Cycle Finance (Altfest, 2004; Ando & Modigliani, 1963; Franco Modigliani, 1988) and the Permanent Income Hypothesis (Friedman, 1976), both theories from economics.

Areas of Knowledge Theme 5. Estate Planning.

The concepts in this area came primarily from the study of law and insurance, and included capital needs analysis for survivors, pour over wills, bypass trusts, and wealth replacement trusts. Risk management and insurance concepts were intertwined with the estate planning concepts mentioned to the extent that it was sometimes difficult to determine in which theme they belonged. There was no other theory mentioned that has not already been discussed concerning insurance and risk management.

Areas of Knowledge Theme 6. Taxation.

Tax planning was one of the key motivations for consulting a financial planner in the early years. This was due to the confiscatory structure of both income tax and estate tax at the time, and the many opportunities to arrange the client's affairs to avoid taxes. It was noted that there is less concern currently due to lower tax rates. One theory that was mentioned was that income taxes should be looked upon as just another expense and minimized in the same way that other expenses are minimized. It was noted by Hy Yurman, however, that even with today's lower rates, a dollar saved in taxes means more money in the pocket of the client than a dollar of income, since the dollar of income will be taxed. Michael Dalton noted that although income tax rates are currently lower than they were in the 1960s and 1970s, that tax law gives almost no opportunity to reduce them. The alternative minimum tax and its impact on current clients, even those of moderate incomes was mentioned by several interviewees.

Area of Knowledge Theme 7. Theories from Other Fields

Theories from other fields that were mentioned, although not with great frequency, were

1. Values studies and how values related to meeting client goals (these concepts are from psychology and sociology). This topic would be related to behavioral finance in that it would affect economic decisions in a manner that might not appear rational to a person with different values.
2. Decision theory (from economics). Although decision theory was mentioned by more than one participant, it was not discussed at length.

The use of decision trees when in the analysis stage of the financial planning process was one application mentioned. The term decision theory can have a general meaning that applies to decisions in a variety of fields, or it can refer to a particular method of making decisions in a microeconomic sense. It was unclear which meaning the participants had in their minds, although the mention of decision trees as an analytical tool implies the more general meaning.

3. Behavioral finance (from psychology). Every participant who was asked about behavioral finance responded favorably to the notion that it was part of what a financial planner should know, and several participants mentioned it before any question was asked.

4. Monte Carlo analysis (from economics and mathematics) for forecasting was discussed by several participants. Despite the fact that the NASD has given its blessing to broker use of Monte Carlo illustrations (Connolly, 2005a) most of participants who discussed Monte Carlo analysis felt that it was widely misused by making clients feel that the probability of success of a particular strategy (primarily in the investment and retirement distribution areas) was precisely known.

5. The concepts embodied in the Life Cycle hypothesis (or Finance) and the Permanent Income Hypothesis (both from economics) were largely treated as givens by the participants in the study. They were not mentioned by name, but rather stated in terms such as “Well, people save because they know that they will not have as much income later.”

or "Since income isn't always going to be the same, to maintain your standard of living, you have to put money away while you can."

Findings from the Qualitative Stage of the Mixed Methods Study Relating to the Second Research Question

The qualitative study, due to the fact that it was interviews with men who were active in the profession from 1969-1984, was expected to have differences when the second research question: "Is the current practice of CERTIFIED FINANCIAL PLANNER™ professionals based on the theoretical foundations discovered in the first question?" was examined. Despite this expectation, it turned out that some of the participants were still in practice. They had viewpoints on the evolution of the financial planning profession that were quite informative. Furthermore, they felt that the basic ideas of the profession had not changed that much, although emphasis had changed. For example, while the confiscatory tax rates of the 1960s and 1970s made a focus on tax planning imperative, even at today's low rates a tax dollar saved is still a dollar in the client's pocket.

Based upon the comments from the participants, there was less concern about retirement planning in the early days, since most people had defined benefit pensions and Social Security replaced a greater percentage of pre-retirement income for most people than it does today. Nevertheless, attaining financial independence was still one of the common client goals.

First, it was agreed that the profession had become increasingly sophisticated over the years. Jim Johnston remarked on how much more complex the current suggested curriculum is than it was in the early days. Robert Leshner stated that he did not believe that anyone who was at the original meeting would have believed that financial planning would grow into what it is today. However, it was generally agreed that all the concepts that were originally there still applied, with the differences being in degree not concept.

For example, Benjamin Baldwin stated, “They were simple plans because those were simple times.” This statement was made despite the fact that Mr. Baldwin was one of those who thought that the current educational curriculum lacked depth, particularly in the insurance area.

Several mentioned areas that they thought needed to be addressed more fully in contemporary practice. Medicare and health care in general were items of concern, while others thought that the concept of retirement planning to a certain age was an outmoded concept that did the client a disservice. Note that Medicare and health care still fit within the original concepts of managing risk and insurance and that the problem of attaining financial security by having a predictable stream of income once one is no longer working has been part of the practice of financial planning since the earliest days. They are simply problems that have become more acute over the years.

Edwin Morrow echoed the sentiments of many of the interviewees when he said that there was no reason to consider life expectancy in retirement planning and that depletion of capital by a certain life expectancy was not best serving the client. He stated that all retirement planning should be done as if the client were going to live forever.

Second Stage: The CFP Board of Standards Survey

Since this is a sequential study, the second stage did not commence until the first stage was completed. The survey used in this stage was a pre-existing study designed to identify the tasks and knowledge actually considered important by Certified Financial

Planner™ professionals to determine appropriate test topics for the certification examination. When the study was designed, it built upon what had been discovered in prior surveys plus suggestions from a committee of prominent financial planners. One section of the survey dealt with concepts, not tasks, that had relevance to the first research question. In that section, there were a number of theories identified.

The Job Analysis Survey questions accurately reflected the tasks and areas of knowledge that were considered important by the 3,859 financial planners who responded, approximately 10% of all CFP® license holders at that time. All but four of the tasks and areas of knowledge scored a mean importance rating of 2.5 or better on a scale of 0-4. This rating falls halfway between Moderately important and Important on the Likert scale. For the three questions whose mean rating fell below 2.5, all were better than 2.0 (Moderately important), and more than 70% of the respondents rated the task or area of knowledge topic as Important or Very important. Thus, the ultimate decision by the CFP Board committee was to retain testing on that topic.

The CFP Board Job Analysis survey was conducted in the summer and fall of 2004, and the final report was published in March 2005. The survey itself was divided into five sections: Section 1-Background and General Information, Section 2-Tasks, Section 3: Knowledge, Section 4: Recommendation for Test Content, and Section 5: Comments. There were 14 questions about demographics, 37 task-specific questions, and 103 area of knowledge questions. In addition, there were additional open-ended questions. The first was a question in which the participants were asked to recommend what each domain's percentage of the CFP Board certification examination questions should be. The remainder repeated the same question, "What additional professional development could you use to improve your performance as a CFP® practitioner?" for each of the domains plus a catch-all category of Other, making a total of 154 questions. A complete copy of the survey, in the format that it was posted for the respondents to answer, is in Appendix E.

This survey, which is conducted every five years under the auspices of the CFP Board of Standards' Board of Examiners, using outside consultants, is the most comprehensive store of information about contemporary practice and ideas in the financial planning profession available. The 2004 survey was disseminated by e-mail in July 2004 to approximately 38,400 practitioners. A total of 3,859 (10.05%) practitioners responded to the survey, representing a sufficient number for statistical analysis of the results. (Montgomery, 2005)

Brief descriptions of each survey section

The background and general information section is a confidential survey of the biographical information about the respondent (Montgomery, 2005). It gives a snapshot of the demographics of the professionals who answered the survey. Since the CFP Board knows the demographics of the entire population from the licensing process, the demographic section was compared against that information to ascertain that the sample was representative of the total population of Certified Financial Planner™ practitioners. Among the respondents, ages ranged from the twenties to more than 80 (Figure 2).

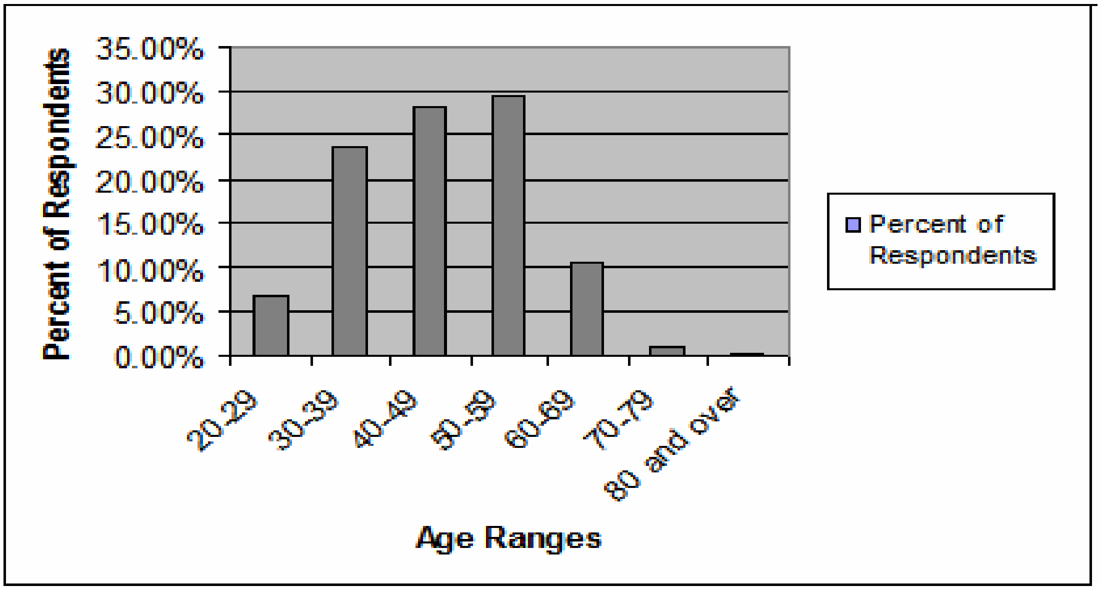

Figure 2. *Age Ranges of Respondents to CFP Board Study*

Approximately 29.4% had been CFP® professionals for more than 10 years, and 55.2% had been CFP® practitioners for fewer than 5 years, reflecting the growth of the profession. However, 40.6% said that they had practiced as a financial planner for more than 5 years, and 48.6% said that they had practiced for 11 years or more. In Figure 3., the fact that a much higher number of respondents said that they had been CFP® practitioners for less than two years than had been a financial planner for less than two years is explained by the requirement, other than for academics, for CFP® certification of a minimum of 2 or 3 years experience in the field, depending on the level of education,

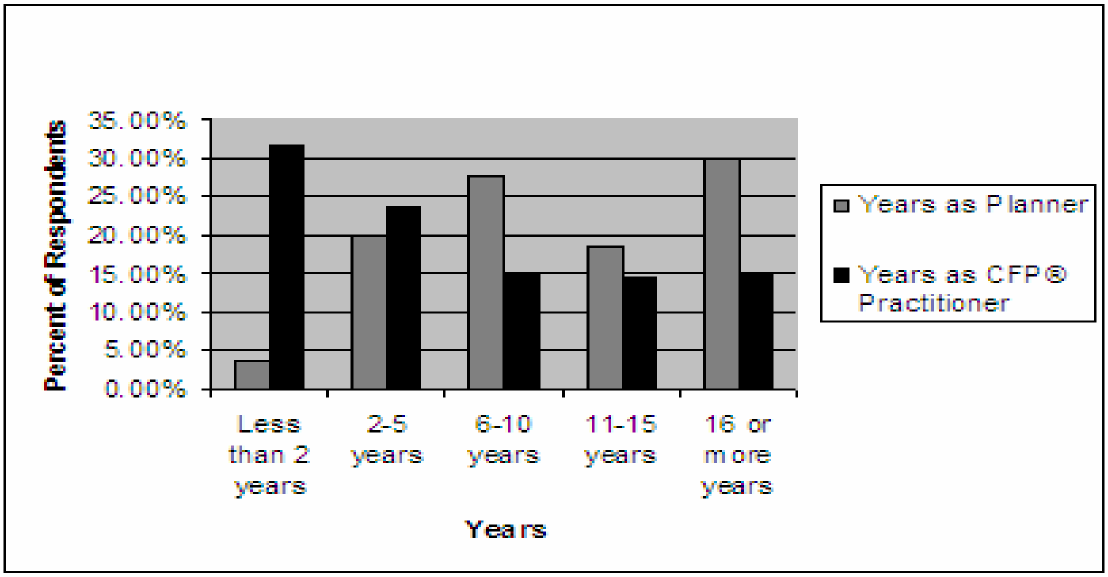

Figure 3. Experience of Survey Respondents as a Financial Planner and as a CFP Practitioner

Although 14.8% were employed in or associated with registered investment advisory firms, the majority of the respondents were affiliated with financial planning firms (28.8%) or securities/brokerage firms (28.10%). The only other affiliations with which more than 5% of the respondents were affiliated were accounting firms (5.40%), banks or savings and loans (6.00%) and insurance companies (8.50%) (Montgomery, 2005).

Three areas of expertise were claimed by more than two-thirds of the respondents (they were allowed to list as many as applied); comprehensive financial planning (73.20%), investment planning (70.90%) and retirement planning (68.60%). (Montgomery, 2005)

Compensation was divided between mostly commission and fees, with 70.90% of the respondents being compensated by either commission only (15.10%) or by fee and commission (55.80%). Only 24.40% were compensated by fee-only and 15.80% by salary (Montgomery, 2005). More than 70% of the financial planners had gross income of more than $75,000 from financial planning and 56.10% had gross incomes in excess of $100,000. Almost one-fourth (24.40%) had gross incomes in excess of $200,000 and 13.4% had annual gross incomes in excess of $300,000. Since approximately 60% had practiced for fewer than 5 years, financial planners have better than average incomes.

