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Planning in the Post-2009 Recessionary World

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As we are hopefully beginning to see signs of a sustained economic recovery, it's time for our profession to begin to think about ourselves as planners for ourselves and for our clients. This will not be an easy task for many, be it emotional or financial. To be successful, we must take honest and thoughtful dialogue and it will take new approaches to planning and investing for our clients. It may require approaching "tried-and-true" strategies and techniques.

This article is an effort to really open up the dialogue for all of us within the financial planning community. I fully expect there will be different ideas and viewpoints. The goal is to consciously and productively move forward in ways that will work best for us all.

I believe that there are a number of strategies and ideas, many of which are already being used, that could be beneficial in the future. Here are some of the possibilities that each of us can consider:

- Financial advice businesses need to change.
- Financial planners must set the example by having their own financial house in order, first.
- Investment advice will no longer be enough; planners need to go back to offering true financial planning.
- Life planning must become a more integral part of financial planning, if not the core of the work we do.
- More sophisticated risk tolerance tools should be used, but planners must be prepared to get creative in integrating risk tolerance with financial planning goals.
- It is time to manage client portfolios based on goals, not just risk tolerance.
- Managing scarcity and get-rich-quick strategies will be critical.
- Client first, planner's ego second.

Financial Advice Businesses Need To Change

Let's begin with the first concept: Financial advice businesses need to change. Note the reference to business, not practice. We are not practicing at this work, although many of us may be feeling like that after the confusion had in late 2008 and early 2009. A business needs to thoughtfully consider its market, its process, its pricing structure, and its

structured to support the owner, staff, and clients. Unfortunately, many of us have been "practicing" by having just fallen in Michael Gerber's *eMyth*, and then found ourselves with a poorly run business.

Advisers, and often women advisers in particular, do not see their practice or business as even having a value (often called : just supports your current income needs) that could be sold. If we can't see the value of our businesses, how can we advise businesses?

Business coaching programs such as Strategic Coach can provide the beginnings of an awareness and the tools to truly see : begin running them in a thoughtful and productive way that not only better supports our goals and needs, but also delivers : experience to our clients.

Is It Time To Revisit Compensation Models?

Then, there is the idea of building a business around results you can't fully control. Isn't it time to revisit compensation mod planners to be paid based on assets under management-something that you only have partial control (at best) over? So, wh clients, redoing their plans, providing advice in areas beyond investments, the investment portfolio is determining your com an outdated and a poor business strategy. Who would run their business this way? Would you advise a business owner clien us do it year after year.

If you are committed to the "middle income" client, perhaps an hourly with flat fee minimums or project fee approach is bes clients, isn't it time to consider annual retainer fees that cover the non-investment and outside investment strategy advice t

If we are to become the successful profession that many of us long to be recognized as, then it's time to start thinking more are paid for our time and expertise and stop basing it on factors that are beyond our control. One caveat: should you decide less dependent on AUM fees, you may miss out on some of the upside. You will also miss out on some of the downside and v consistent (no layoffs or reductions in service in tough times) and valuable business. Although it may be a bit early to consic about a change in fee structure right now, although some planners are at least setting bottoms or minimums to their AUM fe business owner-to begin thinking about and planning for a change later this year or in 2010. Just remember ... if you are no cannot help your clients.

Do You Walk the Walk?

Just as we need to be able to speak from a place of integrity to business owners, we also need to be able to speak from a pl clients regarding the importance of financial planning.

For the last couple of years, Rick Kahler has been spreading the word and challenging planners to do their own work by hirir reasons why this is an important step in providing solid, authentic advice to our clients as well as running a smart business. the process of having to go to someone else and bear our financial soul, how can we possibly understand what the client exp to pay a reasonable fee for financial planning advice, how can we ask our clients to do the same?

Do we really think heart surgeons do their own work? Sure, they know what needs to be done and how it should be done, bi for a reason, and neither should we. It is a learning experience to be in the client's seat, especially when you bring your spo the process. Often you deal with objections ("Can't you do this yourself?") just as our clients experience at home. There is o especially for us, since shouldn't we have our house in order? Now, imagine the power of being able to say that you have pa advice. Yes, it can be a challenging experience, but you really believe in the process and are in much better shape as a resu financial planners need to "put our oxygen masks on first" if we hope to be in business to help our clients.

Finally, as owners of financial planning businesses, we can learn a lot from our colleagues. Sometimes it's what we experien client that helps us decide what we won't tolerate in our businesses anymore in terms of lack of process or follow-up in our c times, it's what we can positively learn and incorporate into our work with clients to improve the experience and advice we p is just a smart business strategy, but we all know that the benefits go far beyond that.

Return to Your Financial Planning Roots

What are we offering to our clients as financial planners? How many of us have strayed from our financial planning roots? No clients need financial planning. Actually, it will take "creative" financial planning. What is creative financial planning? It means to understand what's truly most important to our clients. Perhaps there will be goals that have never been discussed in our relationships. It will take a more conscious approach to money on the part of the client. Their relationship with money will not be deliberate.

We, as planners, will need to be more aware of our biases. How will we accomplish that? Life planning offers a possibility for us to have strayed from financial planning because honestly, it just isn't fun. We like meeting with the clients, but beyond the plan drains our energy and we don't do a good or complete job at it.

As a student of human behavior and how we instinctively take action based on my work with the KOLBE assessment tool, I think although we may believe in financial planning and want to provide this service, we may not be cut out to provide it. So what do we do? Hire someone to do it, outsource it, or partner with an associate in your business.

