Personal Financial Planning: Determination of Customer Profiles, Needs and Viewpoints

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PERSONAL FINANCIAL PLANNING: DETERMINATION OF CUSTOMER PROFILES, NEEDS AND VIEWPOINTS
PERSONAL FINANCIAL PLANNING: DETERMINATION OF CUSTOMER PROFILES, NEEDS AND VIEWPOINTS

A dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy

By

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May 1980
The University of Arkansas
To my Mom and Dad,
and my lovely wife, Lily
ACKNOWLEDGEMENTS

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Chapter 1

INTRODUCTION

Inflation, taxes and a desire to achieve financial independence make it difficult for people to manage their personal finances. Compounding the problem is the ever increasing sophistication required to understand the wide range of investment alternatives. Stocks, bonds, real estate, gold, silver, estate planning, insurance, foreign currencies, and tax shelters are just a few of the variety of alternatives that make up the financial puzzle. So how and who has to put it together?

Integrating various elements into a full picture is emerging as the role of the personal financial planner. By analyzing a person's total financial situation, determining his/her financial needs, goals and attitude towards risk, the financial planner then designs a comprehensive strategy in the form of a written plan to achieve the predetermined financial goals.

The need for personal financial planners has arisen because too many individuals totally rely upon their employers and the government for their retirement, pension, medical, and life insurance benefits, and it is usually not enough.

For instance, if one is 40 years old today and would...
like to retire at age 65 with the monthly equivalent of $1,000 in today's dollars, he'll actually need $6,848 a month, assuming a low 8 percent inflation rate! Obviously, careful financial planning is needed for a person to continue enjoying her/his standard of living throughout life.

Although in the past financial planning was generally limited to the wealthy, presently the same advice—or at least a version of it—is available to those with relatively modest incomes and assets. The cost for a full financial plan can run as low as $300 or so, and some firms are offering less-detailed ones for under $100.¹

What are the growth prospects for this industry? According to SRI International, a highly respected California based "think tank" that has studied the industry for a number of firms, within the next five to ten years revenues of the industry will be somewhere at the billion-dollar level. Furthermore, they estimated that 6 percent to 8 percent of the U.S. population might benefit from fully integrated financial planning services.²

Scope and Objectives

Personal financial planning is a rapidly growing field. The International Association of Financial Planners


²Ibid.
has 5,000 members, and the College for Financial Planning has already awarded 2,000 C.F.P. (Certified Financial Planner) designations to individuals who have passed a home-study program.

However, on the one hand we have individuals with a need for a financial plan, and on the other hand, we have professionals who are eager to provide this service. The problem is, therefore, how do personal financial planners identify--from among the multitude of consumers--the potential buyers of personal financial planning services?

The major purpose of this study is to solve this problem by identifying the characteristics and developing the profiles of consumers that indicated an interest in obtaining a personal financial plan. Additionally, this research study is aimed at assessing consumer's needs and viewpoints in regard to financial planning.

Thus, the findings of this study should be of great value to the personal financial planning industry because it will help it readily identify potential buyers of personal financial plans. In sum, seven specific research objectives are pursued:

1. To identify the characteristics which discriminate between households that are interested and those that are not interested in obtaining a personal financial plan. A discriminant function was developed based on objective, attitudinal and life style data which enabled the researcher to classify households into one of two groups: (a) those
interested in obtaining a personal financial plan, and (b) those not interested.

2. To determine the relative importance of the various characteristics in differentiating between households that are interested and those not interested in personal financial planning.

3. To develop a demographic profile of those individuals who have indicated an interest in obtaining a personal financial plan.

4. To identify a psychographic profile of potential customers of personal financial planning services. This life-style profile will identify consumers in terms of activities, interests, and opinions.

5. To relate several aspects of personal financial management and related behaviour to interest in obtaining a personal financial plan.

6. To assess the needs and viewpoints of consumers regarding personal financial planning.

7. To determine how attitude towards personal financial planning is related to interest in obtaining such service.

Significance and Justification

Developing a profile of household characteristics, and ascertaining their relative importance, is very important because the potential customers interested in personal financial planning are likely to be very different from those that are not interested. Identifying these characteristics is a
crucial task because, in Stanton's words: "The more accurately a target market is defined, the more efficiently it can be reached."³

The justification for this study lies in the several advantages offered as a result of successfully identifying the characteristics of the households interested in personal financial planning. This is so because "a marketer can be more effective in addressing himself to a relatively homogeneous group rather than to one composed of individuals with a great many differences."⁴ Developing a profile will allow the financial services industry to better understand its customers, and thus, improve the quality of the service offered to meet the needs of the market.

For instance, by correctly identifying and profiling the characteristics of potential customers, one can design the appropriate marketing program consisting of advertising, distribution, promotion, price and even the service itself to appeal to those people who actually buy or are likely to buy the service.⁵ By knowing the characteristics of the target market, one will better understand how customers decide whether or not to buy the service, and also one will be better

---
able to influence the purchase decision.

This study will make a significant contribution to the personal financial planning services industry by providing data that may be very useful. The study results will help the personal financial planning marketers in designing the services to be offered to consumers. For instance, a knowledge of the consumer characteristics will help the financial services industry develop relatively standardized financial packages, and thus, enable them to mass-market a personal financial plan with few, and hopefully minor, modifications to "tailor fit" individual needs. This approach will permit the industry to take advantage of marketing a service in a similar manner to marketing a product, and therefore, allowing the application of those principles which have historically proven to lead to the successful marketing of products.

In summary, a successful marketing program must begin with a correct identification of characteristics of present and potential customers, and an assessment of their needs and viewpoints. However, no research has been done in developing a profile of households interested in personal financial planning. As a result, the primary justification for this study lies in the need to develop such a profile which will allow the financial service institutions to address their efforts more successfully when developing and marketing personal financial plans.
Limitations of the Study

The overall objective of this study is to develop a profile of characteristics of households who report an interest in obtaining a personal financial plan. However, this research study suffers from certain limitations.

Ideally the sample should include households from different states and perhaps a greater number of higher-income households. But this study is limited to those households participating in the Arkansas Household Research Panel. Therefore, any attempts to make inferences from the research results to a population beyond the limits of the state of Arkansas will not be justified because the AHRP is only representative of households in Arkansas.

Second, in order to define the a priori groups as interested or not interested in personal financial planning, an intention-type question was formulated. In consequence, the profile was determined from those households which indicated that they were interested in personal financial planning, and was not determined from those households who actually possessed such plans. Obviously, a manifested interest may or may not result in actual purchase of this service. Therefore, we may have developed a profile of households who are interested but may not purchase this service.

Thirdly, this study does not include all possible variables that may be significant in discriminating between the groups. For instance, an individual's net worth is not included, nor do we have a variable identifying owners of
small businesses. The latter are typically in need of more financial planning than corporate executives because their business and personal affairs and assets are often intertwined and in a considerable muddle.

Preview of the Organization Plan

In Chapter Two a review of the literature is presented outlining (1) the financial services industry, (2) the role of the personal financial planner, and (3) a discussion of some regulatory issues.

The methodology, its assumptions and justification, is presented in Chapter Three. In addition, this chapter outlines the sample design and data collection procedure implemented in this study.

In Chapter Four the data is analyzed, and the results and conclusions are presented. Furthermore, this chapter also discusses the implications of the findings for the personal financial planning services industry.

The study is summarized and recommendations for further research are offered in Chapter Five.
Chapter 2

SURVEY OF THE RELEVANT LITERATURE

The purpose of this review is to present what is known about personal financial planning, and identify some of the problems that are lacking solutions in the literature, along with isolating the major questions that remain unresolved.

For convenience of review, this chapter has been subdivided into different parts. These are: an introduction, a review of the financial services industry, the state of marketing financial services, functions of the personal financial planner, regulations, compensation, the present study, and concluding comments.

INTRODUCTION

Efficient management of a family's assets is one of the major requirements for a trouble free and successful family life. Jack Norman, an attorney for a law firm who won some 3,000 divorce decrees, cited money problems as the number one reason for divorce ("money worries trigger all the other problems of marriage").¹ In the United States, as the economy continues to grow and more women participate in the labor force, households' incomes will increase further. However,

rising family incomes place burdens as well as blessings.

It means more assets to manage, higher taxes, a be-
wilderment of fringe benefits, college funds for the children, desires for tax shelters and other complex matters.²

Since most individuals and families do not have the training, nor the time, to figure out the best way to manage their personal assets, a new service, Personal Financial Planning, has mushroomed in response to these new complications arising from the complexities of modern life.

Personal Financial Planning is a service that springs from the need for objective and centralized advice on a wide range of areas such as investments, insurance, money management, taxes, estate planning and others. In an article in the Wall Street Journal, Mr. Immel wrote:

It wasn't long ago that financial advice like this was generally limited to the wealthy, mainly through bank trust departments and individual investment-counseling firms that managed the accounts of their clients. Now this same advice—or at least a version of it—is available to those with relatively modest incomes and assets. The cost for the full financial plan can run as low as $300 or so, and some firms are offering less-detailed ones for under $100.³

Personal Financial Planning is a service in its infant stage. Its practitioners promise fully rounded financial counsel specifically tailored to meet each family's resources, goals, aspirations and constraints. Personal Financial Planning


typically involves analyzing a person's total financial situation, and then designing a comprehensive strategy in the form of a written plan to achieve various financial goals.4

Unlike many advisors who specialize only in their limited areas of financial counseling, like the stockbroker who specializes in securities, the insurance agent who specializes in insurance, the attorney with specialty in estate planning, or the CPA with tax advice; the personal financial planner makes it his business to fit each one of those individual areas into a well-balanced, integrated financial plan. This personalized plan is not an aggregate of isolated parts, but rather the result of a comprehensive analysis guided by the family's financial goals, attitudes, and objectives.

The need for financial planners has arisen because few individuals have well designed financial plans that, for instance, coordinate their company's fringe benefits (pension, profit sharing, insurance, and so on) with other assets such as their homes and stock portfolios. This gap in coordination is probably the most glaring drawback in the whole area of personal finances.5

What would it take for an average individual to come up with an effective Personal Financial Plan to meet his/her

4Ibid.

family and business needs? State Mutual suggested that:

You'd visit a library, and pull out an armful of books on personal and business finances. You'd check on the latest changes in tax laws, interest rates, Social Security benefits. You'd study the economy, for clues on inflation. You'd ask about college costs, and real estate values. You'd also study the stock market.

After weeks of work, you'd put the finishing touches on your plan, hoping you've got enough information to take full advantage of your financial opportunities . . . knowing, also, that you'd still need outside assistance to put the plan into action.⁶

If all this seems too complicated, State Mutual has an easier approach. All you do is get in touch with their representative. They explain the process as:

At your convenience, he will sit down with you to discuss your feelings . . . and objectives for the future.

He will take you, step by step, through our confidential Living Financial Estate questionnaire. It should take less than an hour.

During the initial interview, the representative avoids offering preconceived ideas of your needs. Instead, he recognizes that you, as an individual, have goals and opportunities that are unique. Recommendations, if any, come later.

On a return visit, he gives you the results of a thorough, computer-assisted analysis of your entire financial situation . . . one that is based strictly on your objectives, and your priorities.

From this analysis, you could actually discover gaps in financial planning. Your savings program, for instance, may leave you unnecessarily vulnerable to taxes. Your life insurance could be completely unrelated to your retirement goals. Your need for ready cash could be greater than you expected . . . If you have a family, your wife could be needlessly saddled with debts should you die.

Having uncovered needs--if they exist--our repre-
sentative presents his recommendations: in effect, a comprehensive yet easily understood plan for the future. With alternatives on how to fund this plan with the insurance of annuity or equity products offered by State Mutual and its affiliate companies.\footnote{Ibid.}

Given the great need for personal financial planning services, what are the growth prospects for this industry? Perhaps the most respected opinion lies with SRI International, a California-based think tank that has studied the industry for a number of firms. They expect that within five or ten years, revenues are to be somewhere at the billion dollar level. They also estimated that 6% to 8% of the U.S. population might benefit from a full financial plan.\footnote{Richard Immel, op. cit., p. 1.}

Since Personal Financial Planning is a service offered by many institutions in the financial services industry such as banks, life insurance companies, and investment companies, this chapter will briefly review the financial services industry to achieve a better understanding of its evolutionary growth in the U.S.

Second, since banks are the major force in the finance industry and marketing activities will play a pivotal role in successfully commercializing Personal Financial Plans to the public, an examination of the state of bank marketing will be presented.

Third, the functions of the Personal Financial Planner are reviewed as is the regulation of his role, and finally,
an examination of the usefulness of Personal Financial Plans is discussed.

REVIEW OF THE FINANCIAL SERVICES INDUSTRY

The vast financial services industry is composed of intermediaries who make loans, accept the risk on a loan, collect interest from borrowers, and pay a portion of this interest to the saver as interest on funds in his account. Included are commercial banks, savings and loan associations, mutual savings banks, life insurance companies, finance and investment companies, credit unions, and private and public pension funds.\(^9\)

Such a diversity of firms in one industry has resulted in an intense competition for customers. In order to understand the nature and dimensions of the problems involved in competing for financial services it is necessary to know the scope and size of the financial services market in the United States.\(^10\) The total financial assets owned by the various sectors of the U.S. financial services industry in 1978 totalled $2.5 trillion ($2,500,000,000,000), up from $233 billion in 1946. "This dramatic growth reflected the increasing percentage of disposable income that more financially sophisticated consumers were spending on financial


services."\(^{11}\)

A report published in 1972 by Citicorp showed that in 1972, "the market share of the competing segments of the financial services industry has not grown equally, that in fact there have been some dramatic plus and minus shifts."\(^{12}\)

For instance, "while the overall market increased eightfold the market share of life insurance companies decreased by 19.3\% and mutual savings banks by 2.2\%. Increases in market share were recorded by savings and loan associations (9.8\%), private pension funds (7.5\%), state and local government retirement funds (2.9\%), finance companies (2.4\%), and credit unions (1.1\%)."\(^{13}\)

During this same time period, 1946-1972, the "earnings generated by financial institutions grew faster and more consistently than earnings of non-financial companies or manufacturing companies."\(^{14}\) This is evidenced by a U.S. Department of Commerce study which shows that "after-tax profits of financial companies advanced at compound annual rates of 9.4\%, 6.4\%, and 7.2\% in the periods 1946-1952, 1953-1962, and 1963-1972. Growth for each period was more rapid and less erratic than for either non-financial or manufacturing corporations."\(^{15}\)

As could be expected, this growing and increasingly profitable market has "increased competitions between traditional suppliers and has attracted new competition from

\(^{11}\)Ibid. \(^{12}\)Ibid. \(^{13}\)Ibid. \(^{14}\)Ibid. \(^{15}\)Ibid.
Aggressive competition is enveloping the $2.5 trillion-assets financial services industry. Banks, savings and loan associations, and other financial institutions have been "pummeling each other with court suits and energetic marketing practices that have caused a blurring of distinctions between them. For example, in some states, savings and loans have moved on commercial banking's turf by offering check-like negotiable orders of withdrawal, called NOW accounts."  

On the other hand, "some banks are offering what amounts to interest-bearing checking accounts, and many are diversifying their loan portfolios to include more consumer and mortgage loans. And credit unions, the fastest growing segment of the financial community, have won the right to offer share drafts, another version of an interest-bearing checking account."  

"Additional methods to entice customers include premium offers for opening accounts, 'personalized banking', refurbished offices, and longer lines of credit combines with overdraft privileges . . . All depository institutions are faced with significantly higher levels of competition than they have experienced in the past,' observes George W. Mitchell, a former member of the Federal Reserve Board and now a consultant to the board. There will be problems for some institutions as competition among banks, savings and loans, mutual savings banks, and credit unions heats up."

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16 Ibid. 17 Ibid. 18 Ibid. 19 Ibid.
Intense competition has come to characterize the financial services industry operations. A study by Wiesenberger Services, Inc. indicated "that the consumer wants the convenience and economy of being able to buy virtually all his financial services in one place and from one source." The study included 5000 consumers across the U.S., among other questions, they were asked how interested they would "be in a convenient all-in-one-place financial center, a special kind of financial services such as savings, credit cards, checking accounts, insurance, investments and loans, etc. Fifty-eight percent are interested in this new service with 33% being extremely or very interested." 

Those who were interested were then asked who they thought should provide this new service. Commercial banks have a clear lead with 51% extremely or very interested in having them provide this service, followed by life insurance companies (19%), mutual fund companies (12%), and consumer finance companies (11%). Perhaps significantly, a new type of company set up to meet this need scored second to commercial banks at 37%.

Commercial Banks

Commercial banks are the dominant factor in the American financial services industry. As custodians of economic resources of millions of citizens, the nation's approx-

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20Pitti, p. 73.
21Ibid.
approximately 15,000 banks are supervised in varying degrees by 
three federal agencies—the Federal Reserve Board, the Comptroller of the 
Currency, and the Federal Deposit Insurance Corporation—as well as by 50 
state agencies.

Commercial banks are unique because one of their 
major liabilities, checking accounts, is the major component 
of the U.S. money supply. Banks have now become "department 
stores of finance." While their traditional role was to 
provide short-term funds for business, "nearly all major 
banks have formed holding companies and have used this arrange-
ment for extending their activities into a wide range of fi-
nancial markets, activities and geographic regions that were 
not accessible to the bank as a legal unit." The follow-
ing is a list of approved activities for bank holding com-
panies:

1. Mortgage banking
2. Consumer financing, personal and sales
3. Commercial financing
4. Credit cards
5. Factoring
6. Industrial and Morris Plan banking
7. Loan Servicing
8. Trust services


9. Investment and financial advisory services (note that Personal Financial Planning falls in this category)

10. Leasing of real or personal property

11. Investing in community service projects

12. Data processing and bookkeeping services

13. Insurance agent or brokerage services

14. Underwriting of credit insurance

15. Courier services

16. Management consulting for unaffiliated banks

Each one of these activities is very extensive in itself. For instance, the trust or fiduciary section in general, offers a broad range of business, real estate, personal trust, and personal financial services. Specifically, Security Pacific Bank of California offers the following services in their trust department:

1. Services to business. These services include:
   a. Employee Benefit Trusts, which in turn include employee benefit pension plans, profit sharing plans, employee stock ownership plans, thrift and savings plans, stock transfer services, indenture services, and many others.

2. Services in real estate management and finance:
   a. Real estate management of single family dwellings, apartment buildings, condominium associa-

24Ibid., p. 147.
tions, commercial buildings, industrial complexes and others.

b. Employee relocation services
c. Trust deed services

3. Services in personal finance
   a. Personal financial planning
   b. Income tax preparation
   c. Educational courses
d. Trust income tax services
e. Others

4. Services for personal trusts
   a. Complete probate services for both large and small estates
   b. Testamentary trusts
c. Guardianship and conservatorship services
d. Living trusts
e. Agency asset management services

This long list of services clearly illustrates why banks are referred to as "department stores of finance."

This wide variety of services keeps expanding. For instance, many banks have incorporated a new service, namely, Personal Financial Planning. As an example, Continental Bank of Chicago offers a Personal Financial Planning Course and Confidential Financial Analysis by mail.

In their own words, the Personal Financial Planning Course, a nine-hour learn-at-home course, "will provide you with an understanding of the basic techniques of making money and keeping it. Learn about investments, the 'ins and outs'
of taxes, trusts, wills—and much, much more." 25 As part of the package, you also receive "a confidential computerized report of your financial status that will help you define your financial objectives and make the plans necessary to achieve them." 26

A more detailed description of the computerized report follows:

It includes detailed tables and examples, and often runs 10 or more pages in length. It is a review of your present financial condition and a projection of future reserves you'll need to improve your lifestyle and accomplish your objectives. Topics such as planning for your children's college education; your financial needs at retirement; your family's income requirements in the event of your disability; your investments; and your business interests are discussed as they relate to your current financial condition. 27

The Personal Financial Planning Course consists of six lessons in financial planning. "Each lesson booklet is written in clear, everyday English so that you can easily finish one in about an hour and a half. At the end of each lesson, there's a brief quiz. Simply fill out the answer card, mail it in the postpaid envelope provided, and a critique will be sent to you along with the next lesson." 28

The following is an outline of the financial planning course:

Lesson 1. Covers such topics as factors that affect investments, i.e., risk and liquidity; investment alternatives,

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25 A pamphlet distributed by Continental Bank of Chicago, titled "Personal Financial Planning Course."

26 Ibid. 27 Ibid. 28 Ibid.
corporate stocks and bonds, government securities, real estate, and tax-sheltered opportunities.

Lesson 2. Covers employment benefits, i.e., how fringe benefits contribute to one's compensation and provide retirement benefits; and a discussion of the types of benefits most commonly offered: group insurance, pension and retirement plans; profit sharing; tax sheltered annuities; and deferred compensation among others.

Lesson 3. Examines the "ins and outs" of being self-employed, i.e., social security, Keogh plans, individual retirement plans, insurance, and taxes.

Lesson 4. Discusses the effect of taxes on the creation and maintenance of an estate.

Lesson 5. Deals with trusts and wills as flexible, critical tools of financial planning. For instance, it analyzes the different types of trusts: living, revocable and irrevocable; short-term; minority; stand-by; testamentary; marital; residuary; charitable.

Lesson 6. This lesson examines how an individual's lifestyle affects his financial objectives, and also discusses how to control cash flow and how to determine a family's capital and income requirements.

In summary, Continental Bank concludes that "this is the most comprehensive personal financial planning course offered by mail. Not a course that gives you abstract theories, but a course that provides you with working knowledge you need to make the most out of your mon-
And the whole package costs only $65.

How did banks, such as Continental, enter the personal financial planning area? Perhaps the best explanation is offered by SRI, a think tank based in California. In 1975, their Financial Industries Center "was commissioned to do a series of studies by a large bank. The bank wanted reports on products which might generate new revenues and customer growth. After delivering several mini-reports on specified products, SRI began to see their client's problem in a new light."  

SRI came to the conclusion that "introducing a series of new products, such as check-cashing cards or bill-paying accounts, really wasn't where the money was to be made." In their opinion, "the real money was to be made in the delivery of products and services by leveraging financial advice."  

Ironically, SRI's research on behalf of its bank-client confirmed what many in the financial field had known all along: "people were already being charged a lot of money for advice and service."  

SRI sees many advantages for non-financial firms that could enter the industry and provide financial planning services. SRI believes that institutional inertia is one of the major roadblocks in the industry. For example, "for a

29Ibid.
31Ibid. 32Ibid.
trust department to offer financial planning requires a total reorganization and re-education.\textsuperscript{33} Too many institutions view financial planning as a product, not a service; they are also very deficient in applying the marketing concept, that is, they fail to match the "needs, demands, and characteristics of the market with the firm's marketing program outputs--product service, promotional, price and place strategies."\textsuperscript{34}

Therefore, given the lax application of the marketing concept by banking and other financial institutions, it is very likely that an IBM could market a financial plan very successfully.

**Savings and Loan Associations**

Savings and loan associations are the only major financial institutions designed primarily to make home-mortgage loans. They usually have 85 percent of their assets in mortgage loans. Associations operate almost exclusively in the long-term mortgage markets, with the majority of activity usually in local housing finance.

Savings and loan associations are offering an ever-increasing array of free services. For instance, they commonly provide the following:

1. Notary Public service.

\textsuperscript{33}Ibid.

2. Up to six photocopies per month.
3. Counseling and information on home financing.
4. Check cashing.
5. Coffee lounge.
6. Save-by-mail service.
7. Direct deposit of government checks.

And by maintaining at least $1,000 in savings, the following services are also provided free of charge:
1. Travelers checks and money orders.
2. Note collection for payments due on notes and deeds of trust.
3. Safe deposit box.

The diversity of services offered by S&L's suggests that perhaps in the near future they will also enter the field of personal financial planning. But as of yet, there is no indication that they are moving directly in that direction.

Life Insurance Companies

"Life insurance companies provide financial protection for beneficiaries against death and longevity."\(^{35}\) Insurance companies, as such, are not really intermediaries in the borrowing and lending process. They offer protection against a wide variety of risk as the following list illustrates:

1. Insurance against property damage from natural

\(^{35}\text{Robichek et al, op. cit., p. 10.}\)
and man-made hazards of all types.

2. Medical insurance and protection from loss of income.

3. Insurance against legal liability.

4. Insurance against theft, burglary, forgery, and embezzlement.

5. Surety bonds that protect against contract default.

6. Title insurance.

7. Insurance against credit losses.

It is due to this long list of services offered by an insurance company that agents establish a very congenial working relationship with customers. It is exactly the nature of this relationship which makes it a natural extension of his services to offer personal financial planning to customers. For example, this point is illustrated by a survey taken by the Atlanta-based International Association of Financial Planners.

"The survey shows that steering clients toward insurance remains central in the planning business. Of the 669 planners who answered the part of the questionnaire dealing with their influence on clients, 81.5% had directed clients to insurance purchases in the past year; 57.1% to mutual funds, and 48.7% to disability insurance."  

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36 Paul Smith, op. cit., p. 160.

The unique relationship between an insurance agent and his customer was recognized by State Mutual of America, an insurance company based in Massachusetts. They offer a wide range of services such as:

1. For Families or Individuals.
   a. Whole Life.
   b. Term (All Types).
   c. Retirement (including IRA and HR-10 (Keogh) Plans).
   d. Disability Income (non-cancellable and guaranteed renewable).
   e. Major Medical (guaranteed renewable).
   f. Mortgage Protection.
   g. Juvenile and Educational Endowment Plans.
   h. Full Family Protection.
   i. Accidental Death Benefit.
   j. Guaranteed Insurability Rider.
   k. Waiver or Premium in the Event of Disability.
   l. Annuities.
   m. Hospital Weekly Indemnity (guaranteed renewable).

2. For Corporations, Partnerships and Proprietorships.
   a. Key Employee Plans.
   b. Executive Compensation Programs.
   c. Split Dollar.
   d. Stock Purchase.
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e. Business Liquidation Protection.
f. Deferred Compensation Plans for High Income Executives.
g. Salary Continuation and Medical Expense.
h. Pensions and Profit Sharing.
i. Disability Buy-out.
k. Overhead Expense (non-cancellable and guaranteed renewable).
l. Key Employee Disability Income (non-cancellable and guaranteed renewable).

3. Group Insurance.
   a. Group Term Life.
b. Accidental Death and Dismemberment.
c. Survivor Income.
d. Weekly Disability Income.
e. Long Term Disability Income.
f. Basic and Major Medical Plans.
g. Comprehensive Major Medical Plans.
h. "Smile Guard" Dental Insurance.
i. Deposit Administration and Immediate Participation Guarantee Contracts for Defined Benefit Retirement Plans.
k. MEGA Comprehensive Medical, Life Insurance
and Disability Income plans for groups of 2 to 9 employees.

4. Special Services.
   b. Estate Analysis and Planning.
   c. Individualized Business Insurance Services.
   d. Monthly Automatic Payment Service.
   e. Pension and Profit Sharing Plan Design Service.
   g. IRS Approval, Actuarial Certification and Employee Communications.

5. Equity Products.
   a. Variable Annuities.
   b. Mutual Funds.

They have launched a computerized financial system designed to meet the personal and business needs for financial security, which they call Q/A for Quick Access. They claim to offer, to solve one's financial problems, "a team of professionals backed by one of the nation's most advanced financial security planning systems."38

The following is their explanation to this system:

Q/A revolves around a coast-to-coast network of telecommunication terminals that can communicate with each other and with our home office computer—instantly—

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via keyboard and viewing screen. That means your State Mutual Representative now has fingertip access to the vital information necessary for helping you plan your life and health insurance, personal estate and retirement needs, business security and company employee benefit program.

Here's how Q/A works: First, your State Mutual representative meets with you (and any other personal advisors you choose) to discuss facts and feelings, establish financial priorities and set realistic goals. Then, back at the office, your individual data (maintained in strictest confidence at all times) is put to the Q/A test.

At the press of a few keys, the Q/A System will help us analyze the facts to provide an objective appraisal of your financial security needs. Your representative can then ask the System to mix and match these needs with your stated objectives that meet your requirements. This plan, combined with the professional experience of your State Mutual representative, gives you the best possible starting point ever for building a solid financial security base for yourself, your family, your business.39

The same ad detailed the specific supporting services Q/A offers. These are described as:

Managed Asset Plan—a picture of your assets and liabilities compared with your objectives. A Capital Analysis Plan does the same thing on a capital retention basis. And with a Personal Estate Plan, we can help you preserve your estate, while counteracting the effects of inflation and changing investment opportunities. There's also a Q/A Business Valuation providing a valuable and accurate estimate for buy-out purposes, personal estate analysis and credit arrangements.40

Finally, they conclude:

With your initial interview data and Q/A analysis, your State Mutual representative or your insurance broker can put together almost any group proposal within two working days, complete with rate calculations and premium summaries.41

Obviously, if State Mutual has entered so forcefully into the personal financial planning field, it is

39Ibid. 40Ibid. 41Ibid.
reasonable to expect that other insurance companies will follow shortly. State Mutual seems to be an early adopter of new concepts, and the rest seem to follow suit later. For example, State Mutual was the first major insurance company to offer non-smoker discounts and 10 day money-back guarantees on new life policies. Subsequently, the majority of other insurance companies adopted the same innovations.

