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J. Michael Collins

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J. Michael Collins
University of Wisconsin-Madison
Center for Financial Security
Sterling Hall Mailroom B605
475 North Charter Street
Madison, WI 53706
(608) 262-6766
jmcollins@wisc.edu
http://cfs.wisc.edu/

Abstract

Financial advice can complement educational interventions for individuals with technical financial issues or acute financial problems; it may also help clients apply knowledge gained from education and adhere to financial goals. This paper reviews the literature on financial advice and develops a taxonomy of financial advice models. Empirical research suggests financial advice has modest or no effects on investment returns and that financial counseling has weak impacts on financial behavior. Using data from the 2009 FINRA Financial Capability Survey, the paper presents evidence that individuals with higher incomes, educational attainment, and financial literacy are most likely to receive financial advice.

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Center for Financial Security WP 10-5

A Review of Financial Advice Models and the Take-Up of Financial Advice

This paper provides an overview of financial advice models, reviews past research on the effectiveness of financial advice, and examines who uses financial advisors. Providers of financial advice range from technical experts who help clients with complex one-time financial transactions to generalists who help clients plot long-term financial strategies, manage their finances, and ideally attain greater financial security through increased savings and reduced debt. However, the financial advice field is quite diverse and is not well defined. The ways in which consumers access financial advice and whether the use of financial advice varies by race, income, and education remain relatively unstudied. This paper sets out to review the literature on four types of financial advice: technical experts, transactional agents, financial counselors, and financial coaches. The paper also uses recent survey data to explore the take-up of selected forms of financial advice.

The paper begins with an overview of advice models in the context of broader efforts to improve consumers' financial literacy and bolster their financial security. It then provides detailed information about existing financial advice models, including technical experts, transactional agents, counselors, and coaches. Next, the paper uses the 2009 Financial Industry Regulatory Authority (FINRA) Financial Capability Survey to estimate consumers' use of financial advice. The paper concludes with policy and programmatic implications.

Concerns about Consumers' Financial Capacity

The 2009 FINRA Financial Capability Survey documents a number of concerns regarding Americans' financial capability (Applied Research & Consulting 2009). Although American adults generally believe they know how to manage their day-to-day finances, nearly

one-half of Financial Capability Survey respondents reported problems covering their monthly expenses and paying all of their bills. Furthermore, a majority of respondents lack emergency funds, have not set aside money for their children's college tuition, and have not tried to figure out how much money they will need during retirement. Remarkably, only 50 percent of respondents age 60 and older reported having tried to figure out their retirement savings needs. The study also found that 23 percent of respondents use nonbank or alternative lending services including payday and auto title loans, tax refund advances, pawnshops, and rent-to-own stores. Just over one-third of respondents (36 percent) had checked their credit score in the past year, and scores on the survey's financial literacy test questions were markedly low. Financial literacy scores were lower than average for women, individuals with low educational attainment, African Americans, and Hispanics. The study also documents a disconnect between perceived financial capacity and day-to-day financial behavior. For instance, many respondents who gave themselves the highest scores for managing their checking accounts and credit cards also reported engaging in behaviors that generated high fees. Although these data were collected during an economic recession, studies in other periods have reached similar conclusions (Lusardi and Mitchell 2007).

A recent study illustrates several common themes that have emerged from research on financial literacy. Agarwal et al. (2010) note that a considerable body of evidence suggests that many Americans lack financial literacy based on their ability to perform basic numerical tasks, financial literacy levels vary across demographic groups, and low financial literacy is correlated with negative financial behaviors. The authors suggest that financial counseling can help individuals develop better financial practices, thereby improving their long-term financial security. This conclusion, namely that financial counseling and financial literacy interventions

are promising ways to improve individuals' financial security, is a common refrain among researchers and policymakers interested in improving Americans' financial literacy. The current paper examines how financial advice fits within broader efforts aimed at improving consumers' financial security.

