Financial planning as a career

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Financial Planning as a Career

Presidential Scholars Senior Thesis Project

Mikol Sesker
May 10, 1997
Financial literacy in the United States stands at about 18% of the population according to the Investor Protection Trust’s 1996 Investor Knowledge Survey. This figure includes the infamous baby-boomer generation which is now in the process of thinking about retirement and making major financial decisions. This need has fueled the growth of the financial services industry and particularly the field of financial planning. People today feel inadequate to the task of organizing their financial situation and making sound investment decisions. For help with this situation they often turn to a personal financial planner. But the search for a competent, trustworthy planner may be just as daunting as the thought of organizing their own finances. The problem lies in the fact there is little government regulation of the industry, no educational requirements, and little protection from fraud of the consumer. What potential clients do face is a baffling number of abbreviations for designations, associations, and services. To top it off, planners are compensated in a wide variety of ways and the consumer is left to judge which is the most appropriate without the opportunity to make a mistake or error in judgement. Yet they want to make a good decision since, after all, this is their hard earned money they’re dealing with.

Despite all of these daunting industry characteristics there is still a high demand for personal financial planners and those considering this field as a career can create their own path to success. It just takes some time to sort through the popular literature and develop an understanding of the basics of the industry and what it takes to succeed. This paper is devoted to making this task a lot easier by laying a foundation of the terms, conditions, trends, and nature of a career in financial planning.

To help the consumer combat the confusion surrounding the profession, several popular magazines and associations have published articles which suggest a step-by-step how-to guide for
choosing a financial planner. These steps cover a broad range of important issues to consider when choosing a financial advisor, these topics are summarized below:

1. Education
2. Experience
3. Designations, Licenses, Affiliations
4. Services
5. Compensation
6. Regulatory Compliance


While lists such as this one were developed for use by potential clients, they are also useful for those who are considering this career as a guide to what they need to do to meet client expectations. Each topic reveals a need for development prior to entering the field and on an ongoing basis once one has established themselves as a professional planner.
**Education**

While there are no educational requirements in the industry, there are several things a person can do to set themselves apart from their competitors. The most obvious choice is an undergraduate degree perhaps even in financial services, financial planning, or finance although any undergraduate work would be beneficial. Financial planners even suggest taking what may be consider to be some rather unorthodox courses including humanities, psychology, sociology, communications, marketing, and math along with the more traditionally thought of subjects such as economics and finance. Graduate work may also be considered in a Masters of Business Administration degree or the highest industry degree which is the Masters of Science Degree in financial planning. Other course work which is highly valued includes the Certified Financial Planner (CFP) or the Chartered Financial Consultant (ChFC) correspondence work which ultimately leads to the achievement of a respected designation. Education, however, doesn’t stop once one becomes a financial planner. Rather one should take continuing education courses every year, those holding specific designations such as the CFP are required to take a minimum number of courses each year.
Experience

The amount of experience acquired also indicates the value of a planner’s advice. Of course, there is always the age old problem, how do I get experience without a job and how do I get a job without experience. The answer in this case is very simple: get an internship! Working with a financial planner is the best education you could hope to get in this field plus you can build the experience and knowledge necessary to land that important first job. Unfortunately because the majority of financial planning firms are small operations, most openings are not advertised, especially for internships. Many of the financial planners I spoke with said they’d consider hiring an intern if the right person presented themselves. That’s right, they intend to do absolutely no advertising, no recruiting, and no seeking you out, but they will hire you. This means that it takes a special kind of person to even get a foot in the door in this business. You must be aggressive, confident, and able to accept rejection. Now blanket resume sending probably won’t get you a job either, but strategic phone calls, letters, and visits will. To prepare for an internship search it is necessary to have a few classes under your belt and a willingness to learn. Most small companies are looking for interns with excellent written and oral communication skills, analytical skills, and computer skills. You may have never heard of a 401(k), but if you can run a word processor, database, and a spreadsheet plus maybe do a little programming a job is waiting for you. The best place to find internships in the state of Iowa is West Des Moines because of the demographics of the population and the abundance of planners. While you will have your choice of firms to call in any metropolitan area, this one provides the most opportunities. Be sure to contact at least five different firms and interview with about that many because each one has a slightly different philosophy and idea about the role of an intern.
Personal note: an internship is invaluable! You’ll learn more in two weeks than in an entire semester in a classroom. Plus experience and ability to apply what you’ve learned is what gets you a job, not necessarily your course work or grades.