The same is true of life planning. Now, more than ever, we will need to have difficult conversations with clients about their life. What do they really want out of life now and in the future? What are they committed to or not willing to give up? Do they have a relationship with money, or are they using money to fill unmet emotional needs? If we are to successfully be of service to our clients, these conversations will happen. Planners can choose to be trained to have these conversations, or they can partner with others to provide this complex service. Planners need to learn to be aware of their own biases and be able to handle the inevitably difficult choices that our clients will face. We are still focused on traditional financial planning goals. It's time to go back to our roots, but at the same time, to add a new dimension of understanding.

Reassess Risk Tolerance

There has been much early discussion about the need to reassess our client's risk tolerance, and I wholeheartedly agree with the response that many have felt, it seems appropriate to consider more sophisticated behavioral-related tools such as Finmetrics. So, what are we as planners going to say to our clients if their risk tolerance is lower and the goals become more challenging?

With the assumption of lower returns to more adequately fit their risk tolerance, we will all need to be more creative in finding solutions that are truly most important to the client. There is also likely to be a higher level of financial discipline required to meet the client's needs. How do we have that conversation? Perhaps it will no longer be appropriate to lump all of the client's money together and manage it based on a single goal to meet multiple goals. The whole discussion of the trade-offs of lower risk will become critical in working with our clients. Will we use more proactive investment strategies to manage the risk, and protect against the downside? I fully expect the debate to get heated.

Consider Goals-Based Investing

So, perhaps a one-size-fits-all approach to portfolio management will no longer be prudent for clients with multiple goals. An idea that has been around for awhile, now seems like an ideal time to openly consider it. In short, the idea pioneered by SEI Investments suggested that many clients tend to think of their financial goals and the money to fund them in discreet "pools" or pots. Each goal is mentally or literally earmarked for a particular goal such as college education, retirement, second home, or emergency. Given that each goal has a different timeline, and in many cases, a different level of importance, they should not all be managed in a singular fashion. This is a goals-based investment strategy.

In reality, we all know that there are separate 401(k) and IRA retirement accounts, and separate 529 accounts, but how do we manage asset allocation across the board in all accounts? What happens when you have clients actively taking withdrawals all from a single account that has gone down 40 percent? What if you had managed the college education funds more conservatively since they are needed in the near future, versus the truly long-term retirement assets?

As you can imagine, the accounts that are needed sooner for shorter-term goals would not have decreased as much in value over time. This strategy would be more likely to meet all or most of the goal originally set out by the client. Although this strategy is more complicated,

quality system for keeping track of varied goals and investment strategies, there are certainly tools such as virtual accounts that can help keep it visually together for you and the client. In the end, isn't this about meeting the client's needs not just making it easy?

Should you venture into the goals-based world of investing then you will also need to be prepared to have a different kind of relationship about performance. Whether you beat the market or even a standard benchmark becomes irrelevant. What is critical is whether the return required (based on the financial planning analysis that has been run) to satisfy the goal. You go from "living by the sword" or performance-driven performance relationships with clients, to ones that are based on meeting more controllable goals.

Finally, goals-based investing is also about a partnership with the client. They work (save) in partnership with us (invest) to reach the goal. This kind of approach with a client will require some more work, but should also result in less liability for the planner responsible for the end result as well.

Beware Get-Rich-Quick Schemes

As the capital markets start to improve, there will inevitably be get-rich-quick schemes that invade the investing public's imagination and "rescue" from the loss of wealth that most of us have faced. At the same time, there will also be clients who are unable to get back into the stock market, thus almost guaranteeing that they will not meet their goals and will be without resources. How will we address this?

It will be important for us, as financial professionals, not to be sucked into the quick rescue of our assets under management by our own ego-driven fears. Sure, there may be places to add a small amount of an asset class that will have added a positive "edge," but it is imperative that we maintain a creative prudence in our advice and actions. It's time that we learn to balance for our clients between "make big returns quick to make up for what we lost" and the idea of "slow and steady" wins the race. How many of us really want to get back on the roller coaster again? Competition for the best returns also seems outdated. Building relationships to assist clients in achieving their *goals*, not just meet/exceed an arbitrary benchmark seems to make sense both for ethical and business management reasons.

Clients First, Egos Second

And finally, there is the obvious and basic statement that our work needs to be centered on the client, not our own egos. Of course, doctors, attorneys, and planners like us, come into this work to correct an injustice in our own lives, to help others and make a difference. Unfortunately, that mission can get lost in the shuffle of day-to-day challenges.

The regulatory environment will most likely get tougher for many of us, but if we are operating from the basic principle of "clients first," we will not get in trouble. Planners who put their clients first will not worry about competing with others for the best returns, and will not be solely offering high investment returns. Financial planners who are truly meeting their clients' planning needs and goals will experience more turnover, more steady income growth, more referrals, and a better overall business on many levels.

Conclusion

This recession has offered us a dramatic and historic opportunity to reflect on how we want our lives and businesses to be in this uncertain time, we can begin to do our own planning, to relook at our practices as businesses, to consider new investment strategies that will truly meet our clients' needs and the needs of our business in the 21st century.

We can lead the way, positively impact hundreds of thousands (if not more) people and their future, or we can be left on the sidelines. Now to begin productive dialogues and brainstorming on how to move forward.

Ask yourself: Where will I be five years from now? Where do I want to be? How do I want to be remembered? It is in honest reflection that we will each find the true path forward both as individuals, and as a profession.

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