While counseling, and financial advice more generally, represent potential strategies for improving financial outcomes for individuals who lack functional financial literacy, questions exist concerning how various forms of financial advice influence financial behavior. This paper seeks to further clarify the concept of financial advice by sorting financial advice into four broad service categories and then reviewing the literature on each category. The literature review focuses on the theoretical underpinnings of each form of financial advice as well as on the empirical evidence concerning the efficacy of each service category.

Financial advice lacks a standard definition; for this paper it is defined as third-party services that help consumers make financial decisions. Of course, financial advice is but one mechanism that can be used to influence financial choices. Aside from financial advice, consumers might benefit from financial education or other forms of information transfer that aid in weighing the costs and benefits of various options. In some cases, financial decisions are made for consumers (compulsory) or decision points are designed to encourage consumers to make particular choices through the use of default options. Financial advice is therefore a component of the broader financial capacity-building system available to consumers in financial markets.

Figure 1 categorizes financial capacity-building interventions into three areas: information/education models, advice models, and mechanism models. Examples of specific interventions that fall under each of the three models are also displayed in Figure 1. While this paper focuses on the formal provision of financial advice, individuals also obtain advice

informally through social networks and the media. While they are important to consider, these sources, which are briefly explored in Appendix A, are generally outside of the scope of this study.

Figure 1 here

Information models are designed to increase individuals' financial knowledge. It is then up to the individual to apply the information to a relevant decision. For instance, participants in a financial education workshop may learn about different budgeting techniques, but the individuals must apply this information to their own circumstances on their own. Mechanism models focus on choice architecture and how information is presented, and they rely on lessons from behavioral finance to steer consumers toward certain choices. One example of a mechanism model is a default option. For instance, some employers strategically set employees' default contribution rates for employee-sponsored retirement plans, knowing that many employees will simply stick with the default option. Advice models are related to, yet separate from, both information and mechanism models. Financial advice may entail analyzing the technical aspects involved in a decision or providing specific guidance during a personal financial crisis. In addition, financial advice might be explicitly focused on behavior change, particularly in the case of financial coaching.

Overview of the Financial Advice Industry

The scale of the financial advice industry is difficult to estimate in large part because it is such a diverse field. To gain a sense of the industry's scale, it is useful to examine figures on the number of individuals employed in financial advising fields. Occupational data offers some evidence of the scale of substantial portions of this industry. According to the U.S. Bureau of Labor Statistics (BLS), 208,400 individuals were employed as personal financial advisors in 2008. The BLS projects 271,200 personal financial advisors will work in the United States in 2018, an increase of 30 percent over the 2008 figure. This growth rate is substantially higher than the average growth rate for all other occupations. Separately, the BLS estimates that 317,200 individuals were employed in the securities, commodities, and financial services field in 2008. This field is growing at a slower rate than the financial advising field, as employment in this area is projected to increase by 9 percent, to 346,700, between 2008 and 2018. The number of insurance sales agents is expected to increase by 12 percent to 486,400. Real estate brokers and sales agents are projected to increase by 14 percent to 592,100 by 2018 (Bureau of Labor Statistics 2010).

Figure 2 summarizes eight professional certifications within the financial advising field and the estimated number of individuals who hold each certification. While this list covers a significant proportion of the certifications in the financial advice industry, it is not all encompassing. It is included here to illustrate common certifications; other less common certifications also exist. The types of financial advice that fall under each certification vary widely. For example, certified public accountants (CPAs) are not personal financial advisors in the same way that financial planners are. Other technical experts, including estate attorneys and

bank trustees, may also provide financial advice. However, these fields are heterogeneous, and financial advice is generally a small part of their overall services.

Figure 2 here

Because no widespread financial counseling and coaching credentials exist, comprehensive estimates of the number of individual counselors and coaches are unavailable. However, a sense of the scale of the financial counseling and coaching industries can be derived from estimates of the number of entities operating in each of these fields. Counselors often serve lower-income clients, so many financial counseling agencies operate as nonprofit entities. One estimate suggests that about 2,400 local offices of nonprofit agencies offer housing counseling in the United States (Herbert et al. 2008). Another study concludes, based on IRS tax records, that over 2,100 nonprofit agencies across the United States are engaged in credit counseling, financial counseling, financial education or literacy services, or housing counseling (Collins 2010). Financial coaching is a relatively new field and is closely aligned with financial counseling. Fewer than 100 financial coaching programs exist in the United States (Collins and Murrell 2010). Universal standards and certifications have yet to emerge in the fledgling financial coaching field, but this field may become more standardized as coordination increases across programs.

