Chapter 1

The Financial Planning Environment, Phenomenon and Process

Chapter Objectives

Students must be able to:

- Define 'Financial Planning'.
- Understand the Main Obstacles to Financial Planning
- Distinguish the Traditional Approach From the Comprehensive Approach.
- Make the Distinction Between the 'Product' and 'Process' Approach
- Explain the Impact of Inflation and High Interest Rates
- Demonstrate the Meaning of 'Economic Independence'
- Identify the Six Step Financial Planning Process
- Explain Each Step of The Process
- Identify and Explain the Six Main Components of Financial Planning
- Explain the Role of a Comprehensive Financial Planner

Chapter 1

The Financial Planning Environment, Phenomenon and Process

Definitions of Financial Planning

Financial planning has been defined variously depending on the viewpoint of the various players.

Loren Dunton, often noted as the father of financial planning in USA, described very succinctly what a financial planner does:

"We must help people spend, save, invest, insure and plan wisely in order to achieve economic independence."

A more academic definition would be as follows:

"It is the comprehensive, systematic method for establishing, maintaining, nourishing, and eventually liquidating or otherwise disposing of your capital assets to produce desired levels of cash flow for attaining specific financial objectives during your lifetime and within your desires and intentions for distributing your estate."

This definition seems confusing but on close scrutiny provides a very good understanding of the scope of financial planning. Financial planning must be comprehensive. It must be systematic. It has a specific task of accumulating capital assets. These assets are to be used for generating cash flows for meeting financial objectives during your lifetime. It also involves distributing one's estate according to one's wishes. The capital assets must be established, maintained and nourished. This is financial planning. It involves cash flow management, protection of assets, building-up of assets and growing them and eventually distributing them. Lifetime goals are as important as disposition at death.

The Malaysian Financial Planning Council (MFPC) Constitution defines financial planning "as *a process or methodology of assisting clients in determining their financial goals, objectives and priorities and the resources to meet them in an optimal and practical manner."*

This definition states the clear purpose of financial planning; to establish and determine the financial goals and find a practical way to match resources with the goals. It clearly states that an individual has to prioritize and therefore there is an element of choice and the concept of optimum strategy. It clearly recognizes a methodical approach or process.

Other literature from America describes financial planning as a coordinated, continuous process of working with a client to set and achieve goals that are subject to review and modification as personal and professional objectives, family and business circumstances, and economic conditions change. Financial planning should be viewed as a coordinated, integrated, ongoing process of managing an individual's financial concerns.

Needs – Objectives – Strategies

A financial concern is actually a need. This need has to be expressed as an objective. Strategies are then adopted to achieve the objective. There can be many alternative strategies to achieve the objective. This is the basic structure of a plan. How successful are people in targeting and achieving their goals?

Obstacles to Achieving Financial Objectives

It seems that goals and objectives are not that easy to achieve. We do not have statistics that will show how many people achieve their goals in life but we do know of many who fail to achieve their goals. What are the principal reasons for this?

1. Personal obstacles

The psychological make-up of the individual, the variety and complexity of his needs and his background will determine greatly his success in achieving his goals. The experience, expectations and values that an individual holds will affect his decision making. Not everyone sees the world the same way. The objective reality is hardly objective and is in fact very subjective. There are many distortions to how people perceive the environment. People's feelings and emotions affect how they see the world. Many planners have discovered deep seated feelings and emotions that includes fear, at the core of people's inability to solve problems. Therefore as a first step the objective reality must be established and agreed upon.

2. Lack of confront

Many are unwilling to confront or face the reality of the situation they are in. To confront is to face something comfortably without withdrawing or avoiding from it. The degree of difficulty in life is directly proportional to the degree of non-confront. Anytime somebody says, "I will face it", he begins to improve his life. Many are obsessed with just the basic needs and do not move into the other more complex needs. They are resistant to looking at alternatives to achieve their objectives. They fail to obtain all the information necessary to solve a problem. They only conduct a superficial evaluation of alternative strategies and thus do not explore the full potential of available alternatives to solve their problem.

3. Procrastination

Procrastination is a common obstacle to achieving your financial objectives. Putting off something to later, or for a more appropriate time is a common human characteristic. Sometimes it is due to hesitancy to face the reality of the situation. Facing and making painful decisions is hard on many people. They rather put it off. They also lack the information to make decisions. Time and the technical capability to evaluate all the alternative strategies may keep them postponing the process. Many feel there is still plenty of time left to achieving the goals. One big reason for procrastination is that the task is too large and overwhelming. This naturally leads to procrastination. Someone is needed to help reduce the task into manageable portions that will allow the individual to confront the situation and take responsible actions to find the solution. For example, In Malaysia the percentage of people insured or who have written a will is still low by international standards. A major factor for this is procrastination which is probably due to lack of confront.

