Theories Of The Financial Planning Profession

Rosilyn H. Overton, Ph.D., CFP®, RFC®
Assistant Professor
New Jersey City University

Abstract

Although it appears that a theoretical body of knowledge for the Financial Planning Profession has always existed, until recently theory was not often explored as such, and there was no written common understanding or agreement on the theoretical basis of the financial planning profession. A survey of the financial planning literature over the past 50 years was performed, and certain basic theories from many existing disciplines were identified, although their application in personal financial planning has sometimes resulted in modifications. The theories identified from the literature were compared with the financial planning educational topics list of the CFP Board of Standards and the core financial planning process was explored in detail. A definition of financial planning as values and goals-driven strategic management of the client's financial resources was fashioned and the financial planning process as the strategic planning process applied to the financial and economic resources of the person or family was also defined.

Financial planning has matured and grown more technical over the past decades. Although it appears that a theoretical body of knowledge has always existed, until recently theory was not often explored as such, and there was no written common understanding or agreement on the theoretical basis of the financial planning profession.

In the study that follows, it becomes clear that the planner is using analysis of financial resources, internal and external environmental constraints and theories from many disciplines to devise a financial strategy. Literature in several of these disciplines was explored to identify theories that appear relevant to financial planning. A definition of financial planning as values and goals-driven strategic management of the client's financial resources was fashioned, and the financial planning process was identified as the strategic

planning process applied to the financial and economic resources of the person or family. The financial planner emerges as an outsourced CFO for the individual or family enterprise.

First, those financial planning articles that discussed financial planning theory per se over the past 50 years were examined chronologically and the theories suggested by those authors identified, articulated and compared to what is available in the financial planning literature. Next, the important core financial planning process was analyzed separately. 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 (2005) was explored to identify, insofar as possible, the theories that contribute to that category.

Articles Concerning Financial Planning Theory *per se*

Few articles were found that identified themselves as discussing financial planning theory. The most comprehensive article 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. Altfest 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).

Margaret Reid and Dorothy S. Brady are considered to be two of the leaders of modern home economics. In the 1930s, home economics started to focus less on domestic arts and more on consumption economics, although there are examples of financial planning in earlier home economics literature as well. Like them, many home economists were either professors of economics or government economists (Grossbard-Shechtman, 2001). Research in the Hearth archives in the Cornell library reveals many examples of early literature on financial planning. This early literature, despite the economics background of its authors, was largely pragmatic and did not concern theory.

This background resulted in the long-standing inclusion of advice on consumer economics in Department of Agriculture programs, and financial

planning programs in the human sciences departments of universities. Yet, financial planning as the profession is currently seen, traces its origins to a meeting of financial services executives in Chicago in 1969. Thus, there are two traditions that contribute to financial planning today: one from the consumer economics field, and the other from the finance and financial services field.

Becker and Decisions Within the Family

Gary Becker taught at Columbia from 1957–1968 (Becker, 1993) before returning to the University of Chicago in 1969. He was a theoretical economist who applied economics to decisions within the family (Becker, 1974a, 1974b, 1988, 1992), calling it the New Home Economics. While Becker and the original home economists both looked upon the family as a production unit as well as a consumption unit, Becker was primarily concerned with the impact of family decisions on macroeconomics and national policy. The original home economists, however, in addition to conducting government studies on cost of living and expenditures, applied their chosen field of economics as a microeconomic exercise, seeking to maximize production and make the economic processes more efficient and profitable for the managers of that family.

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. While at Columbia, 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. He recognized that 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). Since Becker was an economic theorist, in those early years 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 on the national economy and society.

Later Becker 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). 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 conse-

quent need for life insurance on the homemaker who does not earn a wage, originates in Becker's ideas on time as a resource. 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 early 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 (Modigliani & Brumberg, 1954). This premise would explain the almost universal consumption beyond their means by young people, not in terms of immaturity but in their high expectations. This hypothesis has far-reaching implications for the national economy, one of which is that how much the population of a nation saves does not depend on actual national income, but on the public's perceived rate of growth of national income, since it assumes its own income will grow accordingly.