The remainder of this paper reviews four types of financial advice providers: technical experts, transactional agents, counselors, and coaches. To the extent that a theory or rationale underlies each form of advice, the theory or rationale is explored and discussed in the paper. In general, theoretical literature regarding why each form of advice is expected to affect financial behavior and longer-term outcomes is scarce. Research concerning which demographic groups

are more likely to use each form of advice is also reviewed and synthesized to the extent it is available. Each section also reviews empirical research on the effectiveness of each form of advice to the extent it is available.

Technical Experts

Technical experts are defined in this paper as providers of technical financial information, typically for a fee. They have specific expertise on legal and financial aspects of personal financial products including life, property, and liability insurance; investments; loans and credit; small-business ownership structures; estate planning and trusts; tax planning; and other complex issues related to consumer law and personal finance. Technical experts assist in situations when financial information is difficult for a typical consumer to acquire and process.

Rationale. Stigler's (1961) seminal paper introduced the concept of returns to information search. According to Stigler's analysis, consumers stop searching for information at the point when the marginal cost of additional searching (including time, effort, and other resources) equals the marginal benefit. Because less-experienced and less-educated consumers will have to work hard to find and assimilate information, this relatively higher marginal cost of searching for information may result in less searching when all else is equal. Nonetheless, all consumers, regardless of their experience and expertise, will cease searching for information when the marginal cost equals the marginal benefit, and hiring a technical expert may lower the marginal cost of searching for information relative to searching on one's own. A technical expert can lower the marginal cost of searching for information by acquiring expertise on a relatively esoteric topic and then working with multiple clients, each of whom may only need the information once in a lifetime.

Bluethgen et al. (2008) published one of the only papers that provides a detailed economic model of financial advice. Their model is grounded on evidence that consumers often demonstrate significant cognitive errors when making financial decisions. The authors cite Shapira and Venezia's (2001) research on financial professionals, which indicates that financial professionals are less likely to fall prey to the disposition effect (holding losing stocks too long in hopes of a rebound and selling profitable stocks too soon) than the general public and cites this fact as evidence that advisors may help consumers avoid making mistakes. In Bluethgen et al.'s model, financial advisors add value by identifying and correcting clients' cognitive errors. Advisors also reduce the costs of information search by exploiting economies of scale, as they serve many clients over time and spread the fixed costs of acquiring information across a pool of clients.

Other papers also offer insights into the value of financial advice. After constructing a theoretical model related to financial advising, Fischer and Gerhardt (2007) suggest that financial advisors can be particularly valuable for individuals who lack financial literacy and are prone to cognitive biases. Another study analyzes the effects of financial advice on brain activity. Engelmann et al. (2009) examine functional MRI images of individuals' brains as they receive financial advice. The MRI scans suggest that financial decisions were less taxing on the brain when participants received advice. Haslem (2008) suggests that financial advisors can help clients overcome feelings of insecurity, can help validate clients' past decisions, and can serve as a neutral party in spousal disagreements. More recently, Haslem (2010) assesses the relationship between financial advisors and investors in light of the current financial crisis, concluding that advisors can help clients avoid panicking and acting irrationally.

This literature suggests that technical advisors play several roles: defusing biases that lead to common mistakes, facilitating cognition by easing access to information, overcoming affective issues by reducing anxiety, and mediating joint decision making by couples. The latter roles of advising are less well defined and not yet empirically tested.