4. Ineffective communication

Personal finances must be a family activity. If the family can sit down to iron out their financial concerns more objectives can be achieved. Family discussions are helpful. Effective communication with financial advisers will also contribute to a better understanding of a client's financial situation. More discussions are useful in handling the 'noises' created by the media. If a family can discuss and decipher the motives of all the advertisements that they see and hear, a great deal of the confusion can be solved. It would indeed be fantastic if family discussions of personal finances are the norm in every household. A financial planner should be like the doctor of the household. He is a mentor and adviser that the family can consult on an on-going basis.

5. Confusion in the financial services environment

Financial institutions, are they friends or foe? Obviously it all depends on the situation. There is a communication overload with financial institutions using the media effectively to promote their products and services. However, some of the messages can be confusing. For example should one use his credit card indiscriminately to gather cash rebates or points to buy some luxury item or gift? It all depends. Today another issue will be whether to see a product specialist or a licensed financial planner? Should someone receive integrative advice that touches on all goals and objectives or should you approach a product specialist on an ad hoc basis. How important is a comprehensive approach and how important is the gathering of comprehensive data about the client. How important is the big picture in solving financial concerns. The launching of new products on a regular basis and the global environment has indeed increased the 'noise' and confusion in the marketplace.

6. Inflation and taxes

Inflation is on everyone's mind especially with the increasing cost of oil and gas which seems to have a spill over effect on every other goods and services. Consumption cost of lifestyle goods and services like medical and education have sky rocketed including the cost of basic items in an average consumers' basket. Inflation has reduced the real returns on most investments especially fixed income securities. At this rate maintaining your standard of living would be difficult for most people.

Taxes also take a big bite at your resources. The tax rates are not adjusted for inflation and so people keep moving up into higher tax brackets and paying more taxes without a corresponding increase in their welfare. Malaysians also face the possibility of a pervasive Goods and Services tax which would further contribute to the inflationary environment.

7. Risks to Income and Assets

The risks to people's income and assets are varied and numerous. Life will inadvertently throw a spanner in your path. It would destroy even the best laid plans. However, risk can be managed although not completely eliminated. Man has devised several instruments to handle risk to assets and income. Savings plans can be thrown asunder with income interruptions and assets that are unprotected and that suffer the natural perils will need rebuilding and only time will tell if that is possible. Investment risks and pure risks are the subject matter of later modules.

How Do You Overcome these Obstacles?

Personal mastery of self and the mastery of the financial environment are not easy. How many individuals have the technical expertise and information to conduct their own financial planning? How about the time and effort considerations? Money is a scarce commodity. It has to be used efficiently and effectively. The answer is a financial mentor, coach, planner or adviser that a person can consult. In the past the 'do-it-yourself' culture has been dominant and people hardly used advisers. Perhaps the time has come for households to use the services of a financial planner.

The Missing Piece – Competent Financial Planners

The needs are there. The financial concerns are there. The missing piece in this equation is the people who can do it: Qualified, ethical, competent financial planners. To this, one must add, at an affordable cost. There would be many who will say it is not what it costs but what it pays. The benefit of financial planning far outweighs the cost in most circumstances. Therefore the question the nation must answer is who would be able to perform this function.

The ready answer would be those currently involved in financial products, the insurance agents or unit trust agents. With education these agents can perform this task. There is therefore this vigorous effort by all concerned to educate the agents to take on this role and provide this much needed financial advisory function. In some developed countries there is a move to only allow graduates with relevant tertiary education to become professional financial planners. Malaysia may have no choice but to make financial planners out of the existing crop of agents. There can perhaps be a new trend of young new graduates entering this profession as they feel they can take up the task of the profession and its educational requirements. They will slowly and even maybe at an unexpected pace replace the current crop of agents providing this wholesome financial advisory and products service to the general public. It will be good if both the existing agents and new graduates enter this vital field of financial planning.

Traditional Approach Vs. Comprehensive Approach

When agents compare this task of financial planning with what they are currently doing they will begin to appreciate the depth of knowledge required to undertake financial planning. They will also realize that a comprehensive approach is typically better than single solution approach because the clients have to manage many goals and objectives with their limited resources. To cater for one need without allocating to the other needs will expose the client to other dangers. A person who is already involved in one financial product or service can approach the same client for another product or service. One fact finding session can provide the vital information necessary to look into all aspects of a person's financial situation. Once a person decides to use the financial planning approach the needs of the client become more important than the volume of sales one can generate with each client. The process approach studies the person as a whole while the product approach handles just one aspect of a person's financial situation. While there is much justification for the product approach, the process approach takes into account the many needs of the client and the need to practice efficient resource allocation. There is a need to achieve a higher level of service and knowledge.

