Goals-based advice is not a 'fad'

MATTHEW WALKER, AGBA - Monday, 08 May 2017 5 comments

Criticism of goals-based advice dismisses the very reason we do what we do.

There are many ways for financial planners to help clients achieve their goals but without doubt the essential raison d'etre for any financial planner is that they do help their clients achieve their goals.

In this respect "goals-based advice" should be considered the foundation for every financial planning business on the planet, and not be seen as a 'fad' or passing phase. What else would they be there to do?

As to how to achieve those goals, well, everyone has an opinion as to what they think the best way to achieve this may be. Rather than say it's black and white and one is better than another, why don't we foster the debate and encourage everyone in the industry to build their understanding of the options available to them.

The Association of Goals Based Advice (AGBA) has been set-up to help financial planning practitioners achieve just that. Network, learn from others, find them options that best suit their ideas and business needs.

Mark Nagle from Treysta stated his opinion in ifa recently arguing that "the idea of goals-based advice is flawed and is a 'fad likely to be short lived'".

Once we move past the idea that every approach is designed to be "goals-based", in so far as it meets the clients' goals/needs, then we can open the conversation up to include another perspective on how to provide goals-based advice and build investment solutions to meet those needs.

Should the solution be mathematically solved as a Required Rate of Return? Should it be based on a risk profile or tolerance? Is it best achieved through values-based discussions?

AGBA doesn't advocate any way is the 'best' or 'the only true way'. In fact, AGBA would suggest that elements of all approaches can be taken into consideration for any given practice to deliver a business solution to best meet their client's needs. That is, they need not be mutually exclusive and perhaps we can draw the strengths from every approach.

For example, perhaps we use a values-based approach to help define and refine ongoing goals, which in any practical context must be an ongoing discussion. For this we have a system of reviews for clients, as life is always changing and evolving. At some stage, it's likely that some, if not all, goals can be defined empirically.

Otherwise how do you know where you're headed or how to measure it? Once defined we can empirically look at the 'current' goals and build solutions to meet those goals, be they investment portfolios, cash flow systems, etc... That is the core of our jobs as financial planners. If part of that is to use investment portfolios with specifically designed outcomes to help meet those specific needs – as indeed Treysta seemingly do – then fine, if that's what helps the client, great.

Perhaps the current debate is a little narrow and we're falling into the trap of thinking there is only one way we can move forward. Previously, we've been educated around using one system based on a risk profile. Through forward thinking practitioners and industry associations like AGBA, we're now beginning to see there are lots of valid ideas and more than one way to do things.

This is a huge positive for the planning industry and one that can only help us evolve and improve the public perception of our industry. Let's embrace it. For example, goals-based investing does not do away with the need for risk profiling. Indeed, it's still essential, no matter what your solutions may be.

The simple reason for this is that once goals are identified and investment solutions put forward, we need to ensure that it is suitable for the individual client's risk tolerances. Often it's not, but then that's another element of a financial planning conversation. For example; if the required rate of return is too high and can't realistically be solved for, or is above their stated risk tolerances, then a conversation around how achievable their goals are should ensue. Do they retire later? Do they reduce their retirement income?

Do they save more now? Or, it may be the client doesn't need to invest or take any risk at all because they have already accumulated enough assets, or will with strong cash flow, so why take any risk? In this scenario, it may be a conversation around efficiency, risk tolerances, building more than is required for a buffer, to help family, philanthropy, etc. Again, any number of conversations are all good financial planning conversations that we should be having with all our clients.

So, no, goals-based advice is not a fad. It's the reason we're all doing what we do. It's the 'how' and 'why' of it all that we should be considering. Let the discussions begin.

Matthew Walker is chairman of the Association of Goals Based Advice