It is, therefore, to be expected that very soon other major insurance companies will be offering their own version of personal financial planning.

Credit Unions

According to the Credit Union National Association—a 22,400 member owned non-profit organization—credit unions had assets of $54.1 billion in 1977, up by $9.2 billion since 1976. Membership, at 36 million, doubled over the number a decade earlier.  

Credit unions were founded with the purpose of providing "cheaper credit and encourage savings among individuals sharing a common bond such as employment." The principal task ahead for credit unions is to remain competitive. For instance, they were authorized in 1976 to offer, for the first time, long-term mortgage financing and time certificates with interest rates topping what banks and

42 Thoryn, op. cit., p. 67.
43 Ibid.
other thrift institutions can pay. They can now also offer check-like share draft accounts.

A few credit unions have invaded another bank stronghold: credit cards. A growing number of credit unions are offering VISA cards, with top interest rates of 12 percent on unpaid balances to gain a greater share of the consumer credit market.

Brokerage Firms

Over the past few years many large brokerage firms have disappeared, either by bankruptcy or merger. For those remaining, diversification seems to be the acknowledged key to survival. No other firm has followed this path better than Merrill Lynch. It no longer is merely a stockbroker; but rather, with its 254 U.S. offices (plus 57 more abroad) and 1.5 million customers it has moved over the last 15 years into "such areas as government securities, commodities, options, and stock and bond underwriting, and in addition, it has established itself well in international banking, economic research, life insurance, and real estate."\textsuperscript{45} It has also entered the field of personal financial planning by setting up an independent firm, the Personal Capital Planning Group, and has recently tried out a plan "whereby brokerage customers can borrow, write checks, and make VISA card purchases against funds held in their margin accounts. Furthermore, customers will be able to make deposits in those margin accounts as

\textsuperscript{44}Ibid., p. 62.  \textsuperscript{45}Ibid.
well as earn interest on them."  

During 1976, Merrill Lynch also bought Ticor Relocation Management Co., a California-based employee relocation service, and started two financial advisory services. "The company is looking elsewhere, in the real estate, commodity, and banking fields. The goal is clear: to offer virtually every financial service that any individual or corporate customer could ever want."  

The second largest brokerage firm in the industry, E.F. Hutton, has also entered the Personal Financial Planning area with a program called Financial Perspectives. This plan "not only provides an analysis of your financial resources and living requirements, but also examines these in light of your goals--creating a personalized, detailed financial program to guide your money management efforts."  

Hutton further defines their program in these words:  

You and your Financial Perspectives Counselor will work together to define your goals. They might include maximizing your estate while also minimizing the inheritance tax thereon, providing for your children's college education, buying a second home, or simple reducing your current tax burden. From an in-depth profile of your present situation--your financial resources, day-to-day money needs and projected goals--the Financial Perspectives will recommend the specific steps you can take immediately to assure that your financial assets will be kept working at top capacity and in the most balanced, prudent way to achieve those goals.  

Hutton's Financial Perspective report is comprehen-

46 Ibid.  47 Ibid.  
48 A pamphlet distributed by E.F. Hutton entitled "Financial Perspectives."  
49 Ibid.
sive in scope and generally consists of between 50 and 70 pages in length. Every plan includes the following four sections:

1. A current profile which summarizes all facts and attitudes that influence one's financial goals, sources of funds, and asset holdings. This information provides the basis for the study and the development of the financial plan.

2. An analysis section which evaluates one's current profile and sets forth legal and financial recommendations for achieving the pre-determined objectives.

3. A summary chapter listing all items that require action, "including those that must be implemented through the client's other advisors such as his lawyer or accountant." 50

4. Finally, the last section is an implementation guide which, based on the recommendations of the analysis section, suggests specific vehicles for implementation of the financial portion of the program.

In summary, Hutton's Financial Perspectives program is presented in a convenient, one-volume report that depicts a client's situation today and outlines, in detail, recommendations for managing one's money in the most effective way.

Since the plan only offers recommendations, it is in E.F. Hutton's interest that implementation of the plan be made through them. In reality, they are well prepared to execute recommendations since Hutton offers many services.

50 Ibid.
such as tax shelters, insurance, retirement programs, income funds, cash management, tax-favored investments, annuities, stocks, and bonds.

THE STATE OF MARKETING FINANCIAL SERVICES

Banks, insurance companies, and stock brokerage firms are active in the marketing of financial services, while other segments of the financial services industry trail badly. However, insurance companies have usually stayed within their strict line of business, and therefore have not developed any significant marketing approach to new services.

Brokerage firms usually limit their efforts to the distribution of free publications, or to conducting of in-house seminars to inform the public about stock oriented investments. By far the greatest effort for marketing financial services has been expended by banks. Therefore, this section concentrates on discussing bank marketing.

Although bank marketing has made impressive advances in the past decade, there is still a risk that it will really never develop to the extent that it has in other industries. As Tyler writes:

... most bankers still tend to define marketing as a function rather than as a concept or philosophy. Marketing is not just a box in an organization chart; yet many bankers give you the impression that, once they have a marketing department, they have achieved a marketing orientation. Well, that just isn't the case.51

Bank marketing in most cases still tends to be defined in traditional terms—market research, advertising, sales training, public relations. While these function are clearly critical, they are marketing support activities, and for the most part, banks have tended to organize them reasonably well.

Tyler believes that "there is a whole different set of marketing tasks that have to be carried out if banks are going to have a true customer focus." He defines the priority tasks of bank marketing as:

1. Profitability.
2. Pricing.
3. Product development.
4. Packaging.
5. Planning.

He further argues that while "the banks tend to organize the traditional tasks reasonable well, these top priority tasks really get short shrift—they are either not fully understood or not fully implemented."

A 1972 report by Booz, Allen and Hamilton on the changing economics of the banking industry in the 1970s had some very interesting conclusions. For instance, the study:

Highlights the fact that the primary challenge facing banks in the future is the acquisition of funds, not the employment of them . . . . the study also emphasizes the

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52 Ibid.  53 Ibid.  54 Ibid.
fact that the future growth of the banking industry depends to a large extent on its ability to serve the mushrooming financial needs of individuals.55

One of their main conclusions was that:

Bankers develop new and revised marketing strategies. The primary prerequisite for developing an effective marketing strategy is a thorough understanding of bank customers—who they are, where they are, and what they need. Expanded marketing research and development of an adequate customer data base will be essential.56

Furthermore, bankers must also look carefully at their existing product lines and at how the banking system can develop new product lines and at how the banking system can develop new products and services and product line extensions. The report concludes that "creative grouping and packaging of services will be vital in meeting the needs of various customer groups."57

New Product Failures

Since personal financial planning is a new service, and an area into which many banks are interested in expanding, it is important to review some reasons as to why new products fail. The following comment is very explanatory:

Few, if any, marketing activities are as typically fraught with such uncertainty and reputational risk as is the act of bringing a major new product to market. Banks are no exception in this regard. Indeed, nothing seems to take more time, cost more money, and involve more executive sleeplessness than does an important new product offering. And yet, well-conceived new products


56Ibid., p. 306. 57Ibid.
are the lifeblood of the modern business organization.\textsuperscript{58}

In the author's view, the failure of many new bank products to meet original sales and profit expectations can be linked to poor marketing rather than to a lack of demand for new banking products in general.\textsuperscript{59} A common mistake contributing to new product failure is the tendency for marketers of all kinds, including bank marketers, to overrely on the intuitive process as a basis for new product conception.\textsuperscript{60}

Specifically, "bank marketers often fail to truly visualize new products from the perspective of the consumer."\textsuperscript{61} In addition, Berry and Hensel also believe that bank marketers fail to "engage in creative research for uncovering unfulfilled needs within various market segments;"\textsuperscript{62} that their marketing efforts do not "effectively minimize the psychological discomfort associated with new products requiring substantive behavioral change of the consumer" and finally, that bank marketers fail to "clearly and graphically communicate the benefits of new products to the market segments toward which they are directed."\textsuperscript{63}

The failure to look at new products through the eyes of the consumer leads Berry and Hensel to state that banker's "may tend to attribute far too much new customer attraction


\textsuperscript{59}Ibid., p. 186. \textsuperscript{60}Ibid. \textsuperscript{61}Ibid. p. 188.

\textsuperscript{62}Ibid. \textsuperscript{63}Ibid.
power to the provisions of such things as a variety of scenic checks or combined bank statements."\textsuperscript{64} However, they also express that "the inability of these benefits to solve important financial problems undoubtedly serves to dilute their market attraction power."\textsuperscript{65}

In sum, new products are much more likely to succeed in a competitive, buyers' market when they represent what people truly want to buy rather than what the marketer finds convenient and/or intuitively attractive to sell. In other words:

Once the bank marketer decides to base his product development process on research into real and important consumer needs, instead of overrelying on his intuitions as to what the consumer needs, he is still confronted with a number of complexities in his desire to successfully develop and market new products.\textsuperscript{66}

Addressing a new product in this manner provides an attempt to correct the failure to creatively research the needs of market segments. For example:

The concept of 'mass market' suggests a homogeneity of need on the part of the consumer that doesn't tend to stand up in reality. Whether because of age differences, income-level differences, social-class differences, racial differences, personality differences, or whatever, people bring different needs to the marketplace. The key, then, is to take the so-called massmarket, with a heterogeneous set of needs and, via solid and creative research efforts, divide it up into 'parts or segments' that reflect a homogeneous set of needs, giving the marketer some direction in shaping product offerings.

The attempt to 'be all thing to all people' with a single product offering is an endeavor that commonly results in not being very special to any group. Said another way, products which are pinpointed to specific

\textsuperscript{64}Ibid. \textsuperscript{65}Ibid. \textsuperscript{66}Ibid.
sets of consumer needs tend to outperform products designed to meet the needs of the mass market.\footnote{67}

Another factor cited as a reason for new product failures results from requiring major behavioral shifts on the part of consumers who wish to adopt the new product. Thus, "when a new banking product involves substantial behavioral change on the part of the consumer, care should be taken to minimize the discomfort or 'psychological cost' that may result to him."\footnote{68}

Lastly, "another factor that sometimes contributes to a new product's demise is the inadequacy of the communication effort from the new product marketer to the market."\footnote{69}

The following quote is very illustrative:

Marketers, including bank marketers, must become more aware of the reality that consumer purchase of a new product is not a simple, one-step reaction to a single stimulus, such as an advertisement, but is rather a complex process in response to numerous stimuli. That is, in order for the consumer to reach the point of purchase, he must first be moved through the stages of awareness of the existence of the product, to an understanding of the benefits provided by the product, and finally to a favorable attitude toward the product's ability to better satisfy real and important needs.\footnote{70}

In conclusion, new product efforts in banking are often victimized by inadequate execution of marketing strategy. Some of the more pertinent of those inadequacies or failures have been discussed.\footnote{71} Specifically, it is important to point out the significance of reviewing the new product from the perspective of the market rather than the mar-

\footnotesize{
\begin{tabular}{llll}
67 & Ibid. & 68 & Ibid. & 69 & Ibid. \\
70 & Ibid. & 71 & Ibid.
\end{tabular}
}
keter; to engage in marketing research to uncover those needs within the various financial market segments; to clearly and graphically communicate the benefits of new products to the market segments to which they are directed.  

Although the quality of bank marketing has accelerated in recent years, there is still room for improvement, and surely, there always will be.

FUNCTION OF THE PERSONAL FINANCIAL PLANNER

It is difficult to find one generally accepted definition of who is a personal financial planner, or what his/her function is. However, we know this much: "In theory at least, a financial planner can weld all a family's financial affairs into a rational whole so that the result is a sound budget, a good investment program, a will and estate plan that makes sense and, if necessary, a tax shelter and a trust. To do his job properly, he must be well grounded in all these matters."

Personal financial planners promise fully rounded financial counsel specifically tailored to meet each family's resources, goals, aspirations, and constraints. Personal financial planning typically involves analyzing a person's total financial situation, and then designing a comprehensive strategy in the form of a written plan to achieve various financial goals. Financial planning is a concept to make "previously specialized services—like life insurance, estate

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72Ibid. 73Jeremy Main, op. cit., p. 67.
planning, or the purchase of securities—available in one neatly tied package."\(^{74}\)

The personal financial planner assembles all individual, isolated, and dispersed financial facts and welds them into an integrated and well-balanced plan which meets the family's financial attitudes and objectives. Personal financial planning is offered by a wide range of practitioners, anywhere from one-man financial "boutiques" to the complete team approach offered by such giants as Bank of America.

The need for financial planners has arisen because few individuals have well designed financial plans, that, for instance, coordinate their company's fringe benefits (pensions, profit sharing, insurance, and so on) with other assets such as their homes and stock portfolios. This gap in coordination is probably the most glaring mistake in the whole area of personal finance.\(^{75}\)

The College for Financial Planning states that the "Certified Financial Planner's area of expertise is in properly analyzing and prudently arranging over-all financial plans, rather than the selling of individual financial products."\(^{76}\) In addition, "His primary services are involved in instigating the development and maintenance of financial plans." Finally,


\(^{76}\)James Johnston, op. cit., p. 4.
the catalogue states that "In the carrying out of his task, he may be more knowledgeable in one field than another, but nevertheless recognizes the need to consult with qualified specialists in those particular areas where the capacity of his training or experience is exceeded and in those areas traditionally and legally set aside for others."77

SRI views the financial planner as being able to offer a wide range of services to clients. It has developed a list of areas which illustrate the role of the financial planner:

1. Securities.
2. Tangibles and others.
3. Tax shelters.
4. Real estate.
5. Pooled asset management.
6. Estate planning.
7. Fiduciary and advisory.
8. Life and health insurance.
9. Property and auto insurance.
10. Employee benefits.
11. Savings and checking.
12. Secured and personal loans.

SRI has also developed a pyramid type hierarchy of consumer financial needs. It begins with the basic needs, product/vendor selections. This deals with such aspects as choosing a bank, where to open savings accounts—for instance,

77 Ibid.
Figure 2
HIERARCHY OF CONSUMER FINANCIAL NEEDS

Source: SRI International
a bank vs. a savings and loan—from which company to purchase life insurance, what type of insurance, and so on. The next higher state is designated as dealing with portfolio decisions. This deals with such issues as diversification, risk and return combinations and others. The final stage, which is achieved after the others have been satisfied, is the comprehensive financial plan. This is the section concerned with developing personal financial plans. This hierarchy is illustrated in Figure 2.

SRI is the second largest "think-tank" in the nation, with revenues of $120 million. A little over half of it is purchased by U.S. government agencies, but private industry's share is on the rise. SRI specializes in applied research under contract for clients in business, industry, and government in the United States and 65 other countries.

SRI has a staff of 3200 members representing over 100 professional disciplines. At any given time, approximately 1000 research projects are under way. SRI has many divisions, one of which is the Financial Industries Center. It provides consulting assistance to banks, insurance companies, security firms, and other financial institutions. The Center's activities include strategy development; appraisals of economic, regulatory, and competitive environments; studies of financial service markets, products, services, and delivery systems.78

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SRI began a $300,000 research study into the area of personal financial planning. The results of this study were presented to a select list of their clients in May 1979. Their major conclusion was that "personal financial planning is becoming a major force in the financial industries today. Personal financial planning is emerging from a cottage industry and becoming a major marketing and distribution force for a broad range of financial products and services." 79

What Do You Get?

The cost for a full financial plan ranges from $5,000 to $300 or so, and some firms offer less detailed ones for under $100. 80 However, what the client gets for his money is the subject of growing debate within the financial services industry. With no entity enjoying industry-wide recognition for setting minimum competency standards for the practitioners of personal financial planning, Money magazine concluded in a recent article--based on the analyses performed by four different financial planners on as many different couples--that the plans are of sufficiently low quality to arouse deep skepticism; furthermore, Money suggests that the counselor's analyses raised "troublesome questions about how to find a competent planner, how much to pay for one, and even whether to hire one at all." 81

80 Richard Immel, p. 1. 81 Jeremy Main, op. cit., p. 82.
What is one really getting from a personal financial plan? "An insurance salesman 'planner' asks all about your income and assets, then concludes--after careful analysis--that what you need is more insurance. A stockbroker 'planner', taking you through the same charade, sees, a grievous gap in your investment program. A banker's computerized 'needs analysis' advises a long-term savings program."82

Therefore, what a client gets many times is not disinterested advice, nor alternative paths to the same bed. Rather, as Jane Quinn eloquently expressed it: "In a lean month (or even a fat one), advisers can find plenty of reasons to sell you whatever pays the highest commission."83 The incentive is great indeed, as the following example illustrates:

If you spend $1,000 on straight life insurance, the CFA (sic) will earn perhaps $550 to $800 in the first year, and more in later years. If you spent that same amount on term insurance, he might make $400. Your $1,000 spent on a 'load' mutual fund would bring him $85. On stocks, he perhaps gets $50.84

The economic incentive, obviously, is to recommend the high commission vehicle. To overcome this lack of objectivity, a small number of planners refuse commissions, living entirely on fees. But these fees are so expensive that only the wealthiest clients can afford. This is the major reason explaining why so many planners have commissions as the

82 Ibid. 83 Ibid.
greatest source of their income. "Most planners who sell products are aware of the common concern that their advice may be colored by the commissions they stand to gain."\textsuperscript{85} The prime charge is that by accepting commissions, the planner compromises his/her objectivity—the more he sells to the client, the fatter his paycheck.

For all the debate on objectivity, one issue seems to have become generally accepted: clients want more than just a plan; they want implementation of the recommendations.

**Market Segmentation**

In the course of its research, SRI divided the overall market for financial planning in seven categories, the lowest of which had income of at least $40,000 per year. So what about the average family with income below $30,000? Perhaps the best explanation is offered by Fred Harris, the Executive Director of the International Association of Financial Planners:

Before an individual or a couple can consider anything other than just meeting their monthly commitments, their income must reach a level where there is some surplus available. In other words, if you don't have money to pay rent and groceries, to feed and clothe your family, you probably have no business even spending one or two hundred dollars to have a will properly drawn.\textsuperscript{86}

SRI's market segments are:

Segment 1. Business owners with incomes of $50,000+, of which the United States has 350,000. They tend to be

\textsuperscript{85}Paul Van Slambrouck, p. 13.

heavy users of financial advisers, and are willing to pay for advice. But they tend to buy opinions rather than financial management, and are unlikely to buy "total financial planning" from one adviser.

Segment 2. Professionals with incomes of $50,000+, of which the United States has 435,000. They are extremely well educated and many are two wage earners households.

Segment 3. Executives with incomes of $50,000+ of which the United States has 265,000. They tend to make limited use of advisers, do not consider themselves sophisticated investors, and usually do not take the time to plan adequately.

Segment 4. Others (not covered by first three segments) with incomes of $50,000+, of which the United States has 350,000. Many of these households are close to retirement or retired. It is difficult to generalize about this nebulous segment.

Segment 5. Households with incomes of $30-50,000, head of household less than age 35, of which the United States has 900,000. This group has a very high debt ratio, and its primary concern is providing daily living expenses.

Segment 6. Households with incomes of $30-50,000, head of household age 35-55, of which the United States has 3 million. This segment constitutes the greatest homogeneous pool of private wealth the world has ever known, and it represents the great "man market" which financial planners always dreamed of tapping.

For example, SRI's survey indicated that 94% of
households in this category had savings accounts with an average value of $10,000; 55% own stocks or bonds with a $12,000 average portfolio; 57% owned cash value life insurance with an average value of $4,000; in addition to real estate holdings and other investments. The survey indicated that despite their incomes and worth, these households were not in a position to meet financial goals.

Segment 7. Households with incomes of $30-50,000, head of household older than age 55, of which there are 1.7 million in the U.S. 87

This segmentation is valuable to planners because it allows them to aim their marketing and planning approach to the individual market segments of their choosing.

The Future

SRI is of the opinion that anywhere from 6% to 8% of the U.S. population might benefit from a full financial plan, and that within five or ten years, industry wide revenues are to be somewhere at the billion-dollar level. SRI also believes that "independent financial planners will dominate the market for comprehensive financial plans over the next 5 years but banks and securities brokers will increase their market share." 88

SRI believes that "only about 116,000 comprehensive financial plans have been written to date, or only about

88Ibid.
1.1 for every 100 U.S. households. By 1984, it predicted that figure would climb to 640,000 or about 5 for every 100 households."\(^{89}\)

Who will be writing the plans? SRI believes that independent financial planners will be "writing 75% of the plans for the 'middle market' and 51% for the 'top market'. Brokers would be writing 17% for the middle market and 15% for the top market, while bankers would write 7% and 26% respectively."\(^{90}\)

The future of personal financial planning is bright. SRI offers a comment which is widely accepted in the industry: "The main constraint on the industry's growth, particularly in writing plans for the top market, is the shortage of qualified planners."\(^{91}\)

REGULATION

Personal financial planning is a "cottage" industry. As such, the field is fast growing, often chaotic, and unregulated. No single entity enjoys industry-wide recognition as the authoritative body to set minimum professional standards concerning such issues as competence of the financial planner, treatment of situations in which a conflict of interest arises, disclosure requirements, and financial resources required of the financial planner.

\(^{89}\)Ibid.  \(^{90}\)Ibid.  \(^{91}\)Price Gaines, Jr., "Financial Planners Eye Licensing," The National Underwriters, (October 7), 1973, p. 2.
For example, the incompetence of financial advisers is a serious and unregulated issue. Anyone who proclaims himself a financial planner can become one and start marketing his services. There are no minimum qualifications that financial planners must meet, or standards that he must follow.

There are two non-governmental organizations attempting to create professional standards, and so far with very modest results. On the one hand, we have the International Association of Financial Planners, Inc. (IAFP) which is the self-designated professional association for those who work with clients in the areas of personal and corporate financial planning.

The main purpose of the Association is to provide opportunities for personal and professional enrichment, continuing education, and for keeping current with those areas which affect financial planning. Founded in 1969, the Association is based in Atlanta and has active chapters throughout the United States. In recent years, the membership of the Association has more than quadrupled to 5000 members, a reflection of both the growth of financial planning as a profession and the value of the Association to the financial planner. The only prerequisite for joining the IAFP is to be working in some financial field, such as selling stocks or insurance.

The IAFP is currently working on two projects:

The first is possible model legislation which would provide for licensing of financial planners by the states
... such items as minimum age and business experience, professional education qualifications and written state examinations will be included in the proposal.\textsuperscript{92}

The second project in which IAFP is involved is the "preparation of a response to the Securities & Exchange Commission's proposed revision of its rules governing the conduct of investment advisers. IAFP would like an exemption from the rules unless the individual devotes a significant portion of time to investment advisory activities."\textsuperscript{93}

The IAFP has developed a code of ethics in the expectation that this will lead to the maintenance of high standards of technical competence, morality, and integrity. This code requires CFP's to maintain independence of thought and action; to hold the affairs of clients in strict confidence; promote sound financial planning, and to uphold the dignity and honor of the financial planning profession and maintain the highest standards of personal conduct.

In addition to the regulatory efforts by the IAFP, there is a second, private organization attempting to establish minimum qualifications for the practice of financial planning. This is the College for Financial Planning, based in Englewood, Colorado, which confers the designation of Certified Financial Planner (CFP) to "those individuals who have demonstrated their competence in analyzing and developing personal and business financial plans. In addition to

\textsuperscript{92}Ibid.

completing a comprehensive study program, candidates for the CFP designation demonstrate their proficiency by successfully completing five comprehensive Certified Financial Planner examinations."\(^{94}\)

The College for Financial Planners believes that "those who have achieved the designation of Certified Financial Planner have gained a certification which places them in the posture of being recognized as one of the foremost authorities in the area of personal and business financial planning in the United States."\(^{95}\)

To insure that CFP's uphold the integrity of their certification, the College requires them to engage in a program of continuing education immediately following receipt of the CFP designation.\(^{96}\) To achieve recertification, the CFP must accumulate the necessary continuing education credits.

For activities to qualify for continuing education credits, they must be related to financial planning and should involve either new learning or reinforcement of the CFP's understanding of conceptual financial planning. Furthermore, the College requires that each application for continuing education credits be documented with an outline of the material covered, written verification of attendance, and an evaluation of the learning experience.\(^{97}\)

The College for Financial Planners also requires

\(^{94}\)Ibid. \(^{95}\)Ibid., p. 23. \(^{96}\)Ibid. \(^{97}\)Ibid., p. 7.
that candidates for CFP certification be currently involved, or have adequate experience, in any one of the financial services industries. Among these, it suggests a few:

1. Account Executives
2. Bank Trust Officers
3. CPAs
4. CFAs
5. CLUs
6. Investment Advisors
7. Money Managers
8. Mutual Fund Representatives
9. Real Estate Brokers
10. Tax Attorneys
11. Tax Shelter Advisors and Salesmen98

The College also stresses that the Certified Financial Planner must abide by its professional code of ethics, which consists of six statements:

1. Places the interests of the clients first.
2. Requires a high degree of personal integrity.
3. Encourages a professional level of conduct in association with peers and other involved in the practice of financial planning.
4. Establishes individual responsibility for knowledge of the various laws and regulations, not only in letter, but in spirit.
5. Discourages sensational, exaggerated and unwarranted statements.
6. Encourages prudent and responsible actions.99

Financial planners have no direct regulation but, nevertheless, most individual activities are regulated by

98Ibid.  99Ibid.
some arm of government. This is so because the "absense of an accepted definition of a financial planner's activities results in the financial planner being regulated by a number of agencies."100

In addition to the efforts by the College for Financial Planners and the IAFP, the Securities and Exchange Commission (SEC) is looking into this field. According to the SEC, the fundamental question to resolve is whether the financial planner is required to comply with the Investment's Advisers Act, that is, whether he falls within the Act's definition of "investment adviser" in which case he would be required to comply with its provisions.101

This question arises because the financial planner may often be called upon to provide advice about securities in one form or another, and thus may be considered an investment adviser which is defined by the SEC as:

Any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the values of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities . . .102

Obviously, the definition of investment adviser is closely related to the definition of "security" which is very


101Section 101 (9) (11) of the Investment's Advisers Act of 1940, as reported by Seymour Spotter.

102Advisers Act, p. 102.
The term included not only publicly traded stocks and bonds but also such instruments as certificates of deposit, limited partnership interests in various types of investment vehicles, and other kinds of arrangements which have been regarded as creating an investment contract.¹⁰³

In summary, in order for the definition of "investment adviser" to apply, "the staff of the SEC has taken the position that, because of the language of the Act, rendering general advice on the advisability of investing in securities would be sufficient."¹⁰⁴

In early 1979, "the Securities and Exchange Commission approved rules requiring investment advisors to disclose more information about themselves to clients. Under the new rules most of the nation's 5,000 investment advisers must tell new clients about their educational and professional background, the type of investment practices they use and the fees they charge."¹⁰⁵ The rules also require advisers to disclose more information to the SEC, including details about the types of clients and the number of accounts the adviser has.

The final rules, however, are not as stringent as those proposed in 1977 by the commission. The original proposals would have required advisers to offer the information to current and prospective clients and to disclose balance

¹⁰³Ibid., p. 103
¹⁰⁵Jeremy Main, op. cit., p. 82.
sheets must be offered only if the adviser has custody of the customer's securities or charges a prepaid fee greater than $500. The disclosure must be made either 48 hours before a contract is signed or at the time of the contract signing, if the customer is given five days to cancel the contract.

For the future, the SEC intends to review the information to determine, among other things, whether standards should be established for qualifying as an investment adviser.

COMPENSATION

Many different compensation arrangements exist in the financial planning industry. These vary all the way from a stiff fee of a couple of thousand dollars exclusively for developing a financial plan with no execution services, to a plan which charges no fee for planning services relying instead on investment commission from clients who accept the recommendations.

For instance, the Personal Capital Planning group at Merryll Lynch & Co., aims its services at persons with incomes of $35,000 and up and charges a minimum of $1,000 although it has recently introduced a stripped-down $600 plan. In return for this fee the clients should expect a 120 page report which concludes with the various steps the clients should undertake. These recommendations can be, for instance, spend less, create an emergency cash reserve, buy tax-free municipals, an analysis of fire and casualty in-
surance, and so on.