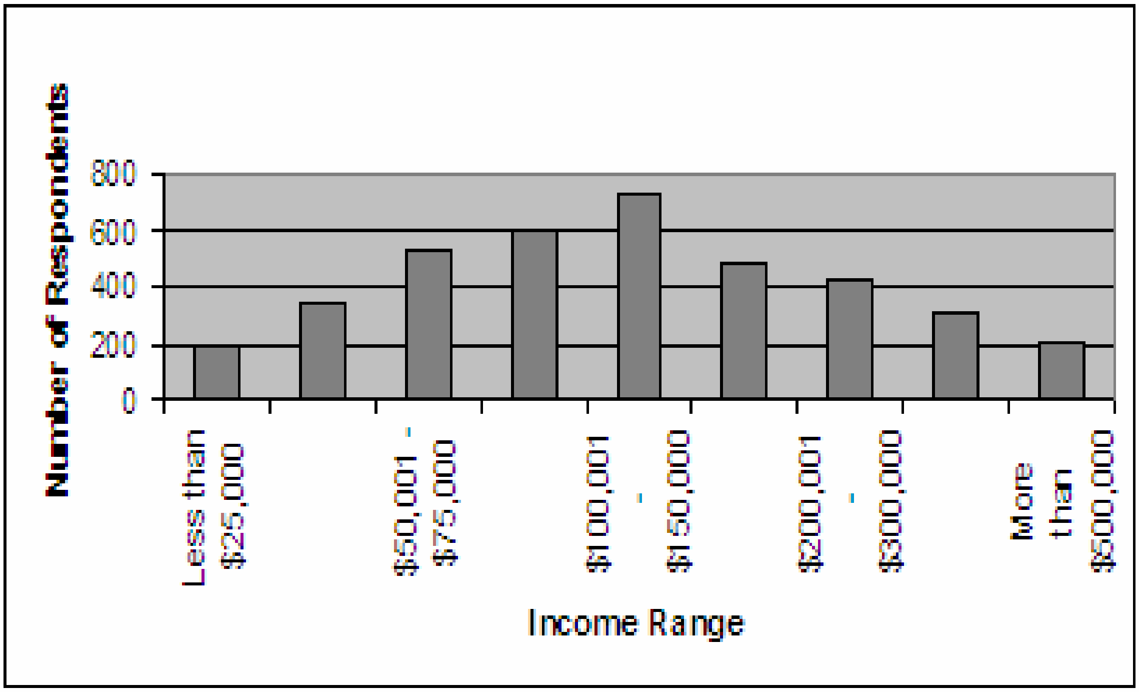

Figure 4. Annual Gross Income from Financial Planning

Importance of Tasks and Topics on the Survey

The next two sections, Tasks and Knowledge, were the ones most relevant to this study. The results of these survey sections are that all of the tasks and all but four of the knowledge areas surveyed achieved a mean importance rating greater than 2.50 on a Likert scale of 0-4. Note that this is a more conservative cutoff than might be expected, since it is halfway between "Of moderate importance" and "Important," not the actual central rating of 2.00. Even those questions that failed on this cutoff had importance rating means greater than the central rating, and had a majority of respondents rating the task or topic as at least Important (Montgomery, 2005).

The 37 questions in the Tasks section over six domains represent a total of 57 tasks, based upon the steps in the financial planning process, and queried the respondents about what they consider important in their financial planning practice, defining the application of financial planning theory in contemporary use. The respondents were asked to rate each of the tasks and the topics on a five point continuum ranging from Of No Importance (0) to Of Great Importance (4). All of the tasks were rated as important, and 97% of the knowledge topics were rated as important ("Of moderate importance", "Important" or "Of great importance") by the respondents (Montgomery, 2005).

In gauging importance, respondents were directed to answer the question: "How important is the performance of the task for CFP® practitioners?" Additionally, this instruction was given: "Please be sure to rate each task according to its importance to the work performed by a CFP® practitioner – not *your* specific job." .

The unanimity concerning importance appears to derive from both the task list and the knowledge topic list being started with the tasks and topics that were deemed important on the 1999 survey. That study, in turn, had also been built on the results of the 1994 survey. In addition, the 1999 list was modified for the 2004 survey by interviews with nine prominent financial planners to assure that any changes in practice were queried. Therefore, it is not surprising that all the tasks and virtually all the topics were deemed to be at least moderately important.

The Knowledge section consisted of 103 questions (some questions had more than one part) concerning 124 topics in seven domains of knowledge: 1. General Principles of

Financial Planning; 2. Insurance Planning and Risk Management; 3. Employee Benefits Planning; 4. Investment Planning; 5. Income Tax Planning; 6. Retirement Planning; and 7. Estate Planning. These domains also reflected the results of the 1999 survey and examination topic list that resulted from that survey. The question on this section was posed as “How important is the topic for competent performance of CFP® practitioners?” Once again the practitioners responding were cautioned to judge importance in terms of all financial planners, not just their own practice (Montgomery, 2005). There were only four topics that did not have mean score of at least 2.5 on the Likert scale. Three of those were above 2.4 and one was 2.29. Ultimately, all topics were used for the certification test, since the majority of the respondents had rated the three borderline topics and the one failing topic as important. After examining the comments of the researchers in the CFP Board study, it was judged that their evaluation of the importance of each topic was correct and no further quantitative testing was necessary.

Relating the Theories and Themes Identified to the Survey

All of the theories and most of the themes identified in the interviews were covered by the survey questions. Since the subjects of the survey questions were deemed important by the contemporary practitioners, this implies that those theories are still applied to financial planning today. In Tables 5 through 13, the theories, tasks and knowledge topics that were identified in both the survey and the interviews are listed. In an effort to make the findings more accessible to educators familiar with the CFP Board of Standards Topic List, and since the main categories on the List have been standardized for years, these tables are organized using the nine broad categories identified in the survey with the slight modification of considering the Financial Planning Process in a separate table. In the remainder of the tables, the topics and concepts identified by the survey questions were consolidated into 88 main topics with some questions becoming a subtopic. In the tables that follow, within those nine categories, those topics that were not mentioned by at least one of the persons interviewed are followed by a blank cell. Subtopics were only listed if there was sufficient discussion by the persons interviewed to warrant inclusion. For manageability of the display, there is a separate table for each of the nine categories. For the sake of completeness and richness of information and since the use of the CFP Board Topics grouped the results, it was decided to go back to the codes themselves rather than using the themes and groups identified in the findings concerning the qualitative study.

The topic numbers in the first column are those of the CFP Board Topic List. A qualitative code implies that at least one person who was interviewed mentioned the concept, task or area of knowledge strongly enough to be considered important by the interviewer, a judgment criterion. Given the number of areas and topics on the CFP Board list, and the manner of its development, the number of topics mentioned by the participants in the interviews is impressive. Had there been a third column that listed peer-reviewed literature that pertained to that topic, there would not have been a single blank cell.

Table 5.

CFP Board Financial Planning Process Topics Identified in Interviews

CFP Board Topic	Qualitative Interview Code
1. Financial Planning Process	Systematic process FP as strategies to achieve goals Derivative of scientific method Strategic planning is based on scientific method Theory and Applications book was based on strategic planning
A. Purpose, benefits and components	Client centered Helping profession Beauty of profession -- helping people everyday
B. Steps	Financial Planning Process (FPP) – Analyze FPP – Client commitment to follow plan FPP – Gather data FPP – Identify goals and objectives FPP – Quantify Goals FPP – Determine time constraints FPP – Consider resources – assets and income FPP – Analyze FPP – Present (Report) the Plan FPP – Periodic Review
C. Responsibilities	Goals as focus Determine risk tolerance Client irrationality can affect the planner in meeting responsibilities

Table 6.

CFP Board General Principles of Financial Planning Topics Identified in Interviews

CFP Board Topic	Qualitative Interview Code
2. CFP Board's Code of Ethics and Professional Responsibility and Disciplinary Rules and Procedures	Client centered Client interests come first Duty to consult
3. Financial Practice Standards	Client interests come first Duty to consult
4. Financial Statements	Personal financial statements
5. Cash flow management	Change client spending habits
6. Financing strategies	
7. Function, purpose and regulation of financial institutions	
8. Education planning	
9. Financial planning for special circumstances	
10. Economic concepts	Economics important
11. Time Value of money	TVM a fundamental concept
12. Financial services regulations and requirements	Today's challenge is a less adversarial relationship with regulators
13. Business Law	Entity planning
14. Consumer protection laws	

Table 7.

CFP Board Insurance Planning and Risk Management Topics Identified in Interviews

CFP Board Topic	Qualitative Interview Code
15. Principles of risk and insurance	
A. Definitions	
B. Concepts	Small sure loss to protect against possible large uncertain loss.
	Law of large numbers
C. Risk management process	
16. Analysis and evaluation of risk exposures	FPP – Analyze
17. Property, casualty and liability insurance	Consult Property casualty broker
	Protection before investment
18. Health insurance and health care cost management (individual)	Current issue – health insurance
19. Disability income insurance (individual)	
20. Long-term care insurance (individual)	Current issue – Long term care insurance
	True actuarial cost not known
21. Life insurance (individual)	Human Life values
22. Income taxation of life insurance	
23. Business uses of insurance	
24. Insurance needs analysis	Capital needs analysis
25. Insurance policy and company selection	
26. Annuities	

Table 8.

CFP Board Employee Benefits Planning Topics Identified in Interviews

CFP Board topic	Qualitative interview code
27. Group Life Insurance	
28. Group disability insurance	
29. Group medical insurance	Current issue: Health care
30. Other employee benefits	Current issue: Long-term care
31. Employee stock options	
32. Stock plans	
33. Non-qualified deferred compensation	Non-qualified deferred compensation

Despite the fact that entrepreneurs and business owners represent a substantial segment of the clientele of contemporary financial planners, most of the interviewees viewed Employee Benefits with disinterest. However, some of them had been involved with executive planning, so non-qualified deferred compensation, a perquisite for higher-level executives, was mentioned. Health care and long-term care insurance were mentioned in the context of current issues that the financial planning profession needs to address, not as a part of employee benefit planning. It became very clear that they envisioned the client as an individual, not as an employer.

Furthermore, while in current practice the married client is usually viewed as both the husband and the wife, they mostly viewed the client as the husband, or as Herman Yurman put it, “the dominant individual.” Yurman said that many times he never met the spouse. This is in stark contrast to the situation today when financial planners often have counsel clients on how to reconcile their concepts and biases about money.

Table 9.

CFP Board Investment Planning Topics Identified in Interviews

CFP Board topic	Qualitative interview code
34. Characteristics, uses and taxation of investment vehicles	Tax shelters to avoid tax.
35. Types of investment risk	Systematic and Unsystematic Risk
36. Quantitative investment concepts	Capital Asset Pricing Model; alpha and beta
37. Measures of Investment returns	
38. Bond and stock valuation concepts	Black-Scholes, Capital Asset Pricing Model
39. Investment theory	MPT, Behavioral finance
A. Modern Portfolio Theory	Modern portfolio theory – asset allocation and risk
B. Efficient market hypothesis (EMH)	
C. Behavioral finance	Behavioral finance
41. Investment strategies	
42. Asset allocation and portfolio diversification	Asset allocation Brinson, Hood & Beebower (Portfolio performance) Modern portfolio theory
43. Asset pricing models	Capital Asset Pricing Model Fama and French (Asset Pricing "Anomalies") Black-Scholes

The investment planning area was the one place where theoretical contributions were most recognized. Even those planners who did not have an academic finance background knew of these theories, if not by name, certainly by meaning. However, the efficient market hypothesis was not mentioned unless brought up by the interviewer in terms of passive vs. active investing. Black-Scholes was only mentioned by one interviewee. Modern Portfolio theory was by far the most commonly mentioned investment theory.

Table 10.

CFP Board Income Tax Planning Topics Identified in Interviews

CFP Board topic	Qualitative interview code
44. Income tax law fundamentals	Marginal tax rates
45. Tax compliance	
46. Income tax fundamentals and calculations	Marginal tax rate; Dollar saved on taxes worth more than dollar earne**d**
47. Tax accounting	Depreciation Depletion Allowance
48. Characteristics and income taxation of business entities	Business Entity selection
49. Income taxation of trusts and estates	Pour-over will Trusts (related to Estate Planning)
50. Basis	Recapture
51. Depreciation/cost-recovery concepts	Depletion allowance;
52. Tax consequences of like-kind exchanges	
53. Tax consequences of the disposition of property	Recapture
54. Alternative minimum tax (AMT)	Current issue: Alternative minimum tax
55. Tax reduction/management techniques	Tax shelters; oil and gas
56. Passive activity and at-risk rules	Tax shelters; oil and gas
57. Tax implications of special circumstances	
58. Charitable contributions and deductions	

It should be noted that there was a feeling among several of the interviewees that there are no theories of tax planning, and this was explicitly stated by Michael Dalton. Michael Dalton suggested that while the Estate Tax is largely voluntary, in that the assets in the estate can be re-titled and affairs arranged to legally avoid estate tax, but that there is little anyone can do to substantially reduce income tax since the 1986 tax act.

Table 11.