Empirical Evidence. In terms of take-up, Bluethgen et al.'s (2008) analysis indicates that older individuals, households with higher net worth, and women are more likely to access financial advice. Perhaps unexpectedly, studies on the efficacy of financial advice suggest that advice has nonsignificant or even negative effects on financial outcomes. In the boldly titled paper 'Financial Advisors: A Case of Babysitters?,' Hackethal et al. (2010) carefully examine the role of investment advisors. This study controls for selection effects, as individuals who use advisors likely differ from individuals who do not use advisors in ways that also affect financial outcomes. Clients who used financial advisors had lower average returns and were more likely to incur substantial losses on their investments. Furthermore, working with a financial advisor was not associated with better market timing or diversification strategies, and financial advising was linked to more trading, higher turnover, and higher trading costs. Thus, the results provide no evidence that financial advising is worth its added expense.

Concerning the take-up of financial advice, Hackethal et al. (2010) find that advisors are less likely to work with investors who are younger, who have fewer assets, and who are less financially sophisticated. Because financial advice is associated with negative outcomes, these groups may in fact benefit from their lesser use of financial advising. The authors strongly caution against policies that support financial advising as a substitute for promoting financial literacy more broadly. Nonetheless, the authors concede that investors may well understand the true costs of financial advising, and that they may simply value their own time and effort more

than the fees and poorer portfolio performance associated with financial advice. Other studies have also concluded that financial advice does not improve investment performance (see Hackethal et al. 2010; Jansen et al. 2008; Kramer and Lensink 2009; Kramer 2009).

While some studies conclude that financial advice is beneficial for investors, these studies typically do not control for selection processes. Because investors who seek financial advice likely differ from investors who do not seek such advice in ways that affect financial outcomes, studies that fail to control for selection processes are likely biased. Based on data from Italian banks, Guiso and Jappelli (2006) find that financial advice increases investors' risk-adjusted returns, but the authors did not adequately control for selection effects. More recently, Horn et al. (2009) utilize a change in German tax withholding laws to test whether investors make investment mistakes by purchasing newly tax-disadvantaged assets. This natural experiment indicates that financial advice helps clients avoid tax mistakes. The authors suggest that this finding may be attributable to the fact that tax consequences are one of financial advisors' core competencies. However, Horn et al. (2009) failed to incorporate selection processes into their analysis, so the possibility of endogeneity between using an advisor and already being less prone to making tax mistakes cannot be ruled out. Haslem (2010) matched advisor accounts to nonadvisor accounts, concluding that fee-only advisors who recommend index funds may in fact add value to investors' portfolios that exceed the fees they charge.

Hung and Yoong (2010) compare imposed, unsolicited advice to advice that is offered to and then voluntarily selected by participants. The study's experimental design allows the authors to estimate the causal effects of both the intent to treat and the treatment on the treated, which is a standard experimental technique used to address selection bias. The authors find that imposed, unsolicited advice does not affect behavior. On the other hand, voluntarily selected advice was

linked to improvements in client outcomes. The authors conclude that selection effects are negative such that individuals with the lowest financial capacity are more likely to take-up advice. This is a unique finding, given that almost all studies about selection effects in the financial capacity-building field conclude that clients with the greatest financial capacity are the most likely to participate. Based on their findings, Hung and Yoong (2010) contend that compulsory financial advice is unlikely to be effective, but wider access to optional advice might be useful.

Bhattacharya et al. (2010) conducted an experiment with a European brokerage bank. The bank randomly selected about 8,000 customers out of several hundred thousand active customers for participation in a new no-cost advice service. About 380 customers opted to participate. Customers who accepted the free advice offer were more likely to be male, older, and wealthier. Participants also tended to have longer relationships with the bank and to make more trades per month than the control group. The authors concluded that customers who signed up to receive advice were among the bank's most financially sophisticated customers. The authors measured customer returns after participating customers received advice, finding returns for customers in the advice program were only slightly higher than returns for customers who did not participate in the program. However, many advisees did not utilize the advice they received. The authors also found that although returns did not improve for the average advisee, they did improve for the average advisee who followed the investment advice. Furthermore, the advice appeared to be most beneficial for investors with the least financial sophistication. The authors conclude that investors who could benefit substantially from financial advice are less likely to seek advice.