Of course, your path to gaining experience in financial planning can not stop after you have attained or completed an internship. The initial job search can be completely daunting and may not even include your dream job. Don’t despair even with internship experience and an undergraduate degree you’re probably not ready to jump right in and start advising clients about their finances. Just take a deep breath and identify a firm that you think will provide you with the most valuable training and initial experience and best fits your approach to planning. After a few years of assisting a planner you should have the experience, designations, and clientele to consider striking out on your own or becoming a more visible force in the firm you are with. The most important thing to remember here is not to get in over your head. Every person has a unique financial situation some of which are very complex and you may not have any experience handling them, so don’t. Situations in which you have no experience are best left to those with an expertise in that area, trust me there probably is someone out there specializing in every aspect of finance. It’s best to adopt a philosophy similar to the medical Hippocratic oath:

first do no harm.
Designations, Licenses, Affiliations

CFP, ChFC, CLU, CPA, CFA, CLU, J.D., PFS, AEP, CRP, CRIA, CFKA, AAMS, CMFC, ABV, CMI, CFS. With all of these designations maybe the Journal of Financial Planning was right, maybe we do need a CDS Certified Designation Specialist designation to just cover all the bases (June 1996). Of course this doesn’t even include the many abbreviations of associations like the IAFP, ICFP, AIRP, NEFE, AICPA, NAPFA, NAEPC, or the NALU. While this is very daunting for a consumer seeking advice, it is extremely difficult for someone entering the field to know what are the most respected and necessary designations, licenses, and affiliations before spending a lot of time and money obtaining abbreviations to put behind his/her name. The most recognized designation is the CFP (Certified Financial Planner) followed by the ChFC (Chartered Financial Consultant). The primary difference between these two designations is that the ChFC originated in the insurance industry and tends to concentrate more heavily on the concepts of risk management and insurance analysis. The procedure for obtaining the CFP designation involves completing a correspondence study program and a series of tests offered through the College for Financial Planning in Colorado. The ChFC, established in 1982, is offered through The American College in Bryn Mawr, Pennsylvania. Candidates must complete course work in individual life and health insurance, income taxation, insurance law, investments, retirement planning, financial planning, estate planning, and retirement decision making (“The Initial Advantage” pamphlet from of American Society of CLU & ChFC, July 1996).

Licensure is another issue potential financial planners must face if they wish to offer securities of any type to their clients during the plan implementation process. The Series 63 license is required of everyone who is involved in the business as a register rep, broker, or dealer.
This one hour exam covers the Blue Sky laws which are general security transaction laws which apply to each state in which the representative is licensed. A Series 6 license entitles the person to sell some annuities and limited partnerships. A Series 7 license is more comprehensive and allows the individual to deal in stock, bonds, limited partnerships, and annuities. This exam is six hours long and requires a score of 70% or better to pass (“Becoming a Financial Planner”, Mary B. Kusske, Business and Finance Career Directory, 1995). Most financial planning firms are very small and work through a large broker/dealer who may have specific requirements concerning licensure and education.

Because of the limited regulation in the financial planning industry, associations play a larger role in issuing ethical standards, providing networking opportunities, and influencing legislation. Each group has a specific purpose, but there are three primary organizations one should be aware of if they are considering this career. The International Association for Financial Planning (IAFP) is by far the best known association by industry outsiders. This group works primarily as a networking association and provides the names of members to prospective clients. They also provide opportunities for networking within the industry, continuing education experiences, and supportive materials for planners. Essentially the only requirement for membership in the IAFP is the payment of the membership fee, so again this should not serve as a screen for prospective clients concerned about a planner’s abilities. The Institute of Certified Financial Planners (ICFP) works to influence legislation regarding the industry. It is important to note that membership is limited to those persons holding the CFP designation and its influence is naturally skewed toward legislation which makes the CFP a more prestigious and necessary designation. The NEFE (National Endowment for Financial Education) is a group associated
with the College for Financial Planning which provides continuing education opportunities and materials to the industry. It also issues its own set of designations and assists planners in their quest for improvement.

