



Has Financial Planning Made Itself Appealing Only To Risk Takers?

By Michael Kitces
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Despite its risks and the painful volatility of the past decade, stock investing remains a cornerstone of financial planning advice. But it's easy to forget that investing in equities is not for everyone. Some aren't interested in the risk; the trade-off of even a small allocation to stocks just isn't worth it to them. Of course, financial planning advice has much value to offer beyond just how to allocate an equity-centric portfolio. There's just one problem... financial planning advice may still be so equity-centric, that people who don't want equity-style investment risk forgo the use of a financial planner altogether, as a recent *Journal of Personal Finance* article revealed.

Jason Zweig's article in last week's *Wall Street Journal*, [Who Needs Financial Planners, Anyway](#), raised the issue, citing a recent article, [The Demand for Financial Planning Services](#), by Sherman Hanna in the *Journal of Personal Finance*.

The good news in Hanna's research is that data from the Federal Reserve's [Survey of Consumer Finances](#) show that approximately 25% of households utilized a financial planner as of 2007, up from 21% of households a decade earlier. Nearly 7.7 million additional households started working with a planner over the last 10 years (although notably, the research refers to financial planners, and it's not clear whether the data really make a distinction between comprehensive financial planners and the general category of financial advisors). Given criticisms that financial advice only reaches a limited, affluent segment of the population, this is a very positive trend.

In further analyzing the data of who consumes financial planning services, however, a disturbing trend emerges: One of the key determinants of whether a household seeks out the advice of a financial planner was its willingness to take investment risk. As the results show, 28% of families willing to take "average" levels of risk used a planner, and 33% of families who are comfortable with "above average" risk used planners. But among those who aren't willing to take any risks, the use of financial planners was a mere 11% (and this is after controlling for age, income, net worth, and other factors). In other words, there was a strong self-selection bias – people who are comfortable taking risks as stock investors sought out financial planners, while those who are not comfortable with stock risks tended not to seek out a financial planner at all.



Unfortunately, these results suggest that overall, financial planning is too equity- (and therefore risk-) centric in the advice that it gives, or at least is perceived that way. As a result, financial planners carve out and exclude a material portion of the population for whom their advice doesn't feel relevant or appropriate, not due to income or net worth, but due to risk tolerance. Given the trend toward increasing the use of financial planners – even though it's been an incredibly difficult decade for equities – financial planning must be making some progress in convincing the public of the value it has to add beyond investments, as the percentage of households using a planner is on the rise even though I doubt the tolerance for stock investing has climbed over the decade. Nonetheless, that [data show](#) that financial planning as a profession could be in serious trouble if the stock market has even more protracted difficulties and the general public sours further on equity investing.

I still believe there's a value opportunity in investing a portion of one's net worth in equities for the long run, so let's not bash stock investing. But we as financial planners would benefit from careful introspection. We are willing to say that a decision about whether to spend 20% of our income on a car, or only 5% with the other 15% set aside as savings, is a "personal values" choice. Yet a purely fixed-income portfolio is "never" appropriate for anyone, because every client needs and deserves the long-term returns that equity investing supposedly provides? In other words, why do we so often suggest that no client could possibly achieve their goals without long-term equity returns, when the reality is that they CAN, but would simply need to make the personal choice to change their saving and spending habits?

Similarly, why don't we have more discussions with clients about how to achieve financial success by investing in a portfolio of TIPS, which provide real return while also hedging against inflation, offering as close to a risk-free accumulation strategy as you can get? Yes, again, it would mean clients have to spend less and save more because they won't participate in equity returns. But so what? Isn't that just one of the trade-offs and personal value decisions that we should help every client make? And sometimes equities don't actually deliver the expected returns, and the TIPS portfolio could even be the *superior* path, not merely the steadier one!

Some people will use this discussion as a chance to stab at the AUM-based financial planning business model, but I don't believe that is the culprit. Our tendency toward equity-centric advice spans all business models; I've seen similar equity-centric advice ranging from hourly planners to wealth management firms. Some business models may face this conflict more than others, but the equity-centric nature of our advice is a learned behavior from our curriculum and our culture as planners, not merely a consequence of one particular business model.

So the question arises: Have we as financial planners indoctrinated ourselves into a "cult of equity investing" that is making us unappealing to anyone who doesn't want to adopt our own equity-centric views? Are we, as financial planners, projecting our above-average risk



tolerance onto our clients, and not doing a good enough job of providing advice truly based on their risk tolerance? Have we bet our profession on the long-term growth of the stock market?

I believe and fear this is the case, but I'm eager to hear others' views. To participate in a discussion on these issues, go [here](#).

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