Does It Pay Off To Invest In A Financial Plan?

By Eve Kaplan, CFP® Professional

Does it pay off to have a financial plan in place? Thanks to a number of new studies, it's possible to answer this question clearly and unambiguously: ***Yes.*** One such study by Morningstar* tracked households over 15 years and ranked their financial soundness and the quality of their financial decisions based upon where they got financial advice: 1. A financial planner (best outcome for producing financial soundness) 2. The internet (2nd best, but the positive impact declined from 2001 to 2016) 3. Friends (3rd best positive outcome) or 4. "transactional advisors" (*least* positive outcome). Morningstar defines "transactional advisors" as professionals who sell products and typically don't offer a "holistic" (360 degree) approach when giving financial advice. "Bankers" and "brokers" are considered to be "transactional advisors" (while Morningstar notes there are advisors working for broker dealers who *do* provide comprehensive financial planning services). The poor results from working with "transactional advisors" confounded the survey managers because households who got their financial advice from so-called transactional advisors "*were doing everything poorly*." (emphasis mine).

Morningstar concludes "…households working with a financial planner made the best overall financial decisions. Meanwhile, those households working with a transactional advisor made the worst financial decisions of the group."

One of the key survey conclusions is that there is plenty of room for improvement amongst American households since "only around 50% of households made financially sound decisions on portfolio risk, credit card debt and emergency savings." What's not clear in this survey is how much better households do if they have access to on-going financial input from a financial planner versus a "one-time" assessment. I only can say – in my financial planning practice – that I see a clear benefit from on-going financial planning because clients' circumstances change on the ground and plans need to be revised over time. However, I believe *any* financial planning (even a one-off comprehensive analysis) that doesn't just involve buying something can create superior results when compared with advice from the internet, friends and transactional advisors.

Another study (Annamaria Lusardi and Olivia Mitchell in 2006, summarized in Feb 2019 by Erik Conley in www.advisorperspectives.com) looked more specifically at the benefit of planning advice on the size of retirement accounts. Like the Morningstar survey, the study looked at sources of financial advice, including "calling around," "talking with relatives/friends," and looking at magazines/newspapers (this older study didn't include looking at the internet). Investors receiving financial planning advice (broadly defined here) ended up with a whopping 200-300% higher balance in IRA or 401(k) accounts at retirement than investors who did no planning. Even a small amount of planning input was deemed very helpful vs. getting *no* planning advice. Sadly, investors who did no planning ended up with a smaller retirement nest egg than if they simply had bought and held positions in the S&P 500 Index.

Non-planning investors typically made these mistakes: 1. Reacting emotionally to current market conditions 2. Paying insufficient attention to asset allocation, diversification and cost 3. Neglecting investments for months or years and 4. Buying stocks that already had performed well (thereby ending up "over-paying for yesterday's fad").

Getting your car repaired and maintained isn't the same as getting ongoing financial planning and investment input but it’s clear that most people can’t repair their cars fully themselves and expert advice is needed to keep your car running well over longer periods of time. I would say the same applies to financial planning and investment input – some advice is better than no advice but investing in detailed financial planning advice (not just buying things from brokers and other “transactional advisors”) produces the best long-term outcome.

*Morningstar Magazine Spring 2019 pages 31-34. The Morningstar survey tracked these areas over a 15 year period to gauge how well households did regarding portfolio risk, savings habits, life insurance, credit card management and emergency savings. These 6 areas were chosen using the Survey of Consumer Finances (2001-2016) in order to clearly capture the different outcomes of household “financial soundness.”