Product Versus Process

There are many who would say that being in insurance or unit trust investments is also being in financial planning. Financial planning solutions will most definitely involve financial products. However there is a big difference. In financial planning the plan precedes the products. In the products approach the products precede. There is already a preconceived idea that a person needs insurance or investments and that they are always beneficial. It is quite true that insurance and investment needs are universal but in a more sophisticated environment a holistic approach would be preferred. People are busy just going to work and taking care of their families. It takes time and effort to acquire knowledge of what is there in terms of financial solutions in the local, regional and world market place. A specialist in financial planning who is keenly aware of what is available in the financial services environment can take this specialty to the general public who will welcome this important input.

Inflation and Interest Rate Scenario of the Eighties

In the late seventies and early eighties in America and in the rest of the modern world, inflation and high interest rates was creating havoc in people's lives. Traditional products were not offering a good enough solution to combat the double menace of inflation and high interest rates. People were desperately looking for solutions. This period saw an increasing trend in tax planning and variable returns products. The investment-linked insurance products, universal life and variable annuities made the scene. There was also a rapid development in the unit trust industry as the returns from the traditional products like bank savings and endowment insurance were not producing the required returns. People realized that higher risk investments were needed to provide better returns. This added to their risk taking propensity.

Inflation and Interest Rate Scenario in Malaysia

The question confronting us is 'are we facing a similar situation in Malaysia? The official inflation statistics states that Malaysian inflation is still low at less than 3%. However, every commuter knows the inflation at the tolled highways, the price of petrol, and private health and education costs. Inflation is managed by the Regulators especially with the 'control price' mechanism on a vast array of essential items. Government supervision is needed to keep prices down. Where there is no control the prices tend to escalate. Hence in financial planning most of the wealth accumulation goals require an assessment of the inflationary impact on the financial goal. I believe there will be greater interest in fighting inflation and handling living costs. Financial planners have to equip themselves to answer these questions by the public. Inflation must be understood as there are two sides to this debacle. Asset inflation provides higher capital gains to asset owners and long term borrowers with a fixed commitment gain from repaying with a depreciating currency. We hope that the fight against inflation and higher costs of living will propel the financial planning movement.

Currently (2008) the interest rate scenario in Malaysia is benign with the base lending rate below 7%. There was a time in the eighties when the base lending rate was 11/12 %. A question many would ask is, with low inflation and low interest rates, Malaysians should be having the best time in their lives enjoying a golden age period. Only a survey will reveal the real situation. Financially and economically speaking we should be in a golden age period. Will it therefore remain good or will it turn bad. This introduces the need for financial planners to pay more attention to macro-economics. Financial market economics has become a distinct area of study in financial planning.

Economic Independence

In one of the definition to financial planning it was stated that financial or economic independence is the major task in financial planning. While we cannot generalize as to what are the goals of the people it seems logical that economic or financial independence is a very desirable state. It therefore requires understanding what economic independence means. Solutions are easier when problems are articulated well. A general statement like I want a million ringgit in my bank account does not address directly the question of economic independence. One million can be blown in a car and a house. On what does he live on for the rest of his life? A good formula to adopt is; incomes generated from financial assets are equal to or greater than the expenses to be incurred. Income comes from both active and passive sources. It is anticipated that when one chooses to retire he would rely heavily on passive income. Those who successfully accumulated financial assets that generate good and reliable income over their lifetime will be able to live from that income for the rest of their lives. But the expenses must be within the income generated. Higher the living expenses desired by someone the higher the income the financial assets must generate. This is the difference in the lives of people. Do you have sufficient income to cover your living expenses on a weekly or monthly basis? This separates the happy and the desperate people in our community. The rich of olden times had large ‘estates’ that gave them income for life. The serfs worked for them for an income and lived in poverty forever. Life is more benevolent in today’s time and ordinary people can accumulate financial assets that can generate the required income to live for the rest of their lives. That is the primary quest of a financial planner, to put the client on economic independence for himself and his family. Are Malaysian financial planners up to the task?

Are Children Retirement Assets?

In the olden days the focus was on bringing up children so that they will in turn look after the old folks. The children generated the income to look after their parents and grandparents. Today filial piety is not taken for granted. The children grow up differently and their values are unstable to trust your retirement years on their benevolence or generosity. However children are still the focus of most parents and they would invest a disproportionate amount of money on their education and development in the hope that they will fulfill their responsibility towards them. This must still be very true especially in eastern cultures.

The Financial Planning Process

It is now time to turn our attention to the financial planning process.

