

Evidence-Based Financial Planning: To Learn . . . Like a CFP

by Elissa Buie, CFP®, and Dave Yeske, D.B.A., CFP®

Elissa Buie, CFP®, is adjunct professor at Golden Gate University's Ageno School of Business and is CEO of Yeske Buie, a wealth management firm with offices in Vienna, Virginia, and San Francisco, California. She is also a past chair of the Financial Planning Association and vice chair of the Foundation for Financial Planning.

Dave Yeske, D.B.A., CFP®, is distinguished adjunct professor at Golden Gate University's Ageno School of Business and is a managing director of Yeske Buie. He is a past chair of the Financial Planning Association and currently chairs FPA's Academic Advisory Council.

“CFP® practitioners have an urgent need to develop basic financial planning theory. Without underlying buttressing theory, how can we practice as a profession?” This is not a new observation. In fact, Dick Wagner made that opening declaration more than 20 years ago in his seminal essay “To Think . . . Like a CFP” (1990). Nearly a decade later, Warschauer (2002) could still observe that “as one approaches the content of financial planning (CFP Board’s 101

Acknowledgments: The authors gratefully acknowledge the invaluable feedback they received from the following colleagues (in chronological order of response): Dick Wagner, Jennifer Maier, Stuart Grierson, Mike Ryan, Brian Boscaljon, Mark Prendergast, Harold Evensky, and Ed Jacobson.

Executive Summary

- The financial planning profession’s body of knowledge consists of a mix of consensus-based best practices and research-based findings founded upon formal standards of evidence. Even a cursory examination of that body of writing and codified practice, however, reveals that the former vastly dominates the latter.
- The scientific method provides a framework for validating the profession’s best practices, so that practitioners can have confidence that their “best” practices are based on the “best” evidence.
- If financial planning is to leave its adolescent stage of development and achieve its full potential as a learned profession, three requirements must be met:
 - » It will require a commitment by all practitioners to stay abreast of new research, without regard to whether it qualifies for CE credit
 - » It will require practitioners to possess or acquire the ability to read and critically evaluate that research and a commitment by financial planning educational programs to impart those skills to students
 - » It will require a commitment on the part of practitioners to partner with academics in identifying the profession’s most important questions and designing research initiatives to answer them

topics) from a view of higher cognitive level, it becomes clear that we have poor theory to guide the practice of financial planning.” The contemporaneous assessment of Black Jr. et al. (2002) was no better: “The PFP field has evolved largely devoid of a theoretical foundation” and “we know of no respected profession without academic underpinnings and recognized academic

standing.” More recently, Wagner (2007), while revisiting the theme of financial planning becoming a “learned profession,” suggested that “for the most part, we have not closely examined our presuppositions, often settling for bland aphorisms rather than critically examining our assumptions.”

If we do, in fact, aspire to the status of learned profession, then financial

planning has surely reached the point in its development where the way forward urgently requires us to move decisively from observation to corrective action. Specifically, we propose that the time has come to commit ourselves as a profession to a more scientifically grounded and evidence-based approach to expanding our body of knowledge and assessing and adopting best practices.

Science as the Foundation for Best Practice

The Science Council in the United Kingdom offers this concise definition of the scientific enterprise: “Science is the pursuit of knowledge and understanding of the natural and social world following a systematic methodology based on evidence.”

More formally, scientific research can proceed deductively or inductively, and almost always relies on a combination of both. The deductive approach begins with the statement of a broad principle that seems self-evidently true, and then proceeds to “deduce” the implications of that principle through logical reasoning. Data are then gathered to test the verity of those logical conclusions. Put another way, deductive science proceeds from the general to the particular. Here’s an example of deductive reasoning (adapted from Gorham 2009):

1. All penguins are birds
2. All birds are animals
3. So, all penguins are animals

Inductive reasoning, conversely, proceeds from the particular to the general. We observe some phenomenon recurring in our environment and begin to wonder what it means. Through repeated observations, we form a belief, expressed as a hypothesis, as to the underlying cause. Finally, we gather data and formally test our hypothesis. Here’s an example of inductive reasoning:

1. Hundreds of species of penguins have been observed so far, and all are swimmers
2. So, all species of penguins are swimmers