Summary of the Literature on Technical Experts. The academic literature on financial advice is unexpectedly rich. Most studies in this area focus on investment advisors, and multiple studies

utilize data on European banking clients. While it seems plausible that the costs of obtaining financial information may be lower for individuals who work with advisors and that advisors can help individuals to avoid making mistakes, there is little evidence. Unfortunately, several of the empirical studies examined failed to account for the endogeneity between clients' take-up of advice and their preexisting financial capability. The high likelihood of selection bias makes it difficult to estimate the causal effects of financial advising using existing data. Among the most robust studies, it appears that advising does not yield substantial benefits in terms of investment returns. More research is needed to better understand the net benefits of using an advisor across various financial decisions. Perhaps the shorter-run outcomes often examined—financial performance—are not appropriate and longer-term nonpecuniary benefits of advising better explain growing demand for advisors by consumers.

Transactional Agents

Of course the advisors described above are rarely disinterested, objective third parties. Instead, many advisors are paid by commissions, including those linked to the purchase or sale of a financial product. This role might be better described as a transactional agent. Transactional agents provide advice in the context of specific financial transactions. Transactional agents typically assist clients in the buying or selling of a financial product and the agents' compensation is often contingent on a client's choice to buy or sell a specific financial asset. Consumers often value the expertise of a salesperson; what makes transactional agents problematic in the personal finance context is that consumers may not recognize the difference between objective advice and an implicit sales pitch. In practice, technical experts and transactional agents are often difficult to distinguish, and the same financial professional may

fulfill both roles for a client. The difficulty in distinguishing objective advice from sales pitch has contributed to a rich debate in the personal finance literature as well as in law and public policy.

Principal-Agent Relationships. There are a myriad of transactional agents, including but by no means limited to real estate agents, insurance agents, and mortgage brokers. There are few purely advisory financial professionals, and as such the categories outlined in Figure 1 might be better illustrated along a continuum, with the bulk of financial advisors functioning as transactional agents rather than technical experts. The potential for a conflict of interest arises when an advisor's compensation is contingent on a client's decision to buy or sell certain products. Assuming that transactional agents have better information than consumers, this information asymmetry may lead to inefficient outcomes for consumers if they make choices that are inconsistent with their latent preferences. The potential for conflicts of interest in the provision of information has been widely studied in economics, including in the area of financial advice.

Several scholars highlight the potential for conflicts of interest between buyers and sellers due to information asymmetries. Darby and Karni (1973) introduced the concept of credence goods, which are items that consumers can never completely evaluate (for example, the thoroughness of a medical procedure). In markets for credence goods, consumers value advisors who are able to evaluate the quality of goods and services. Demski and Sappington's (1987) study on client-agent relationships suggests that the nature of credence goods is such that sales-based compensation creates incentives to mislead clients. Unless transactional agents' compensation is contingent on longer-term outcomes rather than completing the transaction, agents can fail to provide high-quality information. Krausz and Paroush (2002) develop a theoretical framework that accounts for conflicts of interest and information asymmetries for

financial advisors. Assuming that agents try to maximize their own utility, the authors contend that investment advice will diverge from clients' needs. Langevoort (2010) argues that all broker-customer relationships should be fee-based and that compensation schemes contrary to the customer's interests should be prohibited. One way to accomplish this would be to link an advisor's compensation to a client's portfolio performance over time instead of relying on one-time commissions to compensate the agent.

This conclusion is further supported by Ottaviani (2000). Ottaviani's model suggests that agents have an incentive to promote their own interests even when only a small proportion of their clients are uninformed. A refined version of this paper by Inderst and Ottaviani (2009) reiterates these findings and cautions against policies which attempt to regulate heterogeneous firms. Hung and Yoong (2010) observe that clients with low financial literacy may be more susceptible to abuse and that advisors appear to have an incentive to support disclosure regulations and credentialing if clients are sophisticated enough to appreciate the value of these signals.