Citicorp will prepare a detailed report on the client's status with specific action recommendations for an agreed fee and based upon time spent. However, Citicorp will insist on it implementing the plan where fees now are based on the market value of assets held. For instance, their cash management plan charges a minimum of $2,500 or 1/8 of 1% of assets, whichever is greater.

In contrast to the high-ticket places, there are many financial planners—especially the one man boutique—who charge no fee for the planning services, relying instead on investment commissions from clients who accept the recommendations. However, let the buyer beware! "Getting a free financial plan from a counselor who collects commissions rather than fees may seem tempting, but beware."\(^{106}\) A conflict of interest may well arise because the typical planner working on commissions has usually gotten into it to help him sell life insurance or something. Inherently he has a problem giving objective counseling.\(^{107}\)

A recent survey conducted among its membership by the International Association of Financial Planners (IAFP) disclosed that most personal financial planners earn a lot, but that, nevertheless, selling rather than planning is the key.\(^{108}\)

\(^{106}\)Jeremy Main, op. cit., p. 82.  
\(^{107}\)Ibid.  
The IAFP requested the subscribers of its monthly magazine, The Financial Planner, to complete a questionnaire dealing with their business's. Although the response rate was low, at 10%, and no validation of the instrument was made, especially in terms of measuring representativeness, the return of some 700 questionnaires would suggest a significant degree of reliability. The following table illustrates how income was distributed:

**Table 1**

<table>
<thead>
<tr>
<th>Income</th>
<th>Percent of planners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $20,000</td>
<td>9.9%</td>
</tr>
<tr>
<td>$20,000-$29,999</td>
<td>11.8</td>
</tr>
<tr>
<td>$30,000-$39,999</td>
<td>14.4</td>
</tr>
<tr>
<td>$40,000-$49,999</td>
<td>11.9</td>
</tr>
<tr>
<td>$50,000-$59,999</td>
<td>9.9</td>
</tr>
<tr>
<td>$60,000-$69,999</td>
<td>8.1</td>
</tr>
<tr>
<td>$70,000-$79,999</td>
<td>6.2</td>
</tr>
<tr>
<td>$80,000-$89,999</td>
<td>4.3</td>
</tr>
<tr>
<td>$90,000-$99,999</td>
<td>2.8</td>
</tr>
<tr>
<td>$100,000-$499,999</td>
<td>20.0</td>
</tr>
<tr>
<td>$500,000-$999,999</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
</tr>
</tbody>
</table>

We observe that nearly 40 percent of the respondents incomes between $20,000 and $50,000 per year, and that nearly 50 percent had incomes greater than $50,000 per year. What did the planners do to earn such high incomes? The largest part of the total income came not from planning fees, but rather from commissions earned by selling those services which they recommended in their plans.

This finding reinforces the claim by critics of personal financial planning that a serious conflict of interest arises, and that the planners lack objectivity in selling those services they recommend in the plans. Of course, practitioners brush aside these criticisms citing clients desire for a "full-service" approach. Customers do not want planning only, but they want execution of the recommendations.

This point was also highlighted in SRI's research. They found that "clients are unconcerned about conflicts of interest. In fact, SRI concluded, clients liked it better when the firm that draws the plan helps carry it out."\(^{109}\) Brokerage firms argue that because they offer so many products and services, there is automatic objectivity. There is no need to push one or another product since almost any product which may be recommended can be offered by a brokerage firm.\(^{110}\)

A very strong incentive for a planner to earn his income through the commissions earned by executing recommen--

\(^{109}\)Richard Immel, op. cit., p. 5.  \(^{110}\)Ibid.
dations is that many clients are "reluctant to pay directly for something as intangible as the plan that guides their financial strategy."\[111\] In addition, since the great majority of financial planners are not registered investment advisors, they hesitate and balk at charging fees for anything that may suggest investment counseling.

Table 2 illustrates a breakdown of the sources of income for personal financial planners. As can be seen, commissions are the greatest source of income to planners. These are earned by steering clients into such investments as life insurance, mutual funds, disability insurance, fixed annuities and others. All the other categories lack in individual importance in terms of sources of income.

Investment advisory fees (3 to 4%) ordinarily are based on a percentage of assets under management, but few planners fall in this category, because in order to do so they must be recognized by the Securities and Exchange Commission as a registered investment adviser.

Table 3 indicates the percent of respondents who replied they had "significantly influenced" at least one investment in each of the product areas in the past 12 months. By far the most common recommendation is in the insurance area--life, disability--followed by mutual funds. What role did the prospect of earning high commissions play in these recommendations is difficult to determine, but not difficult

\[111\] Donald Moffit, op. cit., p. 30.
Table 2
Sources of Income for Personal Financial Planners

<table>
<thead>
<tr>
<th>Source</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Selling (commissions)</td>
<td>63.0%</td>
</tr>
<tr>
<td>General Planning</td>
<td>3.0</td>
</tr>
<tr>
<td>Salary</td>
<td>4.0</td>
</tr>
<tr>
<td>Investment Advice</td>
<td>3.5</td>
</tr>
<tr>
<td>Consulting</td>
<td>3.5</td>
</tr>
<tr>
<td>Casewriting</td>
<td>3.0</td>
</tr>
<tr>
<td>Investment Syndication</td>
<td>3.5</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>4.5</td>
</tr>
<tr>
<td>Corporate-benefit Planning</td>
<td>3.0</td>
</tr>
<tr>
<td>Trust and Estate Planning</td>
<td>4.0</td>
</tr>
<tr>
<td>Accounting</td>
<td>1.5</td>
</tr>
<tr>
<td>Legal Services</td>
<td>1.0</td>
</tr>
<tr>
<td>Other</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>


to suspect. However, we notice few clients were steered into real estate, perhaps because it is very difficult to collect commissions from real estate transaction involving brokers and agents other than the financial planner. Also, it takes a lot of time to complete a real estate transaction, and there is always a great degree of uncertainty. The data
Table 3
Preferred Investment Alternatives

<table>
<thead>
<tr>
<th>Product</th>
<th>% of planners who influenced at least one investment in each product area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance</td>
<td>81.5%</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>57.0</td>
</tr>
<tr>
<td>Disability Insurance</td>
<td>48.7</td>
</tr>
<tr>
<td>Fixed Annuities</td>
<td>48.6</td>
</tr>
<tr>
<td>Public Real Estate Programs</td>
<td>44.5</td>
</tr>
<tr>
<td>Public Oil and Gas Programs</td>
<td>41.0</td>
</tr>
<tr>
<td>Private Placements</td>
<td>33.6</td>
</tr>
<tr>
<td>Listed Stocks</td>
<td>30.5</td>
</tr>
<tr>
<td>Municipal Bonds</td>
<td>27.7</td>
</tr>
<tr>
<td>Variable Annuities</td>
<td>23.2</td>
</tr>
<tr>
<td>Over-the-counter Stocks</td>
<td>23.2</td>
</tr>
<tr>
<td>Real Estate</td>
<td>17.0</td>
</tr>
<tr>
<td>Commodities</td>
<td>16.9</td>
</tr>
<tr>
<td>Other Tax-Incentive Programs</td>
<td>14.9</td>
</tr>
<tr>
<td>Casualty Insurance</td>
<td>13.0</td>
</tr>
<tr>
<td>Options</td>
<td>11.7</td>
</tr>
<tr>
<td>Gems</td>
<td>9.7</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>9.6</td>
</tr>
<tr>
<td>Other Insurance Programs</td>
<td>8.8</td>
</tr>
</tbody>
</table>

on this table, therefore, does not offer much evidence on the objectivity supposedly manifested by planners in their recommendations.

When respondents were divided into groups according to their main business lines, both the source of their income and products most often recommended are seen in a better perspective. It can now be more easily explained why insurance ranks so high in both source of income and most often recommended action.

The categories were:

1. Insurance-based financial planners. This category comprises all respondents who have the majority of their business in life and disability insurance, and who have few other business lines; 9.7 percent of respondents belonged in this category.

2. Insurance-based planners with limited securities licenses. Some of the previous category, but in addition they are involved with mutual funds and public partnership programs; 13.5 percent of respondents were classified here.

3. Broadly-based financial planners. The planners in this group offer a greater variety of products: insurance, tax-incentive investments, mutual funds, listed or over-the counter securities, and hard assets; 33.9 percent of respondents were classified in this group.

4. Tax-incentive based planners. This category comprises respondents who have the majority of their business in public and private partnership programs and other tax-incen-
tive investments; 14.7% of respondents were classified in this group.

5. Securities-Based Planners. Respondents who have the majority of their business in stocks and bonds, mutual funds, commodities and options were included here; these were 9.7% of all respondents.112

In summary, it would seem that personal financial planning is a smoke-screen to cover the real purpose of these plans: self insurance. Or perhaps as Richard Immel expressed it: "personal financial planning, as it is being practiced by some firms and individuals, is just another way for commission salesmen to peddle securities, insurance policies and tax shelters to people who really need nothing more than a little counseling in common sense."113

In conclusion, financial planners do seem to earn a very respectable income. The median income reported in the IAFP survey was $50,000 with many earning over $100,000 per year.

THE PRESENT STUDY

The present study makes a positive contribution to the financial planning industry because it will clarify some issues that are important from the customer viewpoint. For instance, are individuals concerned with identifying specific


investment media to achieve goals?, or are they more concerned with sketching various financial goals, and then delegating the function of selecting the investment vehicle to the financial planner? We will also determine, among the many other issues investigated, which, among a series of professionals, are considered to be the best source for writing personal financial plans.

Not only will we be able to answer the above questions, but we will also determine the importance consumer's attach to such areas as determining their insurance needs, estate planning, circumscribe individual investment philosophy, and others.

The study will also provide a richer picture of those households interested in obtaining a personal financial plan that can be achieved by the mere use of demographic information. We will be using life style data--activities, interests, and opinions--as input for the development of this profile.

Finally, we will also explore whether several aspects of personal financial management and behavior are related to interest in obtaining a personal financial plan.

CONCLUDING COMMENTS

A historical perspective of the evolution of the financial planning industry was presented in this chapter. The primary purpose of Chapter II was to review the role of the financial planner, and the different stages of evo-
olution that financial planning enjoys in the various institutions that make the financial services industry.

The following chapter presents the methodology employed to develop customer profiles, needs and viewpoints with regard to personal financial planning.
Chapter 3

RESEARCH METHODOLOGY

The discussion of the methodology utilized in this study is divided into two broad segments. The first part reviews the research design, and the second presents a review of the analytical tools used for analyzing the data.

RESEARCH DESIGN

In this section we will briefly discuss the information to be collected, the sources utilized, and the data-gathering procedure employed.

The study's research design is both descriptive and exploratory. It is descriptive because we are concerned with developing profiles of consumers who indicated an interest in obtaining a personal financial plan, which will distinguish them from individuals who reported no interest in financial planning. Two profiles will be developed, one based on demographic data, and the other on lifestyle characteristics.

The research design is also exploratory because we are interested in assessing needs and viewpoints of consumers regarding personal financial planning, and we are concerned too, with finding relationships between several aspects of personal financial management, and interest in
obtaining a personal financial plan.

Arkansas Household Research Panel

The data for this study is collected during the Fall, 1979, by means of a pre-tested mail questionnaire sent to participants of the Arkansas Household Research Panel (AHRP). A copy of the questionnaire is found in the Appendix.

The Arkansas Household Research Panel is made up of over five hundred households selected from seven geographic units in the state of Arkansas. Included are the counties in each of the six standard Metropolitan Statistical Area's in Arkansas. The cities included in sample were selected on the basis of their geographic location and their economic impact within Arkansas.

The AHRP usually provides an 80% or higher response rate, thereby offering a tremendous advantage over traditional mail surveys which normally have response rates from 3% to 40%. The AHRP was validated as being representative of the state of Arkansas because characteristics of its members, e.g., age education, home ownership, correspond closely to the known values for the population as reported by the U.S. Census Bureau. However, race was the only aspect not reflective of the census data.¹

Research Instrument

¹For additional information on the AHRP write to the Director, Arkansas Household Research Panel, College of Business Administration, University of Arkansas, Fayetteville, AK 72701.
The questionnaire used to collect the data for this study was developed with the purpose of providing answers to specific research questions formulated after an extensive literature review and discussions on the topic held between the dissertation committee members and the author.

The questionnaire was re-written many times until it was felt it had the capability to provide answers to the formulated research questions. Thereafter, two pre-tests were conducted. The first one consisted of having a dozen doctoral students at the University of Arkansas complete the questionnaire, and also criticize it.

After the necessary corrections were made, a copy of the revised questionnaire was given to 60 undergraduate students for completion. Their responses were tabulated manually, and discrepancies and ambiguities were then corrected. It was then felt that the questionnaire in its final form could successfully provide the information needed to answer the formulated research questions.

The survey instrument is divided into four sections. Section I is mainly concerned with whether or not the respondent has been exposed previously to the concept of financial planning, in addition to presenting a question attempting to measure the number of different financial activities in which a consumer might have been involved over the past few years. The information in this question is to be used as a variable in the discriminant analysis.

Section II of the questionnaire attempts to determine consumer's opinions with respect to the degree of im-
portance that they attach to different features which may be included in a personal financial plan. The objective is to conclude that the areas thought to be most important should always be included in personal financial plans, and those areas thought to be least important should not be included when writing financial plans for individuals.

Section III has a question which measures the panelists' degree of interest in obtaining a personal financial plan by having them place a check mark in any of six a priori groups ranging from definitely interested to definitely not interested in obtaining a personal financial plan. This section also has a question attempting to determine a reasonable fee that should be charged by an advisor in developing a financial plan. Finally, this section asks panel members to indicate which professionals they believe are the best source for developing financial plans.

Section IV has two distinct parts to it. The first is a list of 52 statements dealing with activities, interests, and opinions (AIO's). These will be used in developing a life style profile of respondents according to their degree of interest in personal financial planning. The second part of this section is a list of 10 statements dealing with various attributes of financial plans. The summated scores of these will be utilized as a measure of attitude towards personal financial plannings, and utilized as a variable in the discriminant function.
Characteristics of Respondents

The data for this study was collected during the Fall, 1979 by means of a pre-tested mail questionnaire sent to participants of the Arkansas Household Research Panel (AHRP). The panel is made up of over five hundred households selected from seven geographic units in the State of Arkansas. The response rate was slightly over 80 percent, for a total of 475 usable cases.

A six point scale—from definitely interested to definitely not interested—was used to measure the degree of interest expressed by respondents to obtaining a personal financial plan. Table 4 shows the distribution of responses.

One observes that 47 percent of the 456 who responded to this question indicated some degree of interest while 53 percent showed none. The responses were regrouped into two major categories by combining the definitely interested, interested and probably interested responses into a group labeled interested; the remaining replies were condensed into a not interested category.

This regrouping was done because it was felt that a 6 point scale would dilute the information, making it very difficult to establish relationships between interest in obtaining a personal financial plan and other information.

Table 5 presents demographic data for the respondents. Nearly 84 percent of the heads of households were male, with 94.5 percent being white. The age distribution
is skewed to the right with 60 percent of respondents being over the age of 45, 16.2 percent between the ages of 35 and 45, and 18.5 percent with ages between 25 and 35.

Table 4
Degree of Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th></th>
<th>Absolute frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitely Interested</td>
<td>39</td>
<td>8.2</td>
</tr>
<tr>
<td>Interested</td>
<td>83</td>
<td>17.7</td>
</tr>
<tr>
<td>Probably Interested</td>
<td>93</td>
<td>19.6</td>
</tr>
<tr>
<td>GROUP 1</td>
<td>215</td>
<td>45.2</td>
</tr>
<tr>
<td>Probably Not Interested</td>
<td>101</td>
<td>21.3</td>
</tr>
<tr>
<td>Not Interested</td>
<td>85</td>
<td>17.9</td>
</tr>
<tr>
<td>Definitely Not Interested</td>
<td>55</td>
<td>11.6</td>
</tr>
<tr>
<td>GROUP 2</td>
<td>241</td>
<td>50.8</td>
</tr>
<tr>
<td>No Response</td>
<td>19</td>
<td>4.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>475</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Approximately 80 percent of respondents were married, 9.7 percent were widows, and 5 percent each were either single or divorced. The sample was constituted mainly by home-
### Table 5
Demographic Characteristics of Heads of Household

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Absolute frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sex</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>393</td>
<td>83.6</td>
</tr>
<tr>
<td>Female</td>
<td>77</td>
<td>16.4</td>
</tr>
<tr>
<td>Below 25</td>
<td>27</td>
<td>5.7</td>
</tr>
<tr>
<td>25-35</td>
<td>88</td>
<td>18.5</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35-45</td>
<td>77</td>
<td>16.2</td>
</tr>
<tr>
<td>45-60</td>
<td>141</td>
<td>29.7</td>
</tr>
<tr>
<td>60 and over</td>
<td>142</td>
<td>29.9</td>
</tr>
<tr>
<td>Caucasian</td>
<td>449</td>
<td>94.5</td>
</tr>
<tr>
<td><strong>Race</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black</td>
<td>17</td>
<td>3.6</td>
</tr>
<tr>
<td>Others</td>
<td>9</td>
<td>1.8</td>
</tr>
<tr>
<td>Married</td>
<td>375</td>
<td>79.8</td>
</tr>
<tr>
<td>Single</td>
<td>24</td>
<td>5.1</td>
</tr>
<tr>
<td>Divorced</td>
<td>25</td>
<td>5.3</td>
</tr>
<tr>
<td>Widowed</td>
<td>46</td>
<td>9.7</td>
</tr>
<tr>
<td>Apartment</td>
<td>31</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Marital Status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent Home</td>
<td>34</td>
<td>7.2</td>
</tr>
<tr>
<td>Own Home</td>
<td>404</td>
<td>85.1</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Type of Residence</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
owners, at 85 percent. Only 15 percent of the 436 who responded indicated an education of a Master's degree or higher. Nearly 43 percent reported a high school or less level of education.

Table 6 shows the distribution of household income. It is interesting to point out that only 17 percent of the 459 households who replied to this question reported an income greater than $30,000 per year, an amount which is considered by many to be a minimum necessary to afford a sophisticated personal financial plan; 27 percent reported incomes between $20,000 and $29,999, and 12.6 percent indicated incomes between $16,000 and $19,999. These can easily qualify for less expensive plans, such as computerized analyses. Finally, more than 43 percent of respondents reported an income less than $16,000 per year.
<table>
<thead>
<tr>
<th>Amount</th>
<th>Absolute frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $12,000</td>
<td>128</td>
<td>27.9</td>
</tr>
<tr>
<td>$12,000-$15,999</td>
<td>71</td>
<td>15.5</td>
</tr>
<tr>
<td>$16,000-$19,999</td>
<td>58</td>
<td>12.6</td>
</tr>
<tr>
<td>$20,000-$23,999</td>
<td>67</td>
<td>14.6</td>
</tr>
<tr>
<td>$24,000-$29,999</td>
<td>57</td>
<td>12.7</td>
</tr>
<tr>
<td>$30,000-$40,000</td>
<td>47</td>
<td>10.2</td>
</tr>
<tr>
<td>More than $40,000</td>
<td>31</td>
<td>6.8</td>
</tr>
<tr>
<td>Total</td>
<td>459</td>
<td>100.0</td>
</tr>
</tbody>
</table>
ANALYTICAL TOOLS UTILIZED

This section discusses the several analytical tools utilized in this dissertation to analyze the data.

Multiple Discriminant Analysis

Two major objectives of this study were: (1) to establish the extent to which differences exist between those households most likely to be interested in personal financial planning and those that are not, in terms of selected economic, demographic, and attitudinal characteristics; and (2) to determine the relative importance of various characteristics in differentiating the degree of household's interest in personal financial planning.

To establish the differences between the groups we must define a priori the groups which must be mutually exclusive and collectively exhaustive. The task then involves determining which variables are most important in correctly classifying an observation into one of the several a priori groups. Multiple discriminant analysis is a statistical tool designed for such a task.

In a few words, discriminant analysis is a simple "scoring system" that assigns a "score" to each individual. This score (Z) is a weighted average of the individual's numerical values of his independent variables (for example, age, income). On the basis of this score, the individual is assigned to the "most likely" category, which in this study will be either of two groups from collapsing several degrees
of interest in obtaining or not a personal financial plan.\textsuperscript{4}

Morrison describes MDA in the following words:

The objective of a discriminant analysis is to classify objects or individuals, by a set of independent variables, into one of two or more mutually exclusive and exhaustive categories.\textsuperscript{5}

Discriminant analysis provides answers to these questions:

"1. Which independent variables are good discriminators?

2. How well do these predictor variables discriminate among the groups?"\textsuperscript{6}

Altman offers the following definition of multiple discriminant analysis:

\textit{... a statistical technique used to classify an observation into one of several a priori grouping dependent upon the observation's individual characteristics. It is used primarily to classify and/or make predictions in problems where the dependent variable appears in qualitative form, e.g., male or female, bankrupt or nonbankrupt.}\textsuperscript{7}

For their part, Cooley and Lohnes offer the following description of multiple discriminant analysis:

\textit{... a procedure for estimating the position of an individual on a line that best separates classes or groups. The estimated position is obtained as a linear function of the individual's m best scores.}\textsuperscript{8}


\textsuperscript{6}Morrison, Handbook of Marketing Research, p. 2-448.


\textsuperscript{8}W. Cooley and P. Lohnes, Multivariate Procedures For
The discriminant function takes the form:
\[ Z_i = b_0 + b_1 X_{1i} + b_2 X_{2i} + \ldots + b_n X_{ni} \]
Each individual's discriminant score \( Z_i \) is a linear function of the independent variables, where:
- \( Z_i \) = the \( i \)th individual's discriminant score.
- \( X_{ji} \) = the \( i \)th individual's value of the \( j \)th independent variable.
- \( b_j \) = the discriminant coefficient for the \( j \)th variable.
- \( z_{\text{crit}} \) = the critical value for the discriminant score.

"The numerical values and signs of the \( b \)'s indicate the importance of the independent variables in their ability to discriminate among the different classes of individuals."\(^9\)

The \( Z \) score for each discriminant function indicates in which of the two (or more) groups the individual is more likely to belong. The classification procedure is:

If \( Z_i > z_{\text{crit}} \), classify individual \( i \) as belonging to group I.

If \( Z_i < z_{\text{crit}} \), classify individual \( i \) as belonging to group II.\(^{10}\)

The object of the discriminant function will be to correctly classify as many individuals as possible. In other

---


\(^{10}\)Ibid.
words, the discriminant function is a simple linear scoring rule that generates scores for individuals; these scores are then used to assign the individual to one of the mutually exclusive and exhaustive categories.

The first step in using MDA is to establish the group classifications which can be two or more. After these are established, data are collected on them; "MDA then attempts to derive a linear combination of these characteristics which 'best' discriminates between the groups."11 In our study, if a household has characteristics (e.g., demographics) which can be identified for all of the households in the analysis, the MDA determines a set of discriminant coefficients which act as the basis for classification into one of the mutually exclusive groups.12

Perhaps the primary advantage of MDA is its usefulness in examining an entire profile of an object simultaneously rather than examining its individual characteristics sequentially.13 According to Simkowitz and Monroe, this method:

. . . is useful in analyzing a multivariate set of data in that the n variates for each object are reduced to a single variable by the selection of a linear transformation function. Coefficients of the linear function are selected in such a way as to permit the derivation of a univariate test statistic appropriate for testing the

11 Edward Altman, p. 592.
12 Ibid.
13 Ibid.
differences among the groups. In this respect MDA permits the simultaneous analysis of a set of characteristics measured on groups of objects as opposed to sequentially analyzing differences among the objects on the basis of each characteristic independent of the others.¹⁴

Altman points out another advantage of MDA: "the reduction of the analyst's space dimensionality, i.e., from the number of different independent variables to G-1 dimension(s), where G equals the number of original a priori groups."¹⁵

Although discriminant analysis is similar in many ways to regression, there are some important distinctions. Discriminant analysis classifies observations into groups and it "uses group membership as the criterion and makes all comparisons between groups and none within the groups."¹⁶ If there is a within the group criterion, e.g., highly interested in personal financial planning, that criterion is disregarded by the discriminant analysis. It makes no distinctions between great interest and little interest. A household is interested period.¹⁷

On the other hand, regression is concerned with the degree of interest. It "can employ a criterion of excellence in each group and so distinguishes" between households highly


¹⁵Edward Altman, p. 592.


¹⁷Ibid.
interested and those that are slightly interested. The discriminant function ignores this type of criterion.\textsuperscript{18}

In addition, the "discriminant technique requires that the same kinds of measurements be made on all the members of all the groups. This is to be expected, because if the same measurements were not made in the different groups there would be no basis for differentiating the groups."\textsuperscript{19} Regression analysis does not require that the same tests be used in all groups.

In summary, "regression analysis is designed to answer the question, 'What am I best at?'; discriminant analysis is designed to answer the question, 'What group am I most like?'"\textsuperscript{20}

Similarities between both techniques can be found. For instance, in regression, $R^2$ tells us how much of the variance we have explained, and in discriminant analysis, $D^2$ tells us the percent correctly classified into the groups. The statistical significance of the $R^2$ is analogous to the statistical significance of the $D^2$ statistic. In its simplest form, two mutually exclusive groups, discriminant analysis is equivalent to a regression function with a binary dependent variable.

The following mathematical development of discriminant

\textsuperscript{18}Ibid.
\textsuperscript{19}Ibid.  \textsuperscript{20}Ibid.
analysis is patterned to articles by Altman, Rulon, Bryan, and Smith.21

Let us assume we have selected a number, G, of a priori groups. This may be stated as the null hypothesis to be tested. For notation, let:

\[ N_g = \text{the number of households in group } g, \text{ were } g = 1, 2, \ldots, G. \]

\[ M = \text{the number of measurable characteristics for each household in each group (e.g., socio-economic factors).} \]

\[ X_{pgj} = \text{the characteristic } j \text{ of the household } p \text{ in group } g, \text{ where:} \]

\[ j = 1, 2, \ldots, M. \]

\[ p = 1, 2, \ldots, N_g. \]

\[ g = \text{specific group } g, g = 1, \ldots, G. \]

A group mean (centroid) for a given household characteristic is computed:

\[ \bar{X}_g = \frac{1}{N_g} \sum_{p=1}^{N_g} X_{pgj} \]

Then consider the linear function:

\[ Z_i = V_1 X_1 + V_2 X_2 + \ldots + V_n X_n \]

where:

\[ Z_i = \text{single discriminant score} \]

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21Edward Altman, pp. 597-598.

Phillip J. Rulon, pp. 80-89.


K. Smith, Classification of Investment Securities Using Multiple Discriminant Analysis, Institute Paper no. 101,
\( V_i = \text{discriminant coefficient} \)

\( X_i = \text{independent variables} \)

Next, compute the group Z score means (after computing Z scores for each household) as follows:

\[
\overline{Y}_g = \frac{1}{N_g} \sum_{p=1}^{N_g} Y_{pg}
\]

where:

\( Y_{pg} = \text{household p in group g} \)

\( \overline{Y}_g = \text{group mean (centroid)} \)

These group means are used then to test the null hypothesis that the households come from the same population. If we reject the null, further discriminatory analysis is possible because we have reached the conclusion that the a priori groups are significantly different.

Once the group means are computed, we calculate the ratio of the sums-of-squares between groups (SS between) to the sums-of-squares within (SS within). This ratio is used as "a test to determine the overall discriminating power of the model," which takes the form of:

\[
\lambda = \frac{\text{SS Between}}{\text{SS Within}} = \frac{\sum_{g=1}^{G} N_g \left[ \overline{Y}_g - \overline{Y} \right]^2}{\sum_{g=1}^{G} \sum_{p=1}^{N_g} \left[ Y_{pg} - \overline{Y}_g \right]^2}
\]

(\text{Purdue University, Lafayette, Indiana, Institute For Research in the Behavioral, Economic, and Management Sciences, 1965}).

\( ^+ \text{Edward Altman, p. 599.} \)
where:

- $G =$ number of groups
- $g =$ specific group $g$, $g = 1, \ldots, G$
- $N_g =$ number of households in group $g$
- $Y_{pg} =$ household $p$ in group $g$, $p = 1, \ldots, N_g$
- $\bar{Y}_g =$ group mean (centroid) of $Z$ scores for group $g$
- $\bar{Y} =$ overall sample mean

When this ratio is maximized, "it has the effect of spreading the means (centroid) of the $G$ groups apart, and, simultaneously, reducing dispersion of the individual points (individual $Z$ values, $Y_{pg}$) about their respective means."^{22}

Furthermore,

... this test (commonly called the 'F' test) is appropriate because one of the objectives of the MDA is to identify and to utilize those variables which best discriminate between groups and which are most similar within groups.\(^{23}\)

The $Z$ scores for each household are obtained after the values of the discriminant coefficients ($b$'s) are estimated. The $Z$ score represents a linear transformation of independent variables into a single measure for each household. "The end product is a linear transformation function that can utilize independent variables to compute for each security a $Z$ score by which that security may be classified into one of two groups."\(^{24}\)

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\(^{22}\)Edward Altman, p. 598.