Milton Friedman in 1957 presented the Permanent Income Hypothesis, which is similar to Modigliani's work. 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 is the basic premise on which financial planning bases retirement planning, turning the premise from an economic theory of how people will naturally behave into a guideline. Textbooks in financial planning implicitly use Modigliani's theory when doing capital needs analysis to determine the amount 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 a financial planner who is trying to maximize the utility of the economic and

financial resources of one client. An article that combines in its assumptions both Becker's theories of decision making 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 retirement (Lahey, Kim, & Newman, 2003) 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 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 supports Altfest's (2004) assertion that financial planning is firmly grounded in economic theory.

Modern Portfolio Theory and the Capital Asset Pricing Model

Modern Portfolio Theory (MPT) (Markowitz, 1952) is another foundational theory (Black Jr., Ciccotello, & Skipper Jr., 2002). MPT is a normative theory that asserts that investors should 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 is simple, but application requires many variations and refinements to accommodate circumstances and can be quite difficult to achieve.

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). These three statistics are the cornerstones of most implementation of MPT. Foreshadowing today's focus on income distribution in retirement, 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).

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. The CAPM decomposes the risk of an investment into two kinds of risk, systematic and specific. 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 on an asset (the expected rate of return on the asset minus the rate of return of a riskless asset) is proportional to its beta, a measure of the sensitivity of a security's rate of return relative to changes in the overall market. 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, in addition to the assumption that the investor performs mean–variance analysis. 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. In the financial planning literature, one discussion listed seven assumptions that should be remembered when applying the CAPM (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 the results are less dramatic. While some recent articles using three-factor theory (Pollock, 2007) tend to confirm asset allocation as the primary driver of investment performance, there are also challenges to the fundamental conclusions of the Brinson, Hood and Beebower article (Jahnke, 2003), so the jury is still out on active vs. passive management.

For example, 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 a 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.

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, 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 theory and 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 Modigliani's and Becker's theories as being foundational theories of financial planning.

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 probably represents most if not all of the most common financial planning theories. 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 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). There are two more categories in the latest topic list (CFP Board of Standards, 2005), but not much variance over 36 years. An alternative method of organizing and integrating financial planning theory was suggested by Robinson (2000). He states that a good technique for teaching personal finance is to address it from four aspects of neo-classical economics: utility maximization, goal-directed planning, risk management, and the family life cycle, all of which provide a

theoretical framework. He also discussed aspects of personal financial planning that fall outside the four conceptual frameworks. Those aspects appear to be related to behavioral economics and sociological characteristics such as gender, race and culture. Although these conceptual frameworks have merit from a theoretical point of view, particularly when searching for foundational theories, the CFP Board Educational Topics list is used because it has a long history, has been refined by many planners over the years, and is more recognized.

As can be seen from the broad nature of the original curriculum and its 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. This integration was emphasized as a key benefit of the financial planner professional by Dunton (1986) and in early College of Financial Planning study guides (College for Financial Planning, 1986).

The nine subject categories gave the structural framework to the remaining exploration of theoretical origins of financial planning. Not every topic within each of the categories was addressed. Selection is 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.

Financial Planning as Strategic Management: The Financial Planning Process

"The financial planning process is the goal and values driven strategic management of the client's financial resources, a derivative of the strategic planning process that is well known in both the organization and management field and the finance literature" (Overton, 2007). This assertion of origin appears even more likely when an examination is made of the business literature of the time when the financial planning process was conceived. If the financial planning process is a special form of strategic planning and strategic management, then 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 immediately be used to further refine the financial planning process.

As recently as 2005, strategic planning for the family business was the topic of an article in the *Journal of Financial Planning* (Jaffe, 2005). When the business environment of the late 1960s is examined, when financial planning was founded, it is clear how strategic planning evolved into financial planning. According to Lerner (1999), in the 1960s and 1970s corporate America was "obsessed" with strategic planning. 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 dealing with the problem of strategic plans being ignored by managers was also published in 1968 (Hekimian & Mintzberg).

