The Impact of Financial Planning on Portfolio Performance

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Nowadays, individuals and households are increasingly responsible for their own wealth accumulation and preservation while the financial market are growing with complexity (Ho, Palacios, and Stoll 2012). However, empirical studies have found that most of the individuals and households lack adequate financial knowledge and skills to make the appropriate saving and investment decisions facing complex of financial market (Lusardi and Mitchell, 2006; Lusardi and Mitchell,2008; Mitchell and Curto ,2010).

Economic theory indicates that individuals and households are utility maximizers. They will make the trade-off between the costs and benefits to make the choice to help them realize this goal. Therefore, in concept, due to the opportunity cost, it may be more efficient for most individuals and households to get professional assistance in financial decision making. However, in reality, few individuals and households turned to the professional support. The 2009 National Consumer Survey conducted found two thirds of the respondents of the survey did not have the financial plan, among which only 38% involved the financial planning professionals in their financial planning (CFP Board, 2009). This situation seemed not to improve too much in the following years. According to the findings of 2012 Household Financial Planning Survey, only 31% respondents had their own or professional plans. The report also pointed out that the numbers actually did not change too much compared to 15 years ago (CFP Board, 2012). (Hanna,2011) found that there were only 22% households reported they used financial planners in the 1998-2007 Survey of Consumer Finances datasets, which was consistent with the results from previous surveys.
Why people behave contradictorily to what the theory predicts? One of the possible reasons is that it may be challenging to precisely quantify the value of financial planning, thus making it difficult to reveal and analyze the benefit to the public (Hanna, 2010).

Understanding the impact of financial planning on households' portfolio highlights the benefit of financial planning and the need for financial planning professionals. This study evaluates the impact of financial planning on households' portfolio performance. Using the data from the 2010 Survey of Consumer Finances, the findings lend empirical support to the belief that financial planning services delivered by professionals benefit the households in higher possibility of reaching better portfolio performance. The study also provides insights into other determinants of portfolio performance. It indicates that wealthy respondents with longer investment horizons were more likely to have better performed portfolios.

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