

What exactly is financial planning?

By James Solomons CA

PRIOR to the Global Financial Crisis (or the GFC), the financial planning industry held a somewhat precarious place in the financial services world.

It often received unfavourable media attention thanks too a small number of unscrupulous and unregulated advisers who had the sole intention of preying on and ripping off unwitting people of their life savings.

With many people not understanding what a financial planner did or what the financial planning process involved, people steered clear of those offering these much needed advice services, and opted for the typical aussie DIY approach to manage their financial affairs.

In many cases, it was and remains a "she'll be right" attitude. However, does this approach provide someone with peace of mind?

Post GFC the financial planning industry was dragged into the spotlight as fingers were pointed. But in many cases, the blame being laid at the feet of financial planners was misplaced.

This was generally the result of the lack of knowledge of what a good financial planner does and what impact financial planners actually had on the losses incurred by so many people around the world.

As is often the case in life, the fear of the unknown is what stops people from moving out of their comfort zone and this metaphor applies to the financial planning process.

Identifying your financial and lifestyle goals, then having a plan prepared which shows you how you can achieve these goals and then challenging yourself to trust this advice and make the changes identified are all factors which can take someone out of their comfort zone.

With any plan, financial or otherwise the outcomes are never guaranteed and for many this fact leads them away from getting the advice they need.

The GFC however, has highlighted the need to obtain financial advice from professionals to reduce the risk of making the wrong choices when it comes to your financial affairs.

Since the GFC there has been a wave of reforms to make the financial planning industry more regulated and more transparent so as to give people both financial and legal protection as well as to build faith in the profession.

The Financial Planning Association of Australia (or FPA), the peak body governing and representing financial planners and the financial planning industry within Australia lists the definition of financial planning as; "Financial Planning is the process of developing strategies to help you manage your financial situation so that you can protect and build wealth, enjoy life and achieve financial security".

The FPA website also contains information about what the financial planning process is and when you may need advice.

But what really is financial planning? Who are financial planners? And what is a financial plan?

Simply, financial planning is about identifying what your financial and non financial goals are (point B), taking stock of where you are now (point A) and working out how you can go from A to B in a comfortable and secure way.

Financial planners are the professionals who help you do this and a financial plan is the roadmap that outlines how it's going to happen.

In essence, the financial planning process is all about adding value to your

financial situation that you otherwise could not have achieved without having received the advice.

It seems very simple and straightforward, so why are many Australians still wary of the process? For most, it is a question of trust.

Who do you trust to give you advice that in most cases is life changing? It's a tough decision for an individual to make and they would hope that the person they put this trust into takes this responsibility seriously and acts in their best interests at all times.

So how do you choose a financial planner? At a minimum, you should always choose a financial planner who is a member of the FPA and if possible is also a CFP.

CFP stands for Certified Financial Planner and is a designation which indicates that this planner has undergone extensive formal training and maintains this level of expertise through regular ongoing training.

It also means that this person is bound by the FPA's Code of Conduct which covers the industry's ethical, legal and professional regulations.

From this, it is all about building a relationship with the financial planner. Without this relationship there can be no trust and a good financial planner will take the time to get to know you and your entire personal situation.

Financial planners who are either your accountant as well or work within the accounting firm you use are well placed to provide the advice as they have this relationship with you already.

But that is not to say that financial planners working on their own or within a financial planning firm are any less competent and it does really come down to the relationship and the level of trust.

And what about the actual financial plan; what does it actually cover? In reality

it covers a whole host of things.

A good financial plan takes into account your entire financial and personal situation. It can cover retirement strategies, investment strategies, superannuation strategies, savings plans and budgeting & lending strategies just to name a few areas of focus. It can be for you as an individual or it can be for your business.

And if you have a good financial planner, they will provide advice on the best personal insurance options available to you including income protection insurance, life and disablement insurance and trauma insurance as wealth protection is a key component of any financial plan.

Finally, good financial planners see a financial plan as a work in progress. A set and forget approach to financial planning doesn't work and once the process has started and the seeds have been planted it is a life long commitment from both sides.

At a minimum your financial plan should be reviewed on a yearly basis to ensure it remains on track to achieving your goals.

Things change and a good financial plan has the ability to be flexible to absorb those changes and allows your financial planner to make adjustments to ensure your short and long terms goals are still achieved.

The FPA has published a booklet available from their website with real life case studies which highlight the benefits of getting proper financial advice and help show the value of good financial planning.

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