It is the solemn observation of many financial planners that the hallmark of a financial planner is the conduct of his planning using a six step financial planning process. Various institutions may use different descriptions of the first few steps but generally they stick to a six step process. It is always debatable whether you collect data and information first or establish the financial goals and objectives first. Some other professional bodies may start with the obvious step of establishing client-planner relationship and state clearly the parameters of their engagement. In Australia the practice of issuing a Financial Services Guide is a compulsory first action to state clearly what is to be done by whom and the fees structure along with the procedures for handling complaints. Having established the client-planner relationship the planner would then undertake the fact finding process and establish the goals and objectives of the client. The Malaysian Financial Planning Council (MFPC) has set the six steps as follows:

Six-Step Financial Planning Process under the RFP Practice Standards (RPS)

SIX-STEP PROCESS	DESCRIPTION	KEY PURPOSES	SPECIAL NOTE
Step 1	**Setting Goals, Objectives & Priorities**	*Establish where the client wants to go and arrange them in order of importance*	In every of the six-step process, starting from the initial engagement, the **client-practitioner relationship** that has been defined and established should be re-defined, re-established and enhanced as an on-going affair.
Step 2	**Gathering Relevant Data & Information**	*Procure crucial information for determining the client's situation*	
Step 3	**Analyzing Information & Assessing Financial Status**	*Identifying the clients needs, resources, constrains and options*	
Step 4	**Developing and Presenting a Financial Plan for Implementation**	*Detailing the problems and solutions in a strategized, written format for the client's considerations and actions*	
Step 5	**Executing the Financial Plan**	*Getting permission and having the plan implemented effectively & efficiently*	
Step 6	**Monitoring Execution & Reviewing of the Financial Plan**	*Checking and adjusting the execution to ensure goals and objectives listed are met*	

Preliminary Process to Financial Planning

The six step financial planning process establishes the framework for a planner to proceed with his planning. There are of course some very practical steps that precede this process. Having a client in the first place is a practical reality. Marketing of your services and promoting your financial planning practice are key business considerations. The process places a lot of emphasis on identifying a client's goals. It also states the importance of gathering information, called fact-finding. In a single solution approach fact-finding would be simpler. But in comprehensive financial planning fact-finding is the fundamental first step to providing good advice. For this purpose most firms employ a fact-finding booklet that identifies all the information necessary to undertake a comprehensive financial plan.

The First Step – Establish Financial Goals and Objectives

In the fact-finding process the planner has to establish all the goals and also the priorities of each goal. Time and again priorities will clash. What should be done first is a major concern. Sometimes based on the facts, goals articulated may be unrealistic. So a review of goals based on the facts collected must be undertaken. Financial planning involves a lot of assumptions about the future. In constructing a plan all these assumptions will be tested. It is therefore important to establish all the assumptions to the satisfaction of the client and planner. The goals set must be clearly defined.

What are typical goals?

Goals typically evolve from financial or economic concerns. What are typical financial or economic concerns of people?

1. Meeting mortgage payment and other debt commitments
2. Comfortable retirement and overcoming the fear of outliving retirement savings
3. Saving for children's education
4. Parental care
5. Passing on assets to beneficiaries at the least cost and headache
6. Reducing the tax burden
7. Protecting income and assets from a variety of risks
8. Long term health care for self and spouse
9. Business succession planning
10. Becoming wealthy and having a good life.

A goal provides the starting point for a plan. But a plan needs numbers. Goals need to be quantified. For example for comfortable retirement the exact amount needed at retirement needs to be established. A related question would be should the retirement income be adjusted for inflation. At this stage we need to know the expected age of retirement and the anticipated lifespan of the individual. Another major issue would be the lifestyle income needed at retirement, based on either a percentage of pre-retirement income or expected expenses post retirement. The shortfall will then be quantified and the required savings established. The next question would be; where to put the money saved. Assumptions as to expected rate of return need to be agreed. Are there other wealth accumulation ideas that can provide the required retirement lump sum? How do we maximize tax and other legal provisions to improve on the process?

This very example sets the approach to financial planning. A financial planner goes about solving a financial concern. He does not just tell the client you need a lot of money for retirement and my unit trust or investment-linked insurance is a good investment. The client lives in hope that the investment will give him the required retirement lump sum with no idea that his retirement concern will be adequately handled. A financial planner lays out a plan. It will identify the assumptions and the quantities assumed. A planner will then promise to monitor the plan and monitor the numbers as an on-going process. His job is to help the client attain his objective. He will not be a typical agent; having convinced the client of the need for investment makes the sale and disappears from the scene. He will not monitor the client's progress and is not concerned whether the client has attained his objective. It is therefore not difficult to answer the question, who will the client rather see in the future, the typical agent or the financial planner who follows a process which includes writing a plan and monitoring the plan.

Step 2 - Gathering Relevant Data

This activity is fundamental to the financial planning process. Information provides the knowledge to do the job and make decisions. If information is collected and assimilated properly the chances of achieving your goals are more assured. This activity alone spells the difference between an agent and a planner. An agent does not focus on knowing the client. He caters to a broad need. A planner makes it a point to know the client fully. Why is this necessary? We are dealing with human beings who are complex creatures especially if you throw in the family dynamics. Life is stochastic, too much randomity and chance. Human behavior is difficult to analyze. All individuals are not the same in their wants and desires and especially in taking risks. Therefore a correct assessment of the individual is essential in developing a plan that will satisfy the client. The information must be accurate, complete, up-to-date, relevant to the client's goals and well organized.