CFP Board Retirement Planning Topics Identified in Interviews

CFP Board topic	Qualitative interview code
59. Retirement needs analysis	Life Cycle Finance - Asset accumulation during working years for income in retirement Retirement programming Retirement planning - plan as if going to live forever Saving and investment is deferred consumption for greater utility in the future. Saving as a habit Savings for Retirement should be between 10 and 13% of gross pay Goals, Objectives, Hopes and Dreams as focus
60. Social Security (Old Age, Survivor, and Disability Insurance, OASDI)	Retirement - government cannot provide enough
61. Types of retirement plans	Pension plans are important tool
62. Qualified plan rules and options	Employee benefits and pensions important for business market
63. Other tax-advantaged plans	IRAs
64. Regulatory considerations	
65. Key factors affecting plan selection for businesses	Employee benefits and pensions, not in terms of talking to individual employee -- for benefit of business owner
66. Investment considerations for retirement plans	Financial security Brinson, Hood & Beebower
67. Distribution rules, alternatives, and taxation	Distribution constraints; sustainable flow of income

In the interviews, retirement planning was taken as a given: There was no sense of retirement planning having any theoretical basis by the interviewees. In their eyes, Modigiani's Life Cycle Finance and Friedman's Permanent Income hypothesis were common sense. Despite this, the interviewees had accepted these theories almost as axioms. They assumed that the client would need to save during the earning years to fund the retirement period (Life Cycle finance) and that people spend in line with their concept of what they will earn in the future (Permanent Income Hypothesis). For the most part, tax considerations in retirement planning were not mentioned as a major concern, although some statements implied that tax deferral was a factor in securing a greater retirement fund.

The interviewees were interested in assuring an income stream in retirement for clients. Typical of the interviewees, Harold Evensky mentioned income in retirement, but he did not mention it in terms of distribution rules and taxation as in the CFP Board topics, but rather in terms of what percentage distribution is sustainable, basically a concept in retirement needs analysis. He also mentioned the issue of market fluctuations rather than using an average rate of return. The issue of the timing of market fluctuations and their impact on the retirement income stream has been a topic of interest in recent financial planning literature and Mr. Evensky has written articles about the conundrum of determining the appropriate withdrawal rate.

In another aspect of retirement needs analysis, Edwin Murrow made the point that it does not make sense in a world where new medical breakthroughs come out daily to plan for distributions that will run out at age 85 or 95, but that instead retirement planning should be done as if the client were going to live forever. This statement implies that principal should never be invaded and that the distribution should always be less than the income generated by the retirement fund to allow for inflation.

Table 12 shows that Estate Planning primarily consists of techniques to limit tax although capital needs analysis for survivors is considered. Estate planning to assure that property goes to the desired person was not mentioned. The interviewees think that ending of the estate tax is illusory and expect it will be back with larger exemptions.

Table 12.

CFP Board Estate Planning Topics Identified in Interviews

CFP Board topic	Qualitative interview code
68. Characteristics and consequences of property titling	Estate planning more than avoiding the estate tax
69. Methods of property transfer at death	Pour over wills and trusts
70. Estate planning documents	Pour over wills and trusts
71. Gifting strategies	
72. Gift tax compliance and tax calculation	
73. Incapacity planning	Current issue: Long term care
74. Estate tax compliance and tax calculation	
75. Sources for estate liquidity	
76. Powers of appointment	
77. Types, features, and taxation of trusts	Pour over wills and trusts
78. Qualified interest trusts	Pour over wills and trusts Qualified interest trusts
79. Charitable transfers	
80. Use of life insurance in estate planning	Survivor needs analysis
81. Valuation issues	
82. Marital deduction	Qualified interest trusts
83. Deferral and minimization of estate taxes	
84. Intra-family and other business transfer techniques	
85. Generation-skipping transfer tax (GSTT)	
86. Fiduciaries	
87. Income in respect of a decedent (IRD)	
88. Postmortem estate planning techniques	
89. Estate planning for non-traditional relationships	

Table 13.

CFP Board Behavior, Communications and Counseling Topics Identified in Interviews

CFP Board topic	Qualitative interview code
1. Client and planner attitudes, values, biases and behavioral characteristics and the impact on financial planning	Behavioral finance Client irrationality can affect the planner FP depends upon the client's characteristics
A. Cultural	Different cultures value different things
B. Family (e.g. biological; non-traditional)	
C. Emotional	FP depends upon emotions of planner and client
D. Life cycle and age	
E. Client's level of knowledge, experience, and expertise	Individuals and individual choices
F. Risk tolerance	Risk tolerance
G. Values-driven planning	Values-based planning
2. Principles of communication and counseling	Communication and counseling of the client
A. Types of structured communication	Although communication skills were identified as important, structured communication was not mentioned.
B. Essentials in financial counseling	
C. Characteristics of effective counselors	Money coach Financial planner must be a good communicator, orally and in writing
D. Nonverbal behaviors	
E. Attending and listening skills	Listen to the client
F. Effective use of questions	

As the final task of this research, the body of narrative in response to the open-ended questions on the survey was coded. The strongest theme to emerge was that financial planners need to have more training and expertise in the areas of client behavior, behavioral finance and counseling. Communications skills were also mentioned frequently. Since the question was stated as “What additional professional development could you use to improve your performance as a CFP® practitioner?” following the questions concerning a particular domain, it is not surprising that the answers did not concern the topics and tasks on the survey to any great degree.

The second most frequently mentioned theme was development of practice management skills, and the third most common theme had to do with knowledge of technology. As expected, there was not much congruency with the knowledge topics mentioned by the interviewees, but there was surprising agreement on the role that technology plays in financial planning and the need for knowledge of practice management. To that extent, the opinion of the interviewees that to be a good financial planner, one has to be able to make a profit is confirmed.

The interest in behavioral issues and client counseling is also confirmed. Interestingly enough, one of the pieces of extant literature that was given by Jim Johnston was a fragment from the Instructor’s Manual from the earliest days of the College for Financial Planning. It was for *Module I: Counseling the Individual*.

Out of 89 major topics in the CFP Board Topic list, 54 (60.7%) were mentioned in one manner or another by the participants in the qualitative interviews. Because of the limited number of qualitative participants and the difference in the method of data collection, there is no statistically appropriate way to measure whether this level of agreement represents participants from the same population. However, it indicates that the topic list covers not only the foundational theories, but additional theories as well.

Interestingly, although more than half the CFP Board topics were mentioned by the pioneers of the profession who were interviewed, it cannot be said what their opinions of the importance of the topics on the CFP Board list would have been. What can be said is that theories and areas of knowledge identified as important by both the interview participants and the participants in the survey are definitely part of the generally recognized body of knowledge of the financial planning profession.

Given the many topics, and the limited time for mentioning topics, there was greater congruency than expected, and omissions by the persons interviewed for the qualitative study were fewer than expected. Based on the responses when the interviewer brought up topics that had not been mentioned by the interviewee, it is judged that more topics would have been acknowledged by the participants has they been mentioned to them. The interviewer did not bring up the additional topics due to the already lengthy interviews and also not to bias the recollections of the pioneers.

CHAPTER 5. INTERPRETATION OF FINDINGS AND CONCLUSIONS

Summary and Discussion of Results

Overview and Discussion of the Study

The purpose of this empirical sequential exploratory mixed method research study was to explore and determine the theoretical bases of the financial planning profession, and in particular, the financial planning process. The method involved first a qualitative study of interviews, academic literature and historical documents. The second stage related the answers to a quantitative survey of a large number of financial planning professionals to themes discovered in the interviews. In addition, the study was to examine contemporary practice in financial planning to determine if the theories articulated are applied in practice. The goal was to document the theories from multiple disciplines that contribute to financial planning's body of knowledge and the extent to which that knowledge is in use by the financial planning profession as evidenced by the practices of CERTIFIED FINANCIAL PLANNER™ professionals.

As the analysis of the qualitative data progressed and was then cross analyzed with the results of the quantitative study, certain themes and theories began to emerge. Much of the quantitative analysis of the data from the survey originally envisioned was unnecessary, since it had already been done by Dr. Linda Montgomery, the researcher at Thomson Promedia who did the analysis of the survey for the CFP Board. However, the mapping of the survey questions and their mean ratings of importance by the contemporary planners to the themes on the survey supports a key finding that the topics that were important to the pioneers of financial planning are still important today.

Another key finding is that as the survey results were compared to and mapped against the qualitative study, it became clear that the topics on the CFP Board of Standards certification examination represent a well-researched outline of the body of knowledge of the financial planning profession. Also, the theories upon which candidates are tested form a large part of the theoretical base of the financial planning profession.

However, since the purpose of the CFP Board survey is to pragmatically determine what the new financial planner, practicing alone, should be expected to know, there is no examination of the theories themselves, their origins and how the migration from the original discipline to personal finance has affected the theory. In the remainder of this chapter, theories identified in the qualitative study and validated by the CFP Board survey will be listed and their application discussed. Finally, recommendations for future research will be made.

Types of Literature Reviewed and Their Relevance

The literature review was extensive. As shown in the conceptual framework outlined in Chapter 1, in addition to articles from the financial planning literature, articles from finance, strategic management, sociology, psychology, statistics, risk management, law and accountancy were included. Furthermore, during the data collection stage, additional literature, much of it either personal papers or out of print publications, came into the researcher's possession from the pioneers of financial planning. This material was examined for relevancy and is used in the interpretations in this chapter. Finally, as topics suggested themselves in the data collection stage, additional literature searches were made, and some of the articles found also are incorporated into the data interpretation in this chapter.

Any article from the financial planning literature that dealt with theory was relevant to this study. Since to include all would have resulted in a massive bibliography that would have included a large portion of the articles in the *Financial Services Review* and the *Journal of Financial Planning* over the past 35 years, only those that were most relevant were included. Some important articles may have thus been left out of the literature review in the interests of keeping the study document to a reasonable size. Since it is anticipated that there will be further research on these topics, those articles omitted will probably be quoted in future work.

The Methodology Used

This was a sequential exploratory mixed methods study in two stages. The first stage concentrated on interviews with pioneers of the financial planning profession to elicit their concept of what were the fundamental practices, theories and applications that form the basis of the financial planning profession. By an iterative process of content analysis, a large body of qualitative data collected through personal interviews was summarized and emergent themes as to the financial planning process, the client planner relationship, knowledge required, profession evolution and planner characteristics were identified.

In the second stage, the results of a quantitative survey of contemporary Certified Financial Planner™ practitioners concerning the tasks and knowledge used in their practices were mapped and compared to the themes that emerged in the content analysis of the interview data. From this triangulated study, conclusions were drawn as to foundational concepts, notions, ideas and practices that form the basis of a body of knowledge of the financial planning profession.

The Study's Findings

The outcomes of the analysis described in Chapter 4 yielded many emergent themes. Of those identified, many were consistent with tasks identified as important in the CFP Board survey. Their designation as important in the CFP Board survey means that those theories are still part of the profession's body of knowledge today.

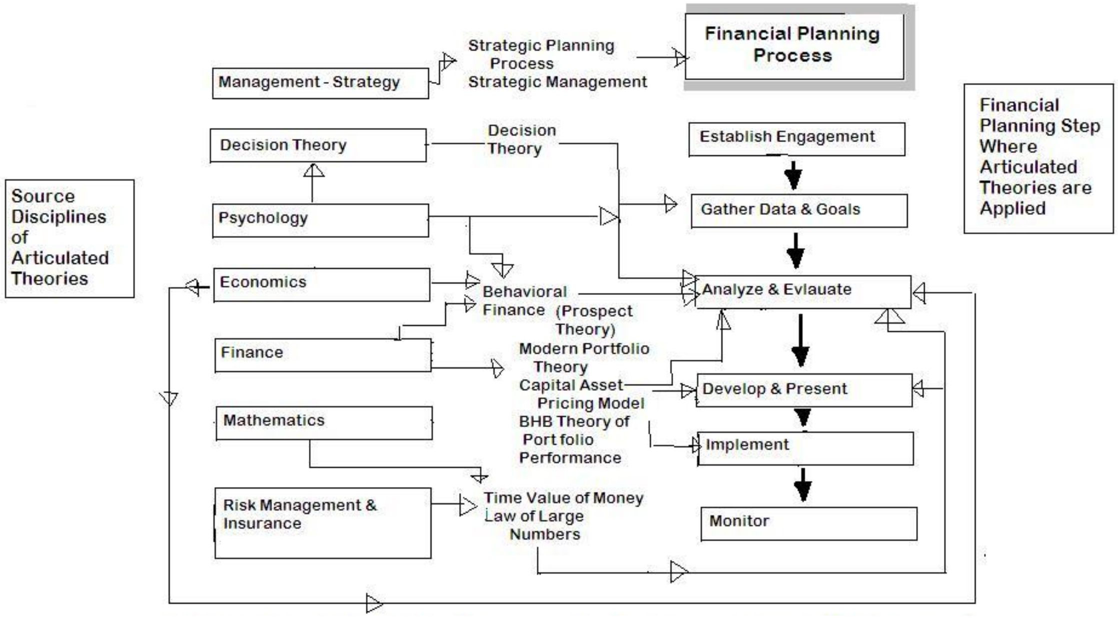

Figure 5. Articulated Theories Related to Source Disciplines and Steps in the Financial Planning Process as Used in Contemporary Practice

Concepts and Theories Identified in this Study

In this section, the concepts and theories from the findings are restated and interpreted by analysis, and the interpretation is justified. In Figure 5, the disciplines from which the theories that were articulated in the findings, the related theories, and then the step of the

Financial Planning Process in which those theories are applied is shown. Every theory mentioned was validated by the survey.

Definition of Financial Planning

The study found that no comprehensively or concise definition of financial planning currently existed so a globally encompassing definition was developed. Based on all of the data collected and the ideas expressed, this is the definition that emerged:

Financial planning is the strategic management of a client's financial and economic resources, consistent with the client's values, to achieve the client's goals and objectives.

Note that the definition of financial planning is not included on the CFP Board topic list, although there is a definition on the CFP Board of Standards web site (CFP Board of Standards Inc., 2007). This is consistent with the fact that many definitions were offered by the interviewees and found in the financial planning literature.