In the same year, an article describing the problems of the strategic planner appeared in *Harvard Business Revi*ew (Mainer, 1968). Ansoff's classic *Toward a Strategic Theory of the Firm* was published in 1969, building on earlier work by Chandler (1962). The interest in strategic planning and its attendant process continued throughout the 1970s. 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 6 months before the meeting that established the financial planning profession and the CERTIFIED FINANCIAL PLANNER™ certification, 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." (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 personal financial resources would be a seamless transition. Interviews with founders who attended the meeting that founded the Certified Financial Planner™ certification and the College for Financial Planning have confirmed that fact (Overton, 2007).

One of the most important techniques transferred from strategic planning was 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 the steps of each process. Based on these comparisons, the origin of the financial planning process is evident.

Table 1
Comparison of Strategic Planning and Financial Planning Processes

Strategic Planning Process (Bourgeois III, 1980)	Financial Planning Process (CFP Board of Standards, 2006)(omits establishing the client relationship)
Environmental Scanning:	Gathering data, including goals.
Objective Setting	
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 recommendations.	Monitoring the financial planning

Criticisms of Strategic Planning and Their Applicability to Financial Planning

As an application of strategic planning, the financial planning profession can benefit from the years of research into the strategic planning process. The criticisms of strategic planning as a theoretical process, including Mintzberg's declaration of strategic planning's death in the *Rise and Fall of Strategic Planning* (1994) and prior works, must also be met by financial planning. Opposing Mintzberg's view 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).

As the evolution of strategic planning into strategic management and strategic thinking occurred, similar changes were occurring in the financial planning process. These changes occurred in the financial planning field internally and were accepted without a change of name.

The controversy between Mintzberg and Ansoff started in the mid-1960s. 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. 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 idea that consultants are brought in and, after investigation, formulate a plan and present it to the management of the organization, who then put it on a shelf and ignore it.

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, a financial plan, because of its personal nature, is constantly re-adjusted and the relationship with the financial planner usually continues over a 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.

The Evolution of Financial Planning to Strategic Financial Thinking

In professional personal financial planning, where the management of financial resources is itself the product, the financial planner continues to work with 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 the chief financial officer of the management team of the family or individual, and works to make sure that financial decisions are made consistent with client values and goals that were identified earlier. This is a key distinction and is evidence of strategic thinking. It exemplifies using the plan to guide not only decisions but also the thinking process 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 (2003) quotes from Mintzberg (1994) and calls for the

financial planning profession to incorporate into the professional body of knowledge a number of topics, some of which were: "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." (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, a controversial but extremely thorough method of scenario analysis, has also been the subject of many articles (Boinske, 2003; Booth, 2004; Kautt & Wieland, 2001; Tezel, 2004).

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 today's strategic planning is to a certain extent semantic when compared to planning practice.

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, 2000). Note that by 1980, Bourgeois had also incorporated monitoring outcomes into his version of the strategic planning process (Bourgeois III, 1980). 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).

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. Once again, 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 reviews to monitor and make adjustments to a 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. In the words of one author, “Strategic planning isn’t dead – it changed” (Wilson, 1994). Wilson asserts that strategic planning has evolved into a viable system of strategic management (or strategic thinking) after surviving its earlier design flaws.

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. 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, and (e) intelligently opportunistic. Financial planning meets all these criteria.

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 the financial planner seeks to optimize a client’s resources to meet the client’s goals. Scenario analysis, a common financial planning technique, is an example of 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, which 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 the added value that a financial planner renders to the client. Strategic thinking is intuitive and creative, looking for ingenious and innovative ways to achieve goals (Liedtka, 1998). It is not only knowledge but also creative use of that knowledge to achieve the client’s goals. 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.

Thus it is evident that the financial planning process is the value and goal-driven application of theories of strategic planning and strategic management to the financial affairs of individuals, families and closely-held businesses. The financial planning process, a foundational theory of financial planning, is firmly grounded in strategic management theory and financial planning uses theories of strategic thinking.

General Principles of Financial Planning

The other topics in the General Principles of Financial Planning category can now be addressed. This category 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, 2005). While this is a miscellaneous category, many of the topics included are extremely important.