Financial planning best practices also arise from both deductive and inductive reasoning. Some have developed from “self-evident” propositions and their natural implications, and others have arisen from a slow accumulation of observations that ultimately seem to form a pattern. That our best practices arise in ways that mirror the deductive/inductive methods of science shouldn’t be a surprise; humans have evolved to think that way. As Albert Einstein put it, “The whole of science is nothing more than a refinement of everyday thinking.” Of course, that word “refinement” is critical. Our trouble as a profession is that most of our best practices stop at the formation of a belief (the case study presented below, for example, involves a best practice that existed for decades before eventually being empirically tested). And we’re quite comfortable stopping there because our personal experience and the experience of colleagues will often seem to confirm and reinforce those beliefs (a common phenomenon psychologists call “confirmation bias”). However, such informal “evidence” is properly termed *anecdotal* and cannot be the foundation of a truly learned profession’s best practices. Instead, we must take the next step: we must form our beliefs into hypotheses, then gather appropriate data and formally test those hypotheses. Only then can we say with confidence that our “best” practices are founded upon the “best” evidence.

Before proceeding to outline the steps necessary for this progress, it’s important to point out that we are not suggesting the profession embrace “scientism,” the blind worship of anything or only things thought to be “scientific.” True science must be practiced with proper humility and a deep awareness of its limits. Karl Popper (2002), a

philosopher of science, offered many observations about the limits of science, including the following:

- Insofar as a scientific statement speaks about reality, it must be falsifiable; and insofar as it is not falsifiable, it does not speak about reality
- Good tests kill flawed theories; we remain alive to guess again
- Our knowledge can only be finite, while our ignorance must necessarily be infinite

The first statement is an expression of what came to be known as the “falsificationist” school of thought. Specifically, it suggests that only those statements that can, at least in principle, be proven

“That our best practices arise in ways that mirror the deductive/inductive methods of science shouldn’t be a surprise.”

false qualify as scientific propositions. Understood from this perspective, science is quite modest in its scope, because the number of propositions subject to falsification is finite and those not so limited are infinite. And the fact that a belief or proposition isn’t potentially falsifiable doesn’t make it wrong or foolish or anything else; it simply places it outside the scope of scientific inquiry. For example, one might have a theory that one’s daily prayer or meditation contributes to world peace. This proposition may or may not be true, but because it doesn’t give rise to testable

(potentially falsifiable) hypotheses, we would have to say that this theory exists outside the realm of science.

Interior or Exterior: It's All Science

We often hear the phrase “the art and science of financial planning,” with hundreds of references to be found throughout the financial planning literature. Almost invariably, the phrase is used to suggest that financial planning combines the science found in the exterior realm (for example, finance, economics), with the art of the interior realm (for example, feelings, interpersonal communication). In our view, the problem with this characterization is that it ignores the fact that there is science in the interior realm as much as the exterior realm. The “human” dimension has been the subject of a significant amount of formal scientific inquiry and rightfully belongs in the category of science as much as the “exterior” dimension does. Here's a partial list of the sciences of the interior and the exterior:

Interior Sciences

- Psychology
- Sociology
- Neuroscience
- Neuroeconomics
- Behavioral finance
- Communication

Exterior Sciences

- Finance
- Economics
- Investment theory
- Complexity theory
- Risk management

If one agrees that both realms are essential to the practice of financial planning, then acknowledging and mastering the science of both realms is also essential. This is not to say there isn't art in what we do! In the *artful application of the science*, financial planning transcends mere financial advice. In our role as strategists we weave all of the profession's tools and techniques into integrated strategies for achieving

client goals. Strategy is fundamentally a creative act in which we render the components of financial planning into something greater than the sum of their parts (Yeske 2010). Ultimately, the artful application of science as it relates to financial planning is a substantial topic unto itself, deserving of the kind of fuller discussion that will have to await a future paper.

Case Study: CFP Board Practice Standard 200-1

Certified Financial Planner Board of Standards, in addition to setting standards for the profession through education and examination, also maintains a set of practice standards developed by a volunteer workgroup and adopted in 1995. The practitioner-dominated workgroup developed and codified a comprehensive list of best practices based on personal judgment and experience, without explicit reference to formal research or standards of evidence. Here is Standard 200-1 and several excerpts from the accompanying explanatory material:

The financial planning practitioner and the client shall mutually define the client's personal and financial goals, needs, and priorities that are relevant to the scope of the engagement before any recommendation is made and/or implemented.