Households are assigned to one of the groups based on their Z scores. Basically, the procedure is to compare the characteristics of a household to that of the alternative groups. In this fashion the household is assigned to the group it most closely resembles. "The comparisons are measured by a chi-square value and assignments are made based upon the relative proximity of the individual's score to the various group centroids."^{25}

**Interpretation of the Independent Variables.** The sign and magnitude of the $b_j$'s determine the effect of the independent variables $X_j$.^{26} Each $b_j$ represents the change in the Z score for each unit change in the $X_i$, all other things held constant. It follows that the more a variable affects $Z_i$, the better it discriminates. That is, the greater the $b_j$, the better that variable discriminates between the groups.

Since the $b_j$'s will have different values, and their magnitude is influenced by the scale we use for the independent variables $X_j$, we cannot directly compare the discriminant coefficients and conclude that one variable discriminates better between the groups. What is needed is a method to standardize all the coefficients, therefore allowing us to directly compare them.

We can achieve this transformation by multiplying each discriminant coefficient by the total sample standard

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^{25}Edward Altman, p. 598.

deviation of its corresponding variable. For example, assume $k_1$ and $s_1$ to be the discriminant coefficient and the standard deviation of variable one, respectively. Then, $k_1 s_1 = b_1$, where $b_1$ is the standardized discriminant coefficient.\(^{27}\)

Having repeated similar computations for all coefficients, suppose we obtain that $b_1 > b_2$, then we can conclude that variable $X_1$ is a better discriminator between group I and group II than variable $X_2$. In other words, a unit change in $X_1$ has more effect on $Z_i$--the discriminant score--than a unit change in $X_2$, and therefore, the more a variable affects $Z_i$, the better it discriminates between groups.\(^{28}\)

The sign of the discriminant coefficient determines the direction of the effect of the independent variable. If $b_j$ is positive, as $X_j$ increases $Z_i$ increases, and the larger $Z_i$, the more likely it is that individual $i$ belongs to group I.

It is very important to obtain the best possible estimates of the discriminant coefficients ($b_j$). We therefore strive to achieve the smallest dispersion of these values around their expected value. The larger the sample size, the better the estimates. Thus, in determining which variables are the best discriminators we should use all the data.

However, using the entire sample to calculate our

\(^{27}\)Ibid.

\(^{28}\)Ibid.
discriminant function will result in an upward bias, that is, the classificatory power will appear more powerful than it is in reality. To avoid this bias, a split-sample technique is utilized where the function is calculated on the basis of one-half the data and its predictive power is tested on the other half.

**Bias in Multiple Discriminant Analysis.**

Discriminant analysis can be used for predicting customer behavior, in addition to determining the relative importance of the different customer characteristics as they contribute to the prediction.

In assessing the classificatory power of the discriminant function,

it is first necessary to demonstrate that the observed results are better than one might expect by chance. For discriminant analysis, chance is often taken as the percentage of correct predictions expected if there was in fact no difference between the underlying populations that comprise the various groups.²⁹

In their landmark article, Frank, Massy and Morrison express:

The question of predictive power is crucial. If the observed proportion of correct predictions is significantly larger than would be expected by chance, an attempt can be made to interpret the coefficients in the discriminant functions in the hope of developing customer profiles. However, if the predictive power is no greater than can be expected by chance, whatever structural differences appear to exist merit little or no interpretation. That

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is, they provide no meaningful information for identifying group membership.\textsuperscript{30}

The problem arises when we try to determine what degree of discriminatory power is to be expected by chance in any one situation. According to Frank et al., there are two specific sources of bias in multiple discriminant analysis: bias due to sampling errors and search bias.\textsuperscript{31}

Search bias occurs because "the discriminant technique tends to fit the sample data in ways that are systematically better than would be expected by chance, even if the underlying populations are identical (i.e., no predictive power truly exists)."\textsuperscript{32}

Both the regression and discriminant analysis "fit" to the data is the one that maximizes the predictive power of the equation for the particular sample under analysis. "That is, the method ensures that the sample correlation between the predicted and actual values of the dependent variable will be as large as possible."\textsuperscript{33}

However, the predictive power of a regression model, \(R^2\), has long had a simple method of adjusting for the upward bias with the adjusted coefficient of multiple determination. This coefficient "may actually become smaller when another independent variable is introduced into the model, because the decrease in SSE may be more than offset by the loss of a degree of freedom in the denominator."\textsuperscript{34}

\textsuperscript{30}Ibid. \hspace{1em} \textsuperscript{31}Terry Arndt, p. 87.
\textsuperscript{32}Ronald Frank, et al., p. 250. \hspace{1em} \textsuperscript{33}Ibid., p. 253.
\textsuperscript{34}John Neter and William Wasserman, \textit{Applied Linear}
Since no similar techniques existed in discriminant analysis "for deflating the proportion of cases correctly classified in the sample to get an estimate as to the predictive power of the attributes included in the analysis among the populations,"\(^{35}\) Frank et al suggested the following test for the case of two populations:

\[
t = \frac{Q - P}{\sigma_p}
\]

where:

- \(Q\) is the proportion of sample observations correctly classified by the discriminant analysis,
- \(P\) is the proportion one expects by chance (if the groups are of equal size, then \(P = .5\)).

\(\sigma_p\) is \(\sqrt{\frac{P(1-P)}{n}}\)

therefore,

\[
t = \frac{Q - P}{\sqrt{\frac{P(1-P)}{n}}}
\]

This formula can be used "to test whether the proportion of correctly classified cases in the sample is significantly different from the proportion correct that would be expected by chance."\(^{36}\)

However, Frank, et al., warn that a test based on the

\(^{35}\)Ronald Frank, et al., p. 253.

\(^{36}\)Ibid.
above equation:

...will be biased if it is applied to the same sample of data used to estimate the discriminant coefficients. This bias is due to sampling errors in estimating the means of the populations. The direction of the bias is to show greater predictive power in classification than actually exists among the true populations. Its magnitude will decrease as the sample size become large.\(^{37}\)

One way to avoid this bias is to use this test on a sample that was not used to compute the discriminant function. A technique for this purpose is known as the "split sample" which is also a very effective method to reduce a second major bias: known as search bias.

This occurs because many times a researcher searching for a good model may take various subsets of variables in attempting to see which one works best for his specific sample. This is known as "searching for a good model."

"The possibility of bias due to intensive searching is inherent in any empirical study."\(^{38}\) To avoid this bias, Frank et al. suggest a split-sample approach. That is, "estimate parameters using only a part of the data available for a given study and compare predictions obtained by using these parameters against the remainder of the data."\(^{39}\)

In other words, split the original sample and use one part for analysis and the other for validation. This approach has the advantage of avoiding both types of biases: bias due

\(^{37}\)Ibid.

\(^{38}\)Ibid., p. 254.

\(^{39}\)Ibid.
to sampling errors (using the t-test on the non-analyzed second half of the sample) and search bias. This split-sample validation approach is employed in this study.

A summary of the split-sample procedure follows:

1. The original sample is split into two subsamples: one for analysis and the other for validation.

2. An analysis sample is used to determine the coefficients of the N discriminant functions and to generate a classification table.

3. Using the coefficients estimated from the analysis sample, predictions of group membership are made for each member of the V₁ validation sample.

4. The resulting classification table no longer is affected by the problems of either intensive search or the sampling errors . . . Therefore, one can use . . . binomial distribution theory for the two-way case as a basis for the t-test described previously.⁴⁰

### Classification Table or Confusion Matrix

The classification table is a matrix matching the predictions of group membership, as formulated by the discriminant function, against the actual group to which the observations belong.⁴¹

<table>
<thead>
<tr>
<th>Actual Groups</th>
<th>Predicted Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>n₁₁</td>
<td>n₁2</td>
</tr>
<tr>
<td>2</td>
<td>n₂₁</td>
<td>n₂₂</td>
</tr>
<tr>
<td>Total</td>
<td>n₁</td>
<td>n₂</td>
</tr>
</tbody>
</table>

---

⁴⁰Ibid., p. 251.

⁴¹Ibid.
The entry $n_{ij}$ (where $i = 1, 2$ and $j = 1, 2$) is the number of individuals who actually belong to group $i$, but were classified under group $j$. Thus, cell $n_{11}$ and $n_{22}$ represent the number of observations correctly classified. The other cells represent the number of observations misclassified by the discriminant function. Thus, the proportion of correctly classified individuals is simply

$$\frac{n_{11} + n_{22}}{n}. \quad (42)$$

$n_{12}$ represents a Type I error—rejecting the correct null— and $n_{21}$ a Type II error—accepting the wrong null. The proportion of correctly classified individuals $(n_{11}+n_{22})/n...$, also known as $D^2$, is the measure of success of the discriminant function in classifying individuals. This is analogous to $R^2$ in regression analysis—the proportion of explained variation. The $D^2$ statistic, which may be transformed to a $F$ statistic, tests the statistical significance of the difference between the groups. \(^{43}\)

A bias is introduced in the way most "canned" computer programs construct the classification table because they typically do not use a split-sample technique to compute the discriminant function. This upward bias can be avoided by using half of the sample to calculate the function, and the other half to validate it.

The problem then is to design a confusion matrix for the half of the sample that was not used in calculating the

\(^{42}\)Ibid.

\(^{43}\)Edward Altman, p. 592.
discriminant function. The method is now discussed; the expectation is that our "virgin" second half of the split sample will be subdivided into two unequal sizes: those that are interested in personal financial services being the smaller, and those that are not interested being the larger. The analysis closely follows the one presented by Morrison.  

What is the appropriate chance model? That is, what is the a priori expectation we have as to how individuals would be classified if we adopted a mere random classificatory process? It is important to determine the proportion we would expect to classify under a random process because we want to determine if the difference between the random process and the proportion classified by our discriminant function is statistically significant or not. Failing to reject the null hypothesis of no difference between them would lead us to conclude that our discriminant function --so laboriously constructed--is no better in classifying individuals to groups than a mere chance model.

The appropriate chance model is:

Let \( p \) = the true (actual) proportion of group A individuals

\( \alpha \) = the proportion classified by our function as belonging to group A

Then the probability of an individual being classified correctly by chance is:

\[
P(\text{correct}) = P(\text{correct} \mid \text{classified group A}) \times \frac{P(\text{classified group A})}{P(\text{classified}}
\]

\[^{44}\text{Donald G. Morrison, \textit{Handbook of Marketing Research}, p. 2-446.}\]
Substituting notation,

\[ P(\text{correct}) = p \alpha + (1-p) \times (1-\alpha) \]

Finally, this chance model applies only to the half of the sample not used in calculating the discriminant function.

**Multicollinearity**

A very frequent problem encountered in business and economics is that independent variables correlate very highly. For instance, income and home ownership or store sales and number of employees would tend to be highly correlated. This correlation is known as multicollinearity; if \( X_i \) and \( X_k \) are highly correlated, they not only are measuring almost the same thing, but the coefficients of these variables will be very imprecise and hard to interpret since they become erratic and unreliable from sample to sample.

High multicollinearity will result in that the sampling distribution of the discriminant coefficients will show large variability. As multicollinearity increases, "the correlation matrix approaches singularity and elements of the inverse matrix \( (X'X)^{-1} \) explode . . . . In the limit, the correlation matrix is singular and the set of parameter estimates is indeterminant."\(^{45}\)

Therefore, in the presence of high multicollinearity, the estimated coefficients will tend to vary widely from one sample to the next. As a result, only imprecise information

may be available about the individual true discriminant coefficients and, furthermore, each of the estimated discriminant coefficients individually may be statistically not significant even though the discriminant function is statistically significant. 46

One approach to detect multicollinearity is to run a correlation matrix between the independent variables, such as the Pearson Product-Moment correlation matrix, and then eliminate from further analysis any of the variables that correlate highly with others. For instance, "Altman recognized the multicollinearity problem and attempted to reduce it by using different combinations of financial ratios to arrive at the 'best' discriminant function through using a large number of trial computer runs." 47

A very effective method to reduce multicollinearity is to use a stepwise routine in selecting which variables enter and remain in the final discriminant function. Variables are added one by one to the model. After a variable is added, however, the stepwise routine looks at all the variables already included in the model. "Any variable not producing a partial F statistic significant at the specified significance level for staying in is then deleted from the model." 48 This procedure continues until

46 John Neter and William Wasserman, p. 341.
47 Terry Arndt, p. 85.
no variable meets the conditions for inclusion in the model.

Simkowitz and Monroe utilized a stepwise methodology in selecting the variables to enter the discriminant function. They added a financial variable at each step based on its F value. The routine was executed nine times because no further improvements could be made to the model by adding or deleting additional variables.\(^49\)

The stepwise procedure utilized by Edmister specified that any variable "having a significant (.95) simple correlation-coefficient with an included variable are excluded from the set of variables free to enter the function at each step."\(^50\) Furthermore, this routine specified that a variable was not permitted to enter if it correlated by more than .31 with a variable already in the function. Edmister concluded that "Due to the unusually tight constraint placed on the simple correlation coefficients, a high degree of confidence is maintained with respect to the independence of the predictor variables."\(^51\)

Since this study will include a series of independent variables among which high multicollinearity is suspected, a stepwise procedure will be incorporated to select the final independent variables to remain in the discriminant function.

---


\(^50\) Robert O. Edmister, p. 1484. \(^51\) Ibid.
The following is an excellent description of the computations involved in a stepwise procedure:

1. At step 1 in the program separate F ratios are computed for each predictor. That is, a series of univariate analysis of variance across the groups are performed involving each predictor separately.

2. The predictor variable with the largest F ratio is entered first (assuming that it meets certain significance and tolerance levels for inclusion) and discrimination is effected with respect to this variable only.

3. A second predictor is then added on the basis of the largest adjusted (or 'partial') F ratio, conditioned by the predictor variable already entered.

4. Each variable entered is then tested for retention on the basis of its association with other predictors in equation

5. The process continues until all variables that pass significance levels for inclusion and retention are entered.

6. At each stage in the stepwise procedure tests are made of intergroup separation (considered across all group centroids) and pairwise group separation for all distinct pairs.

7. At selected stages discriminant functions are computed for the predictors included at that point. Also, classification matrices, comparing actual group membership to group membership predicted by the model, are computed.

8. At the conclusion of the stepwise procedure a summary of predictors entered or removed, associated F values, intergroup significance, and the 'posterior' probability of each case arising from each group is presented.52

In summary, the stepwise routine requires computation of intermediate regression equations. Each equation is obtained by adding one variable at a time, and this entering variable

must meet a pre-determined criteria expressed in terms of the F statistic. For this study, the variable with the largest F value will enter, and a variable will be deleted from the function if its F value becomes too low (.0005) at any step during execution of the stepwise routine.\textsuperscript{54}

Discriminant analysis has been widely utilized in the social sciences as a tool for developing models that permit classifying observations into two or more a priori established groups. One of the most successful applications in finance was by Edward Altman in predicting railroad bankruptcies. He later applied the same methodology to predicting corporate bankruptcies, and in both cases his discriminant models were able to correctly classify close to 99 percent of his sample.\textsuperscript{55}

In conclusion, discriminant analysis is used in this study as a tool for:

1. Establishing the extent to which differences exist between those households most likely to be interested in personal financial planning and those that are not, using demographic, attitudinal, and life style characteristics.

2. To determine the relative importance of various characteristics in differentiating between household's interest in personal financial planning. This will allow us to highlight these variables and thus achieve a better understanding of potential customers.

\textsuperscript{54}Ibid.

\textsuperscript{55}Edward Altman, op. cit., p. 591.
Psychographics or Life Style Research

Marketing research has long utilized demographic variables to develop consumer profiles. Age, sex, education, household income and others are collected as a matter of routine and normally used to describe a profile along these lines: 28 years old, male, 12 years of education with a mean income of $18,000, and so on. Nevertheless, demographic profiles—although widely used—do not satisfy marketers.

The following quote from James Benson, chairman of Ogilvy and Mather, illustrates this dissatisfaction:

There is more similarity between the consumer in New England and the consumer in Old England than there is between the consumer in New England and the consumer in New Orleans. Increasingly, markets will need to be segmented more on psychological, social and attitudinal criteria than on the traditional bases of geography and demography.56

The limitations of demographics is perhaps best exemplified by a study conducted be Wells and Tigert attempting to identify eye make-up users:

The demographic questions showed that eye make-up users tend to be young and well-educated, and tend to live in metropolitan areas. Usage rates were much higher for working wives than for full-time homemakers, and substantially higher in the West than in other parts of the country.57

The use of psychographics allowed the development of a more meaningful portrait of the make-up user versus the


57Ibid., p. 23.
non-user. For instance, the user appeared to be more interested in fashion, to be very meticulous about her person, indicated a dislike for household chores, a rejection of traditional ideas and more susceptible to contemporary ones. Finally, "she said in a number of ways that being attractive to others, and especially to men, is an important aspect of her self image."\(^{58}\)

Clearly, life style data offers a way of describing consumers that has many advantages over alternative methods. But, what exactly is psychographics? No one definition of psychographics or life style research has met with general approval. For example, Wells\(^{59}\) identified twenty four articles on psychographics with 32 varying definitions. Nevertheless, one possible definition is as follows:

1. Generally, psychographics may be viewed as the practical application of the behavioral and social sciences to marketing research;

2. More specifically, psychographics is a quantitative research procedure that is indicated when demographics, socioeconomic and user/non-user analyses are not sufficient to explain and predict consumer behavior;

3. Most specifically, psychographics seeks to describe the human characteristics of consumers that may have bearing on their response to products, packaging, advertising and public relations efforts. Such variables may span a spectrum from self-concept and life style to attitudes, interests and opinions, as well as perceptions of product attributes.\(^{60}\)

\(^{58}\) Ibid.


\(^{60}\) Emanuel Demby, "Psychographics and from Whence It Came," \textit{Life Style and Psychographics}, (American Marketing
Wells has defined psychographic research as:

...quantitative research intended to place consumers on psychological—as distinguished from demographic—dimensions. Because it goes beyond the standard and the accepted, it offers the possibility of new insights and unusual conclusions. Because it is quantitative rather than discursive, it opens the way to large, representative samples of respondents, and to multivariate statistical analysis of findings.\textsuperscript{61}

Plummer offers these comments with respect to psychographics:

Life style segmentation begins with people instead of products and classifies them into different life style types, each characterized by a unique style of living based on a wide range of activities, interests, and opinions.\textsuperscript{62}

The most widely used approach to life style measurements has been AIO rating statements (Activities, Interests, and Opinions).\textsuperscript{63} These can be explained in the following terms:

1. Activities: how an individual spends his/her time at work and leisure.
2. Interests: in what areas he/she places importance, at least in his immediate surroundings.
3. Opinions: where he stands on issues, society, and himself.
4. Basic facts like his social class, stage in the

\textsuperscript{61}William D. Wells, p. 197.


\textsuperscript{63}Ibid., p. 33.
life cycle, his purchasing power. 64

The important contribution of psychographics lies in that people may have similar demographic profiles but have different life styles. Plummer expressess the view that "The basic premise of life research is that the more you know and understand about your customers the more effectively you can communicate and market to them."65

Plummer believes that psychographics "combines the virtues of demographics with the richness and dimensionality of psychological characteristics and depth research. Life style deals with everyday, behaviorally oriented facets of people as well as their feelings, attitudes, and opinions."66

One of the more important advantages of life style research lies in that it can "provide a richer and more life-like picture of the target consumer than do demographics. This enables the writer or artist to have in his own mind a better idea of the type of person he is trying to communicate with about the product."67

Plummer summarized the benefits of life style segmentation along these lines:

1. Definition of the key target. Psychographics allows to identify the target in richer terms than does demographics. For instance, it allows the use of labels as "risk takers," "party-goers," "active affluent urbanites," and "housewife role haters" to describe individuals.

64 Ibid. 65 Ibid. 66 Ibid., p. 36. 67 Ibid.
2. Provides a new view of the market. For example, heavy beer drinkers may be identified in these terms: "conservative," "patriotic," "non-church-goer," "sports spectator," and canned food user."

3. Product Positioning. Psychographics can be used to better position a product. For instance, assume that "the target consumer enjoys cooking and is not convenience oriented, then it may be appropriate to position the product as a shortcut in creating more elegant dishes." 68

4. Improving communication. There are many ways in which life style data can be used to improve communications. For instance, the psychographic profile may give strong insight into the basic tone of voice to be used in the advertising. "The creative user can get a sense of whether the tone should be serious or humorous, authoritative or cooperative, contemporary or traditional, from the life style dimensions of the target user portrait." 69

5. Helps develop sounder overall marketing and media strategies. It may provide clues as to "how difficult conversion of nonusers might be, the potential role of promotion, and the potential role of new products." 70 For example, a consumer characterized as risk taker, party goer, and liberal may be more impressed by ads that emphasize these areas than by ads directed to reflect opposing views.

68 Ibid. 69 Ibid., p. 37. 70 Ibid.
6. Helps explain the "why" of a product or brand situation. Knowledge of each market segment's life style may help explain why certain segments use or do not use a particular product or brand very heavily.

In summary, psychographics is of tremendous help to the marketer in better identifying the target market. The disadvantages of demographics in developing profiles is compensated by the use of life style data.

Reliability of Psychographics

If one is going to use psychographics as a predictive tool of consumer behavior, it is important to determine if the life style data are stable over time and reliable. Tigert conducted a test-retest reliability analysis attempting to provide answers to the question of stableness of psychographic measurements over time. 71

Tigert's study concluded that many attitude, interest, and opinion questions did not have a high reliability coefficient on a test-retest basis, or in other words, were not stable over time. Two-thirds of the questions fell into a middle range from .40 to .69. Only ten questions had a reliability coefficient over .80 and only ten questions were below .40.

Through factor analysis, three factors came out with fairly good reliability coefficients; "fashion conscious,"

"price or 'special' shopper," and "dieter or weight watcher."

Three other factors or life styles produced low reliability coefficients on a test re-test analysis. These were: "new brand trier-innovator," "brand loyalty," and "satisfaction with life" factors.

If one is going to use psychographics for prediction of consumer behavior instead of description research on its predictive validity should be compiled. Empirical evidence of the predictive powers of this tool would be very beneficial in weighing its usefulness for marketing decision makers.

The Collection of Life Style Data

The procedures which are used to obtain life style data from consumers are a few, usually involving either mail panels or personal interviews. "In general terms, life style analysis involves the collection of a large volume of information from a large representative sample of consumers."72 The questionnaires can be quite lengthy, often with as many as 70 pages. The typical life style questionnaire will contain the following types of questions:

1. A series of statements designed to obtain information on the respondents' activities, interests, and opinions to which they are asked to indicate their level of agreement, usually measured on a 6 point scale ranging from strongly

agree to strongly disagree. This list may contain as many as 400 statements, but normally contains from 150 to 200.

2. Standard demographic and socioeconomic questions.

3. Finally, questions related to the major focus of the study, i.e., product and brand usage questions, media usage and preference questions, and so on.

The actual number and type of statements included will depend on the purpose of the research study. Often when a study is being undertaken for a particular client or to explore a particular aspect of consumer behaviour, such as the purchase of a certain product or type of product, the statements will generally pertain to the situation under study. For example, in developing a profile of individuals interested in personal financial planning it is not too pertinent to establish whether or not the individual can be labeled a "sewer" (I like to sew and frequently do) or as a "wraper" (leftovers should be wrapped before being put into the refrigerator). In general the life style researcher is interested in obtaining a considerable amount of information on the subject's activities, interests, and opinions.

Activities are actions in which the respondent may or may not engage. For example, two life style statements pertaining to activities are: "I go to church regularly," and "I keep the house as tidy as possible." Interests include the topics or events to which the subject pays a certain amount of attention. For instance, statements such as the following might be used to measure level of interest in
certain topics: "I enjoy visiting an art gallery," "My children are the most important things in my life."73

Opinions are often obtained concerning specific public issues or about alternative forms of behaviour. Such opinion related statements are intended to measure subjects' beliefs about issues such as abortion, capital punishment, gun control, and a host of others. Examples of statements designed to obtain these opinions are: "There should be a gun in every home," "It is important for every person to vote at election time."74

After having collected data on lifestyle, demographics, and the major area of interest of the study comes the analysis step.

**Analysis of Life Style Data**

The analysis of lifestyle data can be carried out in several different forms:

1. **Correlation analysis.** The object is to correlate the levels of agreement of all AIO statements with, say, the levels of usage on each product, using a Pearson Product Moment correlation analysis. The higher the correlation between AIO items and usage, the more likely that the item differentiates between heavy users and non-users.

2. **Cross-tabulations.** The object is to cross-tabulate the significant AIO items against usage to develop a better picture of the level of the relationships between the

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73Ibid., p. 8. 74Ibid., p. 9.
AIO items and product usage. The analysis of the heavy user is based only upon those AIO and demographic items that have a significant linear relationship with product usage at the 95 percent confidence level.

3. Cluster or factor analysis. The significant AIO and demographic items are submitted to a cluster analysis or factor analysis program to develop clusters of items or underlying variables that yield the life style portrait of the heavy user.

This study will utilize the factor analysis approach. This technique has data-reduction capabilities, and will thus reduce the AIO statements into a series of scales or factors. For each such scale generated through a factor analysis of the AIO statements, a score is produced. These scores are called factor loadings. The procedure then calls for calculating the mean of the summated scores for the statements associated with that scale.

It is then possible to compare various segments of the sample in terms of their mean scores. A simple univariate analysis might involve the use of t-tests to compare the mean scores of two groups. When more than two are involved, an analysis of variance procedure is used. In the case of variables which are categorized, the subgroups of the sample might be compared using cross-tabulation analysis.

Comparison of various subgroups, such as heavy users vs. light users, on the basis of their differences on individual variables using t-tests or cross tabulation analysis,
can be very useful exercise in that it will highlight where significant differences exist between and among groups. More valuable information can be obtained through the use of various multivariate techniques such as multiple discriminant analysis which will identify those variables which are most important in terms of explaining the difference between the groups.75

Factor Analysis

Factor analysis is a multivariate statistical technique whose most unique characteristic is its data reduction capability. That is, it permits "simplification and summarization of a large data set without appreciable loss of information."76 Wells and Sheth discuss four ways in which factor analysis can be useful:

1. It can point out latent or underlying dimensions that account for the relationship among preferences or other kinds of ratings obtained in market studies.

2. It can point out "relationships among observed values that were there all the time but not easy to see."

3. It is useful when data must be condensed and simplified.

4. Lastly, it may be "employed as one step in empirical clustering of products, media, stimuli, or

75Ibid., p. 15.

Factor analysis has its own terminology. A factor or scale is an "underlying dimension that 'accounts for' several observed variables." For example, the questionnaire for this study has a list of 52 AIO statements. If a correlation matrix is computed, a simple inspection will reveal that some variables have something in common which they do not share with the other variables. We will realize that different groups will be formed, i.e., groups are relatively homogeneous among them but heterogeneous between them. This sort of pattern leads one to believe that an underlying dimension—a factor or scale—accounts for the variables in one group; that a second factor accounts for the variables in another group, and so on. These patterns summarize the latent or underlying dimensions among variables that have something in common.

Factor analyzing data normally involves three steps: "(1) is the preparation of the correlation matrix, (2) the extraction of the initial factors—the exploration of possible data reduction, and (3) the rotation to a terminal solution—the search for simple and interpretable factors."  

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78 Ibid., p. 2-459.

The second step, the extraction of the initial factors, identifies the factor loadings. These show how closely each of the variables are related to each of the underlying factors, "and they are the key to understanding what the factors mean." For instance, the statements "I like ballet," "I enjoy going to concerts," and "I enjoy going through an art gallery" will load heavy on one factor; this factor, therefore, indicates that it represents an underlying general interest in the arts. Therefore, this factor has been labelled Arts Enthusiast.

On the other hand, the statements "I like to fly," "buying stocks is too risky," and "Taking chances can be fun," will load heavy on one factor also, but different from the previous one. This factor suggests an underlying general interest in risk taking; appropriately, this factor has been labelled Risk Taking.

