WHAT ARE THE BENEFITS OF GOALS-BASED FINANCIAL PLANNING?

By Dave Geschke, CEO and President of HilltopSecurities Independent Network and Director of Retail for Hilltop Securities Inc
A goals-based approach to financial planning is a philosophy that serves as the backbone or framework for a process that offers many benefits to both the client and the advisor. Goals-based planning is not new — institutional investors have long been matching current assets to future liabilities. Over the past 10–20 years, it has become the standard across retail financial advisory firms, with many converting their platforms to goals-based technology.

Watch the video on our website to learn more about HilltopSecurities’ unique “Certainty Circle of Life” approach to goals-based planning.

**What Is Goals-Based Financial Planning?**

Goals-based financial planning is a method that allows clients to save for multiple financial objectives across various time horizons. The planning process helps define an individual's or family's goals, prioritize them and determine the optimal manner for funding them — taking into account all assets, both tangible and non-tangible, and how they affect each other. It also provides the advisor and client with greater flexibility to adjust for fluctuations in life and the markets.

**The Benefits of Goals-Based Financial Planning**

The benefits of this approach are many and there won’t be enough room here to cover them all, but some of the most important are:

**GREATER CLARITY OF PURPOSE** — The nature of the process encourages clients to think deeply about what they want and then articulate it. This provides both the client and advisor with a better understanding of the client’s goals and priorities.

**BETTER ALIGNMENT OF ASSETS TO FUTURE LIABILITIES** — The prioritization of goals allows the advisor to split them up into separate buckets and take advantage of varying risk profiles and time horizons and optimize the sub-portfolios individually, increasing the performance of each.

**DECREASED EMOTIONAL DECISION-MAKING** — A better understanding of the client's needs provides the advisor and client with a concrete goal. Naming the goal makes clients less likely to react to ups and downs in the market. If they are working toward a goal, not chasing returns, emotional decision-making is reduced.
ADVANTAGEOUS MENTAL ACCOUNTING — The naming of goals turns what is normally considered a bias into an advantage. Though money in a portfolio remains fungible, clients are encouraged to save when they can see the progress they are making toward individual goals.

INCREASED WEALTH — It has been proven that people who are saving for specific things do better overall. Using a goals-based method of financial planning can increase the average alpha in a portfolio by 1.65% compared with just funding retirement, according to a study by David Blanchett of Morningstar Investment Management. This is equivalent to a 15.09% increase in utility-adjusted wealth. Utility is a measurement of how much satisfaction an investor receives by reaching their goals. By taking the average in utility across various goal-based portfolios, economists can put a number on the value of completing individual objectives, which is greater than just saving for retirement as a concept. This formula can also help advisors determine which goals to pursue and how to fund them.

CLOSER CLIENT-ADVISOR RELATIONSHIP — A closer relationship between the client and their advisor achieves better results. Goals-based planning facilitates and requires healthy communication, both from the start and on a regular basis. An open, trusting relationship keeps both parties engaged.
How Goals-Based Financial Planning Works

Unlike in traditional financial planning and investing, the client’s portfolio is not managed as a singular portfolio with the sole objective of earning a return on the lump sum of cash contained within. Instead, it is broken into sub-portfolios that are dedicated to individual goals. Those sub-portfolios are then optimized according to risk capacity (i.e., how much risk they can take in light of competing financial goals), risk tolerance (i.e., risk aversion) and time horizon. Additionally, risk, performance and growth are not measured solely against volatility, benchmarks and returns; they are measured by the progress a client is making toward attaining their goals.

DEFINING GOALS
The first step in goals-based financial planning is defining the client’s goals and priorities. This process gives the client an opportunity to think deeply about what they want from life, when they want it and what they need to do to get there — it provides them with a greater clarity of purpose. The advisor, on the other hand, gets a better understanding of the client’s current financial picture in the context of the client’s wants and needs, allowing them to create and execute a financial plan that is unique to each client.

CREATING THE FINANCIAL PLAN
Once the client’s goals have been defined, the advisor and client can work together to begin developing the financial plan. Each goal becomes a “bucket” into which is placed the optimal assets to achieve that goal. The optimal asset allocation is determined by the goal’s profile — risk capacity and time horizon — and how it interacts with potentially competing financial objectives. The following examples illustrate what is meant by goal profile:
The comprehensive nature of a goals-based approach also takes into account non-tangible assets. It's not just the client’s investable assets that matter — their job, location, housing equity, age, pension/Social Security, insurance, etc. are considered as well. This is different from traditional financial planning, which generally only considers liquid assets, and it leads to a well-rounded plan with a firm foundation.

**EXECUTING THE FINANCIAL PLAN**
There are two key parts to executing a goals-based financial plan and both keep the client at the center — the initial discovery, definition and implementation, and the maintenance of the plan over time. Maintaining the plan’s alignment to the client’s goals requires a trusted relationship. This relationship is central to the goals-based planning philosophy because the plan is meant to be fluid, changing as life changes. To do this effectively the advisor and client must be actively engaged and communicate with each other. The client must keep the advisor abreast of any life or goal changes and the advisor must track the progress the client is making toward their goals, adjusting when needed.
HOLISTIC VIEW OF PORTFOLIO
Traditional planning doesn’t consider how different objectives compete for the same pot of money and come to fruition at different times; the expectation is that investors can take a lump sum of money and provide for themselves today and in retirement. This isn’t optimal when it comes to planning, either too much or not enough risk can be taken because the advisor is investing to achieve a level of returns across a portfolio, not for individual goals. Goals-based planning seeks to fund individual goals with optimal asset allocation, removing the impetus to chase returns or feel competitive — goals are not comparable.

HILLTOPSECURITIES AND GOALS-BASED PLANNING
We believe the nature of the goals-based process facilitates a closer relationship between clients and their advisors, keeping the advisor informed about changes in the client’s life that might require adjustments to the portfolio. A trusted advisor is also better able to work with a client when fluctuations in the market result in the urge to make emotional investment decisions, restraining that urge and reiterating the value of holding still. According to academic studies and statistics, goals-based planning can result in greater wealth and increased satisfaction in achieving goals.

HilltopSecurities believes in goals-based planning and has implemented the philosophy across our firm and in our technology. For more information about the HilltopSecurities goals-based planning methodology, Certainty Circle of Life, and the goals-based planning software we use, MoneyGuide Pro, please contact us.
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BIBLIOGRAPHY


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David E. Geschke is the CEO and President of HilltopSecurities Independent Network and Director of Retail for Hilltop Securities Inc. He is responsible for the oversight of the firm’s private client group and independent network advisors as well as its Advisory Services Group.

Mr. Geschke joined the firm in April of 2015 as CEO of SWS Financial Services and Director of Retail and played a key role in the company’s integration with FirstSouthwest.

With more than 28 years of experience in the financial services industry, Geschke has served in various senior field and back-office roles, including Senior Vice President with Ameriprise Financial and Chief Operating Officer with H&R Block Financial Advisors.

Mr. Geschke attended Illinois State University where he received a Bachelor of Science in both Business Administration and Economics. He is a graduate of the Wharton/SIA Branch Management Leadership Institute Training CFP program and holds Series 7, 8, 24, 31, 63, and 65 licenses.

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