Despite concerns about agents' incentives to mislead clients, other studies show the principal-agent problem may not be as problematic as predicted. Garicano and Santos (2004) invoke the repeated-game nature of advisor-client relationships and suggest that this type of relationship undermines incentives to provide biased information. Essentially, advisors have an incentive to provide accurate advice, since they want to sustain clients' business over time. Bolton et al. (2007) argue that financial products and services are more like experience goods than credence goods. The authors suggest that financial advisors use their expertise to match clients to appropriate products and that competition creates incentives for even sales-based advisors to provide high-quality and objective advice. Because financial actors and institutions

need to maintain relationships with their clients over time, discipline is imposed through the loss of reputation caused by the provision of biased advice.

The Role of the Law. An underlying question throughout the papers discussed above is whether the market can self-regulate. A legal framework—developed from common law—is that of a fiduciary duty or relationship. This legal framework defines a relationship between two parties, the fiduciary and the principal. The fiduciary's duty is to act in the interest of the principal, and the scope of this duty is limited to the scope of the relationship between the principal and the fiduciary. In the personal finance field, this scope is limited to specific money matters. Fiduciary duty carries with it the highest standard of care. When the fiduciary acts or gives advice, he or she must do so in the interest of the principal. The fiduciary cannot put his interests before those of the principal, within the scope of the relationship (Langevoort 2010). For example, when an individual hires an attorney to take certain actions on the individual's behalf, the attorney is bound by a fiduciary duty to the client. In contrast, a stockbroker (and other type of transactional agent) is a salesperson and has no fiduciary duty.

As opposed to self-regulated broker-dealers under the Financial Industry Regulation Authority (FINRA) and the Securities and Exchange Act of 1934, financial advisors are subject to the Investment Advisers Act (IAA) of 1940, which implies a fiduciary duty. The IAA may be seen as the federal government's first attempt to define a fiduciary duty, although the language in this regard is not explicit and is therefore quite vague (15 USCS 80b-1). The act specifies that investment advisers can only give advice on the purchase and sale of traded securities. The scope of advice and the advisor's duty to investors has been developed further through case law. In *SEC v. Capital Gains Research Bureau, Inc.*, the United States Supreme Court clarified the language of the IAA such that committing fraud, including the failure to disclose material facts

to the investor, is considered a breach of fiduciary duty. The Court concluded that the failure to disclose material facts constitutes fraud even when there was no intent to commit fraud.

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act amends the IAA in two ways. First, section 913 of the 2010 law instructs and authorizes the Securities Exchange Commission (SEC) to evaluate the relationship between investment advisers and their clients. The SEC is to assess (among other factors) how the relationship is defined, how customers understand this relationship, and how various jurisdictions enforce the relationship. The SEC is to report its findings in 2011. Second, section 913 authorizes the SEC to promote and enforce rules concerning the fiduciary duty between brokers and investment advisers and their customers and to prosecute or sanction investment advisers who violate the rules of conduct imposed by the SEC. A customer is defined as someone who receives personalized investment advice from an investment adviser or from a broker or dealer currently operating under a self-regulatory regime. However, the Dodd Frank Act is clear that receiving a commission is not in itself a violation of the fiduciary duty the advisor owes to the customer.

Mechanisms of fiduciary duty include disclosures listing the products an advisor sells and details regarding the scope and limits of the advisor's fiduciary duty ('good faith and fair dealing'). Monitoring by management is another mechanism where managers review sales to establish why advisors sold particular products.

In practice, there appears to be widespread confusion over which financial professionals are subject to a fiduciary duty. One survey found that 60 percent of investors mistakenly think insurance agents are bound by a fiduciary duty to their clients, and that two out of three investors mistakenly believe stockbrokers are bound by a fiduciary duty. Furthermore, 76 percent of investors were wrong that financial advisors, who are salespeople employed by brokerage firms,

are subject to a fiduciary duty. In other cases, a minority of investors believes that professionals who are in fact bound by a fiduciary duty are not subject to this legal framework; for instance, 25 percent of investors believe planners are not subject to a fiduciary duty even though they are. It is apparent many investors are misinformed about which financial professionals are bound by a fiduciary duty (Infogroup/ORC 2010). The changing regulatory environment, including the SEC's report next year, may serve to clarify some of this confusion.