In acquiring the correct information most planners will request sighting the actual documents. All relevant documents must be analyzed so that the information at hand is correct. The documents are very important and therefore they are photo-copied and returned to the client as soon as possible.

It is to be expected that each different goal has a different information bias. Information must be selectively collected for each goal. For example the risk taking propensity for retirement fund accumulation will be different compared to education funding. The parameters for each goal have to be identified. For example in retirement planning the fund accumulated under the Employee Provident Fund must be taken into account.

How are individuals basically different? One simple yardstick which can be quantified is their net worth position. Net worth of an individual is his Total Assets less all his Liabilities. The Income Statement will also reveal the Total income less expenses and net surplus income of the individual. These two quantified financial statements almost completely reveal the state of person’s financial condition. By no means is it a reflection of the person and the life he has chosen to lead. But it really sets apart the wealthy and the poor in material terms. With these personal financial statements a lot about the individual can be revealed. Howard Hughes once said “it is not what one earns that makes you wealthy but what one saves”. But the current financial position is a valuable springboard to undertake financial planning. This is another feature that separates agents from financial planners. A financial planner must draw the personal financial statements before he undertakes any planning. A financial planner must also be able to analyze the financial statements because in those statements lie the secret to good financial planning. Picking up the trends and patterns of the client’s asset holdings and expenses will reveal valuable action steps that can make a great impact on someone’s financial well-being.

Another important category of information is subjective information especially the risk profile of a person. Different people have different appetites for investment risk. Some want safe investments with very little volatility in value. The investment horizon period will also change the degree of risk taking. If certain goals are beyond reach because of low risk preference this must be articulated to the client and a more realistic target set for the client. There are many professional attempts to categorize risk. However the important step for a financial planner is to undertake some form of risk analysis. Client disappointments over investment performance are often related to risk. It is a well accepted principle that the higher the risk assumed the higher the expected return. Risk is also separately defined. Inflationary risk or purchasing power risk is also an important consideration. Assets that are volatile will offer a higher return in the long term. But the risk preference must be clearly stated to avoid future debates.

Another important category of information is the degree of responsibility a person is willing to take. Protection against premature death, health risks or disabilities is a responsibility issue. It states how much you care for your family in facing natural risks. The severity of the consequence facing a family losing its main source of income will make anyone jump at buying insurance. However, this is not the typical human behavior. Insurance is still sold and not bought. However, the financial position of the client will determine how much insurance a person needs.

A complete and comprehensive Information gathering will take a lot of valuable time from both the planner and the client. To be accurate will take an even longer time as key documents have to be examined. A related issue would be confidentiality of the information. A client will require the utmost confidence from his planner when discussing personal financial issues. A financial planning firm will have to give assurance as to how confidentiality is maintained. This is where adherence to a code of ethics plays an important part in a financial planner’s life.

Type of information	
Quantitative data	Qualitative data
Family profile Information about current financial advisers Assets and Liabilities Cash inflows and outflows Insurance coverage policy information Employee benefits and corporate pension plans Tax returns and computation for a few years Details of current investments Retirement savings Business ownership data Copies of Wills and Trusts	Goals and Objectives Risk tolerance level Attitude to money and its value Financial decision making style – ad hoc vs. planned, easily persuaded, impulsiveness Interests and hobbies- degree of involvement Health awareness and status of self and family Employment prospects and expectations Anticipated changes in lifestyle Attitude to learning and advice Family relationships, dependent care and responsibility Planning assumptions, views on economic landscape, the global environment

Step 3 – Analyze the Data

Once the information is at hand the planner then proceeds to analyze the information. The very first thing a planner would do is to construct the personal financial statements comprising a personal income statement and a net worth statement. This will reveal the client's cash flow and the assets at his disposal and the liabilities that are tied to his assets. Once the financial statements are constructed it would be easier for the planner to understand the financial position of the client and the reality of his goals. In constructing the financial statements care must be taken for those items, whose values will vary in the future. For this purpose some of the assumptions will include the rate of change in values of all the items that appear in the Income statement and the Net Worth statement. Income and expenses will change in the future and assets and liabilities will appreciate or depreciate with time. A planner must be cognizant of the rates of change in value for all items to prepare his base case.

Information on Specific goals

It is customary to analyze information pertaining to each specific goal. After considering the priorities each goal is analyzed as to its possible achievement. The numbers have to be crunched and all future values are established. Some firms may employ specialists to analyze the information relating to their specialty and the specific goals. If more information is required the Para planners have to quickly get them for the specialist study. Planners will seek to understand whether each goal can be achieved. The numbers will show the variance between what is wanted (the goals) and what is achievable.

