

Introducing financial planning 'finology'

Simon Hoyle | Conexus Financial | 20 August 2015

It's a paradox in financial planning that the so-called "hard" skills are actually the easiest to master, while the so-called "soft" skills are often the hardest.

Hard skills might help to define a technically brilliant plan, but it is the soft skills that ultimately motivate a client to enact and stick to that plan. What is the point of great advice if no one takes it, or if they abandon it at the first hint of trouble?

So asks Michael Kitces, partner and head of research for Pinnacle Advisory in Washington, DC, and a key speaker at the 2014 PortfolioConstruction Forum Conference in Sydney.

HELLO FINOLOGY

A technical approach to solving the problem, whether it be obesity or having people seek advice and ultimately act on it, won't work as long as people's behaviour doesn't change. What's needed is a different – a better – way of addressing the issue and presenting solutions. Say hello to "finology" – the study of "the relationship between human beings and money".

"We spent much of the past several decades both in the US and globally building a body of knowledge – what's all the technical stuff that you need to know if you're going to do this more holistic-looking advice process," Kitces says.

"But we still get a blocking point, that while without a doubt giving people advice and understanding the holistic picture gets us a lot closer to having them actually follow through on whatever it is that we're recommending for them, it doesn't always work.

"And I'm sure all of us have had experiences where we've sat down with the client and we've analysed their situation and we've had a conversation with them about what they need to do, and then we give the advice and then they don't take it.

"It raises a troubling question: What's the point of all this studying about all this technical knowledge... if no one takes that advice?

"There's more to this than just the technical knowledge that's attached to the delivery of financial advice."

CLIENTS RESPOND

Developing the concept of finology is the PortfolioConstruction Forum Conference's answer to how to "translate" the often highly technical aspects of portfolio construction into ideas and structures that clients both understand and respond to.

Finology is the link between the "hard" technical investment skills and the "soft" skills of client relationships. But in fact, "the soft skills are the hardest", says Dr David Lazenby, the president of ScenarioNow in St Louis, Missouri, and a qualified psychologist whose doctoral dissertation focused on intergenerational wealth issues with high-net-worth individuals (HNWIs).

"The other disciplines call the skill sets that we gain as psychologists the 'soft' side. The hardest skills to implement are what the other disciplines call the 'soft' skills," Lazenby says.

GOOD SCIENCE

He says the core of finology is answering the question "how do we take good science, and apply it to the advice process?". Lazenby's background working with elite sportspeople, HNWIs and the military has convinced him there's something missing in the financial planning process.

"There's a significant mismatch between what the science says, and what advice processes are, how they work and how you deliver them, and what the FPA [in the US] says is six steps.

"Well, the advice process is not six steps. Six steps is what you do [as a financial planner]; it's not the process that somebody goes through for problem solving and decision making on complex problems that have no right answer."

Lazenby, also a keynote speaker at the Conference, says understanding how people make decisions when faced with complex problems is the key to guiding them through the financial planning process in a way that leads to them taking action in the first place. But it is also key to "teaching" them – through practice and rehearsal – how to react if things do not work out precisely as planned. Such an approach to retirement planning has enormous untapped potential to improve outcomes for clients.

REGULAR AND GROWING

Graham Rich, publisher of PortfolioConstruction Forum, says finology is new to the Conference in 2014 but will be a regular, and growing, part of it in years ahead.

"My expectation is that this part of our program, where investing meets investors, will eventually become seen as just as valid as the technical stuff," Rich says.

"That's not to say the only people in the room should be people dealing with end investors – every one of us, no matter what part of the value chain we are in... ought to be passionate about what does this mean to the end investor?"

Simon Hoyle is Editor of [Professional Planner](#). This article was first published in Professional Planner and is reproduced with permission.
