

# Establishing Financial Direction: The Financial Planning Process

## LEARNING OBJECTIVES

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After learning the material in this chapter, you will be able to do the following:

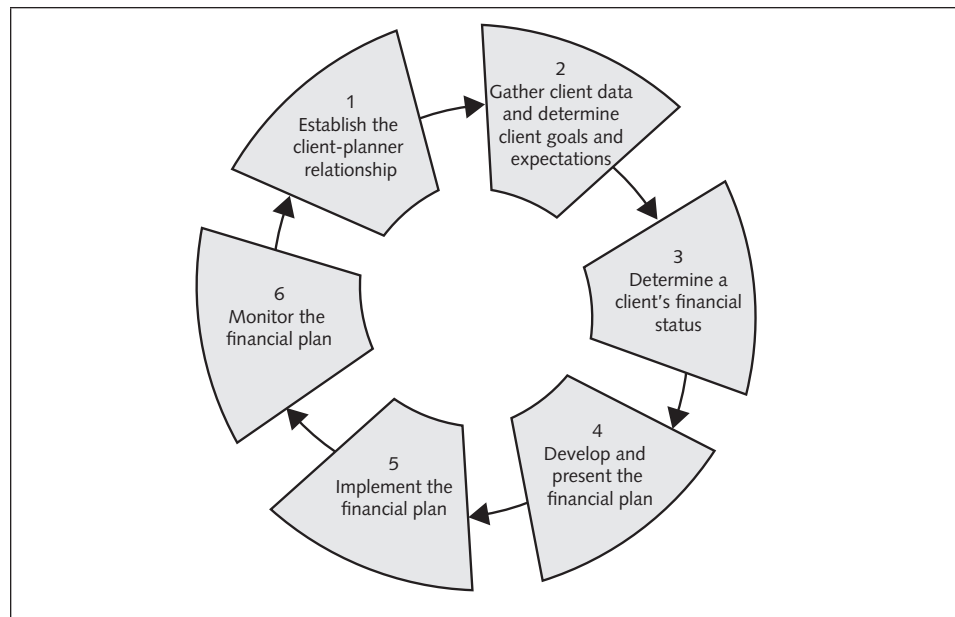
- Identify the six steps of the financial planning process used to establish financial direction
- Assist clients in identifying an appropriate financial mission
- Gather client data and identify external and internal environmental information that is relevant for a particular client
- Assist clients in determining goals, expectations, and objectives
- Determine a client's financial status and analyze internal strengths and weaknesses as well as external environmental opportunities and threats as they apply to a client

- Develop a financial plan by formulating appropriate financial strategies
- Assist clients in analyzing and selecting the financial strategy that best meets their needs and desires
- Assist clients in implementing and monitoring their financial plan

## THE FINANCIAL PLANNING PROCESS

The first step in the financial planning process, establishing the client-planner relationship, has been discussed in Chapter 3. Once this step is completed, the financial planner now begins to establish financial direction by gathering client data and determining the client's financial status. These steps, and the subsequent steps in the financial planning process, are illustrated in Exhibit 5.1.

**EXHIBIT 5.1** The Financial Planning Process



## Steps

1. Establish the client-planner relationship.
2. Gather client data and determine client goals and expectations.
3. Determine the client's financial status.
4. Develop and present the financial plan.
5. Implement the financial plan.
6. Monitor the financial plan.

The six steps of the financial planning process are completed in sequential order because each step depends on the previous step. The elimination of any step may result in the loss of direction and, possibly, an inappropriate financial strategy. Furthermore, the financial planner must periodically monitor the external and internal environments so that changes in the environment may be responded to appropriately. Monitoring is a continuous and ongoing process that does not end once the plan has been implemented. Modifications to the plan must be made as changes in situations and circumstances require.

To establish financial direction in a manner that is concise and systematic, we recommend the use of the Client/Planner Worksheet for Establishing Financial Direction shown in Exhibit 5.2. The application of this worksheet will be demonstrated throughout this chapter. Notice that the worksheet has a header for the client's name and date, a footer for the planner's name, a section for the financial mission, a section for financial goals and objectives, and a section in which each goal or objective is identified and classified as a need or want, with the want objectives ranked from 1 (nice to have) to 5 (of great importance).

The process of interviewing the client and gathering necessary paperwork could take several weeks. Financial planners may find it helpful to ask the client to bring bank statements, paycheck stubs, investment account statements, and insurance policies to the data-gathering meeting. A completed client questionnaire may also be requested before the meeting. Having these support documents will speed the analysis phase and allow the planner to ask pointed questions during the data-gathering meeting.

**EXHIBIT 5.2** Client/Planner Worksheet—Blank Form

**Client/Planner Worksheet for  
Establishing Financial Direction**

Client Name \_\_\_\_\_ Date \_\_\_\_\_

**FINANCIAL MISSION**

1. Educate the client as to what a financial mission is and the importance of it being broad and enduring.
2. Working with your client, develop a financial mission that your client is willing to embrace.

\_\_\_\_\_

\_\_\_\_\_

**Financial Goals & Objectives**

1. Discuss and explain common financial goals with client.
2. Identify goals the client is interested in achieving.
3. Write client objective under appropriate goal classification.
4. Ensure all "need" objectives have been identified and documented.
5. Classify each objective as a want or a need; remember to remain objective.
6. For each "want" objective, the client must assign a weight between 1 and 5 (1 = objective would be nice to have, 5 = objective is of great importance).

<b>Goal:</b>		
<b>Objectives:</b>	<b>Need</b>	<b>Want</b>
	•	• _____
	•	• _____
	•	• _____

<b>Goal:</b>		
<b>Objectives:</b>	<b>Need</b>	<b>Want</b>
	•	• _____
	•	• _____
	•	• _____

<b>Goal:</b>		
<b>Objectives:</b>	<b>Need</b>	<b>Want</b>
	•	• _____
	•	• _____
	•	• _____

<b>Goal:</b>		
<b>Objectives:</b>	<b>Need</b>	<b>Want</b>
	•	• _____
	•	• _____
	•	• _____

Planner's Name \_\_\_\_\_