Personal Financial Statements

Personal Financial Statements are basic analytical tools 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) follows 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). 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 throughout its history. In the 1980s, the College for Financial Planning had a list of factors to consider in an analysis of resources that included human capital 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 the lease vs. buy decision for autos and interest rates on home mortgages have become cocktail party conversation, the study of financing strategies within the family or small business is increasingly relevant. These issues are discussed in the family resource management literature and in the financial management literature as well. The decision to lease or purchase equipment is familiar to corporate financial managers. Most of the discussions center 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 on 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. In addition to straight time value of money issues, 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 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.

Insurance Planning and Risk Management

This category 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 (CFP Board of Standards, 2005).

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 a 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 are 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 affect 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 meet 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 in 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). 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.

Employee Benefits Planning

This category 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, 2005). From the employer's point of view, the purpose of employee benefits is to attract and retain high-quality employees. Employee benefits professionals tend to focus on maximizing benefits at the lowest cost to the employer.

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

Most laypeople first associate financial planning with investments. This category 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, 2005) (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 are clearly financial planning problems and not corporate finance.

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 and deep stock market decline that started in March 2001 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 principal.

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, despite the fact that early losses or gains have the most impact on future income. This idea was challenged by Samuelson's germinal paper (1969), which pointed out that Modern Portfolio Theory as outlined in Markowitz's 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 (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.

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. Understanding risk tolerance over time is critical to financial planning professionals, but which conclusion is correct is still unclear. Booth's article (2004) implicitly assumed that Monte Carlo analysis is well-known and used by financial planners.

Monte Carlo simulation is a 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. In the types of simulations 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.

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.

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. Once again note that wide swings in valuation of the portfolio can be disastrous for an individual. 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 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.

The Efficient Market Hypothesis

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, a heroic

assumption, 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.

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." This is in direct contrast to the theory that forms the foundation of the index fund industry that arose from the famous Brinson, Hood and Beebower article (1986). On the active side, 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 continues. Regardless of what the ultimate answer to the questions concerning active and passive investment strategies may be, each investor has to make a decision concerning which strategy he or she will choose (Keane, 1986).

Modern Portfolio Theory, the Capital Asset Pricing Model, and capital markets theory are only the beginning of the investment knowledge required of a financial planner and form part of the theoretical body of knowledge of the profession.

Income Tax Planning

This category 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, with an array of additional topics and subtopics (CFP Board of Standards, 2005). This topic is largely dependent on tax laws and regulations.

Tax is not theoretical per se, but rather a matter of applying the rules set by the legislature. Tax topics fit into financial planning 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 category covers retirement planning from 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 (CFP Board of Standards, 2005).

The differences in the handling of risk and 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, e.g., the lifetime income hypothesis and Modigliani's life cycle theory, have already been fully discussed.

An interesting aspect of retirement planning, theories about a reliable income stream in retirement years, has been the focus of numerous articles as the baby boom generation has started reaching retirement age (Olsen, 2006; Opiela, 2004;Robinson, 2007; Sharpe, 1997). Fullmer (2007) posited that Modern Portfolio Theory was inadequate to develop a strategy for "decumulation," and proposed "a new multiple-period, cash-flow-based investment framework that incorporates a dynamic asset allocation strategy and uses the cost of lifetime annuitization as a 'hurdle' for managing longevity risk."

Estate Planning

This category, which is fraught with legal, tax and emotional concerns for the client, 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 are myriad. Obviously, many of the theories and techniques of estate planning come from the fields of law, insurance, and risk management. 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

Although almost all planners recognize that clients' emotional and attitudinal factors affect the financial planner's attempts to optimize the use of financial resources, this topic was not addressed in the list of educational topics in much of the history of financial planning. There is increasing recognition of the counseling and educational nature of the client-planner relationship and the awareness of emotional issues on financial behavior. 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. After taking on lower importance for a number of years in which the profession concentrated on quantitative methods, the part played by behavioral and attitudinal characteristics of both the client and the planner in the success of the plan is increasingly recognized (Connelly, 1997; Matson, 2002; Schooley & Worden, 2003). There was, however, 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* (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).