S.W.O.T analysis (Strengths, weaknesses, opportunities and threats)

The true strength of a financial planner is in this analysis stage. How he sees the numbers and the strengths and weaknesses of the client's financial position in achieving their goals is very important. Opportunities and threats are presented by these financial statements. Lifestyle questions appear like, "is the client living within his means, or are his debts too burdensome swallowing both money and pride." The efficiency of his asset allocation and the portfolio return of his assets. A clear goal in retirement planning is the transition from active income to passive income. How far from this eventuality is the client. An executive's remuneration structure will reveal if an optimum strategy has been followed. This is a major area for analysis as large segments of the population are employed with an employment contract. There are numerous risks faced by individuals. Risk analysis is a major area for analysis. The financial position has to be projected into the future which brings the question of stability of income. Most of the goals will require utilizing the income of the client. A lot of strategies will not be employable because of the financial condition of the client. A planner has to put right some wrongs like helping the client out of debt even before future savings plans can take shape. Alternatives and possible other strategies are based on a client's current financial position. So the analysis stage dictates the competence level of the planner. A team approach will produce a better result. However, the structure of the financial planning firm will determine how many team specialists are involved in his practice.

Step 4 – Developing a Plan for Achieving Goals

A plan must be tailored to the needs of the client. It must be realistic. The plan reflects the client's aspirations and risk profile and not the planner's. Ready made and boiler plate recommendations are not as good as specific and a custom made plan relevant to the client's circumstances. Using a team of experts to find solutions to client problems will improve the plan. Alternative strategies must be developed giving some choice to the client. Some strategies may meet multiple objectives and should be given preference. For example a diversified investment portfolio that meets both long term and short term objectives. The plan will have to receive client approval. It therefore has to be reasonable and acceptable to the client.

A major element in plan development is plan presentation. The plan must be understood by the client. Therefore a clear outline and the use of diagrams and graphs would increase understanding and acceptance of the plan.

Recommendations

In making recommendations the planner having studied the numbers must provide alternatives. The economic scenario can change and the personal circumstances may improve or might turn for the worse. A planner is not a magician or a psychic so care must be taken not to be too optimistic. The assumptions made to construct the plan must be clearly identified. The product that will achieve the result must be realistically stated. It is important that the planner clearly explains his product affiliation so that there is no conflict of interest. The client wants a plan to achieve his goals. The products that will deliver and achieve his goals are his main concern. Therefore it is usual for the plan to be generic first and then to identify potential specific products available to the planner. A planner owes a duty of care to be independent and to put the client's interest first. However, the first duty is to address a client's objectives. If the planner has stated up front that he is tied to a particular vendor the client has the choice to accept or look towards his own supplier. If the client relies on the planner, it is to be expected that the manufacturer's product performance in terms of cost or return is very close to the industry's top performers. Otherwise there will be a moral issue of whose interest you are serving.

Step 5- Implement the Plan

A financial plan is only useful to the client if it is put into action. Good advice is needed but even more important is the implementation of the advice to make changes in your life. Follow through is imperative to achieve objectives. A plan is a plan is a plan. It does not tantamount to change in financial position unless action is taken on the plan.

At this stage the required allocation of money must be made. Relevant experts or specialists must be engaged to carry out some of the agreed strategies. Part of the planner's responsibility is to motivate the client and assist the client in implementing the steps in the plan. The plan can all be forgotten and left to die a natural death if constant attention is not placed on it. Procrastination and attention to other more urgent aspects of life might bury the enthusiasm for implementing the plan. A strict schedule for implementation must be adhered to.

Step 6- Monitor and Review the Plan

This final step is an important hallmark of a financial planner. A planner must maintain an on-going relationship with the client and make sure that the plan is coming along fine and on target to fulfill the objective. A client will be most heartened if the planner follows through on him. Personal circumstances and economic conditions may change and these changes and their impacts must be studied to confirm that the plan is on target. An important prerequisite for monitoring is to have the appropriate measurements for the various objectives. If things are measurable they can be monitored and improved upon. Measurement and statistical analysis are important tools for the planner.

The number of reviews needed per year depends on the plan strategies but once or twice a year is the norm. Preparation of discussion materials prior to the meeting is recommended as measurement of variables requires time and effort. Reviewing the progress of the plan with the client will bond further the relationship between them and to a planner a satisfied client means more word of mouth referrals. The act of monitoring the plan clearly distinguishes a product salesperson from a financial planner.

The Key Components of Financial Planning.

What are the typical areas of concern of a client? It is to be noted that very few engage in comprehensive financial planning. Most will prefer that the planner handle one or two issues at a time. However as stated earlier, to achieve any goal, there is a need for a distinct plan for each goal. In comprehensive financial planning there is an attempt to write a plan to cover all the goals identified by the client. In the professional learning of financial planning the student learns to do a comprehensive financial plan covering six key components.