This definition incorporates all the themes that were identified in Chapter 4. First, the two themes that were most strongly voiced by the participants were that financial planning is client centered and focuses on the client's goals and objectives. This definition is all about the client, and strategies for achieving the client's goals. It encompasses the financial planning process as part of financial planning by citing strategic management. It also considers economic resources such as investments in human capital through training and education (which often have a measurable effect on future income), and establishes that the strategies must be consistent with client's values. Some participants would have chosen to use the words hopes and dreams rather than goals and objectives, but it was judged that hope and dreams were included in goals and objectives.

Financial Planning Process

One of the most significant findings of the study is:

Professional financial planning uses the financial planning process, an evolved and dynamic strategic management process, to identify and determine the appropriate strategies to achieve client goals.

The second significant conclusion is that this study found the theoretical basis of financial planning in strategic management, so it can now be stated:

The financial planning process is the application of strategic management processes to personal finance.

The steps in the financial planning process are based on the strategic planning process that was popular in the 1960s and that is still in use today in many organizations. While the strategic planning process morphed into strategic management in the ensuing decades, there was no similar change in the nomenclature of financial planning although there have been similar changes in application.

Although the interviewees speculated as to the origins of the financial planning process, with everything from "It's just common sense" to the scientific method, strategic planning, strategic management or strategy were mentioned by some of the interviewees. In addition, financial planning was characterized as developing strategies by others interviewed who did not use strategic management or strategic planning in their definition.

In addition to comments from the interviewees, this interpretation is validated by the parallel nature of the basic financial planning process and the strategic planning process as expressed in the strategic planning literature of the 1960s and later (Ackoff, 1966; Becker, 1965; Mintzberg, 1967; Simon, 1964) and further refined during the subsequent decades (Bourgeois III, 1980) (Mintzberg, 1994) (Mintzberg et al., 1998).

Although it was based on strategic panning, the financial planning process has evolved into a strategic management process over the years. The major difference in strategic management from strategic planning, based upon the criticisms of Mintzberg (1993), is that strategic planning assumes that the external environment is stable and is a static technique. Strategic management, on the other hand, is dynamic and allows and anticipates change. Without changing its name, the financial planning process now incorporates various techniques to make it more dynamic and adaptable, so it is now a process more consistent with contemporary definitions of a strategic management process. In the financial planning literature, there have been discussions of scenario analysis (Opiela, 2004; Phoa, 1999) and Monte Carlo analysis (Boinske, 2003; Booth, 2004; Connolly, 2005b; S. K. Jones & Stine, 2005; Kautt & Wieland, 2001; Tezel, 2004) as techniques for developing strategies for dealing with change. The insistence on periodic review (present even in the early years) in the financial planning process further assures that the process will be dynamic. Unlike the name change from strategic planning to strategic management that occurred in the field of organization and management, financial planning has retained the same name but simply added the concepts.

Further confirmation of the evolution from financial planning to strategic financial management comes from the strategic management literature as it has evolved over time. (Marshak, 2002; Mintzberg, 1990; Thompson & Strickland, 2001; Wernerfelt, 1984). Those familiar with the strategic management process will recognize the steps in the financial planning process as analogous with those in the strategic management of organizations as the organization attempts to fulfill its mission and meet its goals. The inclusion of the words "consistent with client values" in the definition of financial planning developed from this study recognizes that each client is different and that clients may consider dissimilar things important. This is analogous to the choice of mission for an organization.

To further emphasize resemblance of personal goals to the concept of mission, in 2006, an article urging financial planners to create a personal mission statement was published (M. L. Jones). The idea of a personal mission statement suggests that perhaps as part of the data gathering and goal setting step of the financial planning process, the financial planning professional could help the client develop a personal mission statement in the same manner that a management consultant helps an organization develop its vision and mission. This would be consistent with the theories concerning strategic management and possibly assist the financial planner in understanding the client's values and in helping clients achieve their goals. This is an area for further research and development.

Time Value of Money Concepts

Time Value of Money concepts, expressed most simply as "Money now is worth more than money later," are unchanged in their use in financial planning from their use in banking, accounting, insurance and finance and are utilized in capital needs analysis for survivors in estate planning and for income in retirement. In addition, they are fundamental to the valuation of bonds and stocks on a rate of return basis. The origin of the time value of money concepts come from economics, and are simple mathematical formulas based on compound interest. Although it is likely that some Roman accountant understood the present value of money, the first book that discussed these concepts in detail was published in 1613 (Lewin, 1970).

Decision Theory

Since financial planning involves the making of many goal-directed decisions where there are alternative solutions, decision theory has much applicability to financial planning and it was identified as a foundational theory. Decision theory is a multidisciplinary field that is not very well defined. However, one world-renowned philosopher (Hansson, 1994, revised 2005, p. 5) described it thus: "Hence, decision theory is concerned with *goal-directed behaviour in the presence of options.*" (Italics are from the source.)

While decision theory is applied in many fields, it originated from classical economics. It is fundamental to the economic concept that individuals make rational decisions under uncertainty. Prior to the advent of behavioral finance and economics, rational decision making was the prevailing theory of choice in economic decisions, and was often stated in the form that consumers maximize marginal utility while minimizing marginal cost. While no interviewee used the term Decision Theory, many mentioned risk tolerance as a key piece of data to be determined when gathering data about a client. Risk tolerance is one of the major subjects of decision theory and is discussed when economists consider bounded rationality.

Further justification for including decision theory as a fundamental theory of financial planning is that decision theory is a topic on the CFP Board topic list. Decision theory is closely related to Game Theory, which was mentioned, although game theory has an adversarial aspect to it not usually discussed in decision theory. Monte Carlo simulation, a mathematical method for making decisions based on simulation and approximations, is related to Decision Theory, but was mentioned so many times separately from any other reference to decision making that it was given a separate section.

Monte Carlo Simulation

Monte Carlo simulation is a theory that is part of financial planning. Although there are serious concerns about the use of Monte Carlo simulations, it is being used and discussed in the financial planning literature; it was mentioned by the interviewees and confirmed as important in the survey. It is often used to justify a particular asset allocation as optimal for an investment portfolio.

Monte Carlo simulation was mentioned by several interviewees as a theory currently in use by financial planners, and it is true that many of the financial planning software packages have Monte Carlo simulations that give a probability of reaching a certain investment goal given various asset class allocation models. Monte Carlo simulations are mathematical probability models based on random numbers. Iterative trials are made using random numbers to come up with an approximate solution. The larger the number of trials, the more accurate is the probability computed. Historically, Monte Carlo simulation (like many aspects of probability theory, the simulation was first related to gambling.) was used to compute probabilities of diffusion of radioactivity in the development of the atomic bomb. The increased processing power of today's computers over what was available in 1948 has made Monte Carlo analysis a usable tool for many disciplines, not just financial planning.

Most of the interviewees said that Monte Carlo analysis was not useful and gave a false sense of security to clients. Furthermore, there have been a number of articles in the *Journal of Financial Planning* and other financial planning periodicals that have focused on Monte Carlo simulation as a forecasting tool. Perhaps the most comprehensive discussion of the use of Monte Carlo analysis was Nawrocki's article (2001) on the problems in using it. He stated:

"Essentially, Monte Carlo simulation is useful only when nothing else will work. It has proved to be useful in academic financial and statistical research, but only when the data or the analytic solution is not available. This is not the case in the investment decisions typically faced by financial planners. Financial market data is plentiful and cheap. Analytic models are available to quickly analyze the data and provide the same or better answer than Monte Carlo simulation. (D. Nawrocki, 2001)"

Theories from the Field of Finance

Several theories from the field of finance were identified as being fundamental to financial planning by the interviewees and validated by the CFP Board Survey. As expected Modern Portfolio Theory (MPT) (Markowitz, 1952) and the Capital Asset Pricing Model (CAPM)(Sharpe, 1964) were mentioned often and assumed by others. The Fama and French responses to the anomalies unexplained by the CAPM (Fama & French, 1995; 1992) were also mentioned by Harold Evensky, as was the Brinson Hood

Beebower (BHB) theory of asset allocation and portfolio performance (Brinson et al., 1995).

Modern Portfolio theory has been discussed extensively in the literature review as has the Capital Asset Pricing Model (CAPM). The Fama & French three-factor model basically recognizes that the Capital Asset Pricing Model is not sufficient to explain pricing behavior and adds additional factors. The three-factor model explains what are considered price anomalies in the CAPM in terms of book value, market equity, and size (Fama & French, 1996).

All of these theories are well-established in the field of corporate finance, and are used in portfolio construction. Both Markowitz (Markowitz, 1991) and Sharpe (Sharpe, 1997a) have written articles concerning problems in applying these theories of institutional finance to personal portfolios, but, since they give the best empirical guidance available, financial planners use them.

The Fama and French three-factor model was not mentioned by any interviewee other than Evensky and was not in the CFP Board survey, but it appears that this may be one of those topics that should be part of the body of knowledge. The Brinson Hood Beebower (BHB) portfolio performance theory (based on asset allocation) is mentioned in the CFP Board survey, but was not mentioned by any other interviewees. The BHB theory of portfolio performance states that in a group of pension portfolios, approximately 93% of the performance was due to asset allocation and extrapolates that finding to other long-term portfolios. It is used as a reason for passive investment and index investment strategies.

Interestingly, while Evensky has written an article on BHB in the *Journal of Investing* (Evensky, 2000) there was not a great deal of discussion of portfolio management by the interviewees. Despite the sometimes perception by the public that the primary function of a financial planner is to manage investment portfolios, to them, other aspects of financial planning were more important.

Articles in the financial planning literature, however, cite the BHB study frequently, and it appears to be widely accepted. Thus these are theories fundamental to the body of knowledge of financial planning, and at least Modern Portfolio Theory and the CAPM are used in application by financial planners. The BHB model is often mentioned in articles about retirement planning and pension investment.

Behavioral Finance

Behavioral finance theories were identified by interviewees as an important area of knowledge for financial planners. The concept most often mentioned was that clients did not always make rational decisions, particularly when they did not have a good grasp on the probable outcomes of alternative choices. This is interpreted as a manifestation of Prospect theory, the subject of the paper by Kahnemann and Tversky (1979) on the analysis of decision under uncertainty. While the concept of uncertainty affecting economic decisions was discussed in the economics literature as early as 1949 (Friedman, Goodwin, Modigliani, & Tobin), it was the Kahnemann and Tversky paper that identified the psychology that affects investor decisions in a systematic way. This was one of the new areas added to the CFP Board topic list as an addendum as a result of the 2004 survey. The addendum consisted of material that was identified as important on the CFP Board study but which was deemed by them as too difficult to test currently. The topics in the addendum were, however, encouraged for inclusion in CFP Board registered educational programs. Behavioral finance as a topic on which more knowledge was needed was mentioned frequently in the responses to the open-ended questions on the survey.

Life Cycle Finance & Permanent Income Hypothesis

Life Cycle Finance (Ando & Modigliani, 1963) and the Permanent Income hypothesis (Friedman, 1957) were identified as foundational theories of financial planning. These theories are closely related and are treated as givens in the discussions of personal financial planning with participants in this study. Based on utility analysis, the Modigliani-Brumberg hypothesis is that consumers maximize their utility based on the resources available to them currently in terms of net worth and on the basis of the present value of current and future earnings over their lifetimes. It was further expanded by Flavin (1981), who discussed how consumption changes based on changes in expectations of future income. Despite the long standing acceptance of this theory, it only appears by name in the Addendum of the new CFP Board Topic list even though it is assumed in retirement planning, which was rated as the second most important part of practice by survey participants (Montgomery, 2005).

This life cycle hypothesis explains why young people are willing to borrow what seem to be extravagant amounts of money to the despair of their parents. It and Friedman’s Permanent Income Hypothesis (1957) (which does not appear by name on the CFP Board topic list) explain why people save for retirement. Despite the lackluster validation by the CFP Board survey, the pervasive assumption by financial planners that one of the common goals of clients is to save for retirement (or financial independence, as it is sometimes called) is a manifestation of both of these theories,

Conclusions

The theories discussed in this paper represent a major portion of the foundational theories of financial planning, but due to the breadth of the study, not all theories could be explored or even identified in detail. As was outlined in the conceptual framework in Chapter 1, the theories that were articulated in this study came from multiple other fields and represent a very broad body of knowledge. Financial planning as a client-centered helping profession has concentrated primarily on pragmatic efforts to do the right thing for the client, rather than on academic theory. However, it has drawn theories from other professions to very good use. There appear to be ample sources for further borrowing from other disciplines to meet the goal of helping clients.

Despite the fact that this list is incomplete, it appears that there is a theoretical body of knowledge generally recognized by members of the profession. It also appears that the CFP Board of Standards topic list is a catalogue of most of that body of knowledge, and that its deficiencies are far outweighed by its usefulness as a basis for further academic studies.

One of the major findings of this study is that a comprehensive definition of financial planning was developed that encompassed all the concepts found in the interviews, the financial planning literature and the definition given by the CFP Board. The second major finding of this study is that the origins of the financial planning process in the field of strategy are now clear and those origins give the profession a fertile source of ideas to explore for application in financial planning. Finally, the study has filled a major gap in the development of financial planning as an advanced profession in that it has identified those theories and areas of knowledge that are generally recognized by members of the profession as the body of knowledge of the profession.

Recommendations

From the findings of this study, general recommendations are:

First, given the parallel nature of strategic planning and management with the financial planning profession, further review of the literature of the strategic management field could provide additional insights and theory that would further strengthen this area as foundational to the Financial Planning Profession.