Whether or not investor sentiment affects the market as a whole as Lo and Lin (2005) 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. 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 (1979) original article in *Econometrica* was an examination of how economic decisions are made in risk situations 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 one field to the practitioners in another.

A recent article (Campbell, 2006) suggests that one explanation for poor choices in household finance is lack of education and knowledge. He even asserts that there may be a subsidy of the better educated and more affluent households who have knowledge by the less informed and poorer households. This would occur because those households do not take advantage of strategies such as refinancing

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. Behavioral finance and behavioral economics have identified several reasons why people make these poor decisions – anchoring, framing, 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 and this is an area for further research. The attitude of the client towards risk is one of the key factors in determining the optimum strategy for that client.

Principles of Communication and Counseling

This is the second of the two new categories. 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, genuineness and self-awareness; nonverbal behaviors; attending and listening skills; and effective use of questions (CFP Board of Standards, 2005). This area of expertise owes much to psychology, sociology and management and organizational behavior. Historically, 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. It was the item most mentioned in the open-ended responses to the 2004 Job Analysis Survey sponsored by the CFP Board (Overton, 2007). 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.

Conclusion

It has been shown in this study that financial planning is the value and goals driven application of strategic management to the client's financial and economic resources, and that the financial planning process is an adaptation of the strategic planning process to the client's financial and economic goals. Furthermore, the theoretical body of knowledge of financial planning represents the integration into a comprehensive whole of a variety of theories from multiple disciplines. Finally, further research is needed into the behavioral and communication aspects of financial planning, and analysis of financial planning theory is an area in which there are many opportunities for further research.

References

Abel, M. W. H. (1921). 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. Retrieved September 15, 2005, from http://hearth.library.cornell.edu/cgi/t/text/text-idx?c=hearth;idno=4302817

Alexander, N. (1998). Seven steps to judging life insurance. *Journal of Accountancy, 186*(1), 20.

Altfest, L. (2004). Personal financial planning: Origins, developments and a plan for future direction. *American Economist, 48*(2), 53-60.

Ansoff, H. I. (1965). *Corporate strategy*. New York: McGraw-Hill.

Ansoff, H. I. (1977). The state of practice in planning systems. *Sloan Management Review, 18*(2), 1.

Ansoff, H. I. (1987). The emerging paradigm of strategic behavior. *Strategic Management Journal, 8*(6), 501.

Ansoff, H. I. (1988). *The new corporate strategy*. New York: Wiley and Sons.

Ansoff, H. I., & Mintzberg, H. (1991). Critique of Henry Mintzberg's 'the design school: Reconsider. *Strategic Management Journal, 12*(6), 449.

Attanasio, O. P., & Brugiavini, A. (2003). Social security and households' saving. *Quarterly Journal of Economics, 118*(3), 1075-1119.

Barens, K., & Morris, T. W. (2003). Tax changes to executive life insurance benefits. *CPA Journal, 73*(3), 10.

Becker, G. S. (1965). A theory of the allocation of time. *Economic Journal, 75*(299), 493-517.

Becker, G. S. (1974a). On the relevance of the new economics of the family. *American Economic Review, 64*(2), 317.

Becker, G. S. (1974b). A theory of marriage: Part II. *Journal of Political Economy, 82*(2), 11.

Becker, G. S. (1988). Family economics and macro behavior. *American Economic Review, 78*(1), 1.

Becker, G. S. (1992). A treatise on the family (enlarged edition) (book). *Journal of Economic Studies, 19*(2), 66.

Becker, G. S., & Tomes, N. (1976). Child endowments and the quantity and quality of children. *Journal of Political Economy, 84*(4), 143.

Becker, G. S., & Tomes, N. (1986). Human capital and the rise and fall of families. *Journal of Labor Economics, 4*(3), 1.

Belsky, G., & Gilovich, T. (2000). *Why smart people make big money mistakes — and how to correct them: Lessons from the new science of behavioral economics.* (1st ed.). New York: Simon & Schuster.

Black, F., Jensen, M., & Scholes, M. (1972). The capital-asset pricing model: Some empirical tests. In M. Jensen (Ed.), *Studies in the theories of capital markets*. New York: Praeger.

