

Finology and finding the higher purpose

Michael Kitces | Nerd's Eye View | 01 February 2018

EXECUTIVE SUMMARY

In the modern era, "money" is essential for survival, a means of converting our productive labor into a common unit of exchange that can be used to buy whatever we need. Yet at the same time, money is complex, and the incentives and motivations it stirs exerts powerful forces on us... such that, although money is necessary for survival, many people lack the basic "money competency" skills necessary to harness its power effectively.

Yet despite the essential nature of money, there is remarkably little research and understanding in how we relate to it. While economics studies how humans allocate scarce resources, and psychology studies the human mind and behavior, there is a gap at the intersection between the two – an emerging new body of knowledge that financial planning pioneer Dick Wagner dubbed, "Finology".

The key to understanding Finology is to recognise that there are both interior and exterior aspects to our relationship with money. On the one hand, we can't make financial recommendations without understanding what someone owns and owes, and how that fits within the current economic environment and existing tax laws. Yet that information alone isn't enough, without also understanding someone's personal goals and desires, their relationships with family and cultural beliefs, and their vision of what it takes to live "the good life".

Unfortunately, though, the history of financial planning and its existing body of knowledge have focused almost entirely on the "exterior" factors of money and how it works, and relatively little on the individual and their relationship with money itself. Yet in a world where our ability to have a healthy relationship with money is increasingly essential to survive and thrive – or else, we succumb to a never-ending series of self-destructive money behaviors – Wagner suggests that financial planning itself is likely to emerge as a *bona fide* profession in the 21 century... as financial planners themselves become Finologists in the future.

THE MODERN AGE OF MONEY

The late industry pioneer Dick Wagner was known for often saying "Money is the most powerful and pervasive secular force on the planet" – a theme that he explored in depth in his book (published shortly before his untimely death), "[Financial Planning 3.0](#)".

Economists define money as something that embodies three core functions: a store of value; a medium of exchange; and, a unit of accounting. Yet unlike currencies of old (e.g., physical gold coins), modern money itself has virtually no intrinsic value whatsoever. Its value derives from an implicit societal agreement that it will function the way it does.

Despite money itself having no intrinsic value, it exerts a tremendous force in our lives. It's [the second most addressed topic in the Bible](#) (second only to God), and is actively discussed amongst the key texts and ancient social codes of all major religions. And, arguably, as human society has shifted from its hunter-gatherer and agrarian roots – especially in the

"modern" era since World War II – money has taken on an even more central role in our lives than it did in the past.

As a result, Wagner makes the case that "money competency" today is a core survival skill. If we run out of money, we have "survival-level" problems, as we lose access to vital resources like food, shelter, and clothing. In the past, we could rely on family and neighbors to provide support for a wide range of care and support, but now it is all being institutionalised, with money at its core. Thus, we debate about how to pay for health care, child care, elder care, education, social work, welfare, etc., in terms of money (and not in terms of the capabilities of our families and villages to provide these various forms of care for those with needs).

On the plus side, money is incredibly efficient as a means of ensuring the effective allocation of broader societal resources. Wagner suggested that "money is the most effective mechanism ever created for matching unmet needs with unused energies and mutual benefit". After all, financial advisers couldn't ourselves have our food, clothing, and shelter, without the money that allows us to specialise in what we do, and exchange the money we receive with others who provide those goods and services that we need. Nor could systems like AirBnB and Uber "work" without money facilitating the matching mechanism of people who have idle capacity or resources and a desire to convert it into money for future use.

Even better, money also makes these kinds of resource allocations possible in a remarkably peaceful manner. As Wagner put it, "money's best feature is that it empowers human beings to self-organise for mutual benefit without violence or coercion". For most of our human existence, we lived in a constant state of fear that neighboring tribes or ravaging hordes would come galloping over the hills at any moment to ransack our homes and communities. A key aspect of most early forms of government and leadership was the opportunity to pledge fealty to an overlord, in exchange for that leader maintaining an army and providing protection to his/her people.

Today, however, conquerors go forth to fight for market share and financial capital, not physical territory and land/resource capital. Wagner notes that today's "fearsome warriors" fight their battles in their offices and boardrooms, not the physical battlefield - and with the side benefit that the capitalism at the core of their fighting generates wealth and drives productivity forward, rather than destroying them (as occurred in the physically destructive battles of old). When there is a rule of law and respect for contracts and property rights, money lets us live lives in ways that wouldn't be conceivable if we didn't have it (and wasn't conceivable even just a few generations ago). And, money rewards innovation - unlike in the past, where innovation just meant you weren't taking the time to tend your land, and risked starvation.

Yet despite how crucial money is to our ability to function in modern society, philosopher Jacob Needleman once observed "Everybody is weird about money". Economists assume that money is value-neutral but, in the real world, it is very much values-laden for most.