Second, since the financial planning profession has matured and educational standards have been necessarily raised, the educational and academic preparation of Certified Financial Planners might benefit from greater incorporation of the theoretical foundations in the course of study. It is important for Certified Financial Planners to have a theoretical context in which to judge concepts and techniques so that they are better able to advise their clients.

Third, training in the practical aspects of running an ethical, efficient and profitable practice which have been largely ignored should be embraced. In addition to understanding of concepts of finance, the ethical management of a business is not only necessary to the planner for his or her own business, but is an area of expertise necessary to advise clients who own businesses. Many clients' personal financial well-being is inextricably entwined with the continuing prosperity of their businesses.

Fourth, knowledge of technology, in particular computer applications to planning, insurance and investment, is an essential skill of the professional financial planner. An effort to assure that planners understand and can use computer technology competently is in order. Since technology changes rapidly, it would make sense to add technology training as an acceptable topic for continuing education. The need for technology training was a repeated comment in the responses to the open ended questions on the CFP Board survey.

Fifth, in addition to the continuing education requirements of licensure, efforts should be made to instill the concept of life long learning and inquiry into candidates for the profession. Practitioners in any profession often have insights that can advance the theoretical knowledge base. Financial planners who see themselves as scholarly contributors to a profession would enhance the development of theories and ideas.

Recommendations for further research

There are a number of enhancements to the knowledge base that could be benefit from further research. Academics can examine the CFP Board topic list to identify further theoretical underpinnings, use it as a base for theoretical studies, and explore research in the contributing disciplines for how transplanted theories should be modified for best use in personal financial planning

For example, recognizing and documenting how differences in application of a theory from corporate finance to personal finance modify the original parameters of the theory is an important function that the academic community can perform in solidifying the theoretical construct on which professional financial planning is based.

The depth and breadth of knowledge required in the profession could benefit from identification based on academic research. One of the ways this is presently pursued is through the CFP Board Survey when it seeks topics for the certification examination. However, the survey is deterministic rather than exploratory. It does not attempt to identify new topics to any great degree, so it is a fertile source of empirical data about financial planning as it is practiced today but in the words of one of the pioneers "does not tell us what we are not doing that we should be doing."

A study of counseling techniques of highly regarded and successful financial planners might yield insights into principles that could be conveyed to the entire profession and tested on the examination. Once again, inquiry into the research already done in the counseling professions could be a point of departure for researchers in financial planning.

Although this study attempted to avoid biasing the participants by not presenting the entire educational list, rating of the 89 topics on the CFP Board educational list by either pioneers of the profession or financial planners with extensive experience would further define the theoretical basis of the profession.

Finally, since financial planning is the strategic management of the individual, family or small enterprise, research on using and adapting strategic management discoveries in the corporate world to individual clients could be explored by the academic community and adapted for these smaller economic entities and their specific requirements. Financial planners with well-honed strategic management skills, financial knowledge and concern for their clients would be able to give even more help to clients than they do today. The breadth and depth of knowledge required of a financial planner is staggering. Articulating the theories that form the foundation of the profession is but one step in making the profession stronger.

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APPENDIX A: STRUCTURED INTERVIEW FORMAT FOR PIONEERS OF THE PROFESSION

Interviewer: Thank you **______________**, for agreeing to be interviewed for this study. As you know, I am attempting to discover the theories that are foundational to financial planning and the sources from which they came. By theory, I am using the dictionary (Oxford English Dictionary Online, 2007) definition:

> "**3.** A conception or mental scheme of something to be done, or of the method of doing it; a systematic statement of rules or principles to be followed" and

> "**5.** In the abstract (without article): Systematic conception or statement of the principles of something; abstract knowledge, or the formulation of it: often used as implying more or less unsupported hypothesis (cf. 6): distinguished from or opposed to *practice* (cf. 4b). ***in theory*** (formerly ***in the theory***): according to theory, theoretically (opp. to *in practice* or *in fact*)." (Oxford English Dictionary Online, 2007)

Thus, the concepts behind a practice are the theory: The practice itself is an application.

I want you to know that I sincerely appreciate your taking the time to contribute to this project. I believe it will have a salutary effect on the profession by providing greater context in which to view it.

As I mentioned when I contacted you, I will be recording and writing down your answers *(depending on whether the interviewee said he or she was willing to be recorded)* so that what you say can be reported as accurately as possible. I will provide you a copy of the transcript or notes and if anything further comes to mind as a result of reading them you may let me know in the most convenient way for you.

The process will be fairly straightforward: I will ask questions and record your answers and follow-up at any point where I need clarification or wish to pose a follow-up question to obtain further understanding. It is possible that I may wish to quote from what you said in my research study. Please tell me if that is permissible and if you wish to be listed by name or would prefer to be listed as anonymous.

Before we get started on the questions about theory, can you tell me about yourself and how you became involved in financial planning?

Interviewee:

Interviewer: Is there anything else that you would like me to clarify before we get started?

Interviewee responds and any questions they ask are answered as briefly as possible.

Terrific – let's start by getting your ideas about what the most important theories underlying the practice of financial planning are. What are the most important theories from your point of view?

Interviewee: *(It is planned to give the person plenty of time to answer this question since that is how to assure that an important theoretical concept is not omitted because of the interview structure. If there is a concept unfamiliar to the interviewer, follow-up questions will be asked to make the topic as definitive as possible.)*

Interviewer: How do you define financial planning?

Interviewee:

Interviewer: What would you say is the most important financial planning theory or theories underlying your definition?

Interviewee:

i. **Interviewer:** Is there anything more you can say about this theory that would be helpful in putting financial planning into context?

   Interviewee:

ii. **Interviewer:** So you say that ___________is the most important theory? Why do you see it as being so important? What is there about it that makes if foundational to financial planning?

   Interviewee:

Interviewer: You also mentioned that ___________________________was important. Could you comment on why you think it is important and foundational to Financial Planning?

Interviewee:

Interviewer: You also mentioned that ___________________________was important. Could you comment on why you think it is important and foundational to Financial Planning?

Interviewee:

(Continue asking questions in this manner until the interviewee indicates that he/she has nothing more to add.)

Interviewer: That's interesting. Now, to make sure that we don't omit any important theories, I am going to ask you about each of the categories specified for the financial planning educational curriculum by the CFP Board. There are 89 topics on which the CFP® certification examination is based, plus a few more that were recently added but are not tested. Here is a chart showing the current topics. They are divided into seven categories that have been included for many years: General Principles, Risk Management, Employee Benefits, Investments, Personal and Business Taxation, Retirement Planning, Estate Planning, plus two new ones: Client Counseling and Communication, and Behavioral Aspects of Planning. *(At this point the interviewer will give interviewee a chart of these topics)*

Each of those categories has several topics. Since there are so many topics, to make the most of our time together, as I ask about each category, would you please tell me what you think is the most important theoretical aspect of that category with respect to financial planning? Also, could you tell me from what theoretical body of literature it was derived or if it is original to the financial planning field? Since there are many topics in each of the categories, we will focus on the topics in each category you consider important to the foundational theories of financial planning. If, at any time, you think that an important theoretical foundation concept has been left out of the list, please interject that item and tell me why you think it is important.

The first category is very broad and is called General Principles and Tools of Financial Planning. As you can see on the chart, this category includes the financial planning process, time value of money, ethics and standards of practice. Are any of the topics ones that you consider important to the foundational theories of financial planning?

Interviewee:

(As each category is introduced and the interviewee makes his or her response, the interviewer will give an encouraging but noncommittal response such as "That's interesting." "You feel that ------ (echoing what the interviewee has said)" "Where do you think that idea originated?" or "Thank you." The idea is to encourage the interviewee to expand on his or her choice without introducing bias from the researcher.)

When a source is mentioned for a particular theory, the question will be asked "What do you think are the similarities and differences of this theory in (field of origin) and in financial planning?

If the interviewee does not mention the financial planning process, the Interviewer may ask the following question:

Interviewer: The financial planning process is part of that category and is always mentioned in financial planning textbooks. What do you think is the theoretical origin of the financial planning process?

Interviewee:

Interviewer: Are there any other theories that you would consider important in the category of General Principles of Financial Planning?

Interviewee:

Interviewer: The second category is Risk Management and Insurance Planning. Which of the topics listed there do you consider to embody foundational theory for financial planning?

Interviewee:

Interviewer: You mentioned __________. From what field was this theory derived?

Interviewee:

Interviewer: "What do you think are the similarities and differences of this theory in (field of origin) and in financial planning?

Interviewer: The third category is Employee Benefits planning. *(The same pattern will be followed for each of the categories.)*

Interviewee:

Interviewer: Investment Planning and Portfolio Management

Interviewee:

Interviewer: Individual and Business Taxation

Interviewee:

Interviewer: Retirement Planning

Interviewee:

Interviewer: Estate Planning

Interviewee:

Interviewer: Client and Planner Attitudes, Values, Biases and Behavioral Characteristics and Impact on Financial Planning

Interviewee:

Interviewer: Principles of Communication and Counseling

Interviewee:

Interviewer: Thank you for your patience during that exhaustive survey. Since you are one of the people who were instrumental in the development of financial planning as a profession, do you have any papers, books or other materials that I could examine that would give me insight into how people were thinking in those years? Personal correspondence, old textbooks or study guides – any of those could be helpful. With your permission, I would scan them before returning them to you.

Interviewee:

Interviewer: I have only three more questions, and they concern practice and application of the theories that we already discussed.

Interviewer: What do you think that a typical financial planner does on a day-to-day basis?

Interviewee:

Interviewer: How do you think that the Certified Financial Planner® professionals use these theories in everyday life?

Interviewee:

Interviewer: Are there any other theoretical foundations to the financial planning profession that I did not ask you about? Or, do you have any other comments about the profession that you would like to make?

Interviewee:

Interviewer: If there is nothing more that you want to tell me, once again I want to thank you for your time and patience in participating in this interview. I hope that what we did here today will be instrumental in articulating the theoretical body of knowledge of the financial planning profession. If you think of anything at a later date that you think that I missed or should have been included, please feel free to call me.

APPENDIX B: LETTER REQUESTING INTERVIEW

The following letter was sent to individuals identified as pioneers of the profession by either e-mail or the U. S. Postal service, and then followed up by a telephone call for those for whom a telephone number was available. (On Capella letterhead)

(Inside address)

Dear -----

I am writing you to see if you will consent to a personal interview to discuss the theoretical background of financial planning and the financial planning process and the application of those theories. Your interview would part of a study for a Ph. D. dissertation at Capella University that I am currently doing. I would anticipate that the interview would take 1 to 2 hours.

This topic was chosen because it is something about which I feel passionately. I have more than 30 years experience in the field and have been a CFP® professional since 1987. I recently established and am running a CFP Board registered Master of Science in

Finance program, and am working on a Ph. D. primarily for the knowledge and scholarship, but also to make me a better professor in the field. Your input would be very important in advancing the body of knowledge of the profession.

This study will use more than one method. I plan to interview people who were instrumental in the genesis of financial planning as a profession and study professional literature and historical documents to discover the reasoning behind the original financial planning process. Finally, I will use the statistical results of the most recent job analysis survey by the CFP Board of Standards to ascertain to what extent the evolved financial planning process and theories that I discover are being used by CFP® professionals today.

According to what I have been able to learn from a search of the literature, my own knowledge, and suggestions from persons knowledgeable in the field, you were an important part of the development of financial planning as a profession in the early years from 1969 to 1984. I t is important to interview people who were active during that time frame, not just for a history of who did what, but for the purpose of learning what was in people's minds at the time. Only you, and your fellow pioneers can do that.

The reason for this study is that there has been very little in the academic literature about the theoretical background of financial planning and the financial planning process. This study could benefit the profession by providing a written theoretical basis for the components of the body of knowledge and practice of financial planning. Sociologists who have studied the characteristic of and the evolution of professions have identified having an articulated and generally recognized body of theoretical knowledge as one of the key traits of a profession.

Unfortunately, I would be unable to offer any monetary compensation for your time, but I would be most willing to provide you with a copy of the study at its conclusion. Since your personal contribution to the profession is well known, I would also request your permission to quote you in the published dissertation. If you prefer anonymity, I would still like to interview you and would pledge to keep your comments anonymous.

I will call you in a few days to answer any questions that you may have about this request, and, if you are amenable, to discuss when such an interview could take place. I live in New York City, but I am prepared to travel to your location to conduct the interview in person. If you wish to contact me, I can be reached at my practice, 877-815-3525, on my cell phone, 718-614-1450, or by e-mail at roverton@nyfinancial.com.

I realize that your time is valuable, but I sincerely hope that you will honor this request. I would like my dissertation to be what is supposed to be: a contribution to knowledge. Since the profession has supported me for so long, I would like that contribution to be to the financial planning profession.

Yours very truly,

Rosilyn H. Overton, MS, CFP®, CRPS, LTCP, RFC®

APPENDIX C: CFP BOARD OF STANDARDS, INC. TOPIC LIST FOR CERTIFICATION EXAMINATION

The Certified Financial Planner Board of Standards Inc. owns these certification marks in the U.5. which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements (CFP Board of Standards, 2005d). The rest of this appendix is an exact quote from the CFP Board of Standards document.

The following topics, based on the 2004 Job Analysis Study, are the basis for the CFP® Certification Examinations. Each exam question will be linked to one of the following topics, in the approximate percentages indicated following the general headings. Questions will pertain to all levels in Bloom's taxonomy with an emphasis on the higher cognitive levels. Questions often will be asked in the context of the financial planning process and presented in an integrative format.

