

This is an original article written by Philip Loh.

The art and science of financial planning

While there are opposing schools of thought as to whether financial planning is solely an art or a science, I contend that it is both. Furthermore, I believe that developing a suitable financial plan for a client is first an art, and then a science. The reason is simple.

Although we use both the right and left sides of our brain, which deal with our emotions and reasoning ability respectively, scientific research has shown repeatedly that humans generally make decisions by using their right brain first before justifying them with their left brain.

Now, it would appear at first that financial planning is more of a science since it involves cash-flow analysis and projecting retirement scenarios based on various assumptions. Dedicated financial planning software programs are also used to generate important data points that financial planners can use to formulate an effective and realistic financial plan.

In fact, a growing number of financial planners are using specialised software to help them in their planning. Many of these software applications can carry out a wide range of time-consuming calculations involved in needs analysis, a key component of financial planning.

However, what many fail to realise is the fact that clients usually decide whether to work with a financial planner by evaluating him as a whole and not just how good he is at figures. While the latter may indeed be important, financial planners should aim to excel in the art of financial planning in order to differentiate themselves from the competition.

To do well in this aspect of the job will require both wisdom and experience on the part of the planner, because it is these attributes that will enable him to establish the client's real reason for seeking help in financial planning.

Often, many clients have no clear idea why they need a financial planner. Instead, they approach financial planners with only a vague notion that they have to do something about their financial situation. When the planners they approach probe further, it usually turns out that they have no idea of what is wrong with their situation, or what they want to achieve in the first place.

What makes matters worse is that many clients do not make clear what they are seeking. Consequently, planners have to read between the lines and probe without seeming to do so. This is where it is clearest that financial planning is not merely a science as number-crunching will be of no use if the planner is unable to determine the objectives, goals and aspirations of his client.

As the discussion progresses to the product advice stage, it becomes even more apparent that recommending the right product or portfolio mix and explaining the recommendations will involve both experience, as well as the planner's individual insights into the key features of the product.

The explanation of the product choice is perhaps more important than the actual product advice, since it is only when the client truly understands what he has got himself into that he will be likely to stay the course.

After all, no matter how rich a person may be, it would be quite natural for him to worry that his money will run out before he passes on. So at the end of each financial planning exercise, the client should ideally go away not only knowing that he has acquired a particular financial product, but also gaining greater clarity and confidence of his financial future in the process.

Because no two persons are the same, and each individual has unique goals and concerns that are not easily quantifiable, there is practically no limit as to how a financial planner can apply his knowledge and experience when advising a client. It is here that a planner can create value by demonstrating to his client that he can be trusted with the latter's financial affairs.

Nevertheless, do not make the mistake of thinking that mastering the art of financial planning is enough for anyone aspiring to join this profession. The truth is the scientific aspect of the job cannot be ignored. Having an innate ability to create rapport with people may be important, but you will also need to have sufficiently good technical skills to offer your client a truly comprehensive financial planning service.