During this stage, a factor analysis computer algorithm will also produce a statistic known as \( h^2 \), or communality. This statistic is similar to \( R^2 \) in regression; it shows how much of each variable is accounted for, or explained by, all the underlying factors taken together. Wells and Sheth explain the implications of \( h^2 \):

A large communality figure means that not much of the variable is left over after whatever the factors represent is taken into consideration. A small communality figure means that the factors taken together do not account for much of whatever the variable is all about.\(^81\)

\(^{80}\) Ibid., p. 460. \(^{81}\) Ibid.
Another relevant statistic is the eigenvalue, or sum of squares, which "indicates the relative importance of each factor in accounting for the particular set of variables being analyzed." It is incorrect to assume that the eigenvalue indicates the relative importance of each factor. The sum of all eigenvalues (total sum of squares) divided by the number of variables provides an index of how well the solution accounts for what all the variables taken together represent. The index will be low or it will approach unity depending whether the variables are all very different from each other, or if they fall into one or more highly redundant groups.

There are several different methods of factoring, which in turn can be rotated to the terminal solution by any one of the three orthogonal rotation methods or by the oblique rotation. In this study, we will use the principal factoring with iteration method, which "automatically replaces the main diagonal elements of the correlation matrix with communality estimates." These initial estimates are given by the squared multiple correlation between a given variable and the rest of the variables in the matrix.

The principal factoring with iteration method employs an iteration procedure for improving the estimates of communality. Kim discusses this algorithm:

First, the program determines the number of factors

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82 Ibid. 83 Ibid. 84 Ibid., p. 480.
to be extracted from the original or unreduced correlation matrix. The program then replaces the main diagonal elements of the correlation matrix with initial estimates of communalities, the $R^2$ estimates. Next, it extracts the same number of factors from this reduced matrix, and the variances accounted for by these factors become new communality estimates. The diagonal elements are then replaced with these new communalities. This process continues until the differences between the two successive communality estimates are negligible.

The number of significant components to be retained for the final rotated solution will be determined by the specification of the minimum eigenvalue criterion. The SPSS program to be utilized retains and prints only "components with eigenvalues greater than or equal to 1.0. This criterion ensures that only components accounting for at least the amount of the total variance of a single variable will be treated as significant."\(^{86}\) Jae-On further states:

In the principal-component matrix, the eigenvalues associated with each component represent the amount of total variance accounted for by the factor. Therefore, the importance of a component may be evaluated by examining the proportion of the total variance accounted for:

$$\text{Proportion of total variance accounted for by component } i = \frac{\lambda_i}{n}$$

where $\lambda_i$ represents the eigenvalue of the $i$th component and $n$ represents the number of variables in the set.\(^{87}\)

It is usually necessary to rotate factors because, in general, it simplifies the factor structures. For illustration purposes, Figure 2 is shown in the following page.

There are many advantages to axes rotation. For instance, factor loadings differ more distinctively between the diffe-

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\(^{85}\)Ibid.  \(^{86}\)Ibid., p. 479.  \(^{87}\)Ibid.
rent variables resulting in clearer factors; "loading in the unrotated solution depend heavily on the relative number of
variables; if you delete one variable . . . . the relative loadings on the unrotated factors may change drastically."87

Figure 2
Orthogonal-Factor Rotation

Kim expresses that "The ultimate goal of any rotation is to obtain some theoretically meaningful factors and, if possible, the simplest factor structure."88 Churchill offers a fine explanation for rotating factors: "The rotation

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87 Ibid. 88 Paul Green and Donald S. Tull, p. 400.
of a factor solution is entertained for one reason and one reason only—to facilitate the isolation and identification of the factors underlying a set of observed variables. 89

This study will use the varimax orthogonal rotation, which is the most widely used method of rotation.

Factor scores have a variety of uses. Since they can be crosstabulated with other variables, this may shed light as to what the factors mean. They can also facilitate comparisons among groups of items as groups. "Finally, factor scores can be treated as if they were raw scores to perform any of a number of multivariate analyses. These include multiple regression, multiple discriminant analysis and clustering." 90

This study will use the R-type factor analysis, which is used most commonly. The following quote illustrates R analysis:

In R analysis, high correlations occur when respondents who score high on variable 1 also score high on variable 2, and respondents who score low on variable 1 also score low on variable 2. Factors emerge when there are (relatively) high correlations within groups of variables. 91

In summary, factor analysis has enjoyed wide popularity in the social sciences. Wells and Sheth offer this comment:

When it works well, factor analysis helps the investigator make sense of large bodies of intertwined data. When it works unusually well, it also points to interes-

89Ibid. 90William D. Wells and J. Sheth, p. 2-469. 91Ibid.
ting relationships that might not have been obvious from examination of the input data alone.92

Our study will make use of factor analysis for the development of the file style profile, and as a tool for identifying an underlying pattern among the features which may be included in a personal financial plan.

Chi Square

The Chi Square distribution "describes the expected pattern of behavior for the sum of a specified number of squares of independent normally distributed variables."93 All Chi Square distributions are characterized by a mean equal to m and a variance equal to 2m, where m is defined as the number of degrees of freedom. There is a distinct Chi Square distribution associated with each level of degrees of freedom.

There are several tests that can be performed with this distribution, especially when no assumptions are made about the population from which the sample is drawn. Chi Square tests compare observed to expected frequencies, and establishes whether the difference between these is due to chance or not. Thus, in any Chi Square test it is necessary to generate expected frequencies to compare with the observed frequencies.

There are various Chi Square tests, but our study only uses the test of independence, which establishes whether

92Ibid. 93Robert Parsons, op. cit., p. 446.
the criteria used for the cross-classification of data are independent or not. Chi Square is defined as:

\[ \chi^2 = \frac{(f_o - f_e)^2}{f_e} \]

where:

- \( f_o \) = observed frequency
- \( f_e \) = expected frequency

The approach utilized to determine the expected frequency in the test of independence is:

\[ (f_e)_{ij} = \frac{(\text{row}_i) \times (\text{col}_j)}{\text{total number of observations}} \]

Finally, the general rule for determining the number of degrees of freedom when dealing with a contingency table is \((r-1) \times (c-1)\), where \( r \) represents the number of rows and \( c \) is the number of columns.

This analytical tool will be used extensively in the present study. For instance, the questionnaire contains several interval data questions, which we crosstabulate with interest in obtaining a personal financial plan. We use Chi Square to test for independence among these variables.

**t-test**

The t-test is very popular and widely utilized to test for the differences between two means, that is, to establish whether or not a difference between two sample scores
is significant. Since it is most often impossible to compute a group mean based on all members of the group, an analyst must use a sample. He/she estimates the population mean by obtaining a sample mean. The comparison of two group means is thus a problem of comparison of two sample means.

If the population standard deviation is unknown, but can be estimated, and the sample size is small, the t-distribution is the appropriate one to utilize. As the sample size increases, the t-distribution approaches a normal distribution. Accordingly, the Gaussian curve is typically employed in situations where the sample size exceeds 30.

The t distribution has a different shape for each number of degrees of freedom, defined as the sample size minus one (n-1). The smaller the degrees of freedom, the more the t distribution differs from the normal distribution.

We will use the t-test to determine if the means of two samples indicate that the samples were drawn from the same universe or from universes with identical mean. The null hypothesis is stated as follows:

\[ H_0: \mu_1 = \mu_2 \]

If this hypothesis is rejected, the conclusion reached is that the difference between \( \bar{X}_1 \) and \( \bar{X}_2 \) is too large to be explained as a sampling difference and, therefore, the samples were drawn from two universes with different means.

The t value is computed as follows:
\[ t = \frac{(\bar{x}_1 - \bar{x}_2) - (u_1 - u_2)}{\bar{x}_1 - \bar{x}_2} \]

if \( u_1 = u_2 \), then:

\[ t = \frac{(\bar{x}_1 - \bar{x}_2)}{\bar{x}_1 - \bar{x}_2} \]

Our study made extensive use of the t-test. For instance, we applied it to compare the groups mean level of importance attached to features which may be included in a personal financial plan. This permitted us to establish, for example, that those individuals who were interested in obtaining a financial plan attributed greater importance to minimizing the effects of inflation than those consumer's who were not interested. Another application of the t-test was in developing the psychographic profile by testing for differences between life style means.

The following chapter presents and analyzes the data, leading to the findings of this study.
Chapter 4

PRESENTATION AND ANALYSIS OF FINDINGS

INTRODUCTION

The purpose of this study was to identify characteristics and develop profiles of consumers who have indicated an interest in obtaining a personal financial plan, and to assess their needs and viewpoints in regard to this financial service.

In sum, seven research objectives were pursued:

1. To identify characteristics which discriminate between households that are interested and those that are not interested in obtaining a personal financial plan. A discriminant function was developed based on objective, attitudinal and life-style data, enabling us to classify households into one of two groups: (a) those interested in personal financial planning, and (b) those that are not interested.

2. To determine the relative importance of the various characteristics in differentiating between households that are interested and those that are not interested in personal financial planning.

3. To develop a demographic profile of those individuals who have indicated an interest in obtaining a personal financial plan.

4. To identify a psychographic profile of poten-
tial customers of personal financial planning. This life-
style profile will identify consumers in terms of activi-
ties, interests, and opinions.

5. To relate interest in obtaining a personal
financial plan to several aspects of personal financial
management and behavior of consumers.

6. To assess the needs and viewpoints of consu-
mers regarding personal financial planning.

7. To determine how attitude towards personal fi-
nancial planning is related to interest in obtaining this
service.

DISCRIMINANT PROFILES OF INTERESTED VERSUS
NOT INTERESTED CONSUMERS OF PERSONAL FINANCIAL PLANNING

Discriminant analysis was used to identify character-
istics--based on objective, attitudinal and life-style data--
to discriminate between households that are interested and
those that are not interested in obtaining a personal finan-
cial plan. The research results were expected to assist
financial planners in their task of identifying potential
customers.

Households were classified into either of the two
groups, those interested in obtaining a financial plan, and
those not interested. These groups were the result of sum-
marizing the information on a six point scale question ask-
ing the degree of interest in personal financial planning.
Group 1 comprised of those who answered definitely interest-
ed, interested, and probably interested (45.6%). Group 2
was formed with those households who answered probably interested, not interested, and definitely not interested (50.8%). The balance have not responded to this question.

Groups 1 and 2 are the a priori groups whose characteristics are used by the discriminant analysis to derive a linear function which best discriminates between the groups. The characteristics were examined by a stepwise multiple discriminant analysis computer program resulting in a discriminant function.

To avoid an upward bias in classification power, a split sample technique recommended by Frank et al was utilized. The original sample was split on an odd-even basis, the odd cases used in the analysis part and the even or "virgin" half utilized for validation purposes. This step consisted of using the coefficients estimated from the analysis sample to make predictions of group membership using the data from the virgin sample.

Variable Profile Analysis

Selection of the discriminant function was made in such a manner so that the chosen discriminant coefficients maximized the ratio of between group variance to the pooled within group variance. When this ratio ($\lambda$) is maximized, it has the effect of spreading the means of the two groups apart and, simultaneously, reducing the dispersion of the individual members about their respective group means. This procedure resulted in identifying and utilizing those variables which best discriminated between groups and which are
most similar within groups. The resulting function permits rejection of the "no difference" hypothesis at a higher level of significance than for any other function. ¹

The derived discriminant function is as follows:

\[ z = -1.67253 + 0.83871 \text{PFP} + 0.20840 \text{ACTIVE} \\
- 0.03122 \text{D2} - 0.0000059 \text{D4} + 0.15944 \text{SCALE5} \\
- 0.20809 \text{SCALE6} - 0.26050 \text{SCALE7} + 0.19471 \text{SCALE9} \]

where:

- \( Z \) is the discriminant score or classification criterion.

- \( \text{PFP} \) is a variable representing the respondent's attitude towards personal financial planning, represented by the mean of the summated scores of the ten statements concerning attributes of personal financial planning.

- \( \text{ACTIVE} \) represents the number of different financial transaction undertaken in the past two years. Each act was coded in binary form; no attempt is made to measure the magnitude of the acts, only the number of different activities.

- \( \text{D2} \) is the age of the head of household.

- \( \text{D4} \) is total household income.

- \( \text{SCALE5} \) represents the mean summated score of the two statements that loaded high on a factor named price

¹The null hypothesis is whether the mean of the ith variate for the first group is equal to the mean of the ith variate for the second group?
conscious. This scale is widely used for developing psychographic profiles, and was reported by Wells and Tigert.²

SCALE6 same as the previous variables, but a description of a risk taker.

SCALE7 same as above, but known as fashion conscious.

SCALE9 same as above, but descriptive of a person satisfied with and optimist about his/her finances.

Table 7 presents an analysis of the variable means for the analysis sample, and the appropriate test of significance. Variables PFP and D2 are significant at the .005 level, indicating extremely significant differences in these variables between groups. There are no significant differences among the means between groups for the remaining variables, but when combined with each other some were able to discriminate between the groups.

Although each discriminant coefficient determines the relative contribution of every variable to the total Z score, it does not measure the relative importance of each variable to the discriminating power of the function. Therefore, the coefficients do not indicate relative importance and their comparison will be misleading.

One technique to adjust the discriminant coefficients to indicate the relative contribution of each variable is to multiply each discriminant coefficient by the standard de-

Table 7
Variable Means in the Analysis Sample and Test of Significance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Group Means</th>
<th>Univariate F-ratio $(v_1=1, v_2=219)$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interested</td>
<td>Not Interested</td>
</tr>
<tr>
<td>PFP</td>
<td>4.00</td>
<td>3.47</td>
</tr>
<tr>
<td>ACTIVE</td>
<td>1.32</td>
<td>1.13</td>
</tr>
<tr>
<td>D2</td>
<td>45.62</td>
<td>51.72</td>
</tr>
<tr>
<td>D4</td>
<td>$21,605.90$</td>
<td>$24,883.70$</td>
</tr>
<tr>
<td>SCALE5</td>
<td>4.76</td>
<td>4.52</td>
</tr>
<tr>
<td>SCALE6</td>
<td>3.05</td>
<td>3.27</td>
</tr>
<tr>
<td>SCALE7</td>
<td>3.11</td>
<td>3.19</td>
</tr>
<tr>
<td>SCALE9</td>
<td>3.72</td>
<td>3.41</td>
</tr>
</tbody>
</table>

*Significant at the .005 level.

*Significant at the .005 level.

Deviation of the applicable independent variable. The resulting products are standardized coefficients representing the relative contribution of the variable to the discriminant function. This procedure was performed with the results presented in Table 8. Each variable is ranked in descending order according to the relative size of the standardized coefficients. The discriminant function coefficients with corresponding standard deviations are shown along with the standardized coefficients.

Interpretation of the Discriminant Variables

Table 7 indicated that PFP is the most significant
variable on an univariate basis, and on a multivariate basis, Table 8 also indicates that PFP is the most significant relative contributor to the discriminant function. This is a very interesting finding because throughout the various facets of this study, the variable PFP has consistently been a very important one.

Since this variable represented attitude towards financial planning, as measured by a series of ten statements, the fact that it consistently appears as a very important variable will be of invaluable help to financial planners trying to identify potential customers from the multitude of consumers.

Table 8

Relative Contribution of the Variables

<table>
<thead>
<tr>
<th>Rank</th>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard deviation</th>
<th>Standardized coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PFP</td>
<td>0.83871</td>
<td>0.8659</td>
<td>0.72626</td>
</tr>
<tr>
<td>2</td>
<td>D2</td>
<td>-0.03122</td>
<td>15.9653</td>
<td>-0.49847</td>
</tr>
<tr>
<td>3</td>
<td>SCALE6</td>
<td>-0.20809</td>
<td>1.4742</td>
<td>-0.30677</td>
</tr>
<tr>
<td>4</td>
<td>ACTIVE</td>
<td>0.20840</td>
<td>1.3786</td>
<td>0.28731</td>
</tr>
<tr>
<td>5</td>
<td>SCALE7</td>
<td>-0.26050</td>
<td>1.0628</td>
<td>-0.27687</td>
</tr>
<tr>
<td>6</td>
<td>SCALE9</td>
<td>0.19471</td>
<td>1.3960</td>
<td>0.27181</td>
</tr>
<tr>
<td>7</td>
<td>SCALE5</td>
<td>0.15944</td>
<td>1.2594</td>
<td>0.20079</td>
</tr>
<tr>
<td>8</td>
<td>D4</td>
<td>-0.0000059</td>
<td>26,100.00</td>
<td>-0.15493</td>
</tr>
</tbody>
</table>

In sum, attitude towards personal financial plan-
ning is the key variable that best discriminates between those individuals who are interested in obtaining a financial plan, and those that are not. Therefore, special attention must be paid to this variable by financial planners because it offers them a method to quickly identify those individuals who are interested in obtaining a financial plan.

In this way, the time spent searching for clients will be greatly reduced by focusing their efforts only on those individuals who indicated, by their responses, a favorable attitude towards personal financial planning.

Age, D2, is negatively related to interest in obtaining a personal financial plan. Other findings of this study pointed the same direction of this variable. That is, the older the individual, the less likely he/she may be interested in financial planning. An implication of this is that the largest market for personal financial plans constituted by the younger groups, especially those in the 25-45 years old bracket.

Risk taking, as measured by the life style SCALE6, is also negatively related to interest in obtaining a personal financial plan. This may suggest that those individuals who consider themselves risk takers see no benefit in seeking outside financial plans. Rather, they seem to prefer to direct their own financial affairs.

The variable measuring the number of different financial acts that households engaged in during the last
two years, \textit{ACTIVE}, was positively related to interest in obtaining financial plans. This implied that greater the number of different financial acts engaged in by a potential customer, greater the interest in obtaining a financial plan.

\textit{SCALE7}, a life-style factor indicative of an individual's fashion consciousness, was negatively related to interest in financial planning. This suggested that less fashion conscious individuals are more likely to be interested in obtaining a personal financial plan. This implied that financial planners are likely to be very conservative in their clothing and other fashion related matters.

If a person described by \textit{SCALE9} is satisfied with an optimist about his finances, he is likely to be a strong candidate for buying a financial plan. This finding reflected that an individual with these attributes may seek to place more order in his financial affairs, perhaps to further increase his level of satisfaction and optimism about his finances.

The price consciousness of an individual, as identified by \textit{SCALE5}, is also positively related to interest in personal financial planning. This suggested that the individual's price consciousness leads him to believe that a financial plan's value is greater than its price. In other words, he/she believes that the benefits outweigh costs of owning a personal financial plan.

Household income was the least important of the
variables in terms of ability to discriminate between those households interested in personal financial planning and those not interested. In addition, it was negatively related to interest in obtaining a financial plan.

This may come as a surprise to some, but other analyses done in this research study indicated the same negative relationship and lack of importance of income as a discriminant variable. Perhaps the relationship is curvilinear, reflecting less interest in personal financial planning at low income levels, high interest in middle levels, and less interest at high income levels. If in fact the relationship is curvilinear and not negative, it may suggest, therefore, that typical middle class families represent the potential market for personal financial planning.

A curvilinear relationship explains the lack of interest in financial planning by low and high income households. Low incomes cannot afford one, and may not need one at all. At high income levels, there is always plenty of income to satisfy one's financial goals and objectives without the need for a formal financial plan. Perhaps a better discriminant variable would have been a net worth figure, but none was included because it is very difficult to motivate respondents to provide an amount, and it is even more difficult to obtain a reliable response.

The discriminant function was developed using all income figures. However, on some experimental runs, an
effort was made to improve the classificatory power of the functions by excluding from the sample households with incomes below $20,000 per year. This was done on both the analysis sample and the total sample. In neither case was the classificatory power improved beyond that obtained from the original model.

Therefore, this study determined that household income was a poor discriminating variable between the groups interested and not interested in obtaining a personal financial plan.

**Determination of Cut-Off Score**

The selection of a critical value for $Z$ was predicted upon the principle that group classification be accomplished with the least number of misclassifications. There are different ways to approach group classification. SPSS uses classification equations derived from the pooled within-groups covariance matrix and the centroids for the discriminant variables.

The equation is:

$$ C_i = c_{i1} V_1 + c_{i2} V_2 + \ldots + c_{ip} V_p + c_{io} $$

where $C_i$ is the classification score for group $i$, the $c_{ij}$'s are the classification coefficients with $c_{io}$ being the constant, and the $V$'s are the raw scores on the discriminant variables. There is always a separate equation for each group, and the case is assigned into the group with the highest score.

The classification scores can be converted into
probabilities of group membership. The rule of assigning a case to the group with the highest score is then equivalent to assigning the case to the group for which it has the greatest probability of membership.

The classification functions used in this study are:

Group 1 = -30.47555 + 4.96376 PFP - 0.09081 ACTIVE 
          + 0.16537 D2 + 0.00002 D4 + 3.50161 SCALE5 
          + 1.60905 SCALE6 + 2.23548 SCALE7 
          + 1.23118 SCALE9

Group 2 = -28.68719 + 4.07630 PFP - 0.31132 ACTIVE 
          + 0.19840 D2 + 0.00003 D4 + 3.33290 SCALE5 
          + 1.82923 SCALE6 + 2.51113 SCALE7 
          + 1.02515 SCALE9

Classification of Individuals

Results of the classification are presented in matrix form, as follows:

<table>
<thead>
<tr>
<th></th>
<th>Predicted Group Membership</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interested</td>
<td>M</td>
</tr>
<tr>
<td>Actual</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td>Not Interested</td>
<td>M</td>
<td></td>
</tr>
</tbody>
</table>

The H's represent correct classification or hits, while the M's depict misclassifications or misses. Adding the cells in the principal diagonal equals the total correct classifications (hits). The percent of correctly classified is then \((H + H)/n\).

A classification matrix containing the number of correct and incorrect classifications is shown in Table 9.
Cell one represents the number of households that are actually interested in obtaining a personal financial plan and were classified as such by the discriminant function.

Cell four represents the number of households that indicated no interest in financial planning, and were so classified by the model. Cells two and three indicate misclassifications by the function. That is, the model classified them as interested in financial planning, when in actuality the household indicated no interest, and vice versa.

The analysis sample contained 221 cases. An upward bias should result in the classification power of the function because the households are classified using a discriminant function which is based upon the same individuals that are classified. Later we will adjust for this bias.

Table 9
Prediction Results of Discriminant Function

<table>
<thead>
<tr>
<th>Predicted group membership</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interested</td>
<td>73</td>
</tr>
<tr>
<td>Not Interested</td>
<td>38</td>
</tr>
<tr>
<td>N</td>
<td>111</td>
</tr>
</tbody>
</table>

Percent Correctly Classified = (73 + 77) / 221 = 67.37%

The model correctly classifies 68 percent of all
cases. The Type 1 error at 31 percent was high, while the Type 11 error was even more severe at 33 percent; this data is presented in Table 10.

Table 10
Classification Errors on Analysis Sample

<table>
<thead>
<tr>
<th></th>
<th>Number correct</th>
<th>Number correct</th>
<th>Percent error</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 1</td>
<td>73</td>
<td>69</td>
<td>31</td>
<td>106</td>
</tr>
<tr>
<td>Type 11</td>
<td>77</td>
<td>67</td>
<td>33</td>
<td>115</td>
</tr>
<tr>
<td>N</td>
<td>150</td>
<td>68</td>
<td>32</td>
<td>221</td>
</tr>
</tbody>
</table>

Table 11 presents the results of the test of proportion on the original classification of households. The ability to classify either group was upheld at the .01 level.

The results of the classificatory power are moderately encouraging, but it offers a promising starting point in view of many of the conceptual and empirical difficulties in incorporating many variables in the analysis.

Therefore, the moderate discriminating power of our model may be due to several factors, among them the fact that some important characteristics which arouse interest in personal financial planning may be very difficult to quantify. An example of this is the peer referral, that is, an individual's interest in this service may be aroused because a friend recommends it to him as a highly effective tool.
Table 11
Test of Proportion of Original Classification of Households

<table>
<thead>
<tr>
<th></th>
<th>Number of households</th>
<th>Percent correctly classified</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interested</td>
<td>106</td>
<td>69.0</td>
<td>3.91</td>
</tr>
<tr>
<td>Not Interested</td>
<td>115</td>
<td>67.0</td>
<td>3.64</td>
</tr>
<tr>
<td>Total</td>
<td>221</td>
<td>68.0</td>
<td>5.35</td>
</tr>
</tbody>
</table>

$t_{106} (.005)=2.6 \quad t_{115} (.005)=2.6 \quad t_{221} (.01)=2.32$

Lack of awareness in the availability of personal financial planning services by Arkansas residents may also explain the moderate classification power of the model. For instance, a good sales presentation may ignite interest in financial planning to previously disinterested parties. Since many firms do use salesmen to approach candidates and discuss the virtues of financial planning, it may have added discriminating power to the function to have included a variable accounting for sales presentations. However, it was believed that no firms in Arkansas were using salesmen to recruit financial planning clients, and thus it was not possible to include it as a variable.

Finally, and perhaps the most serious of the problems encountered, was the composition of the sample. Although the function did not have a very high classificatory power, this may be explained by the fact that the apriori groups were formed on the basis of a response to a hypo-
A hypothetical question. Unfortunately it was not possible to incorporate a subsample of households who actually owned personal financial plans. Access to this would have allowed the study to better identify characteristics of individuals who own financial plans.

Thus, the lack of this subsample forced the researcher to identify the households interested in obtaining a personal financial plan on the basis of replies to a hypothetical question. Perhaps, answers to a question of this nature may be subject to wide variations of true intentions. However, practical limitations of the study dictated this research procedure.

A review of some circumstances which may explain the modest classificatory power of the model has been made. However, could a mere random model obtain a better classification power than the derived model? To answer this question it is necessary to perform a t-test between the results given by the model and an appropriate chance model.

The following test is used "to test whether the proportion of correctly classified cases in the sample is significantly different from the proportion correct that would be expected by chance." 3

The procedure is:

\[ t = \frac{Q - P}{\sqrt{\frac{P(1-P)}{n}}} \]

where:

- \( Q \) is the proportion of sample observations correctly classified by the discriminant analysis.
- \( P \) is the proportion one expects by the chance model.

What should be used as an appropriate chance model? If both groups were of equal size then one would expect that the probability of an individual being correctly classified to be .5. However, since the groups are slightly different in size, one procedure is to use a chance model suggested by Morrison. The proportional chance criterion is:

\[ C_{\text{pro}} = \alpha^2 + (1-\alpha)^2 \]

where:

- \( \alpha \) the proportion of individuals in Group 1.
- \( 1-\alpha \) the proportion of individuals in Group 2.

The data for this chance model is obtained from the results given by the model applied to the "virgin" sample. The discriminant function applied on the validation sample yielded classification table 12.

The model correctly classified 59.3 percent of the validation sample. The t-test results are shown in Table 13.

The chance model is calculated and provides a 50.27 percent correct classification. To test whether this chance proportion was significantly different from that which was achieved from the discriminant function the recommended
Table 12
Classification Power on Validation Sample

<table>
<thead>
<tr>
<th>Predicted Group Membership</th>
<th>Interested</th>
<th>Not Interested</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interested</td>
<td>62</td>
<td>45</td>
<td>107</td>
</tr>
<tr>
<td>Not Interested</td>
<td>49</td>
<td>75</td>
<td>124</td>
</tr>
<tr>
<td>N</td>
<td>111</td>
<td>120</td>
<td>231</td>
</tr>
</tbody>
</table>

Table 13
Test of Proportion of Classification in the Validation Sample

<table>
<thead>
<tr>
<th></th>
<th>Number of households</th>
<th>Percent correctly classified</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interested</td>
<td>107</td>
<td>58.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Not Interested</td>
<td>124</td>
<td>60.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Total</td>
<td>231</td>
<td>59.0</td>
<td>2.7</td>
</tr>
</tbody>
</table>

$t_{231}$ (.005) = 2.6  \hspace{1cm} t_{124}$ (.025) = 1.9  \hspace{1cm} t_{107}$ (.025) = 1.99

$t$-test was performed. The calculated $t$ value was 83.

Results of the $t$-test reject the hypothesis of no significant difference between the two groups at better than the .005 level, which means that the model has predictive power for households other than those used to derive the discriminant function. It can be concluded then that the derived model correctly classifies a greater proportion of individuals than does a chance model, and no
search bias appears to be significant.

In summary, the discriminant model correctly classified 68 percent of the households into their actual groups in the initial sample, and was significantly better in classifying households than was a mere chance model, even on a virgin sample introduced to test the reliability of the model.

The most important variable to predict interest in obtaining a personal financial plan was \textit{PFP}, which measured the attitude towards financial plans. The other positively related variables were \textit{ACTIVE}, the number of different financial acts engaged during a specified period; \textit{SCALE9}, a scale labeled satisfied with and optimistic about finances; and finally, \textit{SCALE5}, a life-style scale devoted as price consciousness.