In order to arrive at such a definition, the practitioner will need to explore the client's values, attitudes, expectations, and time horizons as they affect the client's goals, needs, and priorities.

The role of the practitioner is to facilitate the goal-setting process in order to clarify, with the client, goals and objectives.

The public is served when the relationship is based upon mutually defined goals, needs, and priorities. This *Practice Standard* reinforces

the practice of putting the client's interests first, which is intended to increase the likelihood of achieving the client's goals and objectives.

This standard can clearly be seen to have arisen through deductive and inductive reasoning. Its propositions seem self-evident and are just as clearly the result of many observations over many years by the practitioners who wrote the standard. Long after this standard was promulgated, Anderson and Sharpe (2008) decided to empirically test a number of its implications. Here's what they found, among many other things:

- Clients place a high value on a “systematic process for uncovering goals and values”
- A systematic discovery process is associated with higher levels of client trust and relationship commitment

These were not trivial findings, because prior research had also shown that higher levels of trust and commitment were associated with high acquiescence, a low propensity to leave, a high degree of cooperation, and functional conflict (the ability to manage conflict constructively; Morgan and Hunt 1994). Higher levels of commitment and trust have also been associated with greater client openness in disclosing personal and financial information, greater cooperation in implementing planning recommendations, and a greater propensity to make referrals (Anderson and Sharpe 2008).

In addition to studying the clients of financial planners, Anderson and Sharpe studied the beliefs and practices of financial planners themselves. What they found was instructive and perhaps a little alarming. Here are two of the statements planners were asked to evaluate, along with the results:

- “I use a systematic process for helping my clients clarify their values and priorities” (59 percent agreed)

- “I use a goal-setting process to help my clients establish meaningful personal financial goals and objectives” (59 percent agreed)

So, more than 4 out of 10 practitioners surveyed were not engaging in a systematic discovery/goal-setting process with their clients. The question we are left with is: will these numbers change now that this long-standing best practice is empirically supported? This, in turn, raises the more fundamental question of how new knowledge is transmitted to practitioners and how they evaluate it. One of the reasons professionals are routinely subjected to continuing education (CE) requirements is the need to maintain competence in the face of new knowledge and emerging best practices. But two questions arise: (1) Can any

“The status of learned profession ... requires more than the adoption of a new self-image.”

practicing professional really stay abreast of new developments by accumulating a mere 15 hours of continuing education a year (CE requirement for CFP® professionals), and (2) Should qualification for CE be the most relevant benchmark for where we put our attention as professionals? New discoveries in the financial planning profession rarely qualify for CE until long after they’ve become settled practice.

Where Do We Go from Here?

This leads us to three indispensable requirements if financial planning is

ever to emerge as a learned profession:

1. It will require a commitment by all practitioners to stay abreast of new research regardless of the assignment of CE credit
2. It will require practitioners to possess the ability to read and critically evaluate that research
3. It will require a commitment on the part of the profession to partner with academics in identifying and designing that research

The first point is one of self-image and will arise from a new kind of dialogue within the profession, one focused on the emergence of new knowledge and the validation of the old. The status of learned profession, however, requires more than the adoption of a new self-image; there are pre-requisites. And first among these is the requisite knowledge to engage effectively with research-based literature.

Competency in reading and critically evaluating research is nowhere to be found among CFP Board’s education and certification requirements. These requirements are derived from CFP Board’s periodic job-analysis studies, in which practitioners are asked to rank the importance of various topics and activities.

The resulting list forms the minimum foundation that must be taught in university degree and certificate programs in order to qualify graduates to sit for the CFP® Certification Examination. Many or most of these programs are taught at the undergraduate level, at which there is rarely a focus on the critical evaluation of original research—a skill more generally acquired through graduate study. However, as attainment of the CFP mark promises entry into a profession, a higher standard is surely appropriate. At a minimum, we believe that any practicing financial planner

should have the training to be able to read a piece of research literature and answer the following eight questions:

1. What is the problem or question?
2. How was the problem/question conceptualized?
3. What are the key findings from prior research?
4. What methodology was used to test the question?
5. What were the results of the testing?
6. Were the results compelling?
7. What are the practical applications of the results?
8. Will this change the way we practice, and if so, how?