Black Jr., K., Ciccotello, C. S., & Skipper Jr., H. D. (2002). Issues in comprehensive personal financial planning. *Financial Services Review, 11*(1), 1.

Boinske, C. P. (2003). How much can I spend? *Journal of Financial Service Professionals, 57*(1), 33.

Booth, L. (2004). Formulating retirement targets and the impact of time horizon on asset allocation. *Financial Services Review, 13*(1), 1-17.

Bourgeois III, L. J. (1980). Strategy and environment: A conceptual integration. *Academy of Management Review, 5*(1), 25.

Brandon Jr., E. D., & Welch, H. O. (2003). History of the development of the financial planning movement into a profession. Retrieved May 12, 2005, from http://www.fphistoryproject.org/

Brinson, G. P., Hood, L. R., & Beebower, G. L. (1986). Determinants of portfolio performance. *Financial Analysts Journal, 42*(4), 39-44.

Brinson, G. P., Hood, L. R., & Beebower, G. L. (1995). Determinants of portfolio performance. *Financial Analysts Journal, 51*(1), 133.

Burkhart, P., & Reuss, S. (1993). *Successful strategic planning: A guide for nonprofit agencies and organizations*. Newbury Park, CA: SAGE Publications.

Carosa, C. (2005). Passive investing: The emperor exposed? *Journal of Financial Planning, 18*(10), 54-62.

CFP Board of Standards. (2005, August 4, 2005). Topic list for CFP® certification. Retrieved September 20, 2005, from http://www.cfp.net/downloads/Financial%20Planning%20Topics%202006.pdf

CFP Board of Standards. (2006). Financial planning process. Retrieved June 21, 2006, from http://www.cfp.net/learn/knowledgebase.asp?id=2

Chandler, A. (1962). *Strategy and structure: Chapters in the history of the industrial enterprise*. Cambridge, MA: MIT Press.

College for Financial Planning. (1986). *CFP I - study guide*. Denver, CO: College for Financial Planning.

Connelly, T. J. (1997). The rational irrational behavior hypothesis. *Journal of Financial Planning, 10*(2), 32.

Connelly, T. J. (1998). Is non-normal normal? *Journal of Financial Planning, 11*(4), 30.

Cumbie, G. (2003). Where's the planning in financial planning? *Journal of Financial Planning, 16*(1), 21-22.

Dalton, M. (2003). *Retirement planning and employee benefits* (2nd ed.). St. Lucie, LA: ME (Money Education).

Dalton, M., Dalton, J., Cangelosi, R., Guttery, R., & Wasserman, S. (2003). *Personal financial planning theory and practice* (3rd ed.). St. Rose, LA: Bisys Education Services.

Daryanani, G., & Cordaro, C. (2005). Asset location; a generic framework for maximizing after-tax wealth. *Journal of Financial Planning, 18*(1), 44-54.

Dunton, L. (1986). *The financial planner: A new professional...Yesterday — today — tomorrow*. Chicago: Longman Financial Services Publishing, Inc.

Elger, J. F. (2003). Calculating life insurance need: Don't let the tools fool you. *Journal of Financial Service Professionals, 57*(3), 38.

Evensky, H. (2005). The future ain't what it used to be. *Journal of Financial Service Professionals, 59*(1), 16-18.

Friedman, M. (1976). Milton Friedman autobiography. In A. Lindbeck (Ed.), *Nobel lectures, economics 1969-1980* (pp. 1992). Singapore: World Scientific Publishing Co.

Gibbs, W. B. (1968). The elements of strategic planning., *Banking* (Vol. 60, pp. 91): Simmons Boardman Publishing Corp.

Gilmore, F. F. (1966). Strategic planning's threat to small business., *California Management Review* (Vol. 9, pp. 43): California Management Review.

Godfrey III, J. E. (2001). Life insurance. *CPA Journal, 71*(9), 41.

Goodman, M. (2002). Applications of actuarial math to financial planning. *Journal of Financial Planning, 15*(9), 96-102.

Grossbard-Shechtman, S. (2001). The new home economics at Colombia and Chicago. *Feminist Economics, 7*(3), 103-130.