Four variables were negatively related to interest in obtaining a financial plan, these being age, a scale named risk taking, a fashion conscious scale, and lastly, total household income.

Several practical applications of the model have been suggested. For instance, it can assist financial planners to predict which individuals may be interested in obtaining a personal financial plan, and which may not, given that the necessary household attribute data can be obtained. This should help reduce the amount of time spent by financial planners trying to find households interested in their services.
It may be concluded, on the basis of the research results presented here, that business firms engaged in personal financial planning services can develop a simplified screening instrument for qualifying the households for additional marketing efforts.

**DEMOGRAPHIC PROFILE OF INTERESTED VERSUS NOT INTERESTED CONSUMERS OF PERSONAL FINANCIAL PLANNING**

This section develops a demographic profile of those consumers who indicated an interest in obtaining a personal financial plan.

**Sex**

Table 14 summarizes the results of crosstabulating sex and interest in financial planning. The Chi Square test did not show any relationship among the variables, which is good news. This is so because so many households today are headed by single individuals, and the fact that no relationship between sex and interest was found implies that both sexes are open to the idea of personal financial planning. Therefore, no particular sex is excluded from the potential market.

**Age**

Table 15 presents the data for age and interest in financial planning. The Chi Square test indicated a very significant relationship between these variables. Although no directionality is provided by this test, analysis of the data revealed certain patterns. For example, the 60 year
Table 14

Respondent's Sex by Interest in Personal Financial Planning

<table>
<thead>
<tr>
<th></th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>48.0</td>
<td>52.0</td>
<td>100%</td>
<td>382</td>
</tr>
<tr>
<td>Female</td>
<td>46.0</td>
<td>54.0</td>
<td>100</td>
<td>71</td>
</tr>
<tr>
<td>N</td>
<td>215</td>
<td>238</td>
<td>100</td>
<td>453</td>
</tr>
</tbody>
</table>

Corrected $X^2 = 4.43$ (1 d.f.) Significance = 0.41

year old plus group is not interested in obtaining a personal financial plan by a 2 to 1 margin. The reason for this phenomena may be that at this age financial matters have already been resolved, in one way or the other. A high proportion of the 45-60 years old group is also not interested, but not by such a wide margin as in the case of the 60 and over group.

On the other hand, more than two-thirds of the 25-35 years age group is interested in obtaining a financial plan. This may reflect not only their uncertainty about the future but also their high level of indebtedness, a fact which seems to worry many young people. Finally, definite preference is evidence by those below the age of 25. Nearly as many are interested in obtaining a financial plan as those that are not.

Education
Table 16 summarizes the results of crosstabulating educational level and interest in obtaining a personal financial plan. The Chi Square test found a relationship between these variables. Analysis of the data revealed that interest in obtaining a personal financial plan is relatively stronger for college graduates and other highly educated individuals. In contrast, a majority of individuals without a college degree are not interested in personal financial planning.

Table 15

<table>
<thead>
<tr>
<th>Age</th>
<th>Interested in PFP</th>
<th>Not Interested in PFP</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25</td>
<td>53.0</td>
<td>47.0</td>
<td>100%</td>
<td>17</td>
</tr>
<tr>
<td>25-35</td>
<td>69.0</td>
<td>31.0</td>
<td>100</td>
<td>86</td>
</tr>
<tr>
<td>35-45</td>
<td>53.0</td>
<td>47.0</td>
<td>100</td>
<td>76</td>
</tr>
<tr>
<td>45-60</td>
<td>43.0</td>
<td>57.0</td>
<td>100</td>
<td>145</td>
</tr>
<tr>
<td>60 and over</td>
<td>34.0</td>
<td>66.0</td>
<td>100</td>
<td>134</td>
</tr>
<tr>
<td>N</td>
<td>216</td>
<td>242</td>
<td></td>
<td>458</td>
</tr>
</tbody>
</table>

$X^2 = 27.72$ (4 d.f.) Significance = 0.0000

Table 17 presents the relationship between income and interest in obtaining a personal financial plan. The test failed to reject the null, which is further evidence
Table 16
Respondent's Educational Level by Interest in Personal Financial Planning

<table>
<thead>
<tr>
<th>Educational Level</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School or Less</td>
<td>44.0</td>
<td>56.0</td>
<td>100%</td>
<td>176</td>
</tr>
<tr>
<td>Some College</td>
<td>41.0</td>
<td>59.0</td>
<td>100</td>
<td>103</td>
</tr>
<tr>
<td>College Graduates</td>
<td>51.0</td>
<td>49.0</td>
<td>100</td>
<td>94</td>
</tr>
<tr>
<td>Master's or higher</td>
<td>61.0</td>
<td>39.0</td>
<td>100</td>
<td>71</td>
</tr>
<tr>
<td>N</td>
<td>211</td>
<td>233</td>
<td>444</td>
<td></td>
</tr>
</tbody>
</table>

\[X^2 = 7.92 \text{ (3 d.f.) Significance } = 0.05\]

Table 17
Household Income by Interest in Personal Financial Planning

<table>
<thead>
<tr>
<th>Income</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $12,000</td>
<td>40.0</td>
<td>60.0</td>
<td>100%</td>
<td>128</td>
</tr>
<tr>
<td>$12,000-$15,999</td>
<td>46.0</td>
<td>54.0</td>
<td>100</td>
<td>71</td>
</tr>
<tr>
<td>$16,000-$19,999</td>
<td>52.0</td>
<td>48.0</td>
<td>100</td>
<td>58</td>
</tr>
<tr>
<td>$20,000-$23,999</td>
<td>48.0</td>
<td>52.0</td>
<td>100</td>
<td>67</td>
</tr>
<tr>
<td>$24,000-$29,999</td>
<td>52.0</td>
<td>48.0</td>
<td>100</td>
<td>56</td>
</tr>
<tr>
<td>$30,000-$40,000</td>
<td>57.0</td>
<td>43.0</td>
<td>100</td>
<td>47</td>
</tr>
<tr>
<td>More than $40,000</td>
<td>45.0</td>
<td>55.0</td>
<td>100</td>
<td>31</td>
</tr>
<tr>
<td>N</td>
<td>216</td>
<td>242</td>
<td>458</td>
<td></td>
</tr>
</tbody>
</table>

\[X^2 = 12.85 \text{ (6 d.f.) Significance } = 0.25\]
that this relationship, as already indicated in the discussion of the discriminant analysis, may be curvilinear. That is, less interest in obtaining a personal financial plan is reported by low income levels, a high interest is manifested by middle income groups, and a low interest is found among high income levels.

This curvilinear relationship is evidenced in Table 17. For those incomes less than $24,000, a greater percentage of respondents are not interested in personal financial planning. Income groups between $24,000 and $40,000 show a high interest, and finally, respondent's whose incomes are greater than $40,000 show less interest.

**Employment Status of the Spouse of the Head of Household**

It is hypothesized that the employment status of the spouse of the head of household is related to interest in obtaining a personal financial plan. Although the data did not indicate which households had both spouses employed, it is realistic to assume that if the spouse of the head of household is employed, so will the head. This assumption is partially based on the prevalent low unemployment rate.

The relationship is hypothesized because a household with both spouses employed should enjoy greater discretionary income, value time more than money, and be more predisposed to employing professional services. The Chi Square test rejected the null hypothesis, which means a relationship exists between interest in obtaining a personal financial plan and the employment status of the spouse.
of the head of household. The test results are presented in Table 18.

An analysis of the data on Table 18 suggests that a greater percent of those households with the spouse of the head of household employed are interested in obtaining a personal financial plan. On the other hand, those households in which the spouse was unemployed or retired showed less interest in a financial plan.

### Table 18

<table>
<thead>
<tr>
<th>Employment Status of Spouse by Interest in Personal Financial Planning</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>56.0</td>
<td>44.0</td>
<td>100%</td>
<td>178</td>
</tr>
<tr>
<td>Unemployed</td>
<td>42.0</td>
<td>58.0</td>
<td>100</td>
<td>74</td>
</tr>
<tr>
<td>Retired</td>
<td>38.0</td>
<td>62.0</td>
<td>100</td>
<td>42</td>
</tr>
<tr>
<td>Homemaker</td>
<td>38.0</td>
<td>62.0</td>
<td>100</td>
<td>76</td>
</tr>
<tr>
<td>N</td>
<td>175</td>
<td>195</td>
<td>370</td>
<td></td>
</tr>
</tbody>
</table>

X² = 9.68 (3 d.f.)  Significance = 0.024

Type of Residence

The fact that an individual is not a homeowner may be related to interest in obtaining a personal financial plan because the individual may believe a financial plan will outline the necessary steps to take in order to achieve homeownerhip status.

Table 19 summarizes the data between the type of
residence inhabited by respondents and their interest in obtaining a personal financial plan. The Chi Square test rejected the null hypothesis, thus a relationship exists between type of residence and interest in obtaining a personal financial plan.

Table 19
Type of Residence by Interest in Personal Financial Planning

<table>
<thead>
<tr>
<th></th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent Apartment</td>
<td>65.0</td>
<td>35.0</td>
<td>100%</td>
<td>31</td>
</tr>
<tr>
<td>Rent House</td>
<td>68.0</td>
<td>32.0</td>
<td>100</td>
<td>33</td>
</tr>
<tr>
<td>Own Home</td>
<td>43.0</td>
<td>57.0</td>
<td>100</td>
<td>304</td>
</tr>
<tr>
<td>N</td>
<td>216</td>
<td>242</td>
<td>458</td>
<td></td>
</tr>
</tbody>
</table>

\[X^2 = 12.06 \ (2 \text{ d.f.}) \quad \text{Significance} = 0.003\]

A close analysis of the data reveals that only 43 percent of homeowners are interested in obtaining a financial plan. However, the renters of both apartments and houses are interested in obtaining a financial plan by close to a 2 to 1 margin.

Marital Status

Marital status may be related to interest in obtaining a personal financial plan because, for instance, single people should enjoy greater disposable income than married persons, and thus may view a financial plan as a tool for
organizing their financial affairs.

Table 20 presents the results of crosstabulating marital status and interest in obtaining a personal financial plan. The Chi Square test rejected the null, which means a relationship exists between these variables. However, careful observation of the data suggests that single people are, as a group, the ones most likely to be interested in obtaining a personal financial plan.

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>46.0</td>
<td>54.0</td>
<td>100%</td>
<td>363</td>
</tr>
<tr>
<td>Single</td>
<td>71.0</td>
<td>29.0</td>
<td>100</td>
<td>24</td>
</tr>
<tr>
<td>Divorced</td>
<td>28.0</td>
<td>72.0</td>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>Widowed</td>
<td>46.0</td>
<td>54.0</td>
<td>100</td>
<td>46</td>
</tr>
<tr>
<td>N</td>
<td>216</td>
<td>242</td>
<td></td>
<td>458</td>
</tr>
</tbody>
</table>

\[ X^2 = 9.3 \quad (3 \text{ d.f.}) \quad \text{Significance} = 0.025 \]

In summary, we can describe the households interested in obtaining a personal financial plan as possessing the following demographic characteristics: relatively young, (between 25 to 35 years old), well educated with a bachelor's degree or higher, both spouses employed, and finally, most likely renting their living quarters.
This section develops a psychographic profile of individuals interested in obtaining a personal financial plan in contrast to those who are not interested. The use of life style data--activities, interests and opinions--permits the development of a richer picture of consumers than does the mere use of demographic characteristics. Such psychographic profiles are found to be more useful by marketers for marketing management purposes in recent years.

The important contribution of psychographics lies in that individuals may have similar demographic profiles but have different life styles. Forty three AIO statements were included in the questionnaire, all of them having been found to be reliable by Wells and Tigert.4

The AIO statements were factor analyzed, enabling us to identify the underlying pattern of relationships among the various statements. The decision on the number of factors to be extracted was based on the accepted convention to delete all factors with an associated eigenvalue of less than 1.0.

The first eleven eigenvalues accounted for 59.2 percent of the total starting communality, indicating that no one factor was predominant. In representing a given factor, we only considered variables with high factor loadings,

4William D. Wells and Douglas J. Tigert, p. 35.
i.e., loading of .5 or greater on the rotated varimax axis.

The results of the factor analysis revealed eleven meaningful factors, which were labeled:

1. Cosmopolitan.
2. Information seeker.
3. Assertive-leader.
5. Price-conscious.
7. Fashion conscious.
8. Community minded.
9. Satisfied with and optimistic about finances.
10. Traditionalist.
11. Credit user.

Twenty six of the forty three statements were closely related to the eleven factors. In part, this comes as a surprise since the 43 statements had been validated by Wells and Tigert and should have resulted in 16 different scales. However, seventeen of the statements did not load well on any factors. This may be the result of using both a different sample and geographic locations. Table 21 presents the AIO statements associated with each factor, including their factor loadings.

The eleven life style factors of Table 21 measure activities, interests and opinions that are hypothesized to be related to interest in obtaining a personal financial plan. Table 22 summarizes the results of the tests for
difference among the groups for these scales.

Table 21
Activities, Interests and Opinions with their Factor Loading for Each Factor

<table>
<thead>
<tr>
<th>Factor</th>
<th>Feature</th>
<th>Factor Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmopolitan</td>
<td>I enjoy going to concerts</td>
<td>.7905</td>
</tr>
<tr>
<td></td>
<td>I like ballet</td>
<td>.6358</td>
</tr>
<tr>
<td></td>
<td>I enjoy going through an art gallery</td>
<td>.6601</td>
</tr>
<tr>
<td></td>
<td>I would like to take a trip around the world</td>
<td>.5027</td>
</tr>
<tr>
<td></td>
<td>I spend a lot of time talking with my friends about products and brands</td>
<td>.7004</td>
</tr>
<tr>
<td>Information seeker</td>
<td>I sometimes influence what my friends buy</td>
<td>.6734</td>
</tr>
<tr>
<td></td>
<td>I often seek out the advice of my friends regarding which brand to buy</td>
<td>.5851</td>
</tr>
<tr>
<td>Assertive-opinion leader</td>
<td>I think I have a lot of personal ability</td>
<td>.6863</td>
</tr>
<tr>
<td></td>
<td>People come to me more often than I go to them for information about brands</td>
<td>.5503</td>
</tr>
<tr>
<td>Self-confident</td>
<td>I think I have more self-confidence than most people</td>
<td>.6828</td>
</tr>
<tr>
<td></td>
<td>I am more independent than most people</td>
<td>.6125</td>
</tr>
<tr>
<td>Price-conscious</td>
<td>I shop a lot for &quot;specials&quot;</td>
<td>.6369</td>
</tr>
<tr>
<td></td>
<td>I find myself checking the prices in the grocery store</td>
<td>.6241</td>
</tr>
<tr>
<td>Factor</td>
<td>Feature</td>
<td>Factor Loading</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Risk Taker</td>
<td>Investing in the stock market is too risky for most families (reverse scored)</td>
<td>.7449</td>
</tr>
<tr>
<td></td>
<td>Buying stocks is too risky (reverse scored)</td>
<td>.6015</td>
</tr>
<tr>
<td></td>
<td>An important part of my life and activities is dressing smartly</td>
<td>.6119</td>
</tr>
<tr>
<td>Fashion Conscious</td>
<td>I usually have one or more outfits that are of the latest style</td>
<td>.5334</td>
</tr>
<tr>
<td>Community Minded</td>
<td>When I must choose between the two, I usually dress for fashion, not comfort</td>
<td>.5110</td>
</tr>
<tr>
<td></td>
<td>I am an active member of more than one service organization</td>
<td>.5939</td>
</tr>
<tr>
<td></td>
<td>I do volunteer work for a hospital or service organization on a fairly regular basis</td>
<td>.5732</td>
</tr>
<tr>
<td>Satisfied with and Optimist about Finances</td>
<td>Our family income is high enough to satisfy nearly all our important desires</td>
<td>.6611</td>
</tr>
<tr>
<td></td>
<td>I will probably have more money to spend next year than I have now</td>
<td>.5001</td>
</tr>
<tr>
<td>Traditionalist</td>
<td>I often wish for the good old days</td>
<td>.6419</td>
</tr>
</tbody>
</table>
Table 21 (continued)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Feature</th>
<th>Factor Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit user</td>
<td>I like to pay cash for everything I buy (reverse scored)</td>
<td>.7180</td>
</tr>
<tr>
<td></td>
<td>I buy many things with a credit card or charge cards</td>
<td>.7067</td>
</tr>
</tbody>
</table>

There are some significant psychographic differences among the groups ($p < .05$). These were:

1. Cosmopolitan. The individual interested in obtaining a personal financial plan can be characterized as more cosmopolitan in views than the person not interested in financial planning. That is, compared with the person not interested in financial planning, the one interested expressed a much stronger agreement to statements such as "I enjoy going to concerts," "I like ballet," "I would like to take a trip around the world."

2. Information seeker. The person interested in financial planning agreed more strongly with "I often seek out the advice of my friends regarding which brand to buy," "I spend a lot of time talking with my friends about products and brands."

3. Self-confident. The individual interested in financial planning showed more self-confidence than the person not interested. He/she agreed more strongly with statements like "I think I have more self-confidence than most people,"
"I am more independent than most people."

4. Community minded. The interested individual can also be characterized as more community minded than the person not interested in financial planning. He/she said: "I am an active member of more than one service organization," "I do volunteer work for a hospital or service organization on a fairly regular basis."

5. Credit user. The person interested in financial planning said "No" to "I like to pay cash for everything I buy," and said "Yes" to "I buy many things with a credit card or charge card."

In summary, the use of life style data permits the development of a richer picture of consumers than does the use of demographic characteristics. This study has determined that, compared to the person not interested in financial planning, the interested one can be described as cosmopolitan, an avid information seeker, more self-confident, community minded, and a greater credit user.

This psychographic profile has wide marketing implications, especially in terms of promotional and advertising efforts. For instance, this profile suggest that the marketing manager of a financial planning firm should provide more information on his/her firm's financial plans in its advertisements since those individuals interested in obtaining financial plans were characterized as "avid information seekers." Furthermore, the ads should imply that customers of financial planning hold cosmopolitan views, are self-
Table 22
Test of Differences
Between Life Style Means

<table>
<thead>
<tr>
<th>Life style factor name</th>
<th>Interested</th>
<th>Not Interested</th>
<th>t</th>
<th>d.f.</th>
<th>1-tail prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmopolitan</td>
<td>3.49</td>
<td>3.05</td>
<td>3.77</td>
<td>456</td>
<td>0.000*</td>
</tr>
<tr>
<td>Information seeker</td>
<td>3.26</td>
<td>3.04</td>
<td>2.28</td>
<td>456</td>
<td>0.011*</td>
</tr>
<tr>
<td>Assertive-leader</td>
<td>2.80</td>
<td>2.71</td>
<td>1.56</td>
<td>456</td>
<td>0.059</td>
</tr>
<tr>
<td>Self-confident</td>
<td>4.50</td>
<td>4.29</td>
<td>2.09</td>
<td>456</td>
<td>0.019*</td>
</tr>
<tr>
<td>Price-conscious</td>
<td>4.70</td>
<td>4.61</td>
<td>0.81</td>
<td>456</td>
<td>0.210</td>
</tr>
<tr>
<td>Risk-taker</td>
<td>3.03</td>
<td>3.14</td>
<td>-0.80</td>
<td>456</td>
<td>0.213</td>
</tr>
<tr>
<td>Fashion conscious</td>
<td>3.22</td>
<td>3.09</td>
<td>1.33</td>
<td>456</td>
<td>0.091</td>
</tr>
<tr>
<td>Community minded</td>
<td>3.11</td>
<td>2.88</td>
<td>1.79</td>
<td>456</td>
<td>0.037*</td>
</tr>
<tr>
<td>Satisfied with</td>
<td>3.78</td>
<td>3.59</td>
<td>1.61</td>
<td>456</td>
<td>0.054</td>
</tr>
<tr>
<td>and optimist about</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fiannces</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditionalist</td>
<td>2.92</td>
<td>2.89</td>
<td>0.17</td>
<td>456</td>
<td>0.430</td>
</tr>
<tr>
<td>Credit user</td>
<td>3.13</td>
<td>2.87</td>
<td>2.29</td>
<td>456</td>
<td>0.010*</td>
</tr>
</tbody>
</table>

*Significant at the 0.05 level.
confident and very community minded since this is how this study described prospective clients. Finally, as expressed by Plummer, a psychographic profile is useful because "the more you know and understand about your customers the more effectively you can communicate and market to them."  

PERSONAL FINANCIAL MANAGEMENT AND BEHAVIOR RELATED TO INTEREST IN FINANCIAL PLANNING

In this section the relationship between consumers' interest in obtaining a personal financial plan and several aspects of their personal financial management and behavior are explored.

The panel members were asked if they knew where to go if they wanted to obtain a personal financial plan, and the information was crosstabulated with interest in obtaining a personal financial plan; Table 23 summarizes the data.

Table 23
Knowledge of where to Go for a Personal Financial Plan by Interest in Obtaining a Financial Plan

<table>
<thead>
<tr>
<th></th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>44.0</td>
<td>56.0</td>
<td>100%</td>
<td>235</td>
</tr>
<tr>
<td>No</td>
<td>50.0</td>
<td>50.0</td>
<td>100</td>
<td>217</td>
</tr>
<tr>
<td>N</td>
<td>212</td>
<td>240</td>
<td>452</td>
<td></td>
</tr>
</tbody>
</table>

$X^2 = 1.377$ (1 d.f.) Significance = 0.25

---

5Joseph T. Plummer, "The Concept and Application of
The Chi Square test failed to reject the null hypothesis, which means that knowing where to go for a financial plan is not related to interest in obtaining one. This seems to suggest that if a person is interested in having a plan written for him he will find the source. Knowing of a firm's existence does not influence his interest.

Data in Table 24 reports the number of households who have been exposed to financial planning. Only 28 of the respondents have had financial plans developed for them, but yet a whopping 211 out of the 450 respondents indicated an interest in obtaining a personal financial plan; of these, 17 households had had financial plans developed for them in the past and were interested in new ones. Perhaps this indicates changing circumstances and, therefore, the need for an updated plan. This could also be a reflection of dissatisfaction with the present plan, and an indication of interest in obtaining one of better quality.

In contrast, 110 of respondents also had plans but indicated they were not interested in a new one. This is either an indication of dissatisfaction with the concept of financial planning or the present plan fully satisfies the owner. The possibility of dissatisfaction is always present in a service as this one which offers only an intangible, i.e., recommendations. Financial planners should strive to minimize this dissatisfaction perhaps by maintaining very

close contact with their clients.

Table 24

Ever Owned a Personal Financial Plan by Interest in Obtaining a Financial Plan

<table>
<thead>
<tr>
<th>Have you ever had a personal financial plan developed for you?</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>61.0</td>
<td>39.0</td>
<td>100%</td>
<td>28</td>
</tr>
<tr>
<td>No</td>
<td>46.0</td>
<td>54.0</td>
<td>100%</td>
<td>422</td>
</tr>
<tr>
<td>N</td>
<td>211</td>
<td>239</td>
<td>450</td>
<td></td>
</tr>
</tbody>
</table>

\[ X^2 = 2.29 \ (1 \text{ d.f.}) \quad \text{Significance} = 0.15 \]

Table 25 summarizes the responses to the question if they had ever had a discussion about financial goals and objectives with a financial advisor.

As the table indicates, only 96 (21%) of the 451 respondents ever had a discussion about their financial goals and objectives with a financial advisor. However, a majority of those who held a discussion reported our interest in obtaining a financial plan. This suggests that engaging prospective clients in a discussion about their financial goals may result in increasing their interest in obtaining a financial plan.

A Chi Square test was performed, resulting in the rejection of the null hypothesis. This indicates that whether or not an individual ever had a discussion about financial goals with a financial advisor is related to interest in obtaining a personal financial plan. This im-
plies that higher sales may result if financial planning firms write consumers for free discussions about their financial objectives.

Table 25

<table>
<thead>
<tr>
<th>Have you ever had a discussion about your financial goals and objectives with a financial advisor?</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>56.0</td>
<td>44.0</td>
<td>100%</td>
<td>96</td>
</tr>
<tr>
<td>No</td>
<td>45.0</td>
<td>55.0</td>
<td>100</td>
<td>355</td>
</tr>
<tr>
<td>N</td>
<td>212</td>
<td>239</td>
<td></td>
<td>451</td>
</tr>
</tbody>
</table>

\[ x^2 = 4.13 \text{ (1 d.f.) Significance} = 0.02 \]

Those who indicated they had held a discussion about their goals were then asked to indicate the seriousness of the discussion. Table 26 presents this information. The Chi Square test failed to reject the null, which means that the seriousness of the discussion is not related to interest in obtaining a financial plan.

Is this a contradiction with the previous findings? Not necessarily. The study supports the contention that in order to increase interest in financial planning, prospective customers should be engaged in discussions about their financial goals. But as the test results of Table 26 indicate; the degree of seriousness of the discussion is not an important issue.
Table 26
Degree of Seriousness of Discussion by Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th></th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Serious</td>
<td>50.0</td>
<td>50.0</td>
<td>100%</td>
<td>34</td>
</tr>
<tr>
<td>Seriousness of discussion</td>
<td>Somewhat serious</td>
<td>68.0</td>
<td>32.0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Very serious</td>
<td>50.0</td>
<td>50.0</td>
<td>100</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>66</td>
<td>47</td>
<td>113</td>
<td></td>
</tr>
</tbody>
</table>

\[ X^2 = 3.72 \text{ (2 d.f.) Significance} = 0.155 \]

Financial Transactions and Interest in Financial Planning

In attempting to identify characteristics of individuals who indicated an interest in obtaining a personal financial plan, it was hypothesized that an individual who had undertaken certain financial transactions over the past two years might be more interested in financial planning. This hypothesis was proved true in the case of some transactions.

The financial transactions that were crosstabulated with interest in obtaining a personal financial plan were the following: stock purchases, real estate investments other than own home, mutual fund shares and gold or diamond purchases, acquisitions of antiques as an investment, and purchases of bonds and certificates of deposit. Tables 27 through 33 present the responses and the results of the Chi Square tests of independence.
A significant relationship between a financial transaction and interest in obtaining a personal financial plan was found only in the case of the individual who made real estate investments other than in buying or selling his/her own home.

Although Chi Square does not allow us to draw conclusions with respect to the direction of the relationship, an analysis of the cells indicates that those who made a real estate investment are more interested in personal financial planning than those who did not make real estate investments.

Table 27

Stock Purchase During Past Two Years by Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th>Interest in Obtaining a Personal Financial Plan</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased stocks in the past two years?</td>
<td>Yes</td>
<td>50.0</td>
<td>10.0</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>46.0</td>
<td>54.0</td>
<td>100</td>
</tr>
<tr>
<td>N</td>
<td>216</td>
<td>242</td>
<td>458</td>
<td></td>
</tr>
</tbody>
</table>

\[ \chi^2 = .44 \quad (1 \text{ d.f.}) \quad \text{Significance} = 0.50 \]

This finding implies that financial planners would work closely with real estate firms, and especially try to acquire the names of consumers who have purchased real estate other than their own homes because these persons might be very much interested in obtaining a financial plan too.
Furthermore, it suggests that financial planners should stress investments in real estate as an important part of their plans because it seems that real estate investments attract many households.

