5 Common Financial Planning Myths
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Several myths related to financial planning deserve further examination. Most of them were perpetuated over time due to a lack of education about the industry. The disconcerting part is that the belief in these myths has the ability to hinder the lifetime financial gains for those who believe them. I've debunked what I believe are the top five myths below to break down some of the barriers that keep people from seeking the advice of a financial planner.

Myth #1: Financial Planning is only for the wealthy.

Financial Planning is for all people who want to live a life free from the stress often associated with money. Historically, financial planning has been for the wealthy. However, with the new trend toward becoming debt free many of the people who are turning to financial planning are those who are in debt or have recently cleared their debts and are hoping to start a newer, calmer financial life. They are using financial planning to build wealth, not to manage the wealth they already have. People have realized that living beyond your means is no longer the path to the comfortable future they desire. To this end, some financial planning firms are becoming friendlier by offering zero minimums on assets under management, providing lower yearly financial planning fees, and offering hourly rates.

Myth #2: The cost of hiring a financial planner does not justify the service they provide.

Fee-only financial planners take a look at the client's financial "big picture." This includes, but is not limited to, insurance, taxes, investments, cash flow, and charitable giving (among others). Then, because of this comprehensive approach, they are often able to save them money in ways the client was not aware of previously. Financial planners also have knowledge related to tax laws that many individuals don't have access to (or the time to research). This alone can save the client thousands over the life of their financial plan. In an article published in the New York Times, William Bernstein, author of The Investor's Manifesto: Preparing for Prosperity, Armageddon and Everything in Between (John Wiley & Sons, 2009), discussed the savings on your investments alone. He believes that "the average investor probably lags the market by two or three percentage points because they buy and sell investments at precisely the wrong times. So many people may come out ahead even if they pay 1 percentage point to a skilled adviser. What you get from an adviser is not (just) the winning allocation. Who knows what the most efficient allocation is anyway? What you are getting is the discipline. And an annual (or quarterly checkup) provides precious little discipline."

Myth #3: "I can do my own financial planning."

This phrase is often in the same vein with the ones that landed the person in debt originally, made them buy that annuity with high fees, or invest in Lehman Brothers just before they sank. The decision to use a financial planner isn't necessarily because you can't do it on your own. It's because, like anything else, poor personal discipline can wreak havoc with important decisions. Many people land in financial trouble because they don't have the discipline required to stay the course or make changes. You should liken financial planning with all of the other things you might do for yourself: hiring a personal trainer or dietician, and going to have check-ups at the doctor. A financial planner aids you in making the decisions you might not otherwise make regarding saving and investing (among others). "You should save to the point of discomfort and maybe beyond, and that is not something people will do unprompted," said Jim McCarthy, head of client advisory and retirement services at Morgan Stanley Smith Barney.

Myth #4: Financial Planners watch the clock.

No one wants to talk to someone regarding an important decision and wonder if that person is watching the clock. Clients want to know that they can call at anytime, with any decision that might affect their finances – buying/selling their home, a decision to enroll a child in an expensive soccer league, deciding on their monthly tithe, allocating spending money, etc. All of these things come up daily, but are typically decided without consulting a professional. Seemingly small poor decisions can lead to major errors over time. Some fee-only financial planners will work with clients on an hourly basis to help a client with a specific issue. However, the most effective way to truly utilize the services of a financial planner is to pay them a yearly fee. By doing this, you will likely have a minimum of four meetings a year and personal access to your planner in between. Many times, the annual fee will end up costing less than paying on an hourly basis. Another benefit of hiring a planner on a yearly basis is that after the first year, consecutive years are sometimes discounted as much as 50% off the cost of the first year. Since not all firms offer this arrangement, you should check with your financial planner first before signing up.

Myth #5: Financial Planners are all created equal.

In a future white paper, we'll discuss the difference between calling yourself a financial planner and actually being one. Let's just say this for now…Not all financial planners are qualified to justify their title; anyone can claim to be a financial planner. You should look for specific professional and educational credentials. For instance, some financial planners who work in banks are simply employees selling bank products. They are trained in those products only - like anyone else selling a product. If you choose to work with a commissioned sales person like this, you'll get what you pay for. On the other hand, **CERTIFIED FINANCIAL PLANNER™** professionals have completed rigorous coursework and have the experience to back the credentials behind their name. Author Jane Bryant Quinn has this to say in her book, Making the Most of Your Money Now, "CFPs who sell no products and charge only fees…are the true planners. They engage you in personal discussions that help you sort out your priorities, align your budget with your goals, and arrive at a financial plan that works. Many fee-only planners are also Registered Investment Advisers and will manage your money, if that's what you want. Usually they invest it in low-cost, no-load mutual funds or exchange-traded funds."

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