Haas, D. R. (2000). Agent to advisor: A worthy path. *Advisor Today, 95*(6), 52.

Hall, M., & Lawson, J. (2003). Using the Baldridge criteria to assess strategic planning: A case study. *Journal for Quality & Participation, 26*(2), 36.

Hekimian, J. S., & Mintzberg, H. (1968). The planning dilemma there is a way out. *Management Review, 57*(5), 4.

Hogan, P. H., & Kroeger, B. (2005). The college planning smorgasbord. *Journal of Financial Planning, 18*(7), 40-45.

Israelsen, C. L. (2001). Alpha beta soup. *Financial Planning, 31*(1), 59.

Jaffe, D. T. (2005). Strategic planning for the family in business. *Journal of Financial Planning, 18*(3), 50-56.

Kahneman, D., & Riepe, M. W. (1998). Aspects of investor psychology. *Journal of Portfolio Management, 24*(4), 52.

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica, 47*(2), 263.

Kautt, G., & Wieland, F. (2001). Modeling the future: The full Monte, the Latin hypercube and other curiosities. *Journal of Financial Planning, 14*(12), 78.

Keane, S. M. (1986). The efficient market hypothesis on trial. *Financial Analysts Journal, 42*(2), 58-63.

Kinsman, M. D., & Samuelson, B. (1987). Personal financial statements: Valuation challenges and solutions. *Journal of Accountancy, 164*(3), 138-148.

Kotlikoff, L. J., Spivak, A., & Summers, L. H. (1982). The adequacy of savings. *American Economic Review, 72*(5), 1056.

Lahey, K. E., Kim, D., & Newman, M. L. (2003). Household income, asset allocation, and the retirement decision. *Financial Services Review, 12*(3), 219-238.

Larsen, J. E. (2004). The impact of loan rates on direct real estate investment holding period return. *Financial Services Review, 13*(2), 111-121.

Leimberg, S. R., Satinsky, M. J., LeClair, R. T., & Doyle Jr., R. J. (2002). *The tools and techniques of financial planning* (6th ed.). Cincinnati, OH: The National Underwriter Company.

Lerner, A. (1999). Brief history of strategic planning. *Dynamic environmental scan: Resources for strategic thinking and decision making.* Retrieved December 10, 2004, from http://www.des.calstate.edu/history.html

Liedtka, J. M. (1998). Linking strategic thinking with strategic planning. *Strategy & Leadership, 26*(4), 30.

Lo, W.-C., & Lin, K.-J. (2005). A review of the effects of investor sentiment on financial markets: Implications for investors. *International Journal of Management, 22*(4), 708-715.

Mainer, R. (1968). The case of the stymied strategist. *Harvard Business Review, 46*(3), 36.

Malkiel, B. (2004). *A random walk down Wall Street: Completely revised and updated eighth edition*: W. W. Norton & Company.

Markowitz, H. (1952). Portfolio selection. *Journal of Finance, 7*(1), 77.

Markowitz, H. (1991). Individual vs institutional investing. *Financial Services Review, 1*(1), 1-8.

Markowitz, H. (2005). Market efficiency: A theoretical distinction and so what? *Financial Analysts Journal, 61*(5), 17-30.

Mason, R. O. (1969). A dialectical approach to strategic planning. *Management Science (pre-1986), 15*(8), 403.

Matson, M. (2002). Investor peace of mind - raising investor consciousness. *Personal Financial Planning Monthly, 2*(4), 9.

Mintzberg, H. (1967). The science of strategy-making. *Industrial Management Review, 8*(2), 71.

Mintzberg, H. (1990). The design school: Reconsidering the basic premises of strategic planning. *Strategic Management Journal, 11*(3), 171.

Mintzberg, H. (1994). *The rise and fall of strategic planning.* New York: The Free Press.

Mintzberg, H., Ahlstrand, B., & Lampel, J. (1998). *Strategy safari: A guided tour through the wilds of strategic management.* (1st Edition ed.): Free Press.

Mittra, S., Kirkman, J., & Seifert, G. (2002). *Practicing financial planning for professionals* (7th ed.). Rochester Hills, MI: RH Publishing.