Table 28
Real Estate Investment Other Than Home by Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th>Made a real estate investment other than your own home?</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>58.0 42.0</td>
<td>100%</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>45.0 55.0</td>
<td>100</td>
<td>381</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>216 242</td>
<td>458</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$X^2 = 4.19$ (1 d.f.) Significance $= 0.04$

Table 29
Gold or Diamond Purchases by Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th>Purchased gold or diamonds as an investment?</th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>64.0 36.0</td>
<td>100%</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>46.0 54.0</td>
<td>100</td>
<td>430</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>216 242</td>
<td>458</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Corrected $X^2 = 2.31$ (1 d.f.) Significance $= 0.09$
### Table 30
Purchase of Antiques as Investment by Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase any antiques as an investment?</td>
<td>Yes</td>
<td>56.0</td>
<td>44.0</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>46.0</td>
<td>54.0</td>
</tr>
<tr>
<td>N</td>
<td>216</td>
<td>242</td>
<td>458</td>
</tr>
</tbody>
</table>

Corrected $X^2 = 0.76$ (1 d.f.) Significance = 0.38

### Table 31
Bond Purchases by Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased any bonds in the past two years?</td>
<td>Yes</td>
<td>47.0</td>
<td>53.0</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>47.0</td>
<td>53.0</td>
</tr>
<tr>
<td>N</td>
<td>215</td>
<td>242</td>
<td>457</td>
</tr>
</tbody>
</table>

Corrected $X^2 = 0.95$ (1 d.f.) Significance = 0.5904
Table 32
Certificate of Deposit Purchases by Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th></th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased any Certificates of Deposit?</td>
<td>Yes 44.0</td>
<td>56.0</td>
<td>100%</td>
<td>171</td>
</tr>
<tr>
<td></td>
<td>No 49.0</td>
<td>51.0</td>
<td>100</td>
<td>285</td>
</tr>
<tr>
<td></td>
<td>N 214</td>
<td>242</td>
<td></td>
<td>456</td>
</tr>
<tr>
<td>Corrected $X^2 = 1.89$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1 d.f.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significance = 0.369</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 33
Mutual Fund Purchase by Interest in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th></th>
<th>Interested</th>
<th>Not Interested</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased any type of mutual fund shares?</td>
<td>Yes 61.0</td>
<td>39.0</td>
<td>100%</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>No 46.0</td>
<td>54.0</td>
<td>100</td>
<td>427</td>
</tr>
<tr>
<td></td>
<td>N 216</td>
<td>242</td>
<td></td>
<td>458</td>
</tr>
<tr>
<td>Corrected $X^2 = 2.09$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1 d.f.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significance = 0.148</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In summary, the results of this research study indicated that only two of the several aspects of personal financial management and behavior analyzed are significantly related to interest in obtaining a personal financial plan. These were:

1. Holding a discussion with an individual about his/her financial goals and objectives can augment his/her
interest in obtaining a financial plan. Therefore, financial planners should encourage potential customers to drop by for discussions about their financial goals and objectives. Alternatively, a trained sales force may visit the potential customers and hold such discussions.

2. Individuals who make real estate investments other than to purchase their own homes are likely to be more interested in obtaining a personal financial plan than those who do not make this type of investments. Therefore, financial planners should work closely with real estate agents for leads on prospective clients.

ASSESSMENT OF CONSUMER'S NEEDS AND VIEWPOINTS REGARDING PERSONAL FINANCIAL PLANNING

This section presents an assessment of consumer's needs and viewpoints regarding personal financial planning.

Relative Importance of Various Features Which May Be Included in a Personal Financial Plan

This study determined the relative importance placed, by households interested in obtaining a personal financial plan, for including certain financial features in personal financial plans.

Identifying which features are perceived as very important for inclusion in financial plans by households interested in obtaining financial plans, is very valuable information to a financial planner because it will let him/her structure the plan in such a manner that it will highlight precisely those features which consumer's believe to be an
important part of financial plans. In other words, provide the consumer what he/she wants.

In order to determine the relative importance of the features, panel members were presented with a list of 19 features and were asked to indicate the degree of importance they attached to each, measured by a six point scale from least to most important.

Based on the responses to these statements, mean values were computed. The higher the mean score, the greater importance attached to that feature. Thus, it can be said that any mean value greater than 3.5 indicates that the particular feature is perceived as important enough to be included in a personal financial plan.

Table 34 ranks the mean scores in order of importance. The ranking reveals that only the first 14 of the 19 features satisfy the criteria of importance. This implies that these 14 features should be highlighted in financial plans because those households interested in obtaining a personal financial plan considered them to be sufficiently important to include them in personal financial plans.

Does this analysis imply that those features with a mean value of less than 3.5 should not be included in financial plans? Not necessarily. What it does suggest is that the features perceived as important enough should be highlighted, or given preferential attention in personal financial plans, and the other features considered less important (i.e., investments in stocks, gold, and commodities) should not play
Table 34

Relative Importance of Various Features Which May Be Included in Personal Financial Plans As Perceived By Households Interested in Obtaining a Personal Financial Plan

<table>
<thead>
<tr>
<th>Feature</th>
<th>Mean score assigned to feature by Group 1</th>
<th>Std. dev.</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimizing the effects of inflation</td>
<td>5.29</td>
<td>1.04</td>
<td>1</td>
</tr>
<tr>
<td>Planning for retirement</td>
<td>5.07</td>
<td>1.33</td>
<td>2</td>
</tr>
<tr>
<td>Analysis of resources and expenses</td>
<td>5.05</td>
<td>1.19</td>
<td>3</td>
</tr>
<tr>
<td>Minimization of taxes</td>
<td>5.01</td>
<td>1.20</td>
<td>4</td>
</tr>
<tr>
<td>Understanding of attitudes and goals</td>
<td>4.94</td>
<td>1.16</td>
<td>5</td>
</tr>
<tr>
<td>Preparation of a household budget</td>
<td>4.91</td>
<td>1.34</td>
<td>6</td>
</tr>
<tr>
<td>Investment in real estate</td>
<td>4.84</td>
<td>1.50</td>
<td>7</td>
</tr>
<tr>
<td>Analysis of health insurance needs</td>
<td>4.74</td>
<td>1.27</td>
<td>8</td>
</tr>
<tr>
<td>A review of the economic outlook</td>
<td>4.71</td>
<td>1.21</td>
<td>9</td>
</tr>
<tr>
<td>Analysis of property insurance needs</td>
<td>4.53</td>
<td>1.34</td>
<td>10</td>
</tr>
<tr>
<td>Analysis of employer's fringe benefits</td>
<td>4.39</td>
<td>1.59</td>
<td>11</td>
</tr>
<tr>
<td>Analysis of life insurance needs</td>
<td>4.16</td>
<td>1.49</td>
<td>12</td>
</tr>
<tr>
<td>Estate planning</td>
<td>4.03</td>
<td>1.73</td>
<td>13</td>
</tr>
<tr>
<td>Investment in tax shelters</td>
<td>3.77</td>
<td>1.66</td>
<td>14</td>
</tr>
</tbody>
</table>
Table 34 (continued)

<table>
<thead>
<tr>
<th>Feature</th>
<th>Mean score assigned to feature by Group 1 *</th>
<th>Std. dev.</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in bonds</td>
<td>3.36</td>
<td>1.52</td>
<td>15</td>
</tr>
<tr>
<td>Investment in stocks</td>
<td>3.08</td>
<td>1.59</td>
<td>16</td>
</tr>
<tr>
<td>Investment in mutual funds</td>
<td>3.03</td>
<td>1.59</td>
<td>17</td>
</tr>
<tr>
<td>Investment in gold, diamonds</td>
<td>2.83</td>
<td>1.62</td>
<td>18</td>
</tr>
<tr>
<td>Investment in commodities</td>
<td>2.41</td>
<td>1.39</td>
<td>19</td>
</tr>
</tbody>
</table>

* Group 1 is formed by households interested in obtaining a personal financial plan.
a very predominant role in financial plans.

Differences in Degree of Importance Assigned by Groups to Features Which May Be Included in a Personal Financial Plan

The question arises as to whether there are any differences in the degree of importance attached to the financial features by those households interested in obtaining a personal financial plan and those that are not interested. An answer is needed because if differences indeed exist, it will become very advantageous for advisers to highlight the particular financial features which households interested in financial planning perceived to be more important for inclusion in financial plans than those individuals who were not interested in obtaining a personal financial plan.

The differences between mean values of the group interested in financial planning and the group not interested in financial planning were tested for statistical significance. Specifically, the null hypothesis stated that the mean values for those interested in financial planning were less than or equal to the mean scores for those not interested. The findings of the t-tests were presented in Table 35.

Thirteen different features were found to have statistically greater means. In other words, those households interested in financial planning attached more importance for including certain features in financial plans than those that were not interested. These features were:

1. Minimizing the effects of inflation.
2. A careful analysis of your financial resources and expenses.

3. Minimization of taxes.

4. An understanding of your financial attitudes, objectives and goals.

5. Preparation of a household budget.

6. A review of the economic outlook for the present and near future.

7. An analysis of the fringe benefits offered by your employer.

8. Analysis of life insurance needs.

9. Estate planning.

10. Investments in tax shelters.

11. Investment in bonds.

12. Investment in mutual funds.

13. Investment in gold, diamonds.

In summary, the implication is straightforward: financial planners should highlight the above features in their discussions with prospective clients since these were found to be given greater importance by those households interested in financial planning than by those that were not interested. However, the last three features had mean values lower than 3.5, indicating that households did not believe these features to be of sufficient importance to warrant their inclusion in a personal financial plan.
Table 35

Group Comparison of Mean Level of Importance Attached to Features Which May Be Included in a Personal Financial Plan

<table>
<thead>
<tr>
<th>Feature</th>
<th>Group</th>
<th>N</th>
<th>Mean</th>
<th>Std. dev.</th>
<th>t-value</th>
<th>d.f.</th>
<th>1-tail prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimizing the effects of inflation</td>
<td>1</td>
<td>209</td>
<td>5.29</td>
<td>1.04</td>
<td>2.09</td>
<td>440</td>
<td>0.0185**</td>
</tr>
<tr>
<td>Planning for retirement</td>
<td>1</td>
<td>205</td>
<td>5.07</td>
<td>1.33</td>
<td>0.83</td>
<td>438</td>
<td>0.2045</td>
</tr>
<tr>
<td>Analysis of resources and expenses</td>
<td>1</td>
<td>212</td>
<td>5.05</td>
<td>1.19</td>
<td>3.05</td>
<td>446</td>
<td>0.001**</td>
</tr>
<tr>
<td>Minimization of taxes</td>
<td>1</td>
<td>208</td>
<td>5.01</td>
<td>1.20</td>
<td>1.58</td>
<td>440</td>
<td>0.0575</td>
</tr>
<tr>
<td>Understanding of attitudes and goals</td>
<td>1</td>
<td>211</td>
<td>4.94</td>
<td>1.16</td>
<td>2.09</td>
<td>445</td>
<td>0.0185**</td>
</tr>
<tr>
<td>Preparation of a household budget</td>
<td>1</td>
<td>208</td>
<td>4.91</td>
<td>1.34</td>
<td>2.56</td>
<td>438</td>
<td>0.005**</td>
</tr>
<tr>
<td>Investment in real estate</td>
<td>1</td>
<td>214</td>
<td>4.84</td>
<td>1.50</td>
<td>1.41</td>
<td>446</td>
<td>0.079</td>
</tr>
<tr>
<td>Analysis of health insurance needs</td>
<td>1</td>
<td>210</td>
<td>4.74</td>
<td>1.27</td>
<td>0.94</td>
<td>444</td>
<td>0.1735</td>
</tr>
<tr>
<td>Feature</td>
<td>Group</td>
<td>N</td>
<td>Mean</td>
<td>Std. dev.</td>
<td>t-value</td>
<td>d.f.</td>
<td>1-tail prob.</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-------</td>
<td>----</td>
<td>------</td>
<td>-----------</td>
<td>---------</td>
<td>------</td>
<td>--------------</td>
</tr>
<tr>
<td>A review of the economic outlook</td>
<td>1</td>
<td>214</td>
<td>4.71</td>
<td>1.21</td>
<td>2.58</td>
<td>447</td>
<td>0.005**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>235</td>
<td>4.40</td>
<td>1.36</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysis of property insurance needs</td>
<td>1</td>
<td>211</td>
<td>4.53</td>
<td>1.34</td>
<td>0.11</td>
<td>440</td>
<td>0.456</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>231</td>
<td>4.51</td>
<td>1.56</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysis of employer's fringe benefits</td>
<td>1</td>
<td>199</td>
<td>4.39</td>
<td>1.59</td>
<td>2.03</td>
<td>408</td>
<td>0.021**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>211</td>
<td>4.04</td>
<td>1.92</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysis of life insurance needs</td>
<td>1</td>
<td>210</td>
<td>4.16</td>
<td>1.49</td>
<td>2.24</td>
<td>442</td>
<td>0.0125**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>234</td>
<td>3.81</td>
<td>1.73</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estate planning</td>
<td>1</td>
<td>210</td>
<td>4.03</td>
<td>1.73</td>
<td>1.74</td>
<td>443</td>
<td>0.0415**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>235</td>
<td>3.74</td>
<td>1.82</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in tax shelters</td>
<td>1</td>
<td>210</td>
<td>3.77</td>
<td>1.66</td>
<td>2.97</td>
<td>439</td>
<td>0.0015**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>231</td>
<td>3.29</td>
<td>1.73</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in Bonds</td>
<td>1</td>
<td>211</td>
<td>3.36</td>
<td>1.52</td>
<td>2.43</td>
<td>443</td>
<td>0.008**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>234</td>
<td>3.01</td>
<td>1.53</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in stocks</td>
<td>1</td>
<td>208</td>
<td>3.08</td>
<td>1.59</td>
<td>1.22</td>
<td>439</td>
<td>0.112</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>233</td>
<td>2.90</td>
<td>1.60</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in mutual funds</td>
<td>1</td>
<td>210</td>
<td>3.03</td>
<td>1.59</td>
<td>3.66</td>
<td>439</td>
<td>0.000**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>231</td>
<td>2.49</td>
<td>1.50</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 35 (continued)

<table>
<thead>
<tr>
<th>Feature</th>
<th>Group*</th>
<th>N</th>
<th>Mean</th>
<th>Std. dev.</th>
<th>t-value</th>
<th>d.f.</th>
<th>l-tail prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in gold,</td>
<td>1</td>
<td>208</td>
<td>2.83</td>
<td>1.62</td>
<td>1.86</td>
<td>435</td>
<td>0.032**</td>
</tr>
<tr>
<td>diamonds</td>
<td>2</td>
<td>229</td>
<td>2.54</td>
<td>1.64</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in</td>
<td>1</td>
<td>209</td>
<td>2.41</td>
<td>1.39</td>
<td>0.75</td>
<td>440</td>
<td>0.225</td>
</tr>
<tr>
<td>commodities</td>
<td>2</td>
<td>233</td>
<td>2.31</td>
<td>1.35</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Group 1 formed by households interested in obtaining a personal financial plan. Group 2 formed by households not interested in obtaining a personal financial plan.

**Significantly different means at p < 0.05.
Factor Analysis of Features

After having reviewed the degree of importance respondents attached to each of a series of financial features that can be included in a personal financial plan, the task now is to summarize these features into a few salient attribute dimensions without appreciable loss of information. This can be done with factor analysis.

Factor analysis will enable us to determine whether some underlying pattern of relationships exists among the various features, and one may thus be able to ascertain the major dimensions which are of interest to consumers.

The decision on the number of factors to be extracted was based on the accepted convention to delete all factors with an associated eigenvalue of less than 1.0. This criteria was adopted especially since there was no compelling reason for increasing or decreasing the number of factors to be extracted. To facilitate and strengthen the interpretation of factor patterns, the factor matrix was rotated.

Factors are interpreted mainly on the basis of the variables associated with them. In representing a given factor, only variables with high loadings, i.e., loading of 0.5 or over on the rotated varimax axis, were considered. The results of the factor analysis revealed five meaningful factors, which were labeled as follows:

Factor 1: Appraisal of insurance needs.
Factor 2: Wall Street type investments.
Factor 3: Minimizing the ill effects of taxes and
inflation.

Factor 4: Estate planning.

Factor 5: Determining individual investment philos- phy and review of economic outlook.

Fifteen of the nineteen features were closely related to the five factors. Table 36 indicates the various financial features associated with each factor, along with the factor loadings.

The factor analysis of the features that can be included in financial plans offers some interesting insights. For instance, all plans should have a section analyzing an individual's insurance needs. This seems to be an area of investor concern, and therefore, financial planners should take advantage of it.

Secondly, it seems households are interested in Wall Street type investments, i.e., stocks and bonds. Perhaps this reflects their desire to feel part of the capitalistic system. Interestingly, they seem to desire to participate in the risk-return tradeoff associated with Wall Street type investments, but they also want to be risk avoiders, as evidenced in their interest in having a section of the financial plan analyze their insurance needs.

Thirdly, individuals are concerned about taxes, inflation, and how this will also affect their retirement. This preoccupation is valuable to financial planners because it permits them to offer investment recommendation to minimize these ill effects.
Fourth, estate planning seems to concern the households who have participated in this study. This is a positive finding for financial planners because it will allow them to offer services to satisfy the complexities involved in preserving one's wealth for future generations.

Lastly, individuals are rightly concerned with determining an investment philosophy in view of the state of the economy. All financial plans should include an analysis and understanding of both areas, because they are pivotal to establishing any type of investment plan.

Nine variables did not load high enough to be included in any of the factors, including an important one, namely, investments in real estate. This does not mean that these variables are not important in preparing financial plans; rather, it means these variables were not highly correlated with any of the factors.

In summary, the factor analysis of the financial features which can be included in financial plans revealed five meaningful dimensions. On the basis of these research findings one may recommend that personal financial plans include sections discussing each of the factors, or underlying patterns. These may be labeled: appraisal of insurance needs, Wall Street type investments, minimizing the ill effects of taxes and inflation, estate planning, and finally, determining individual investment philosophy with a review of the economic outlook.
Table 36
Financial Features and Their Factor Loading for Each Factor

<table>
<thead>
<tr>
<th>Factor</th>
<th>Feature</th>
<th>Factor loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal of insurance needs</td>
<td>Analysis of health insurance needs</td>
<td>0.8226</td>
</tr>
<tr>
<td></td>
<td>Analysis of property insurance needs</td>
<td>0.7759</td>
</tr>
<tr>
<td></td>
<td>Analysis of life insurance needs</td>
<td>0.5626</td>
</tr>
<tr>
<td></td>
<td>Analysis of one's financial resources and expenses</td>
<td>0.5596</td>
</tr>
<tr>
<td>Wall Street type investments</td>
<td>Investment in mutual funds</td>
<td>0.6936</td>
</tr>
<tr>
<td></td>
<td>Investment in bonds</td>
<td>0.6127</td>
</tr>
<tr>
<td></td>
<td>Investment in commodities</td>
<td>0.5798</td>
</tr>
<tr>
<td></td>
<td>Investment in stocks</td>
<td>0.5758</td>
</tr>
<tr>
<td>Minimizing ill effect of taxes and inflation</td>
<td>Minimization of taxes</td>
<td>0.5379</td>
</tr>
<tr>
<td></td>
<td>Planning for retirement</td>
<td>0.5197</td>
</tr>
<tr>
<td></td>
<td>Minimizing the effects of inflation</td>
<td>0.5019</td>
</tr>
<tr>
<td>Estate planning</td>
<td>Estate planning</td>
<td>0.5859</td>
</tr>
<tr>
<td></td>
<td>Investment in tax shelters</td>
<td>0.5540</td>
</tr>
<tr>
<td>Determining investment philosophy and review of economic outlook</td>
<td>A review of the economic outlook for the present and near future</td>
<td>0.5371</td>
</tr>
<tr>
<td></td>
<td>An understanding of your financial attitudes, objectives, and goals</td>
<td>0.5135</td>
</tr>
</tbody>
</table>

Best Sources for Developing Financial Plans

In further assessing their viewpoints, consumers were asked to indicate three professionals whom they considered to be the best suited source for developing personal financial plans. The results are presented in Table 37, and some are surprising indeed.
The highest image is shared by bankers, CPA's, and Certified Financial Planners with 17.8 percent, 16.3 percent, and 16.1 percent of the responses, respectively.

It is not surprising that bankers are viewed as being so capable, since they are in continuous contact with the public providing diverse financial services. Accountants are also viewed very favorably and this no doubt is a reflection of the strong professional image enjoyed by CPA's in their business activities.

This perception of accountants as the second important source for obtaining personal financial plans is surprising in a way, since accountants have traditionally been viewed as "book-keepers" and tax preparers. The fact that they were ranked so high in this service is perhaps a testimony to the success of the profession in erradicating the narrow view of them as mere "book-keepers" working in a back office.

Certified Financial Planners ranked very high too. This is an affirmation of the powers of marketing: a good name can work wonders. This is based on the belief that few respondents knew of the existence of the professional designation of Certified Financial Planner. But obviously the name is very explicit, implying that its holder must know a lot about financial planning, or otherwise would not be a Certified Financial Planner.

Respondents also believe that they themselves are a fine source for preparing financial plans; they ranked fourth, with 13.9 percent of the responses. This is an inter-
Testing finding because financial planning can be a very sophisticated activity, and few individuals have the training and/or time to be good at it. Either respondents underestimate the complexities involved or they overestimate their abilities.

However, their response reveals perhaps an even greater insight: their enormous desire to be intimately involved in the process of developing a financial plan. This may be of great concern to the financial planning industry in that they may commit a serious error if they do not provide a climate where the clients feel they are an active participant in drawing up the financial plan destined to meet their goals and objectives. Many banks committed this error in the past in their trust departments. They overlooked their clients desires to be intimately involved in the drawing of plans, and thus found it hard to attract new business. 6

Financial advisory firms were perceived favorably too, receiving 12.5 percent of the responses. Perhaps they did not rank higher because these firms usually maintain low profiles, and they are certainly not a household word. Apparently they could benefit from advertising, or from any other means of communicating to the community that they do exist, and are open and anxious for business.

Lawyers also did very well obtaining 12.5 percent of

Table 37
Best Professional Sources for Developing Personal Financial Plans

<table>
<thead>
<tr>
<th>Professional</th>
<th>Absolute Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banker</td>
<td>239</td>
<td>17.8</td>
</tr>
<tr>
<td>Accountant or CPA</td>
<td>220</td>
<td>16.3</td>
</tr>
<tr>
<td>Certified Financial Planner</td>
<td>217</td>
<td>16.1</td>
</tr>
<tr>
<td>Yourself</td>
<td>187</td>
<td>13.9</td>
</tr>
<tr>
<td>Financial Advisory Firm</td>
<td>169</td>
<td>12.5</td>
</tr>
<tr>
<td>Lawyer</td>
<td>169</td>
<td>12.5</td>
</tr>
<tr>
<td>Insurance Agent</td>
<td>55</td>
<td>4.0</td>
</tr>
<tr>
<td>Stockbroker</td>
<td>46</td>
<td>3.4</td>
</tr>
<tr>
<td>Friends and Relatives</td>
<td>25</td>
<td>1.9</td>
</tr>
<tr>
<td>University Professor Who Teaches Business Courses</td>
<td>20</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1347</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Each respondent was asked to check on three professionals believed to be the best source for developing financial plans; 449 responded for a total of 1347 replies.

the responses. In retrospect, they too seem to enjoy an image flushing with competence in a business area which certainly trascends their traditional role.

Insurance agents rated poorly—with only 4 percent of the responses—perhaps reflecting a belief that their occupation is narrow in scope, i.e., only selling insurance and thus not capable of offering a more comprehensive service
such as personal financial planning. This finding may come as a blow to the insurance industry because many of their agents like to consider themselves financial planners, and many do, in fact, offer this service. Details of such practices were discussed in Chapter 2.

Stockbrokers were another group which rated fairly low as a perceived source for obtaining personal financial plans. They received only 3.4 percent of responses, perhaps also reflecting the public's belief that their occupation is narrow in scope, i.e., only selling stocks and bonds. This finding should be disturbing to the brokerage industry because many of their members, such as Sutro & Co., encourage their account executives to solicit personal financial planning business. This finding is further confirmed when it was reported, earlier in this study, that both bond and stock purchases are not significantly related to interest in obtaining a personal financial plan.

If brokerage firms want to eagerly pursue the financial planning market, it may be to their advantage to try to change the public's image and promote the image that stockbrokers are capable of offering fully-rounded and comprehensive financial advice. In this regard it will be interesting to follow the progress of Merrill Lynch's independent financial planning group. Perhaps this approach, creating an autonomous entity but enjoying the benefits of using a widely known name maybe the solution to this problem.

Friends and relatives rated very poorly, perhaps indicating that consumers have realized that financial
planning is sufficiently complex to require expert advice which cannot be provided by friends and relatives. Finally, university professors who teach business courses ranked last. This may suggest that they are perceived by the public as lacking knowledge of everyday business events.

What are the implications of these findings? First, no particular professional was viewed as the absolute best source for writing financial plans. Instead, bankers, accountants, Certified Financial Planners, and financial advisory firms shared that honor. Obviously, bankers and accountants should take advantage of their constant client contact and their image as being one of the best sources for personal financial planning and become actively involved in this field from which they should be able to profit handsomely.

In addition, given that CFP's, CPA's, and attorneys ranked so high, it may be wise for financial planning firms to have on their staff as many of these professionals as possible. Including many of these professionals who are perceived to be very good sources for writing personal financial plans may help their firms develop a stronger image as an excellent source for developing personal financial plans.

However, any efforts to write financial plans will face stiff opposition from the public unless the client himself is deeply involved in the development of the plan. This is because the category "yourself"--as best source for obtaining financial plans--received the fourth highest
number of tallies. Obviously, consumers feel they are an excellent source, and therefore, this self-perception should not be overlooked by financial planners.

**Financial Planner's Fee**

In further assessing consumer's viewpoints, they were asked how much they believed would be a reasonable fee that a financial expert should charge for developing a personal financial plan, "tailored" to meet their own special needs, goals, and resources, and in view of their own personal circumstances. Table 38 summarizes the findings.

More than 70 percent of respondents indicated that they believed that a fee of less than $300 should be a reasonable charge for developing a financial plan. Another 21.8 percent believed a fee between $300 and $600 was an appropriate one. The remaining 8 percent viewed as a correct fee amounts above $600.

Obviously not too many financial planners could get to operate a business with this type of fee structure; however, one must not overlook the fact that 56 percent of the sample earned less than $20,000 per year. Such an income level cannot, very likely, support a higher fee for a service such as financial planning.

However, this finding may imply that simpler plans--i.e., a computerized one--may have a ready market as long as their cost is kept low. In practice, a few firms charge as little as $65 for financial plans. Perhaps more planners should offer similar, low cost service.
Table 38
Fee to Be Charged for Developing a Personal Financial Plan

<table>
<thead>
<tr>
<th>Fee</th>
<th>Absolute frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $300</td>
<td>299</td>
<td>70.2</td>
</tr>
<tr>
<td>$300-$599</td>
<td>93</td>
<td>21.8</td>
</tr>
<tr>
<td>$600-$899</td>
<td>19</td>
<td>4.5</td>
</tr>
<tr>
<td>$900-$1199</td>
<td>10</td>
<td>2.3</td>
</tr>
<tr>
<td>More than $1200</td>
<td>5</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>426</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Could there be any relationship between the low fees suggested by respondents and their income levels? This is very likely, especially when one considers that more than half the sample reported an income less than $20,000 per year, and 70 percent also indicated $300 or less to be a reasonable fee that a financial expert should charge. Also, 6.8 percent of respondents had incomes greater than $40,000 and 3.5 percent reported that fees greater than $900 may be appropriate.

To determine if income and suggested fees were related, a Chi Square test of independence was performed. Table 39 presents the data.

The null hypothesis was rejected, and therefore a relationship does indeed exist between income and fees.
Although Chi Square does not provide evidence on the directionality of the relationship, a careful analysis of the cells revealed a positive relationship. That is, higher the income, greater the willingness to pay a higher fee. This finding implies that financial planners should base their fee schedule partly on household income.

**Table 39**

<table>
<thead>
<tr>
<th>Fee to Be Charged for Developing a Personal Financial Plan by Household Income*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Income</td>
</tr>
<tr>
<td>------------------------</td>
</tr>
<tr>
<td>Less than $300</td>
</tr>
<tr>
<td>$300-$599</td>
</tr>
<tr>
<td>More than $600</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td>$X^2 = 45.78 (4 d.f.)</td>
</tr>
<tr>
<td>Significance = 0.000</td>
</tr>
</tbody>
</table>

*Several categories had to be collapsed to meet the minimum expected frequency criteria.*

**ATTITUDE TOWARDS PERSONAL FINANCIAL PLANNING RELATED TO INTEREST IN THIS SERVICE**

This section presents a discussion of how attitudes towards personal financial planning are related to interest in this service. The findings are very important because "a person's behavior with respect to an object is in large
part determined by his attitude toward that object."\(^7\)

It is hoped that those individuals who have a positive attitude towards personal financial planning will acquire financial plans. As Fishbein and Ajzen state: "A specific behavior is viewed as determined by the person's intention to perform that behavior."\(^8\) And intentions are determined by attitudes. They represent these relationships in the following graphical form:

\[
\text{Belief about object X} \rightarrow \text{Attitude towards object X} \rightarrow \text{Intention with respect to object X} \rightarrow \text{Behavior with respect to object X}
\]

They further state: "The general assumption is that if a person likes some object [i.e., personal financial planning] he should also hold favorable beliefs about the object, and he should intend to perform and actually perform favorable behaviors with respect to it."\(^9\)

Therefore, if we are concerned with identifying characteristics of individuals who may purchase personal financial plans, it is of utmost importance to be able to determine how attitudes towards financial planning are related to interest in obtaining a personal financial plan.