In addition to being used for the CFP" Certification Examination, this list indicates topic coverage requirements to fulfill the pre-certification educational requirement. Continuing education (CE) programs and materials that address these topics will be eligible for CFP Board CE credit. (References to sections (§) in this list refer to sections of the Internal Revenue Code)

GENERAL PRINCIPLES OF FINANCIAL PLANNING (11%)

1 Financial planning process Purpose, benefits, and components

A. Steps

1. Establishing client-planner relationships
2. Gathering client data and determining goals and expectations
3. Determining the client's financial status by analyzing and evaluating general financial status, special needs, insurance and risk management, investments, taxation, employee benefits, retirement, and/or estate planning
4. Developing and presenting the financial plan
5. Implementing the financial plan
6. Monitoring the financial plan

b. Responsibilities

1. Financial planner
2. Client

3. Other advisors

2 CFP Board's Code of Ethics and Professional Responsibility and Disciplinary Rules and Procedures

A. Code of Ethics and Professional Responsibility

1) Preamble and applicability

2) Composition and scope

3) Compliance

4) Terminology

5) Principles

a) Principle 1 -Integrity

b) Principle 2 -Objectivity

c) Principle 3 -Competence

d) Principle 4 -Fairness

e) Principle 5 -Confidentiality

f) Principle 6 -Professionalism

g) Principle 7 -Diligence

6) Rules

7) B) Disciplinary Rules and Procedures

3 CFP Board's Financial Planning Practice Standards

A. Purpose and applicability

B. Content of each series (use most current Practice Standards, as posted on CFP Board's Web site at www.CFP.net)

C. Enforcement through Disciplinary Rules and Procedures

4 Financial statements

A. Personal

1) Statement of financial position

2) Statement of cash flow

B. Business

1) Balance sheet

2) Income statement

3) Statement of cash flows

4) Pro forma statements

5 Cash flow management

A. Budgeting

B. Emergency fund planning

C. Debt management ratios

1) Consumer debt

2) Housing costs

3) Total debt

D. Savings strategies

6 Financing strategies

A. Long-term vs. short-term debt

B. Secured vs. unsecured debt

C. Buy vs. lease/rent

D. Mortgage financing

1) Conventional vs. adjustable-rate mortgage (ARM)

2) Home equity loan and line of credit

3) Refinancing cost-benefit analysis

4) Reverse mortgage

7 Function, purpose, and regulation of financial institutions

A. Banks

B. Credit unions

C. Brokerage companies

D. Insurance companies

E. Mutual fund companies

F. Trust companies

8 Education planning

A. Funding

1) Needs analysis

2) Tax credits, adjustments and deductions

3) Funding strategies

4) Ownership of assets

5) Vehicles

a) Qualified tuition programs (§529 plans)

b) Coverdell Education Savings Accounts

c) Uniform Transfers to Minors Act (UTMA) and Uniform Gifts to Minors Act (UGMA) accounts

d) Savings bonds

B. Financial aid

9 Financial planning for special circumstances

A. Divorce

B. Disability

C. Terminal illness

D. Non-traditional families

E. Job change and job loss

F. Dependents with special needs

G. Monetary windfalls

10 Economic concepts

A. Supply and demand

B. Fiscal policy

C. Monetary policy

D. Economic indicators

E. Business cycles

F. Inflation, deflation, and stagflation

G. Yield curve

11 Time value of money concepts and calculations

A. Present value

B. Future value

C. Ordinary annuity and annuity due

D. Net present value (NPV)

E. Internal rate of return (IRR)

F. Uneven cash flows

G. Serial payments

12 Financial services regulations and requirements

A. Registration and licensing

B. Reporting

C. Compliance

D. State securities and insurance laws

13 Business law

A. Contracts

B. Agency

C. Fiduciary liability

14 Consumer protection laws

1) Bankruptcy

2) Fair credit reporting laws

3) Privacy policies

4) Identity theft protection

INSURANCE PLANNING AND RISK MANAGEMENT (14%)

15 Principles of risk and insurance

A. Definitions

B. Concepts

1) Peril

2) Hazard

3) Law of large numbers

4) Adverse selection

5) Insurable risks

6) Self-insurance

C. Risk management process

D. Response to risk

1) Risk control

a) Risk avoidance

b) Risk diversification

c) Risk reduction

2) Risk financing

a) Risk retention

b) Risk transfer

E. Legal aspects of insurance

1) Principle of indemnity

2) Insurable interest

3) Contract requirements

4) Contract characteristics

5) Policy ownership

6) Designation of beneficiary

16 Analysis and evaluation of risk exposures

A. Personal

1) Death

2) Disability

3) Poor health

4) Unemployment

5) Superannuation

B. Property

1) Real

2) Personal

3) Auto

C. Liability

1) Negligence

2) Intentional torts

3) Strict liability

D. Business-related

17 Property, casualty and liability insurance

A. Individual

1) Homeowners insurance

2) Auto insurance

3) Umbrella liability insurance

B. Business

1) Commercial liability insurance

a) Auto liability

b) Umbrella liability

c) Professional liability

d) Directors and officers liability

e) Workers' compensation and employers liability

18 Health insurance and health care cost management (individual)

A. Hospital, surgical, and physicians' expense insurance

B. Major medical insurance and calculation of benefits

C. Continuance and portability

D. Medicare

E. Taxation of premiums and benefits

19 Disability income insurance (individual)

A. Definitions of disability

B. Benefit period

C. Elimination period

D. Benefit amount

E. Provisions

F. Taxation of premiums and benefits

20 Long-term care insurance (individual)

A. Eligibility

B. Services covered

C. Medicare limitations

D. Benefit period

E. Elimination period

F. Benefit amount

G. Provisions

H. Taxation of premiums and benefits

21 Life insurance (individual)

A. Concepts and personal uses

B. Policy types

C. Contractual provisions

D. Dividend options

E. Nonforfeiture options

F. Settlement options

G. Illustrations

H. Policy replacement

I. Viatica1 and life settlements

22 Income taxation of life insurance

A. Dividends

B. Withdrawals and loans

C. Death benefits

D. Modified endowment contracts (MEC)

E. Transfer-for-value

F. §1035 exchanges

23 Business uses of insurance

A. Buy-sell agreements

B. Key employee life insurance

C. Split-dollar life insurance

D. Business overhead expense insurance

24 Insurance needs analysis

A. Life insurance

B. Disability income insurance

C. Long-term care insurance

D. Health insurance

E. Property insurance

F. Liability insurance

25 Insurance policy and company selection

A. Purpose of coverage

B. Duration of coverage

C. Participating or non-participating

D. Cost-benefit analysis

E. Company selection

1) Industry ratings

2) Underwriting

26 Annuities

A. Types

B. Uses

C. Taxation

EMPLOYEE BENEFITS PLANNING (8%)

27 Group life insurance

A. Types and basic provisions

1) Group term

2) Group permanent

3) Dependent coverage

B. Income tax implications

C. Employee benefit analysis and application

D. Conversion analysis

E. Carve-out plans

28 Group disability insurance

A. Types and basic provisions

1) Short-term coverage

2) Long-term coverage

B. Definitions of disability

C. lncome tax implications

D. Employee benefit analysis and application

E. Integration with other income

29 Group medical insurance

A. Types and basic provisions

1) Traditional indemnity

2) Managed care plans

a) Preferred provider organization (PPO)

b) Health maintenance organization (HMO)

c) Point-of-service (POS)

B. Income tax implications

C. Employee benefit analysis and application

D. COBRA/HIPAA provisions

E. Continuation

F. Savings accounts

1) Health savings account (HSA)

2) Archer medical savings account (MSA)

3) Health reimbursement arrangement (HRA)

30 Other employee benefits

A. §125 cafeteria plans and flexible spending accounts (FSAs)

B. Fringe benefits

C. Voluntary employees' beneficiary association (VEBA)

D. Prepaid legal services

E. Group long-term care insurance

F. Dental insurance

G. Vision insurance

31 Employee stock options

A. Basic provisions

1) Company restrictions

2) Transferability

3) Exercise price

4) Vesting

5) Expiration

6) Cashless exercise

B. Incentive stock options (ISOs)

1) lncome tax implications (regular, AMT, basis)

a) Upon grant

1. b)Upon exercise

2. c)Upon sale

2) Holding period requirements

3) Disqualifying dispositions

4) Planning opportunities and strategies

C. Non-qualified stock options (NSOs)

1) lncome tax implications (regular, AMT, basis)

a) Upon grant

b) Upon exercise

c) Upon sale

2) Gifting opportunities

a) Unvested/vested

b) Exercised/unexercised

c) Gift tax valuation

d) Payment of gift tax

3) Planning opportunities and strategies

4) Employee benefits analysis and application

D. Planning strategies for employees with both incentive and non-qualified stock options

E. Election to include in gross income in the year of transfer (§83(b) election)

32 Stock plans

A. Types and basic provisions

1) Restricted stock

2) Phantom stock

3) Stock appreciation rights (SARs)

4) Employee stock purchase plan (ESPP)

B. Income tax implications

C. Employee benefit analysis and application

D. Election to include in gross income in the year of transfer (§83(b) election)

33 Non-qualified deferred compensation

A. Basic provisions and differences from qualified plans

B. Types of plans and applications

1) Salary reduction plans

2) Salary continuation plans

3) Rabbi trusts

4) Secular trusts

C. Income tax implications

1) Constructive receipt

2) Substantial risk of forfeiture

3) Economic benefit doctrine

D. Funding methods

E. Strategies

INVESTMENT PLANNING (19%)

34 Characteristics, uses and taxation of investment vehicles

A. Cash and equivalents

1) Certificates of deposit

2) Money market funds

3) Treasury bills

4) Commercial paper

5) Banker's acceptances

6) Eurodollars

B. Individual bonds

1) U.S. Government bonds and agency securities

a) Treasury notes and bonds

b) Treasury STRIPS

c) Treasury inflation-protection securities (TIPS)

d) Series EE, HH, and Ibonds

e) Mortgage-backed securities

2) Zero-coupon bonds

3) Municipal bonds

a) General obligation

b) Revenue

4) Corporate bonds

a) Mortgage bond

b) Debenture

c) Investment grade

d) High-yield

e) Convertible

f) Callable

5) Foreign bonds

C. Promissory notes

D. Individual stocks

1) Common

2) Preferred

3) American depositary receipts (ADRs)

E. Pooled and managed investments

1) Exchange-traded funds (ETFs)

2) Unit investment trusts

3) Mutual funds

4) Closed-end investment companies

5) Index securities

6) Hedge funds

7) Limited partnerships

8) Privately managed accounts

9) Separately managed accounts

F. Guaranteed investment contracts (GICs)

G. Real Estate

1) Investor-managed

2) Real estate investment trusts (REITs)

3) Real estate limited partnerships (RELPs)

4) Real estate mortgage investment conduits (REMICs)

H. Alternative investments

1) Derivatives

a) Puts

b) Calls

c) Long-term Equity Anticipation Securities (LEAPS)

d) Futures

e) Warrants and rights

2) Tangible assets

a) Collectibles

b) Natural resources

c) Precious metals

35 Types of investment risk

A. Systematic/market/ non-diversifiable

B. Purchasing power

C. Interest rate

D. Unsystematic/non-market /diversifiable

E. Business

F. Financial

G. Liquidity and marketability

H. Reinvestment

I. Political (sovereign)

J. Exchange rate

K. Tax

L. Investment manager

36 Quantitative investment concepts

A. Distribution of returns

1) Normal distribution

2) Lognormal distribution

3) Skewness

4) Kurtosis

B. Correlation coefficient

C. Coefficient of determination (R2)

D. Coefficient of variation

E. Standard deviation

F. Beta

G. Covariance

H. Semivariance

37 Measures of investment returns

A. Simple vs. compound return

B. Geometric average vs. arithmetic average return

C. Time-weighted vs. dollar- weighted return

D. Real (inflation-adjusted) vs. nominal return

E. Total return

F. Risk-adjusted return

G. Holding period return

H. Internal rate of return (IRR)

I. Yield-to-maturity

J. Yield-to-call

K. Current yield

L. Taxable equivalent yield (TEY)

38 Bond and stock valuation concepts

A. Bond duration and convexity

B. Capitalized earnings

C. Dividend growth models

D. Ratio analysis

1) Price/earnings

2) Price/free cash flow

3) Price/sales

4) Price/earnings + growth (PEG)

E. Book value

39 Investment theory

A. Modern portfolio theory (MPT)

1) Capital market line (CML)

a) Mean-variance optimization

b) Efficient frontier

2) Security market line (SML)

B. Efficient market hypothesis (EMH)

1) Strong form

2) Semi-strong form

3) Weak form

4) Anomalies

C. Behavioral finance

40 Portfolio development and analysis

A. Fundamental analysis

1) Top-down analysis

2) Bottom-up analysis

3) Ratio analysis

a) Liquidity ratios

b) Activity ratios

c) Profitability ratios

d) Debt ratios

B. Technical analysis

1) Charting

2) Sentiment indicators

3) Flow of funds indicators

4) Market structure indicators

C. Investment policy statements

D. Appropriate benchmarks

E. Probability analysis, including Monte Carlo

F. Tax efficiency

1) Turnover

2) Timing of capital gains and losses

3) Wash sale rule

4) Qualified dividends

5) Tax-free income

G. Performance measures

1) Sharpe ratio

2) Treynor ratio

3) Jensen ratio

4) Information ratio

41 Investment strategies

A. Market timing

B. Passive investing (indexing)

C. Buy and hold

D. Portfolio immunization

E. Swaps and collars

F. Formula investing

1) Dollar cost averaging

2) Dividend reinvestment plans (DRIPS)