As a quick reference the following table defines the abbreviations listed previously:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CFP</td>
<td>Certified Financial Planner</td>
</tr>
<tr>
<td>ChFC</td>
<td>Chartered Financial Consultant</td>
</tr>
<tr>
<td>CLU</td>
<td>Chartered Life Underwriter</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>CFA</td>
<td>Certified Financial Analyst</td>
</tr>
<tr>
<td>CFS</td>
<td>Certified Factoring Specialist</td>
</tr>
<tr>
<td>J.D.</td>
<td>Law Degree</td>
</tr>
<tr>
<td>PFS</td>
<td>Personal Financial Specialist</td>
</tr>
<tr>
<td>AEP</td>
<td>Accredited Estate Planner</td>
</tr>
<tr>
<td>CRP</td>
<td>Certified Retirement Planner</td>
</tr>
<tr>
<td>CRIA</td>
<td>Certified Rollover Investment Advisor</td>
</tr>
<tr>
<td>CFKA</td>
<td>Certified 401(k) Advisor</td>
</tr>
<tr>
<td>AAMS</td>
<td>Accredited Asset Management Specialist</td>
</tr>
<tr>
<td>CMFC</td>
<td>Chartered Mutual Fund Counselor</td>
</tr>
<tr>
<td>ABV</td>
<td>Accredited Business Valuator</td>
</tr>
<tr>
<td>CMI</td>
<td>Certified Mortgage Investor</td>
</tr>
<tr>
<td>IAFP</td>
<td>International Association for Financial Planning</td>
</tr>
<tr>
<td>ICFP</td>
<td>Institute of Certified Financial Planners</td>
</tr>
<tr>
<td>AIRP</td>
<td>American Institute of Retirement Planners, Inc.</td>
</tr>
<tr>
<td>NEFE</td>
<td>National Endowment for Financial Education</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of CPAs</td>
</tr>
<tr>
<td>NAPFA</td>
<td>National Association of Personal Financial Advisors</td>
</tr>
</tbody>
</table>
Services

Financial planning is perpetrated by many different people and many different philosophies about what constitutes an effective and appropriate way to provide advice. Many norms and standards, however, have been developed and adapted by most of the industry and provide an excellent introduction to what this career involves. The financial planning process has been formalized into about five main steps although can be drawn out into many more depending on the situation.

Steps in the financial planning process:

1. Definition of client’s goals (point B)
2. Data gathering & Analysis of client’s current financial position (point A)
3. Creation of a financial plan document
4. Plan implementation
5. Ongoing review and revision

("Why select a ‘fee-only’ financial advisor?" pamphlet by The National Association of Personal Financial Advisors)

It is especially important to note that the definition of a client’s goals precedes the analysis of their financial position so that their goals are not tainted by their beliefs about how hard they will be to achieve. The real grunt work of reconciling goals with reality is done in the second and third steps when an actual strategy is recommended about how to get from point A to point B successfully. As you see this process doesn’t just stop after a plan has been created rather it calls for follow through during the implementation stage and even further for continual revision. This requires that a planner be prepared to invest in a long term client relationship and provide advice they can both live with for years to come. While this may seem like an unlikely scenario in the financial services industry, longevity goes a long way in proving your trustworthiness.
The financial plan document does not merely consist of a few recommendations thrown together in a colorful binder, but involves thorough analysis of the situation, education of the client, and recommendations for a successful financial future. The most accepted way to present this information is through using the comprehensive financial planning approach. Basically this means covering every possible topic as related to the client's situation. As a more formal definition it involves addressing several issues including: investment portfolio holdings, cash flow management, income tax management, risk management/insurance analysis, retirement planning, estate planning, education/college planning, business planning, and employee benefits strategies. While every situation may not warrant using every one of these features, a comprehensive approach requires that all of those that apply or that are requested be used. This document essentially provides a roadmap for a client in regards to how to obtain financial independence and their other financial goals. Similar to the continual road construction which alters the content of a roadmap, changes in a person's situation or the economy will require revisions in the original plan on a regular basis.
Compensation

Financial planners are usually compensated in one of three ways: fees, commissions, or a combination of fees and commissions. Fee-only compensation can consist of charging a relatively hefty set rate for the development of a financial plan document or a smaller document regarding a topic of specific interest to the client such as retirement planning. Fees could also be collected on a hourly basis similar to the way legal fees are assessed. This is usually done for clients who request specific information and have a relatively simple situation which will not require a great amount of time or effort to analyze. Fees could also be charged as a percentage of total assets under management. This is done by planners who have an established client who requires minimal ongoing revisions to their plan, but wish to continue to use the planner’s investment advice or expertise in portfolio management. True fee-only planners accept absolutely no commissions including kick-backs on referrals or investment company incentives.