In fact, money remains one of the most taboo subjects in modern society, discussed in even more hushed tones than previously "inappropriate" subjects for group discussion like religion, sex, and politics (which increasingly dominate social media today!). Yet our discomfort in talking about money is itself a serious problem, given that money skills do not come to us naturally. After all, how can we make intelligent money decisions, if we can't even talk about it?

FINOLOGY AND THE STUDY OF OUR RELATIONSHIP WITH MONEY

The discipline of economics studies how people make decisions regarding the use of scarce resources, built around the simple presumption that people respond to (external) incentives.

When paired together with sociology, which studies how humans organise themselves into structured communities to satisfy their interpersonal needs, we form an understanding of how human beings collectively respond to both external and interpersonal incentives.

However, the reality is that even within the broader context of responding to external incentives and interpersonal relationships, we are still all our own individual human selves. In turn, this led to the rise of the field of psychology, which studies the behavior and mind of the individual, with all of the idiosyncracies that emerge at the individual level, in a manner that can even defy the collective wisdom implied by economics and sociology.

Yet, if we think of the ways these various disciplines study the decisions we make as human beings, a gap emerges. Philosopher Ken Wilber once proposed the idea of "Integral Theory", and that all human knowledge can be placed into a four-quadrant grid (Figure 1). On one dimension is the split between the interior and exterior. On the other, the collective versus the individual.

Figure 1: Holistic framework for studying the ways we make decisions

| Collective/Exterior | Individual/Exterior |
|---------------------|---------------------|
| ECONOMICS | ????????? |
| Collective/Interior | Individual/Interior |
| SOCIOLOGY | PSYCHOLOGY |

Source: A Theory of Everything by Ken Wilber & Financial Planning 3.0 by Richard Wagner. © Michael Kitces. www.kitces.com

In this framework, economics and sociology study the internal and external forces that impact how we collectively organise ourselves and respond to collective incentives. Psychology studies the internal forces that impact how we make decisions individually. But what do we call the intersection of the individual and the external (money) forces that apply to that individual?

In his book, Wagner posed the question "what goes above psychology" in the grid above? How do we define the study of the individual and his/her relationship with, and decisions regarding, the external forces of money?

Currently, such research lives mostly in the world of exceptions to other domains. Economics has recognised the existence of "behavioral finance", but mostly in the context of how it

violates existing collective economic tenets (but doesn't necessarily study the mind of the individual). Psychology has spawned the world of "financial counseling" and "money therapy" to attempt to address the issue from the individual perspective, but struggles to understand and characterise the external role that money itself plays in the process (as most psychologists don't know anything more about money itself than the average individual). Arguably, these gaps exist precisely because the upper right quadrant is not meant to merely be an extension of, or exception to, economics or psychology, but a discipline unto itself.

Wagner proposed that this quadrant be dubbed "Finology", which he defined as the study of the relationships between human beings and money, and the study of minds, brains, customs, and behaviors with respect to money and money forces - or, more generally, the study of money and (human) value exchange. And notably, its "finance" root unto itself is a word that originated etymologically from marking the settlement (end) of a financial dispute or debt, a resolution which is very specific to the individual, and ultimately recognises the impact that the financial (debt) obligation has on the individual.

Figure 2: Types of experts who study human decision-making

| Collective/Exterior | Individual/Exterior |
|---------------------|----------------------|
| ECONOMISTS | FINOLOGISTS |
| Collective/Interior | Individual/Interior |
| SOCIOLOGISTS | PSYCHOLOGISTS |

Source: © Michael Kitces. www.kitces.com

From this perspective, Finology fills the void – a void created by the fact that we don't have any word in the English language to describe the relationship between human being and money. And, in turn, it implies that the role of financial advisers is not just to weave together economics and psychology, but to become Finologists – those who study Finology, and the unique intersections between human beings and their money, and apply its principles in practice with clients.

INTEGRAL FINANCE AND THE FINOLOGY GARDEN OF KNOWLEDGE

Notably, a key point in the context of Finology is that the current financial planning body of knowledge – as captured by the CFP Board's Principal Knowledge Topics – is primarily focused on the exterior aspects of money. In other words, the CFP Board defines "financial

planning" as the study of retirement planning, estate planning, tax planning, investment planning, risk management and insurance planning, etc., - all of which are focused around how to plan for and with various money resources.

But none of those topic categories deal with our relationship to money, why it is so taboo that we're afraid to talk about it, and why people often make major financial decisions for reasons that are influenced by, but not necessarily beneficial for, their money and finances.

