The Financial Planning Process

Eliminate fear of the unknown in the financial planning process—whether you're looking to design a comprehensive financial plan or focus on one goal, the process typically includes these six steps.

Step 1

Establishing a relationship with your advisor

Without a working relationship with your financial advisor, it will be difficult to develop a functional financial plan. During the first or first few meetings with your advisor, you will likely will outline the services they expect to provide. You should discuss specifics, such as the best way to communicate, whether by phone, video chat or face-to-face meetings. It's important to also establish compensation expectations, so that there are no surprises for either of you down the road. The advisor will likely explain any forms you will need to fill out, discuss a confidentiality policy, outline his or her advising philosophy and explain the possible benefits that come from having a financial plan. When both you and the advisor are up-front and clear about expectations for the relationship in the future, you can build trust with each other and form a successful working relationship.

Step 2

Setting goals and gathering data

Once you've covered the basics, it's time for you and your advisor to dig a little deeper and start looking at the details of your finances. It can be uncomfortable to give someone access to your financial documents and status, but it's important to be candid so that your advisor has a full picture of your finances and can make the best plan possible. For your advisor to truly understand your financial state, he or she may need access to your tax returns, will, trust documents, account statements, pay stubs, insurance policies, investment statements, employee benefit records, etc. Beyond this objective information, your advisor will also want to get an idea of your biggest financial worries. Although you may come in to the appointment with a jumble of anxieties about your financial future, it is your advisor's job to help you turn that anxiety into clearly defined and prioritized goals. It can be hard to ask yourself tough questions like, "What is more important to me at this stage in my life: my retirement or my child's education?" Your advisor will likely ask you some of these tough questions and help you to work through the answers. Finally, an advisor will typically evaluate your risk tolerance, which helps determine how much variability you are willing to take on in your investment returns. To gauge your goals and risk tolerance, your advisor may have you fill out written surveys or questionnaires. However, you shouldn't think of these documents as a test—

HEIM·YOUNG & ASSOCIATES

Heim, Young & Associates, Inc.
(417) 882-7283

1256 E Kingsley St
Springfield, MO 65804

there are no "right" or "wrong" answers, only information to help gain a more accurate picture of your financial personality.

Step 3
Analyzing data

This step is the responsibility of the advisor and involves analyzing the information you've provided to determine where your financial strengths and weaknesses lie. Your advisor will then use these areas of strength and risk to design a personalized financial plan that can help you reach the financial goals outlined in step two. Your advisor may analyze your assets, liabilities, cash flow, insurance coverage, and investments and/or tax strategies. This step will vary greatly depending on your advisor and the type of service you requested. Your advisor may use tools such as financial calculators or financial planning software to determine whether the goals you have set are feasible. If your advisor finds that they are not attainable, you may have to go back to step two and rework the timeline or stipulations of your goals.

Step 4
Creating a plan

After your advisor analyzes your financial goals and your financial standing, he or she will make recommendations to you based on this analysis. This plan may include tax strategies, asset allocation advice, insurance recommendations, money management tips and more—what it will definitely include is a plan tailored specifically to you and your financial situation. He or she may consult with other specialists, such as a tax professional, to ensure that you are receiving the most comprehensive recommendations possible. It is your advisor's job to make sure you fully understand all components of the plan and to listen to any concerns you may have. You will likely be given options to choose from so you can find a plan that you are most comfortable with. When you leave this meeting, you should be clear on which parts of the plan are your responsibility and which parts are your advisor's. The plan should also be documented, so that everyone is clear on what will happen and can use it for future reference.

When responding to questions about your goals or risk tolerance, remember there are no "right" or "wrong" answers, only information to help the advisor gain a more accurate picture of your financial personality.

Step 5
Implementing the plan

Even the most thoroughly crafted plan will fail if you and your advisor don't take the necessary steps to implement it. You'll have to decide if you'll be responsible for implementing it, with the advisor acting as a guide, or if your advisor will implement all steps of the plan. You could even take a joint approach. Your compensation model may change based on the advisor's responsibilities outlined in this step. You should also decide if you'll require additional help from attorneys, brokers or tax professionals, and if so, decide on a plan for coordination among these people and your advisor so that everyone will be on the same page.

Step 6
Monitoring the plan

Finally, set up a monitoring system to make sure your plan stays on track. You'll likely have to make adjustments based on economic, tax or market fluctuations, as well as changes in your personal or financial situation. For example, if you switch jobs, have another child or decide to buy additional real estate, your financial plan may have to be adjusted. You can set up regular check-ins with your advisor, and you might have additional follow-up appointments based on any of the previously mentioned changes. You and your advisor should decide who will be mainly responsible for monitoring your plan's progress and how you will do so. In addition to monitoring the financial environment, you will want to consider how well all of the components of your plan are functioning.