3) Bond ladders, bullets, and barbells

G. Use of leverage (margin)

H. Short selling

I. Hedging and option strategies

42 Asset allocation and portfolio diversification

A. Strategic asset allocation

B. Application of client lifecycle analysis

C. Client risk tolerance measurement and application

D. Asset class definition and correlation

1. Rebalancing

2. Tactical asset allocation

3. Control of volatility

4. Strategies for dealing with concentrated portfolios

43. Asset pricing models

A. Capital asset pricing model (CAPM)

B. Arbitrage pricing theory (APT)

C. Black-Scholes option valuation model

D. Binomial option pricing

INCOME TAX PLANNJNG (14%)

44. Income tax law fundamentals

A. Types of authority

1) Primary

2) Secondary

B. Research sources

45. Tax compliance

A. Filing requirements

B. Audits

C. Penalties

46. Income tax fundamentals and calculations

A. Filing status

B. Gross income

2. Inclusions

3. Exclusions

4. Imputed income

C. Adjustments

D. Standardlltemized deductions

1. Types

2. Limitations

E. Personal and dependency exemptions

F. Taxable income

G. Tax liability

1. Rate schedule

2. Kiddie tax

3. Self-employment tax

H. Tax credits

I. Payment of tax

1. Withholding

2. Estimated payments

47. Tax accounting

A. Accounting periods

B. Accounting methods

1) Cash receipts and disbursements

2) Accrual method

3) Hybrid method

4) Change in accounting method

D. Long-term contracts

E. Installment sales

F. Inventory valuation and flow methods

G. Net operating losses

48. Characteristics and income taxation of business entities

A. Entity types

1) Sole proprietorship

2) Partnerships

3) Limited liability company (LLC)

4) Corporations

5) Trust

6) Association

B. Taxation at entity and owner level

1) Formation

2) Flow through of income and losses

3) Special taxes

4) Distributions

5) Dissolution

6) Disposition

49. Income taxation of trusts and estates

A. General issues

1) Filing requirements

2) Deadlines

3) Choice of taxable year

4) Tax treatment of distributions

5) to beneficiaries

6) Rate structure

B. GrantorlNongrantor trusts

C. SimplelComplex trusts

D. Revocablellrrevocable trusts

E. Trust income

1) Trust accounting income

2) Trust taxable income

3) Distributable net income (DNI)

F. Estate income tax

50. Basis

A. Original basis

B. Adjusted basis

C. Amortization and accretion

D. Basis of property received by gift and in nontaxable transactions

E. Basis of inherited property (community and non-community

1) property)

51. Depreciation cost-recovery concepts

A. Modified Accelerated Cost Recovery System (MACRS)

B. Expensing policy

C. §179 deduction

D. Amortization

E. Depletion

52. Tax consequences of like-kind exchanges

A. Reporting requirements

B. Qualifying transactions

C. Liabilities

D. Boot

E. Related party transactions

53. Tax consequences of the disposition of property

A. Capital assets (51221)

B. Holding period

C. Sale of residence

D. Depreciation recapture

E. Related parties

F. Wash sales

G. Bargain sales

H. Section 1244 stock (small business stock election)

I. Installment sales

J. Involuntary conversions

54. Alternative minimum tax (AMT)

A. Mechanics

B. Preferences and adjustments

C. Exclusion items vs. deferral items

D. Credit: creation, usage, and limitations

E. Application to businesses and trusts

F. Planning strategies

55. Tax reduction management techniques

A. Tax credits

B. Accelerated deductions

C. Deferral of income

D. Intra-family transfers

56. Passive activity and at-risk rules

A. Definitions

B. Computations

C. Treatment of disallowed losses

D. Disposition of passive activities

E. Real estate exceptions

57. Tax implications of special circumstances

A. Married/widowed

1) Filing status

2) Children

3) Community and non- community property

B. Divorce

1) Alimony

2) Child support

3) Property division

58. Charitable contributions and deductions

A. Qualified entities

1) Public charities

2) Private charities

B. Deduction limitations

C. Carryover periods

D. Appreciated property

E. Non-deductible contributions

F. Appraisals

G. Substantiation requirements

H. Charitable contributions by business entities

RETIREMENT PLANNING (19%)

59. Retirement needs analysis

A. Assumptions for retirement planning

1) Inflation

2) Retirement period and life expectancy

3) Lifestyle

4) Total return

B. lncome sources

C. Financial needs

1) Living costs

2) Charitable and beneficiary gifting objectives

3) Medical costs, including long-term care needsanalysis

4) Other (trust and foundation funding, education funding, etc.)

D. Straight-line returns vs. probability analysis

E. Pure annuity vs. capital preservation

F. Alternatives to compensate for projected cash-flow shortfalls

60. Social Security (Old Age, Survivor, and Disability Insurance, OASDI)

A. Paying into the system

B. Eligibility and benefit 1imitations

C. How benefits are calculated

D. Working after retirement

E. Taxation of benefits

61. Types of retirement plans

A. Characteristics

1) Qualified plans

2) Non-qualified plans

B. Types and basic provisions of qualified plans

1) Defined contribution

a) Money purchase

b) Target benefit

C) Profit sharing

1) 401(k) plan

2) Safe harbor 401(k) plan

3) Age-based plan

4) Stock bonus plan

5) Employee stock

ownership plan (ESOP)

6) New comparability plan

7) Thrift plan

2) Defined benefit

a) Traditional

b) Cash balance

c) 412(i) plan

62. Qualified plan rules and options

A. Nondiscrimination and eligibility requirements

1) Age and service requirements

2) Coverage requirements

3) Minimum participation

4) Highly compensated employee (HCE)

5) permitted vesting schedules

6) ADPIACP testing

7) Controlled group

B. Integration with Social Security/disparity limits

1) Defined benefit plans

2) Defined contribution plans

C. Factors affecting contributions or benefits

1) Deduction limit (§404(c))

2) Defined contribution limits

3) Defined benefit limit

4) Annual compensation limit

5) Definition of compensation

6) Multiple plans

7) Special rules for self-employed (non-corporations)

D. Top-heavy plans

1) Definition

2) Key employee

3) Vesting

4) Effects on contributions or benefits

E. Loans from qualified plans

63. Other tax-advantaged retirement plans

A. Types and basic provisions

1) Traditional IRA

2) Roth IRA, including conversion analysis

3) SEP

4) SIMPLE

5) §403(b) plans

6) §457 plans

7) Keogh (HR-10) plans

64. Regulatory considerations

A. Employee Retirement Income Security Act (ERISA)

B. Department of Labor (DOL) regulations

C. Fiduciary liability issues

D. Prohibited transactions

E. Reporting requirements

65. Key factors affecting plan selection for businesses

A. Owner's personal objectives

1) Tax considerations

2) Capital needs at retirement

3) Capital needs at death

B. Business' objectives

1) Tax considerations

2) Administrative cost

3) Cash flow situation and outlook

4) Employee demographics

5) Comparison of defined contribution and defined benefit plan alternatives

66. Investment considerations for retirement plans

A. Suitability

B. Time horizon

C. Diversification

D. Fiduciary considerations

E. Unrelated business taxable income (UBTI)

F. Life insurance

G. Appropriate assets for tax- advantaged vs. taxable accounts

67. Distribution rules, alternatives, and taxation

A. Premature distributions

1) Penalties

2) Exceptions to penalties

3) Substantially equal payments (§72(t))

B. Election of distribution options

1) Lump sum distributions

2) Annuity options

3) Rollover

4) Direct transfer

C. Required minimum distributions

1) Rules

2) Calculations

3) Penalties

D. Beneficiary considerations/ Stretch lRAs

E. Qualified domestic relations order (QDRO)

F. Taxation of distributions

1) Tax management techniques

2) Net unrealized appreciation (NUN

ESTATE PLANNING (15%)

68. Characteristics and consequences of property titling

A. Community property vs. non- community property

B. Sole ownership

C. Joint tenancy with right of survivorship (JTWROS)

D. Tenancy by the entirety

E. Tenancy in common

F. Trust ownership

69. Methods of property transfer at death

A. Transfers through the probate process

1) Testamentary distribution

2) Intestate succession

3) Advantages and disadvantages of probate

4) Assets subject to probate estate

5) Probate avoidance strategies

6) Ancillary probate administration

B. Transfers by operation of law

C. Transfers through trusts

D. Transfers by contract

70. Estate planning documents

A. Wills

1) Legal requirements

2) Types of wills

3) Modifying or revoking a will

4) Avoiding will contests

B. Powers of Attorney

C. Trusts

D. Marital property agreements

E. Buy-sell agreements

71. Gifting strategies

A. Inter-vivos gifting

B. Gift-giving techniques and strategies

C. Appropriate gift property

D. Strategies for closely-held business owners

E. Gifts of present and future interests

F. Gifts to non-citizen spouses

G. Tax implications

1) lncome

2) Gift

3) Estate

4) Generation-skipping transfer tax (GSTT)

72. Gift tax compliance and tax calculation

A. Gift tax filing requirements

B. Calculation

1) Annual exclusion

2) Applicable credit amount

3) Gift splitting

4) Prior taxable gifts

5) Education and medical exclusions

6) Marital and charitable deductions

7) Tax liability

73. Incapacity planning

A. Definition of incapacity

B. Powers of attorney

1) For health care decisions

2) For asset management

3) Durable feature

4) Springing power

5) General or limited powers

C. Advance medical directives (e.g. living wills)

D. Guardianship and conservatorship

E. Revocable living trust

F. Medicaid planning

G. Special needs trust

74. Estate tax compliance and tax calculation

A. Estate tax filing requirements

B. The gross estate

1) Inclusions

2) Exclusions

C. Deductions

D. Adjusted gross estate

E. Deductions from the adjusted gross estate

F. Taxable estate

G. Adjusted taxable gifts

H. Tentative tax base

I. Tentative tax calculation

J. Credits

1) Gift tax payable

2) Applicable credit amount

3) Prior transfer credit

75. Sources for estate liquidity

A. Sale of assets

B. Life insurance

C. Loan

76. Powers of appointment

A. Use and purpose

B. General and special (limited) powers

1) 5-and-5 power

2) Crummey powers

3) Distributions for an ascertainable standard

4) Lapse of power

C. Tax implications

77. Types, features, and taxation of trusts

A. Classification

1) Simple and complex

2) Revocable and irrevocable

3) Inter-vivos and testamentary

B. Types and basic provisions

1) Totten trust

2) Spendthrift trust

3) Bypass trust

4) Marital trust

5) Qualified terminable interest property (QTIP) trust

6) Pour-over trust

7) §2503(b) trust

8) §2503(c) trust

9) Sprinkling provision

C. Trust beneficiaries: income and remainder

D. Rule against perpetuities

E. Estate and gift taxation

78. Qualified interest trusts

A. Grantor retained annuity trusts (GRATs)

B. Grantor retained unitrusts (GRUTs)

C. Qualified personal residence trusts (QPRTs or House-GRITS)

D. Valuation of qualified interests

79. Charitable transfers

A. Outright gifts

B. Charitable remainder trusts

1) Unitrusts (CRUTs)

2) Annuity trusts (CRATs)

C. Charitable lead trusts

1) Unitrusts (CLUTs)

2) Annuity trusts (CLATs)

D. Charitable gift annuities

E. Pooled income funds

F. Private foundations

G. Donor advised funds

H. Estate and gift taxation

80. Use of life insurance in estate planning

A. Incidents of ownership

B. Ownership and beneficiary considerations

C. Irrevocable life insurance trust (ILIT)

D. Estate and gift taxation

81. Valuation issues

A. Estate freezes

1) Corporate and partnership recapitalizations (§2701)

2) Transfers in trust

B. Valuation discounts for business interests

1) Minority discounts

2) Marketability discounts

3) Blockage discounts

4) Key person discounts

C. Valuation techniques and the federal gross estate

82. Marital deduction

A. Requirements

B. Qualifying transfers

C. Terminable interest rule and exceptions

D. Qualified domestic trust (QDOT)

83. Deferral and minimization of estate taxes

A. Exclusion of property from the gross estate

B. Lifetime gifting strategies

C. Marital deduction and bypass trust planning

D. Inter vivos and testamentary charitable gifts

84. Intra-family and other business transfer techniques

A. Characteristics

B. Techniques

1) Buy-sell agreement

2) Installment note

3) Self-canceling installment note (SCIN)

4) Private annuity

5) Transfers in trust

6) Intra-family loan

7) Bargain sale

8) Gift or sale leaseback

9) Intentionally defective grantor trust

10) Family limited partnership (FLP) or limited liability company (LLC)

C. Federal income, gift, estate, and generation-skipping transfer tax implications

85) Generation-skipping transfer tax (GSTT)

A. Identify transfers subject to the GSTT

1) Direct skips

2) Taxable distributions

3) Taxable terminations

B. Exemptions and exclusions from the GSTT

1) The GSTT exemption

2) Qualifying annual exclusion gifts and direct transfers

86. Fiduciaries

A. Types of fiduciaries

1) Executor/Personal representative

2) Trustee

3) Guardian

B. Duties of fiduciaries

C. Breach of fiduciary duties

87. Income in respect of a decedent (IRD)

A. Assets qualifying as IRD

B. Calculation for IRD deduction

C. Income tax treatment

88. Postmortem estate planning techniques

A. Alternate valuation date

B. Qualified disclaimer

C. Deferral of estate tax (§6166)

D. Corporate stock redemption (§303)

E. Special use valuation (§2032A)

89. Estate planning for non-traditional relationships

A. Children of another relationship

B. Cohabitation

C. Adoption

D. Same-sex relationships

The following topics are an addendum to the Topic List for CFP Certification Examination. Although individuals taking the CFP® Certification Examination will not be tested directly over these topics, CFP Board registered programs are strongly encouraged to teach them in their curricula) Continuing education (CE) programs and materials that address these topics will be eligible for CFP Board CE credit.