How might financial planners gain the skills to be better consumers of research? Although an exhaustive list of “next steps” for planner training would need to be explored in another paper, some initial ideas might involve:

- Conference sessions aimed at teaching planners how to read and interpret research-based articles
- A webinar series devoted to the topic
- Articles in the *Journal of Financial Planning* or elsewhere
- A reading list of books that educate practitioners on how to evaluate research
- University courses on evaluating research aimed at practitioners

With respect to the third requirement, we note that a deep connection between academia and practitioners is an element of every established profession. The financial planning profession would benefit from such deep academic-practitioner connections no less than any other. After all, financial planning practitioners, through their daily work with clients, come to know the critical questions that need to be answered, and academics know how to address these questions through formal research. This is an essential partnership.

Finally, we must work to ensure that there are widely recognized outlets for

the output of what will hopefully be a rapidly expanding body of research. At the moment, there are many dozens of publications aimed at a financial planner audience, but only two or three that even attempt to publish rigorous, peer-reviewed research. Much remains to be done to enhance the quality of the research being published and to heighten the awareness within the practitioner community of where leading-edge findings are to be found.

After more than 40 years of growth and development, the financial planning profession is poised to take its place among the ranks of other learned professions. Among other things, this will require each member of the planning community, whether practitioner, academic, publisher, consultant, or association executive, to accept his or her shared responsibility

for building the profession on a rigorous, evidence-based foundation.



References

- Anderson, Carol, and Deanna L. Sharpe. 2008. "The Efficacy of Life Planning Communication Tasks in Developing Successful Planner-Client Relationships." *Journal of Financial Planning* (June): 66-77.
- Anthes, William L., and Shelley A. Lee. 2001. "Experts Examine Emerging Concept of 'Life Planning.'" *Journal of Financial Planning* (June).
- Black Jr., Kenneth, Conrad S. Ciccotello, and Harold D. Skipper Jr. 2002. "Issues in Comprehensive Financial Planning." *Financial Services Review* 11: 1-9.
- Gorham, Geoffrey. 2009. *Philosophy of Science*. Oxford, U.K.: Oneworld Publications.
- Morgan, R. M., and S. D. Hunt. 1994. "The Commitment Trust Theory of Relationship Marketing." *Journal of Marketing* 58, 3.
- Popper, Karl. 2002. *Conjectures and Refutations: The Growth of Scientific Knowledge*. 2nd ed. London, U.K.: Routledge.
- Wagner, Richard B. 1990. "To Think ... Like a CFP." *Journal of Financial Planning* (January).
- Wagner, Richard B. 2007. "Financial Planning as a Learned Profession." *Financial Advisor Magazine* (October).
- Warschauer, Thomas. 2002. "The Role of Universities in the Development of the Personal Financial Planning Profession." *Financial Services Review* 11: 201-216.
- Yeske, David B. 2010. "Finding the Planning in Financial Planning." *Journal of Financial Planning* (September): 40.

FPA®

CONNECT

where communities
come together

Get connected with FPA's newest online community platform

Share all of your latest ideas with financial professionals around the world.

FPA Connect is your opportunity to connect with fellow FPA members in ways meaningful to you.

FPA Connect is a private community for FPA participants where you are able to make connections that matter.

We care about your privacy, so have been careful about how we have populated your information on the platform. But you are totally in control and can change these settings to fit exactly how you want your information shared.

Community of
Communities

Trusted
Colleagues and
a Safe Space

Privacy
Matters

Continue
Existing
Conversations

Learn and
Share

Easy to Use

Already have a conversation going? Maybe a study group or LinkedIn conversation? Migrate it over to FPA Connect!

By growing the resource library of FPA Connect, we can benefit as individuals and as a profession. Holistically, we come together to strengthen our collective wisdom, making our profession stronger.

Use your FPA user ID and password to log in. You will find that your profile is already pre-populated with information from our database.

Visit <http://connect.fpanet.org> and get connected today!