In order to measure attitudes, the questionnaire contained a series of ten statements relating to personal

\(^7\)Martin Fishbein and Icek Ajzen. Belief, Attitude, Intention and Behavior: An Introduction to Theory and Research (Reading, Massachusetts: Addison-Wesley Publishing Co., 1975)
\(^8\)Ibid., p. 335.  \(^9\)Ibid.
financial planning, like for instance, "A Personal Financial Plan introduces discipline and direction to my financial affairs," and "A Personal Financial Plan is bound to cost more than it is worth,"

The degree of agreement to each statement was measured by a six-point Likert type scale from strongly disagree to strongly agree. If on any statement the score was closer to six, the more favorable the attitude towards personal financial planning; the lower the score, the more unfavorable the attitude.

The differences between the mean scores of those households interested in obtaining a personal financial plan and those not interested in financial planning were tested for statistical significance. The null hypothesis stated that the mean scores for those interested in financial planning were less than or equal to the mean summated score for those not interested. Table 40 presents the findings.

Nine of the ten attributes were found to have statistically greater means at the 0.000 level. In other words, those households interested in obtaining a personal financial plan reported a higher level of agreement to 90 percent of the statements on attributes of financial planning than did the individuals not interested.

This is an important finding because of its implications for the financial planning industry. These research findings will facilitate the task of identifying potential buyers of financial plans. All a financial planner has to do
is mass-mail a questionnaire containing these ten statements. Upon return of these, the planner can determine which respondents indicated a favorable attitude towards financial planning. In other words, a device to screen the potential customers can be developed and used from these statements.

Table 40

Group Comparison of Mean Level of Agreement Attached to Attributes of Personal Financial Plans

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Group</th>
<th>N</th>
<th>Mean</th>
<th>Std. dev.</th>
<th>t value</th>
<th>d.f.</th>
<th>1-tail prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A PFP introduces discipline and direction to my financial affairs</td>
<td>1</td>
<td>204</td>
<td>4.62</td>
<td>0.94</td>
<td>6.35</td>
<td>436</td>
<td>0.000**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>234</td>
<td>3.94</td>
<td>1.27</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is no advantage to owning a PFP+</td>
<td>1</td>
<td>208</td>
<td>4.65</td>
<td>1.09</td>
<td>3.64</td>
<td>441</td>
<td>0.000**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>235</td>
<td>4.28</td>
<td>1.08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owning a PFP will permit me to save money by avoiding investment errors</td>
<td>1</td>
<td>203</td>
<td>4.28</td>
<td>1.07</td>
<td>5.59</td>
<td>432</td>
<td>0.000**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>231</td>
<td>3.67</td>
<td>1.20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With a PFP my investments will be more profitable</td>
<td>1</td>
<td>201</td>
<td>4.20</td>
<td>1.05</td>
<td>5.24</td>
<td>428</td>
<td>0.000**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>229</td>
<td>3.60</td>
<td>1.17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFP is just another way for commission salesmen to sell securities, tax shelters, insurance, etc.+</td>
<td>1</td>
<td>202</td>
<td>3.81</td>
<td>1.13</td>
<td>1.02</td>
<td>430</td>
<td>0.154</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>230</td>
<td>3.70</td>
<td>1.23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A PFP sounds very nice, but I know it just won't work+</td>
<td>1</td>
<td>202</td>
<td>4.33</td>
<td>0.96</td>
<td>3.40</td>
<td>432</td>
<td>0.001**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>232</td>
<td>3.99</td>
<td>1.10</td>
<td></td>
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</table>
### Table 40 (continued)

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Group*</th>
<th>N</th>
<th>Mean</th>
<th>Std. dev.</th>
<th>t value</th>
<th>d.f.</th>
<th>l-tail prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owning a PFP will make me feel more secure with respect to my financial affairs</td>
<td>1</td>
<td>200</td>
<td>4.24</td>
<td>0.94</td>
<td>7.63</td>
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<td>0.000**</td>
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<td></td>
<td>2</td>
<td>224</td>
<td>3.42</td>
<td>1.23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A PFP is bound to cost more than it is worth</td>
<td>1</td>
<td>199</td>
<td>3.89</td>
<td>1.09</td>
<td>2.32</td>
<td>422</td>
<td>0.010**</td>
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<tr>
<td></td>
<td>2</td>
<td>225</td>
<td>3.64</td>
<td>1.15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A PFP will allow me to offer sound advice to my friends and relatives</td>
<td>1</td>
<td>204</td>
<td>3.25</td>
<td>1.18</td>
<td>3.45</td>
<td>429</td>
<td>0.001**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>227</td>
<td>2.86</td>
<td>1.20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A PFP will free me from a great deal of my financial worries</td>
<td>1</td>
<td>203</td>
<td>3.67</td>
<td>1.12</td>
<td>4.57</td>
<td>428</td>
<td>0.000**</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>227</td>
<td>3.15</td>
<td>1.23</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Group 1 is formed by households interested in obtaining a personal financial plan. Group 2 is formed by households not interested.

**Significant at the 0.001 level or less.

+Reversed scores.

In summary, this section reported that those households interested in obtaining a personal financial plan indicated a significantly stronger level of agreement to 90 percent of the statements dealing with attributes of financial plans than did the individuals not interested. In other words, those interested in obtaining a personal financial plan have a better attitude towards the concept of financial planning.
than those who are not interested.

**SUMMARY OF MAJOR RESEARCH FINDINGS**

The discriminant function correctly classified 68 percent of households, and attitude towards financial planning was the most important discriminating variable among the groups; age was the second most important, but negatively related to interest in obtaining a financial plan.

The typical head of household interested in financial planning was found to be in the 25-35 years old age group, well educated with at least a college degree, renting his/her residence, and with the spouse also employed. He/she holds cosmopolitan views, is an avid information seeker, self-confident, community minded and a credit user.

The household's interest in financial planning is increased if the head of household is participant to a discussion about his/her financial goals and objectives with a financial planner. In addition, those persons making real estate investments were found to be more interested in financial planning than those who do not make real estate investments.

Consumers interested in obtaining a personal financial plan believe they are excellent sources for developing such plans, along with bankers, accountants, attorneys, and Certified Financial Planners. The study also suggests that financial planners should base their fees on a sliding scale according to income; that is, the higher the clients income,
the more he/she should be charged for a personal financial plan.

Finally, it was determined that households interested in obtaining a personal financial plan have a more favorable attitude towards the concept of financial planning than those who are not interested in this service.

Implication of Findings

This study resulted in many important findings; their implications are discussed in this section.

The derived discriminant function can be used to identify potential customers of personal financial plans. By simply computing a Z score for each prospective client, the financial planner can rapidly ascertain whether the individual is classified as interested or not interested in obtaining a personal financial plan.

The analysis also revealed that attitude towards financial planning was the most important discriminator variable; a 10 statement questionnaire was developed to evaluate attitude. Thus, a potential customer scoring high on the questionnaire would lead one to believe he/she is a prime candidate for obtaining a personal financial plan.

In addition, households interested in financial planning attached a high level of importance to the inclusion of certain financial features in financial plans. Therefore, financial planners should highlight these features during presentations to prospective customers. This may result in increasing customers' interest in acquiring financial plans.
Prospective customers should also be actively engaged in a discussion about their financial goals and objectives because this results in increased interest in obtaining a financial plan. Furthermore, potential customers should feel they will play an important—or at least an active—role in shaping the financial plan. This suggestion is based on the respondent's perception of themselves as excellent sources for developing financial plans.

In addition, to improve their image as an outstanding organization to provide financial plans, firms should include in their staffs attorneys, CPA's, CFP's, and bankers since these were also perceived as being very good sources for developing financial plans. The study also suggests that financial planners should base their fees on a sliding scale, according to income.

Finally, the marketing team of a financial planning firm should focus and shape their advertising message and sales effort to a consumer characterized as holding cosmopolitan views, being an avid information seeker, self-confident, community minded and a credit user. This household is also young, well educated, and with both spouses employed.
Chapter 5

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

INTRODUCTION

Personal financial planning is a service of growing importance to consumers today because it offers a comprehensive financial strategy designed to overcome and/or minimize problems such as inflation, taxes, retirement, and outlines a path necessary to achieve financial independence.

Although personal financial planning is a rapidly growing field, it is facing the familiar marketing problem of identifying—from among the multitude of consumers—potential customers. Thus, the findings of this study should be of great value to the personal financial planning industry because they will help it readily identify potential buyers of personal financial plans.

The purposes of this chapter are to: (1) summarize the objectives, research methodology, findings, and analysis presented in the previous chapters; (2) to make recommendations to the financial planning industry based on the findings; and (3) to suggest areas for future research.

OBJECTIVES

The major purpose of this dissertation was to assist the personal financial planning industry by identifying
characteristics and developing profiles of consumers that indicated an interest in obtaining a personal financial plan, and to assess their needs and viewpoints regarding such financial service.

Specifically, seven research objectives were pursued:

1. To identify characteristics which discriminated between households that are interested and those that are not interested in obtaining a personal financial plan. A discriminant function was developed based on objective, attitudinal and life style data.

2. To determine the relative importance of the various consumer characteristics which are significant in differentiating between households that are interested and those not interested in personal financial planning.

3. To develop a demographic profile of those individuals who have indicated an interest in obtaining a personal financial plan.

4. To portray a psychographic profile of potential customers of personal financial planning.

5. To relate several aspects of personal financial management and behavior to interest in obtaining a personal financial plan.

6. To assess the needs and viewpoints of consumers regarding the features of personal financial planning that should be included in this service.

7. To determine how attitudes towards personal financial planning are related to interest in obtaining this
RESEARCH METHODOLOGY

The data for this study was collected by means of a pre-tested mail questionnaire sent to participants of the Arkansas Household Research Panel during the Fall, 1979. The response rate, at 80 percent, yielded 475 usable questionnaires. Respondents were classified into one of two major groups: (1) those who indicated an interest in obtaining a personal financial plan, and (2) those who were not interested.

The data were analyzed with the help of several analytical techniques. The major statistical tools utilized in this study are: discriminant and factor analysis, a series of t-tests, and Chi Square tests. To avoid an upward bias in the classificatory power of the discriminant function, a split sample technique was adopted. Half of the sample was used for analysis purposes, and the other half for validation.

A stepwise routine was utilized to select the final variables. Once the discriminant function was derived, cases were assigned to the groups according to their Z scores. The procedure was replicated on the virgin half of the sample, and the classification results were compared. Additionally, factor analysis was used as a means of reducing data to a few and more meaningful patterns. The varimax rotation method was utilized and only variables that loaded high on factors, at least 0.5 or above, were chosen for the analysis. Finally, the generally accepted criteria of a minimum eigenvalue of
1.0 was utilized as criteria to select the number of factors.

RESEARCH FINDINGS AND ANALYSIS

The major research findings of this dissertation and their implications for the personal financial planning industry are briefly summarized below.

1. The overall discriminant model correctly classified 68 percent of the original sample and 60 percent of the validation sample. The function also correctly classified 69 percent of the households interested in obtaining a personal financial plan and 67 percent of those not interested. However, for the validation sample, only 60 percent of those not interested were correctly classified, and 58 percent of those households interested in personal financial planning were correctly classified. In all cases, the discriminant function was statistically superior to a mere chance model in correctly classifying cases.

It is conjectured that a higher classificatory power was not achieved because of the limitations of the study. For example, the a priori groups were formed on the basis of responses to a hypothetical question dealing with the degree of interest in obtaining a personal financial plan. The difficulty in quantifying certain data, like for instance, the effects of peer referral on awakening interest in personal financial planning forced the researcher to use the above approach.

2. The most significant variable in differentiating
between the two groups, in terms of its relative contribution to the derived discriminant function, was attitude towards personal financial planning. This attitude was determined by the responses to ten statements about financial planning and the degree of agreement attached to each, measured by a six point scale from strongly disagree to strongly agree.

The second most important variable was age, but it was negatively related to interest in financial planning. This is consistent with the findings in other parts of this study which indicated that the 25 to 35 years old group would most likely be interested in personal financial planning.

The other discriminant variables, in terms of their relative importance, were: a life style scale named risk taker; a variable measuring the number of different financial acts performed during the previous two years; and three life style scales descriptive of a fashion conscious individual, satisfied with and optimist about his/her finances, and very price conscious.

Finally, total household income was the least important discriminating variable in the model. But this is explained by the observation that income and interest in obtaining a personal financial plan have a curvilinear relationship. That is, at low income levels there is little interest in obtaining a financial plan; at medium to high incomes, interest in obtaining a personal financial plan is high; and finally, at higher incomes, interest in financial drops again considerably.
The discriminatory power of the model is very useful for the financial planning industry. The function has the potential to evaluate hundreds of households and classify them, according to the Z score criterion, into households that are either interested in obtaining a personal financial plan or are not interested. This approach will permit financial planners to rapidly and more accurately identify potential customers, and thus reduce considerably the level of efforts required for this task.

Once the households are classified, the financial planner may devote more of his time to analyzing other aspects about the potential customers, not included in the function, in order to further determine the individual's degree of interest in obtaining a personal financial plan. It must be emphasized that the model only classifies; it does not determine the degree of interest in obtaining a personal financial plan.

It is concluded that the model does have a practical, although somewhat limited, value and may be used by both small and large financial planning firms as a mechanism to identify prospective clients. The procedure is simple: using the applicable discriminant coefficients, Z scores may be computed by hand, and compared to the critical Z score value. A Z score higher than the critical one suggest that the particular household should be interested in obtaining a personal financial plan. This procedure will allow the financial planner to spend less time in identifying potential
customers, and dedicate more efforts in discussing about financial planning with prospective clients.

3. Research reported in this dissertation also provides other helpful findings for the financial planning industry. On the basis of the research findings, the household interested in obtaining a personal financial plan can be described as relatively young, in the age group ranging from 25 to 35 years old, well educated with at least a bachelor's degree, with both spouses employed and renting their home.

4. The use of lifestyle data--activities, interests, and opinions--revealed that compared to the person not interested in financial planning, the interested one has cosmopolitan views, i.e., he/she enjoys going to concerts, likes ballet, and would like to take a trip around the world.

This person is also an avid information seeker, saying "I often seek out the advice of my friends regarding which brand to buy," and "I spend a lot of time talking with my friends about products and brands." This individual is also more self-confident than the one not interested in obtaining a personal financial plan, stating for instance, "I think I have more self-confidence than most people," and "I am more independent than most people."

Finally, this person is community minded and a credit user, more strongly agreeing to statements such as: "I am an active member of more than one service organization," "I do volunteer work for a hospital or service organization on a fairly regular basis," and said "No" to "I like to pay cash
for everything I buy," and "Yes" to "I buy many things with a credit card or charge card."

In summary, the psychographic profile of those head's of household interested in obtaining a personal financial plan allows to support the contention that compared to the one not interested, he/she is cosmopolitan, an avid information seeker, more self-confident, community minded and a greater credit user. This detailed psychographic profile should help the financial planner to develop appropriate marketing strategies and tactics which are suitable to potential customers possessing characteristics as the one's described above.

5. This study indicated that only two of the several aspects of personal financial management and behavior analyzed are significantly related to interest in obtaining a personal financial plan. These were:

A. Holding a discussion with an individual about his/her financial goals and objectives can augment the interest in obtaining a financial plan. This suggests that financial planners should encourage potential customers to drop by for discussions about their financial goals and objectives. Alternatively, personal selling efforts should figure predominantly in the marketing efforts of personal financial planners.

B. Financial planners should work closely with real estate agents for leads on prospective clients because individuals who make real estate investments, other than to purchase their own homes, are more interested in obtaining a
personal financial plan than those who do not make this type of investments.

6. This dissertation also assessed consumer's needs and viewpoints regarding personal financial planning. They were asked to indicate the degree of importance—measured by a six point scale from least to most important—that they attached to a series of features which may be included in personal financial plans.

The responses to these features were factor analyzed to determine whether some underlying pattern of relationship existed among them. The results provided five factors or areas of major interest to consumers that were labelled:

(1) appraisal of insurance needs; (2) Wall Street type investments; (3) minimizing the ill effects of taxes and inflation; (4) estate planning; and (5) determining individual investment philosophy and review of economic outlook.

The factor analysis of the features provided interesting insights. For instance, any presentation on the virtues of financial planning to groups of prospective customers should emphasize those areas which resulted from factor analyzing the features which may be included in financial plans. By highlighting these areas, a marketer is delivering to the consumer what he/she believes is important enough to be included in financial plans. Very likely this approach will result in greater sales.

Secondly, the areas of consumer concern, as evidenced by the results of the factor analysis, are very useful to
financial planners because it allows them to offer diverse investment recommendations to eliminate these concerns. For instance, consumers seem very interested in insurance, Wall Street type investments, minimizing taxes, and so on.

These diverse interests will allow the financial planner to recommend specific plans in each of the areas, i.e., life insurance, stocks, tax shelters, etc., which may result in (a) justifying his/her fee, and (b) generating large commission revenues, assuming this is part of his/her compensation.

Finally, the factor analysis of the features which may be included in financial plans suggest that individuals seem to attribute a high level of importance to determining the broad goals that financial plans should have, like minimizing the effects of inflation and taxes. The results also suggest that it is the financial planner's responsibility to recommend the necessary tools needed to satisfy the goals set by consumers.

This insight is a boon to financial planners because it provides justification for their role in researching and recommending the appropriate tools necessary to achieve the broad policies emanating from clients.

7. The features that were factor analyzed were also examined individually. It was determined that households interested in obtaining a personal financial plan assigned greater importance to some features for inclusion in financial plans than did those individuals who were not interested
in financial planning. In order of importance these were: minimizing the effects of inflation, a careful analysis of one's financial resources and expenses, minimization of taxes, an understanding of one's financial attitudes, objectives and goals, and many others.

This analysis is consistent with one of the insights that resulted from factor analyzing the features, namely, that individuals attributed a high level of importance to determining the broad goals required for a financial plan, and that it is the financial planner's responsibility to recommend the necessary tools needed to achieve the goals.

8. Households also expressed their opinions about the professionals whom they considered suitable for developing personal financial plans. Bankers, accountants, Certified Financial Planners, financial advisory firms, attorneys and individuals themselves were considered suitable, with no one type being clearly preferred over the others.

The implication is that the above mentioned professionals can aspire to offer financial planning services because the public seems to believe that they are capable of providing such service. However, any efforts at providing financial planning services will face stiff opposition from the public unless the client himself/herself is deeply involved in the development of the plan. Consumers rated themselves very highly, implying that they are an excellent source, and therefore, this self-perception must not be overlooked by financial planners. Overlooking such issue may result in
a high level of customer dissatisfaction with the service provided to them.

Finally, given that CFP's, CPA's, and attorneys were ranked high, it may be very wise for financial planning firms to have on their staffs as many CPA's, CFP's, and attorneys as possible. Including many professionals who are perceived to be suitable for developing plans may help firms develop a stronger image as an excellent financial planning service for developing the plans.

9. Households also gave their opinions regarding what they believed to be a reasonable fee that a financial expert should charge for developing a personal financial plan. The majority responded that a fee of less than $300 was appropriate compensation. Obviously not too many financial planners can operate a business with such low fees, but it must be remembered that 56 percent of the respondents earned less than $20,000 per year.

More importantly, it was determined that the fee level and incomes were related. This suggests that financial planners should base their fee schedule partly on household income, that is, they should have a sliding fee schedule. The more a client earns, the more he/she should be charged for a personal financial plan.

10. Finally, this study found that households interested in obtaining a personal financial plan had a more favorable attitude towards the concept of financial planning. They indicated a significantly stronger level of agreement to
90 percent of the statements dealing with attributes of financial plans than did the individuals not interested. This is a very important finding because in Fishbein's words "a person's behavior with respect to an object is in large part determined by his attitude toward that object."¹ In other words, a favorable attitude could lead to the purchase of financial plans.

The ten statements used to measure the attitude of consumers will greatly facilitate the task of identifying potential buyers of financial plans. All a financial planner may have to do is mass mail a questionnaire with the statements, then from the responses determine those with favorable attitudes towards financial planning. Additional marketing efforts may be concentrated on those consumers with favorable attitudes.

Recommendations for Further Research

The major thrust of the analysis undertaken in this dissertation was centered around the response to an intention type question dealing with interest in obtaining a personal financial plan. In consequence, the profile was determined from those households which indicated that they were interested in personal financial planning, and was not determined from those households who actually possessed such plans.

Obviously, a manifested interest may or may not result in actual purchase of this service. Therefore, it is possible that a profile of households who are interested in financial planning was developed, but this does not mean they will purchase the service.

An area for further research would be to do a similar analyses but on individuals who already own financial plans. This extension should lead to more accurate characteristics and profiles of consumers, thereby increasing the practical application of such knowledge.

Another step that could be taken is to include in the sample a greater number of self-employed people, and identifying them as such. It is generally believed that these individuals recognize the need to organize their personal financial matters, but their occupations are so demanding that they find little time to work on their affairs. Therefore, they may be very receptive to the idea of obtaining professional help for developing a personal financial plan.

Furthermore, the households' net worth figure was not included in the study because it was believed respondents would not provide a reliable figure. Including such a variable may result in a significant increase in the classificatory power of the discriminant model developed in this study.

An effort should also be made to quantify certain data, like the effect of peer referral on awakening interest in obtaining personal financial plans, because it could also
lead to a more effective model.

Finally, this study should be replicated in other parts of the country where financial planners are more active, and thus the conclusions could have greater practical application.
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APPENDIX
Questionnaire
TO BE COMPLETED BY THE HOUSEHOLD MEMBER WHO MAKES MOST OF THE FINANCIAL DECISIONS.

We are interested in your views and opinions regarding a service called PERSONAL FINANCIAL PLANNING. This service involves analyzing an individual's total financial situation, and then designing a comprehensive strategy in the form of a written plan with the purpose of achieving various financial goals. This comprehensive financial strategy includes specific recommendations in such areas as tax shelters, buying and selling stocks and bonds, on the amount of insurance coverage needed (e.g., life, disability, fire, etc.), estate planning and many other areas of finance.

SECTION I
Please answer the following questions as they relate to PERSONAL FINANCIAL PLANNING.

1. Would you know where to go if you wanted a Personal Financial Plan developed for you? yes/ no
2. Have you ever had a Personal Financial Plan developed for you? yes/ no
3. Please indicate whether or not you have ever had a discussion about your financial goals and objectives with a financial advisor. yes/ no
4. If yes, indicate the seriousness of the discussion.
   Talked, but not serious / Somewhat serious / Very serious
5. Please indicate, by placing a check whether you have undertaken any of the following financial transactions in the past two years.
   a. Purchased any stocks
   b. Made a real estate investment, other than your own home
   c. Purchased any type of mutual fund
   d. Purchased gold or diamonds as an investment
   e. Bought any antiques as an investment
   f. Purchased any bonds
   g. Purchased any Certificates of Deposit

SECTION II
Below is a list of features which may be included in a Personal Financial Plan. Please circle the number that best indicates the degree of importance that you attach to each of these features. If the feature is MOST IMPORTANT, Circle [6]. If it is LEAST IMPORTANT, Circle [1], or somewhere in between.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Least Important</th>
<th>Most Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Investments in real estate</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>2. Investments in gold, diamonds</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>3. Preparation of a household budget</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>4. Investments in stocks</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>5. Investments in tax shelters</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>6. Estate Planning</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>7. Investment in mutual funds</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>8. Planning for retirement</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>9. Minimization of taxes</td>
<td>1</td>
<td>6</td>
</tr>
</tbody>
</table>

PLEASE CONTINUE ON OTHER SIDE
### SECTION II (Cont'd.)


### SECTION III

1. The following is a list of professionals who can offer expert Personal Financial Planning. Please place a check mark beside the THREE professionals who you believe are the **best source** for developing a Personal Financial Plan.

1. Stockbroker
2. Financial advisory firm
3. Lawyer
4. Friends and relatives
5. University professor who teaches business courses
6. Accountant or CPA
7. Insurance agent
8. Your banker
9. Yourself
10. Certified Financial Planner
11. Other (please specify)

2. Please indicate your degree of interest in obtaining a Personal Financial Plan by placing a check mark in the appropriate box.

   - **Definitely Interested**
   - **Interested**
   - **Probably Interested**
   - **Probably Not Interested**
   - **Not Interested**
   - **Definitely Not Interested**

3. Based on your own personal circumstances, how much do you believe would be a **reasonable** rate that a financial expert should charge you for developing a Personal Financial Plan, *tailored* to meet your own special needs, goals, and resources?

   - Less than $100
   - $100-399
   - $400-799
   - $800-1,199
   - More than $1,200

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</tr>
</thead>
<tbody>
<tr>
<td>14.</td>
<td>Five years from now the family income will probably be a</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>I would like to take a trip around the world</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>16.</td>
<td>I enjoy going to concerts</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>17.</td>
<td>Buying stocks is too risky</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>18.</td>
<td>My best life accomplishments have yet to occur</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>19.</td>
<td>I have somewhat old-fashioned tastes and habits</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

P. I would rather spend a quiet evening at home than go out to a party. |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 16 |

I. My neighbors or friends usually give me good advice on what to buy in the grocery store. |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 17 |

4. I wish I had a lot more money |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 18 |

5. I like to work on community projects |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 19 |

6. It is good to have charge accounts |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 20 |

7. I think I have a lot of personal ability |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 21 |

8. People come to me more often than I go to them for information about brands |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 22 |

9. My neighbors or friends usually give me good advice on what brands to buy in the grocery store |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 23 |

10. I wish I had a lot more money |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 24 |

11. I like ballet |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 25 |

12. I often wish for the good old days |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 26 |

13. I do more things socially than do most of my friends |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 27 |

14. Taking chances can be fun |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 28 |

15. A Personal Financial Plan introduces discipline and direction to my financial affairs |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 29 |

16. There is no advantage to owning a Personal Financial Plan. |   |   |   | 1 | 2 | 3 | 4 | 5 | 6 | 30 |

Strongly Agree | Slightly Agree | Slightly Disagree | Disagree | Strongly Disagree | COL

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THANK YOU VERY MUCH!
PERSONAL FINANCIAL PLANNING: DETERMINATION OF CUSTOMER PROFILES, NEEDS AND VIEWPOINTS

Abstract of dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy

By

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PERSONAL FINANCIAL PLANNING: DETERMINATION OF CUSTOMER PROFILES, NEEDS AND VIEWPOINTS

Personal financial planning is a service that springs from the need for objective and centralized advice on a wide range of areas such as investments, insurance, money management, taxes, estate planning and others. A personal financial planner fits each one of those individual areas into a well-balanced, integrated plan, after a comprehensive financial analysis is undertaken—guided by a family's goals, attitudes and objectives.

The purposes of this study were (1) to identify characteristics which discriminate between households that are interested and those not interested in obtaining a personal financial plan; (2) to determine the relative importance of the various differentiating characteristics; (3) to develop demographic and life style profiles of consumers that reported an interest in obtaining a personal financial plan; (4) to relate several aspects of personal financial management and behavior to interest in obtaining a personal financial plan; (5) to assess the needs and viewpoints of consumers regarding personal financial planning; and (6) to determine how attitude towards personal financial planning is related to interest in obtaining this service.

The data was collected by means of a questionnaire mailed to participants of the Arkansas Household Research Panel during the Fall, 1979. Various analytical tools were utilized to analyze the data, including discriminant and
factor analyses, t-tests, and Chi Square tests of independence.

The major findings are briefly summarized as follows: the discriminant function correctly classified 68 percent of households into either of two groups: (1) those interested in obtaining a personal financial plan, and (2) those not interested. Attitude towards financial planning was the most important discriminating variable among the groups, with age being second, but negatively related to interest in financial planning.

The typical head of household interested in obtaining a personal financial plan was found to be 25-35 years old, well educated with at least a bachelor's degree, renting the home in which he/she lives, and with the spouse also employed. This person holds cosmopolitan views, is an avid information seeker, self-confident, community minded and a credit user. The individual's interest in financial planning is increased by being engaged in a discussion about his/her financial goals and objectives with a financial planner. Additionally, those persons making real estate investments are more interested in financial planning than those who do not make real estate investments.

The data implied that consumers interested in obtaining a personal financial plan attribute a high degree of importance to their active participation in determining the broad goals required for developing a financial plan.

Individuals believe they too are excellent sources
for developing financial plans, along with bankers, accountants, attorneys, and certified financial planners. The study also suggests that financial planners should base their fees on a sliding scale according to income; that is, the higher the clients income, the more he/she should be charged for a personal financial plan.

Finally, it was determined that households interested in obtaining a personal financial plan have a more favorable attitude towards the concept of financial planning than those who are not interested in this service.

In conclusion, the findings should provide valuable information to assist the financial planning industry to identify prospective customers more easily.