In point of fact, though, Wagner himself proposed a more holistic approach, again using Wilber's Integral Theory, applied to financial planning in a manner that Wagner dubbed "Integral Finance" (or what might now be called "Integral Finology"). In this context, a holistic Finologist would examine both the interior and exterior, individual and collective, aspects of a client's circumstances, in order to craft a recommended path forward for clients.

Figure 3: Wagner's integral finology framework for financial planning

| | Interior | Exterior |
|------------|---|--|
| Individual | Who you are inside, your intentions, and how you feel about things, including attitudes toward spending and saving, personal risk tolerance, and your vision of "the good life" | What you own, what you owe, all the objective facts about your life, including personal resources and realities such as education, occupation, income, expenses, assets, and liabilities |
| Collective | Relationships, family, ethnic, cultural history and beliefs, including collective attitudes toward spending, borrowing, investing, charitable giving, education, and legacy | Objective facts about the external environment, including tax laws, financial market structure, state of the economy, inflation rates, and available financial instruments |

Source: Yeske and Buie (2006), Policy Based Financial Planning Provides Touchstone in a Turbulent World & Wagner (2002), Integral Finance: A Framework for a 21st Century Profession. © Michael Kitces. www.kitces.com

In this regard, it becomes clear that the bulk of what we as (certified) financial planners currently study and talk about with clients is focused on the exterior (the right), with less on the interior (to the left). While we sometimes capture pieces of the interior – from personal risk tolerance and attitudes towards saving and spending, to family dynamics and charitable inclinations – thus far it is not something we are collectively trained in, nor something we deliver systematically to clients.

These interior and more "personal" questions about our views and relationship with money have thus far been the domain of a smaller subset of financial planners, often dubbed the practice of "life planning". Although many – including Wagner himself – would contend that the inclusion of the interior is not a "life planning" alternative to financial planning, but simply "financial planning done right" - or, at least, "finology done right", holistically integrating all the quadrants.

FINOLOGISTS AND THE FUTURE OF THE FINANCIAL PLANNING PROFESSION

As Wagner viewed it, the financial planning profession's mission and purpose is to work with people and their relationships with money and the fearsome forces that money generates within our lives and cultures.

In this context, it is likely no coincidence that financial planning has just begun to emerge as a profession in the past 50 years - because it's only in the era since World War II that we began our shift into the "Age of Money", a world where money is dissociated from the underlying physical constraints of hard currency, and with the help of Smith's "invisible hand" is increasingly efficient of helping human beings allocate resources... even as they are buffeted by money forces.

In fact, Wagner believed that financial planning would emerge as the newest authentic profession of the 21st century, on par with the recognised professions of law, medicine, and theology... where finologists "serve as 21st century pastors of a secular faith helping people address the great mysteries" of how to use money (rather than letting money use them). It's a role that today's financial planners may inevitably be forced into anyway, as the rise of technology and automation decreases the relevance of financial services products and brings "finology decisions" to the fore in the client relationship.

Of course, part of the challenge to this transition is that, as noted earlier, the CFP body of knowledge that financial planners are taught (along with the financial planning software we use) is still built primarily around the products we've sold over the decades. This is why the CFP curriculum includes extensive teachings around life insurance (which we sell) but not automobile or homeowner's insurance (which most CFPs don't sell), in-depth knowledge about investments (which we sell) but not liabilities (as most financial planners aren't paid for mortgages or credit cards), and includes whole courses about how to save for college (since we're paid for that) and plan for the estates (which often necessitates more life insurance) for our children, but not how to teach and instill good money values in the children we're raising to ensure the money doesn't spoil them.

In addition, the CFP body of knowledge does not include much in the interior dynamics of Finology at all, or what are often called the soft skills or the art of financial planning. Wagner would have suggested that art versus science, or soft versus hard skills, is the wrong way to think about the issue. With Integral Finology, the distinction is merely one of interior versus exterior domains, both of which are important. Thanks to the recent rise of Financial Counseling Labs, the interior is now increasingly being subjected to scientific scrutiny (just as the exterior has in the past).

Ultimately, the evolution of financial planning beyond the founding CFP body of knowledge even raises the question of whether the profession of the future really is "financial planning", or if the evolution of the profession (and the formalisation of its expanded body of knowledge) will lead to the rise of "Finology" as a new common term, and "Finologist" as the label for those who practice its teachings (and also distinct from those who simply sell financial services products).

But the bottom line is that as money becomes the primary vehicle of human interaction, society and individuals are coming to need objective financial planners – or Finologists – to navigate the powerful forces that money exerts in their lives, helping clients to plan through the various scenarios and lay out the different life possibilities that money makes possible.

And, in the meantime, for those who want further perspective on how and why financial planning and Finology are likely to become increasingly elevated and essential in the future, I highly encourage you to check out Dick Wagner's "Financial Planning 3.0"!



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