Modigliani, F., & Brumberg, R. (1954). Utility analysis and the consumption function: An interpretation of cross section data. In K.Kurihara (Ed.), *Post keynesian economics.* New Brunswick, NJ: Rutgers University Press.

Morrow, E. (1994). Charting the planning process. *Journal of Financial Planning, 7*(2), 56.

Nawrocki, D. (1997). Capital market theory: Is it relevant to practitioners? *Journal of Financial Planning, 10*(5), 97-102.

Nawrocki, D. N. (1996). Apocalypse revisited: Do you know where your optimizer is at night? *Journal of Financial Planning, 9*(6), 68.

Nickols, F., & Ledgerwood, R. (2006). The goals grid as a tool for strategic planning. *Consulting to Management - C2M, 17*(1), 36-38.

Opiela, N. (2001). Tough choices: Helping parents save for college and retirement. *Journal of Financial Planning, 14*(6), 68.

Opiela, N. (2002). Tax-efficient investing: Easing the bite in a down market. (cover story). *Journal of Financial Planning, 15*(1), 50.

Opiela, N. (2004). Retirement distributions: Creating a limitless income stream for an 'unknowable longevity'. *Journal of Financial Planning, 17*(2), 36-41.

Overton, R. (2007). *An empirical study of financial planning theory and applications.* Unpublished Dissertation, Capella University, Minneapolis, MN.

Oviatt, B. M. (1989). Caveats concerning application of the capital asset pricing model in the strategic management concept. *Academy of Management Proceedings*, 37-41.

Riepe, M. W. (2000). How important is a mutual fund's tax efficiency? *Journal of Financial Planning, 13*(8), 42-44.

Rose, J. A. (2004). A four-step formula for strategic planning. *Commercial Law Bulletin, 19*(5), 30.

Ross, S. E., Westerfield, R. W., & Jordan, B. D. (2004). *Essentials of corporate finance* (4th ed.). New York: McGraw Hill.

Samuelson, P. A. (1969). Lifetime portfolio selection by dynamic stochastic programming. *Review of Economics and Statistics, 51*, 239-246.

Schoeni, R. F. (1997). Private interhousehold transfers of money and time: New empirical evidence. *Review of Income & Wealth, 43*(4), 423-448.

Schooley, D. K., & Worden, D. D. (2003). Generation X: Understanding their risk tolerance and investment behavior. *Journal of Financial Planning, 16*(9), 58-63.

Sharpe, W. F. (1964). Capital asset prices: A theory of market equilibrium under conditions of risk. *Journal of Finance, 19*(3), 425.

Spitzer, J. J., & Singh, S. (2003). Asset allocation in the presence of varying returns, contribution scenarios and investment horizons. *Journal of Financial Planning, 16*(4), 62-73.

Storms, P. (2000). Mortgage mythology. *Journal of Financial Planning, 13*(4), 46-48.

Tezel, A. (2004). Sustainable retirement withdrawals. *Journal of Financial Planning, 17*(7), 52-57.

Tobin, J. (1958). Liquidity preferences as behavior toward risk. *The Review of Economic Studies, 25*(February), 65-86.

Torre, N. G., & Rudd, A. (2004). The portfolio management problem of individual investors. *Journal of Wealth Management, 7*(1), 56-63.

Vaughan, E., & Vaughan, T. (2002). *Fundamentals of risk and insurance* (9th ed.). New York: John Wiley.

Warren, C. S., Reeves, J. M., & Duchac, J. (2006). *Accounting* (22 ed.): South-Western College Publishing.

Washer, K. M., & Nippani, S. (2004). Human capital and the balance sheet. *Financial Counseling and Planning, 15*(1), 13-20.

Wilson, I. (1994). Strategic planning isn't dead — it changed. *Long Range Planning, 27*(4).

Contact Information: Rosilyn H. Overton, Ph.D., CFP®, RFC®, Assistant Professor, New Jersey City University, 2039 John F. Kennedy Blvd., Jersey City, NJ 07305; Phone: 201-200-3353; Fax: 201-200-3242; E-mail: roverton@njcu.edu