The six step financial planning process identifies the process clearly earmarking the importance of fact-finding, establishing goals, analysis of the current financial position, developing strategies into a cohesive plan, implementing the plan and regular review and monitoring of the plan. The financial concerns and the financial circumstances are going to vary with each client. But it has been found that there are many common grounds in personal finance. These major areas of concerns have been developed into modules that are required learning for RFP students.

Personal Financial Management

This area of concern is covered in most of the modules especially in Module 1.

Cash flow management is vital to the achievement of objectives. The first and foremost attention of a planner is in cash flow management. Releasing cash surplus from available resources to allocate to established goals is a matter of priority. But in order to do that expenses have to be examined and liabilities have to be managed. Debt is a major modern phenomenon of many households. Getting out of debt which is usually more expensive than available returns is a primary first step for most people. Most of the debt that hurts is consumer debts that add no investment value. Expenses have to be contained to release valuable cash flow to liquidate expensive debts. The planner can also coach clients on budgeting and helping them live within their means. A lot of wisdom and philosophy is contained in this financial management area. Bad financial habits, poor budgeting, living beyond one's means, excessive borrowing and wrong borrowing sources, all play to wreak havoc in people's lives. Greed, avarice, fear and other negative emotions about money also may fall into this category of financial management. It is quite astonishing to find how few keep a six month emergency fund for the inadvertent rainy day.

Risk Management

Module 2 covers in detail this area of concern.

Risk exists in a variety of forms. Risk to physical assets held, risk to health, risk to loss of income, partial or total disability, all are perils in human life. Going through the many risks in our ordinary life seems part of God's big picture. However we are fortunate that man has found ways to cushion some of these blows that life throws at you. The principles of insurance and the transference of risk to an insurance company have helped to mitigate some of the severe consequences. There is a whole body of knowledge on insurance which will be covered in detail in module 2.

Investment Management

Investment management and its related subject 'retirement' are covered in modules 3 and 6.
To the affluent and practically all concerned wealth accumulation is a major target. 'Investments' is a big subject. We need to accumulate capital for a variety of objectives. Funding for children's education, funding for retirement, achieving financial independence, buying assets, all require investment management. This is a key component of financial planning. The investment environment has also grown exponentially. The complexity and variety of investment products has necessitated the role of financial intermediaries like financial planners. The investment arena is also global. Being global and local has captured the imagination of most financial institutions. Financial market economics is a major concern of financial planners. Statements like, the world is a global village, the world is flat, are all statements which carry some significance. Helping clients handle investment products, helping them make asset allocation decisions across international boundaries are important parts of a planner's job.

Tax Planning

This key area of concern is covered in detail in module 4.

Taxes can be a major expense putting a strain on your budget. There is no compulsion to pay more taxes than is due and so every effort is needed to only pay the required amount of taxes. People are allowed to order their tax affairs so that they pay the least amount of taxes exacted by law. Tax planning is especially important in the developed countries as their tax regime is more exacting. In Malaysia the tax regime is not so punitive especially when there is no capital gains tax, estate duty and exemption of income on most fixed-income securities. However, there exist several benevolent provisions and opportunities in the tax legislations that can help individuals improve their financial position. Tax planning is a capital free solution to wealth accumulation. To implement any tax ideas in an employment situation there is a need to enlist the co-operation of the employer and the understanding of the tax implications by both employees and the employer. Employee remuneration packaging is a very useful tax planning exercise.

Tax planning is not just about reducing taxes that you pay. It is more prominent in improving savings and/or increasing wealth using the tax laws and provisions to good effect.

Retirement Planning

The RFP program sees this as an important area of concern and is covered in detail in module 6.

This is such an important topic that it has been recognized as a specific component in financial planning. Human life cycle implies that there will be a period we call retirement during which there is no active income and we have to rely on passive income derived from funds accumulated or through a pension scheme. The Malaysian government has a compulsory savings scheme through the Employee Provident Fund which has been the pillar of retirement planning and assets. However, the self-employed and business sectors do not have a similar savings scheme. There is a need to address the retirement needs of this sector by the government and the financial intermediaries.

Most investment representatives focus on this area as it has been established that even the EPF accumulations are not enough to weather the ravages of inflation and poor investment returns. Investments over and above the EPF contributions savings are required to maintain one's lifestyle.

Estate Planning

Estate planning is covered under module 5.