ADDENDUM

1. Client and planner attitudes, values, biases and behavioral characteristics and the impact on financial planning

    A. Cultural

    B. Family (e.g. biological; non- traditional)

    C. Emotional

    D. Life cycle and age

    E. Client's level of knowledge, experience, and expertise

    F. Risk tolerance

    G. Values driven planning

2. Principles of communication and counseling

    A. Types of structured communication

        1) Interviewing

        2) Counseling

        3) Advising

    B. Essentials in financial counseling

        1) Establishing structure

2) Creating rapport

3) Recognizing resistance

C. Characteristics of effective counselors

1) Unconditional positive regard

2) Accurate empathy

3) Genuineness and self- awareness

D. Nonverbal behaviors

1) Body positions, movements, and gestures

2) Facial expressions and eye contact

3) Voice tone and pitch

4) Interpreting the meaning of nonverbal behaviors

E. Attending and listening skills

1) Physical attending

2) Active listening

3) Responding during active listening; leading responses

F. Effective use of questions

1) Appropriate types of questions

2) Ineffective and counterproductive questioning techniques

APPENDIX D. QUESTIONS IN THE CFP BOARD OF STANDARDS INC. SPONSORED SURVEY OF CFP® PRACTITIONERS CONDUCTED BY THOMSON PROMEDIA

Note: The survey, in its entirety and in the individual questions, and the results of the survey, are the property of the CFP Board of Standards, Inc., are copyrighted and are used with its permission. The formatting is that of the actual survey, which was administered online.

Demographic Questions

1. For how many years have you been a CFP® practitioner?

Response
Less than 2 years
2-5 years
6-10 years
11-15 years
16 or more years

2. For how long have you been a financial planner -- both before and after becoming a CFP® practitioner?

Response

Less than 2 years
2-5 years
6-10 years
11-15 years
16 or more years

Response
Accounting firm
Bank or savings & loan institution
Credit union
Educational institution
Financial planning firm
Government agency or SRO
Human resources organization
Insurance company
Law firm
Real estate agency
Registered Investment Adviser firm
Securities/brokerage firm
Tax preparation and advice company
Other[1]

4. Which of the following best describes your areas of expertise? (Select all that apply.)

Response
Comprehensive financial planning
Employee benefits
Estate planning
Investment planning
Income tax planning
Retirement planning
Risk Management and Insurance Planning

5. What categories of clients do you serve in your practice?

5a. Client Types. (Select all that apply.)

Response
Couples in second marriage
Divorcees
Elderly individuals
Married couples, with children
Married couples, without children
Recipients of windfall
Retirees
Same-sex couples
Sandwich generation individuals
Single parent/grandparent
Surviving spouses
Other[1]

5b. Client occupations. (Select all that apply.)

Response
Agricultural professionals
Athletes/entertainers
Closely-held business owners
Educators
Entrepreneurs
Executives and managers
Government employees
Professionals
Other[1]

Rank Item
Asset management
Retirement planning
Comprehensive planning
Investment planning
Estate planning
Insurance planning
Income tax planning
Employee benefits planning
Educational planning

Elder issues planning
Charitable planning
Other
Divorce planning
Terminal illness planning

7. What percentage of your work time do you spend performing any of the financial planning activities listed in Item #6?

Response
Less than 25%
25%-50%
51%-75%
More than 75%

8. What are your methods of compensation? (Select all that apply.)

Response
Fee only
Commission only
Fee and commission
Fee offset

Salary
Other[1]

9. What is your gross income form your financial planning practice or employment?

Response
Less than $25,000
$25,000 - $50,000
$50,001 - $75,000
$75,001 - $100,000
$100,001 - $150,000
$150,001 - $200,000
$200,001 - $300,000
$300,001 - $500,000
More than $500,000

10. Which one of the following represents your highest educational attainment?

Response
High school diploma
Associate degree
Bachelor's degree
Master's degree

Doctoral degree
Juris Doctorate degree
Other[1]

11. In which geographic region do you primarily work?

Response
New England (CT, MA, ME, NH, RI, VT)
Middle Atlantic (NJ, NY, PA)
South Atlantic (DC, DE, FL, GA, MD, NC, SC, VA, WV)
East North Central (IL, IN, MI, OH, WI)
East South Central (AL, KY, MS, TN)
West North Central (IA, KS, MN, MO, ND, NE, SD)
West South Central (AR, LA, OK, TX)
Mountain (AZ, CO, ID, MT, NM, NV, UT, WY)
Pacific (AK, CA, HI, OR, WA)
Other[1]

12. What is your age?

Response
20-29
30-39
40-49
50-59

60-69
70-79
80 and over

13. What is your gender?

Response
Female
Male

14. What is your ethnicity?

Response
American Indian or Alaska Native
Asian
Black or African American
Hispanic or Latino (of any race)
White
Other[1]

Questions about Tasks

Topic Area 1: General Principles of Financial Planning (Topics 1 to 25)
1. financial planning process, including purpose, value and benefits; steps; responsibilities (financial planner; client; other professionals)
2. CFP Board's Code of Ethics and Professional Responsibility
3. CFP Board's Disciplinary Rules and Procedures
4. CFP Board's Financial Planning Practice Standards

5. financial planner's liability (e.g., errors and omissions; malpractice; professional liability insurance)

6. financial statements:

--6a. personal (e.g., income and expense; statement of financial position)

--6b. business (e.g., balance sheet; cash flow; pro forma)

7. cash flow management including budgeting, emergency funds and consumer debt

8. financing strategies (e.g., long-term debt; buy vs. lease; housing; business)

9. financial institutions (e.g., banks; credit unions; brokerage companies; insurance companies; mutual fund companies; trust companies)

10. savings strategies (e.g., automatic; investments; dollar cost averaging; influencing client behavior)

11. Client attitudes, values, biases and behavioral characteristics and the impact on financial planning:

--11a. cultural

--11b. family (e.g., biological; nontraditional)

--11c. emotional

--11d. life cycle and age

--11e. client's level of knowledge, experience and expertise

--11f. risk tolerance

--11g. values-driven planning (e.g., financial life planning; holistic planning)

12. planner's self awareness and biases (e.g., attitudes; values; beliefs) and impact on financial planning

13. principles of communication and counseling (e.g., active listening; motivating; coaching)

14. Educational planning:

--14a. educational funding (e.g., needs analysis; tax credits and deductions; funding strategies and investment vehicles)

--14b. financial aid (e.g, grants; scholarships; government loans; work-study programs)

15. financial planning for special circumstances (e.g., divorce; disabilities; non-traditional families; career transition; special needs)

16. economic concepts (e.g., fiscal; monetary and economic policy; business cycles; economic indicators)

17. time value of money concepts and calculations

18. business entities including selection of business form, acquisition and disposition, tax and legal characteristics

19. property titling (e.g., common law vs. community property; joint ownership; trusts)

20. financial services regulations (e.g., reporting; compliance; registration; licensing)

21. consumer protection laws (e.g., bankruptcy; fair credit reporting laws; privacy policies; identity protection)

22. business law (e.g., fiduciary liability; contracts; agency; professional liability)

23. quantitative analysis (e.g., probability analysis; modeling and simulation; sensitivity analysis)

24. monetary settlement planning (e.g., structured settlements; lottery winnings)

25. structuring the disposition of an asset (e.g., a business; real estate; collectible)

Topic Area 2: Risk Management and Insurance Planning (Topics 26 to 39)

26. principles of insurance (e.g., concepts; definitions; response to risk; legal aspects)

27. risk exposures (e.g., insurance on the person; property; liability; business related; needs analysis; uninsurable risks)

28. Property, casualty and liability insurance:

--28a. individual

--28b. business

29. health insurance and healthcare cost management (individual)

30. disability income insurance (individual)

31. long-term care insurance and cost management (individual and joint)

32. life insurance definitions, types, policy provisions, illustrations and concepts

33. personal uses of life insurance (e.g., income protection; college funding; retirement funding; asset protection)

34. business uses of life insurance (e.g., key person; buy-sell; split dollar; collateral)

35. viatical and life settlements

36. insurance needs analysis for all insurance lines

37. tax aspects of insurance

38. insurance policy selection

39. insurance company selection and due diligence

Topic Area 3: Employee Benefits Planning (Topics 40 to 46)

40. employee benefit plans (e.g., group life; group disability insurance; group medical insurance)

41. COBRA provisions

42. cafeteria plans and flexible spending accounts

43. other employee benefits (e.g., fringe benefits; group long-term care insurance; dental insurance; vision insurance; executive/owner benefits)

44. employee stock options (e.g., basic provisions; Incentive Stock Options [ISOs]; non-qualified stock options; planning strategies)

45. stock plans (Employee Stock Purchase Plan [ESPP]; phantom stock and other employee stock plans)

46. non-qualified deferred compensation (e.g., basic provisions and differences from qualified plans and types of plans and applications)

Topic Area 4: Investment Planning (Topics 47 to 57)

47. Characteristics, uses and taxation of investment vehicles:

--47a. cash and equivalents (e.g., certificates of deposit; money market)

--47b. individual bonds (e.g, US Government; Agency; municipal and corporate bonds; promissory notes; asset-backed securities)

--47c. individual stocks (e.g., common; preferred; warrants; ADRs)

--47d. pooled and managed investments (e.g., exchange traded funds; unit trusts; open-end and closed-end investment companies; indexed securities)

--47e. insurance based investments (e.g., Guaranteed Investment Contracts [GICs]; annuities)

--47f. real estate (e.g., Real Estate Investments Trusts [REITs], investor managed; limited partnerships)

--47g. separately managed accounts

--47h. alternative investments:

47h1. hedge funds

47h2. tangible assets (e.g., collectibles; art)

47h3. derivatives

47h4. limited partnerships

47h5. natural resources and commodities

48. types of investment risk (e.g., diversifiable vs. nondiversifiable; currency; sovereign)

49. measures of investment risk (e.g., beta; covariance; standard deviation)

50. measures of investment returns (e.g., IRR; real return; yield to call)

51. bond valuation (e.g., duration; convexity)

52. stock valuation (e.g., dividend growth; PEG)

53. investment theory (e.g., Modern Portfolio Theory [MPT]; Efficient Market Hypothesis; behavioral finance)

54. portfolio development and analysis (e.g., policy statements; ratios; benchmarks; tax efficiency)

55. investment strategies (e.g., dollar cost averaging; portfolio distribution; indexing; buy and hold; hedging and options; laddering; use of leverage)

56. asset allocation and portfolio diversification (e.g., asset class weighting; sub-asset class weighting; correlations; control of volatility)

57. asset pricing models (e.g., Capital Asset Pricing Model [CAPM]; option pricing model [Black-Scholes])

Topic Area 5: Income Tax Planning (Topics 58 to 73)

58. income tax law fundamentals (e.g., tax research; sources of authority)

59. income tax fundamentals, calculations and compliance

60. tax accounting methods (e.g., cash; accrual)

61. tax characteristics of entities (e.g., LLC; S corporation; C corporation)

62. income taxation of trusts and estates

63. basis (e.g., cost; step-up; carryover; community property)

64. depreciation/cost-recovery concepts (e.g., MACRS; Section 179; amortization)

65. tax consequences of like-kind exchanges

66. tax consequences of gain or loss on sale of assets

67. Alternative Minimum Tax (AMT)

68. tax reduction/management techniques (e.g., deferral and acceleration; maximization of exclusions and credits; installment sales; stock options)

69. passive activity and at-risk rules

70. tax implications of special circumstances (e.g., marriage; divorce; death)

71. charitable contributions and deductions

72. taxation of retirement plans

73. taxation of employee benefits

Topic Area 6: Retirement Planning (Topics 74 to 81)

74. retirement needs analysis (e.g., assumptions for retirement planning; expenses; income sources; alternatives to address cash-flow shortfalls)

75. Social Security (e.g., eligibility; benefits; working after retirement; taxation)

76. Medicare/Medicaid (e.g., eligibility; coverage provided by Parts A and B; benefits covered by Medicare; Medigap)

77. qualified plans (e.g., types; characteristics; rules; selection process; options/benefits; communication)

78. qualified plan rules and options

79. other tax-advantaged retirement plans (e.g., traditional IRA; Roth IRA, including conversion analysis; SEP; SIMPLE; §403(b) plans; §457 plans)

80. regulatory considerations (e.g., Employee Retirement Income Security Act [ERISA]; Department of Labor [DOL] regulations; fiduciary obligations; prohibited transactions; reporting requirements)

81. distribution rules, alternatives and taxation (e.g., premature distributions; election of distribution options; required minimum distributions; beneficiary considerations; Qualified Domestic Relations Order [QDRO]; taxation of distributions)

Topic Area 7: Estate Planning (Topics 82 to 103)

82. methods of property transfer at death (e.g., probate; title; contract)

83. estate planning documents (e.g., wills; trusts)

84. gifting strategies (e.g., annual exclusion; taxable gifts)

85. gift taxation and compliance

86. incapacity planning (e.g., power of attorney; revocable trust; medical directives)

87. estate tax calculation and compliance

88. estate liquidity needs

89. powers of appointment (e.g., general; special)

90. types, features and taxation of trusts

91. qualified interest trusts (e.g., GRATS; GRUTS; QPRTS)

92. charitable giving tools and techniques (e.g., CRTs; CLTs; family foundations)

93. use of life insurance in estate planning

94. valuation issues (e.g., minority/marketability discounts)

95. marital deduction (e.g., non-citizen spouse; QTIPS)

96. deferral and minimization of estate taxes

97. intra-family and other business transfer techniques (e.g., buy-sell agreements; self-cancelling installment notes; private annuities)

98. disposition of estate

99. Generation-Skipping Transfer Tax (GSTT)

100. fiduciary responsibilities

101. Income in Respect of a Decedent (IRD) (e.g., retirement plans)

102. postmortem planning techniques

103. estate planning for non-traditional relationships