The financial planning industry originated in the life insurance industry with its commission structure and reward system for the selling of financial products. Many planners are still affiliated with life insurance companies or brokerage houses and continue to rely on this compensation structure. This means that the planner will provide a financial plan, perhaps even a substantial document at “no cost” to the client. They will expect, however, that the client implement the strategies suggested and do so through them. Thus most of the up-front and follow-up work is done without a charge in the hopes that they will receive commissions on the investments chosen that are large enough to cover their costs and provide a profit. While consumers often see an agency problem with these planners and feel that the advice they receive will be tainted with the possibility of high commissions, the jury is still out on the reality of these assumptions. There is,
however, a significant industry movement away from commission only structures possibly to keep in line with consumer preferences and to avoid the negative images portrayed in the media of money hungry agents out to take innocent people’s money.

By far the most common form of compensation is a combination of fees and commissions referred to as fee-based compensation. This is usually carried out by charging a significant fee for a financial plan document, advice rendered, and a retainer while also collecting commissions on any investments which the client chooses to make. This arrangement usually satisfies both the client and the planner because it helps eliminate the agency problem associated with commissions, but also removes any upward bound on the planner’s earnings created by fees. It may also serve to slightly decrease the fees charged for services and make financial planning more accessible to a wider range of people in various income brackets.
**Regulatory Compliance**

Any financial planner who has more than fifteen clients, provides generic or specific advising on securities, and charges some type of a fee for financial planning advice must be registered with the Securities and Exchange Commission (SEC). All registered representatives must provide upon request a copy of their Form ADV. In Part II of this document a list of any disciplinary action regulators have taken against the planner will be included. This is one of the only checks a potential client has on the authenticity of the planner’s abilities, but it unfortunately is not always complete. Due to budget, staff, and time constraints most complaints are not thoroughly investigated nor are regular check-ups made of registered firms. This means that it may be years before an inappropriate practice is caught and documented. This is more than sufficient time for a client to get hurt. In addition, most states require such individuals or their firms to be registered. There are, however, four states including Iowa which do not require state registration. This makes it especially difficult to track the number of financial planners or monitor the appropriateness of their advice. Given the obvious lack of regulatory measures in the industry it is up to the individual planners and associations to maintain the integrity of their practice. This may be a bit of a burden, but it also provides a reward system for ethical planners who are able to maintain client trust.
What you need to know...

The best way to obtain information about a career in financial planning is to talk to people who are immersed in the practice everyday. Through informational interviewing you can gain an insider’s look at what the job is really like: the pressures, rewards, tasks, regulations, requirements, myths, future outlook, etc. To compile this guide I talked to ten financial planners in the West Des Moines, Iowa area and asked a series of questions including what was the one thing someone considering this career needs to know. The responses were varied yet focused, the answers follow:

On the business: **This is a service industry!** This is a business of building clientele!

*Focus on the long-term!*

On the job: **This career offers the chance to be your own boss!**

*This is a sales position: either selling a product or selling your expertise!*

**This job is about personal satisfaction.** This job involves a lot of hard work!

On the job search process: **There is little training in academia!**

*Beware of recruiting “scams” that promise financial planning, but really entail sales.*

*Understand the compensation structure and training programs of potential employers.*

Overall these planners stressed the importance of hard work and people skills. More than any other career path in the field of finance, financial planners deal directly with people and their concerns, hopes, dreams, and frustrations. As essentially a money counselor the planner must be able to be empathetic, patient, knowledgeable, and able to think on their feet. With the foreseen growth and development of the career there is always room for someone who is willing to work hard and really wants to help people.
Are you financial planning material?

Now that you know a little bit about the financial planning industry, you can ask yourself whether or not you’d fit in. To help answer that question, please identify which of the following characteristics describe your personality:

- detail oriented
- analytical
- computer skills
- oral skills
- written skills!
- continual student
- retentive memory
- listener
- relationship skills
- considerate
- entrepreneurial
- outgoing
- empathetic/caring
- competitive
- persistent!
- hard working
- sense of humor
- self motivated
- confident
- personable
- able to take rejection
- concerned
- honest
- energetic

If every single one of these characteristics describes you then you definitely have a job waiting and probably a few personality type researcher who would love to get a hold of you too. Of course, most of us do not fit all of these descriptions because they are so diverse, but so is the field of financial planning. If most of these characteristics sound like you and you have an interest in this field, I wish you the best of luck! The opportunities are unlimited as is the potential for success, just keep in mind that it will take determination, hard work, and time to become a good financial planner. But showing an early interest in the field is the best way to start. So, hey, you’re already on your way! Good luck!
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