Estate planning has become ever more important these days as more and more people are becoming aware of the dire consequences of not planning their estate distribution. Families that lose their principal bread winner or loved one do not need the additional grief of long and arduous court proceedings to inherit the estate of their loved ones. It will be an important pro-active step to plan all dispositions upon death. Although there are no estate taxes the smooth and quick distributions of estate properties are important to relieve families of cash and other burdens. Wills and trusts are important instruments in this process. For the business community successful business transition planning has also become important. For businessmen to retire they need to find successors to their business. If it is not a family member, there needs to be a concerted effort to find a successor to take over the business responsibility and give value to the business asset. Businessmen invest heavily in their business and so it should be converted into a valuable retirement asset.

The values are changing and each generation thinks a little differently and so rather than leave everything to chance and the old ways, some effort is needed to organize the efficient distribution of an estate.

Contents of a Comprehensive Financial Plan - A Brief Look.

When the approach is comprehensive all areas of financial concerns are addressed. A typical plan that is comprehensive will have some or all of the following items:

1. Personal data
2. Client goals and objectives
3. Major issues or concerns that the client faces
4. Assets and Liabilities - Net Worth statement
5. Cash Flow statement
6. Income tax situation and tax planning opportunities
7. Risk management issues/ Insurance
8. Investment portfolio and identification of investment risk profile
9. Economic independence issues, retirement, education and other wealth accumulation needs

10. Estate planning issues
11. Assumptions used in the analysis and recommendations
12. Alternative strategies and recommendations for achievement of plan objectives
13. An implementation schedule with dates and responsibilities identified
14. Review and monitoring procedures especially measurement and verification.

The Comprehensive Financial Planning Process

Comprehensive financial planning is:

- ✓ Client-oriented in that it addresses the needs of the client, who comes first in the order of service
- ✓ It produces a plan, a strategy or a program that is custom-tailored to help individuals achieve specific objectives
- ✓ It studies the total financial position of the client and addresses the various financial concerns
- ✓ It integrates all strategies and methodologies into a cohesive plan including the expertise of other professionals

The comprehensive financial planner plays an important role as coordinator with other specialists. The client just needs you to help him understand the various services provided and coordinate all the facts and figures and piece together the whole financial planning jig-saw. A client potentially faces numerous specialists that advice him. The comprehensive financial planner can now help him co-ordinate all these activities.

Business Planning consultant
Banker
Mortgage lender
Life Insurance specialist
Property and Liability Insurance specialist
Pension/profit sharing consultant
Employees Benefit consultant
Provider of Trust services
Tax Planning consultant
Accountant
Legal counsel
Securities broker
Investment adviser/specialist

Comprehensive Financial Planner

Client

Self Assessment

1. Identify the third step in the six step financial planning process:

   A. Establishing goals and objectives

   B. Developing and presenting the plan.

   C. Implementation of the plan

   D. Analyzing the facts assembled

2. Comprehensive financial planning involves the following except:

   A. Taking the client's interest as more important than the principal's interest

   B. It involves the presentation of the best plan as provided by the principal.

   C. It studies the total financial position of the client

   D. It integrates all strategies and methodologies into a cohesive plan

3. The following are major components in financial planning covered by different modules, except:

   A. Personal financial management – Module 1

   B. Tax Planning – Module 3

   C. Retirement Planning – Module 6

   D. Estate Planning – Module 5

4. Following are reasons why people fail to achieve their financial objectives, except:

   A. People tend to procrastinate on non-urgent matters

   B. People tend not to confront unpleasant realities

   C. Many believe the future is best left to 'God' and fate

   D. Financial goals requires discipline which is God-given

5. Fact finding consists of both quantitative and qualitative data. Identify the wrong match.

   A. Income – quantitative

   B. Assets – quantitative

   C. Risk profile – quantitative

   D. Net worth – quantitative

6. Which of the following statements is/are true?

   I It is usual for financial planners to use a comprehensive approach.

   II Knowing the financial position of a client is important to achieve multiple goals

   A. I only

   B. II only

   C. Neither

   D. Both

7. The concept of economic independence is reflected by which of the following statements:

   I Economic independence means your assets exceed your liabilities.

   II Your active income is greater than your expenses

   A. I only

   B. II only

   C. Neither

   D. Both

8. The following are qualitative facts. Spot the wrong match.

   A. Goals and objectives – qualitative

   B. Dependents care – qualitative

   C. Risk tolerance - qualitative

   D. Investment returns – qualitative

9. Which of the following statement(s) is/are true?

   I Financial planners are increasingly required to act as coordinators with various financial services providers on behalf of their client

   II A successful financial planner is one who can sell well.

   A. I only

   B. II only

   C. Neither

   D. Both

10. Which of the following statement(s) is/are true?

   I All persons require insurance and investment and therefore the six step financial planni process is not necessary in such cases.

   II Inflation will affect all investors adversely.

   A. I only

   B. II only

   C. Neither

   D. Both

Answers: 1-D, 2- B, 3- B. 4- D, 5- C, 6- D, 7- C, 8- D, 9- A, 10- C