Empirical Evidence. Notwithstanding the debate over the impact of compensation on transactional agents' objectivity, empirical research in this area is fairly scarce. The best source of evidence in this regard comes from the financial planning field. Financial planners help individuals choose investments, and planners are compensated in a variety of ways. Surveys yield differing estimates concerning the sources of financial planners' income. For example, a 1994 survey by the College for Financial Planning indicated that 33 percent of planners received earnings by commission only, 35 percent by fees and commission, 18 percent by fees only, 6 percent by salary and commission, and 8 percent by salary only (College for Financial Planning 1994). In contrast, a contemporaneous 1994 report by the International Association for Financial Planning concluded that 18 percent of planners received earnings by commission only, 58 percent by fees and commission, 5 percent by salary, and 8 percent by a combination of the three (Kerr & Downs Research 1994). While these figures are now dated, they highlight the difficulty of pinpointing the sources of planners' compensation. These two surveys were conducted in the same year, but they yield different estimates (Bae and Sandager 1997).

Adding to the confusion is the industry's definition of compensation (for an example of the complexity of planners' compensation, see Hira et al. 1986). For instance, the Financial Planning Association defines 'fee-only' as earning all of one's compensation from fees. In

contrast, the College for Financial Planning Survey of Trends in the Financial Planning Industry in 2009 defines 'fee-only' compensation as earning greater than 90 percent of one's income from fees and 'fee-based' compensation as earning between 50 and 90 percent of one's income from fees. Based on these definitions, the 2009 survey found that 26 percent of advisors with the CFP® credential were fee-only, and 30 percent were fee-based. Along with earlier surveys, the 2009 survey indicates that the industry has continued to shift towards fee-based pricing and that nearly all advisors earn some degree of fee-based compensation (College for Financial Planning 2009). The National Association of Personal Financial Advisors, which is comprised of fee-only advisors, has about 1,000 members in the United States, representing a small subset of the overall industry (National Association of Personal Financial Advisors 2010). Robinson (2007) contends that the arguments against commission-based financial planning have become widely accepted in the field.[1] One survey shows that a majority of consumers (55 percent) prefer fee-based services (Bae and Sandager 1997).

Despite the intuitive nature of the critiques against commission-based pricing, concerns about the conflicts of interest that arise due to commissions may be overstated. Interestingly, Bigel's (2000) survey of financial planners concluded that fee-based financial planners' scores on an ethical orientation scale were no different than commission-based planners' scores. Similarly, Cupach and Carson (2002) conclude that neither the amount nor the type of life insurance coverage an insurance agent would recommend to a client depends on the agent's prospective compensation. This study was hypothetical in nature, but it serves to undermine the notion that transactional agents' recommendations are driven by their commissions. More recently, Finke et al. (2010) analyze insurance sales and the use of various credentials as signals of fiduciary responsibility. Finke et al. find that individuals who use financial planners are more

likely to have adequate life insurance holdings than similar individuals who use insurance brokers. The authors suggest that since fiduciary duty is stronger for the former group, this may be evidence of the importance of this legal framework. Another article suggests that in certain respects fee-only pricing is inferior and can cause advisors to overbill clients and do the minimal amount of work necessary to maintain clients' business (Robinson 2007). Clearly, more empirical research is needed in this area.

Several conclusions about transactional agents can be drawn. First, it is clear that financial planners and advisors are compensated from a variety of sources including fees, commissions, salaries, and retainers. Second, at least in theory, financial advisors who earn commissions appear to have an incentive to sell products that will garner the highest commissions, and their compensation is rarely if ever tied to the long-term success of their advice. Thus, several organizations explicitly advocate fee-based pricing, since this form of pricing appears to best align clients' interests with agents' own financial incentives. However, little empirical evidence in this area exists, and what evidence does exist suggests that concerns about commission-based pricing may be overstated.

Financial Counseling

The dictionary definition of counseling includes "professional guidance . . . utilizing psychological methods . . . using various techniques of the personal interview" (Merriam-Webster 2010). The counseling field is broad, and it includes a range of human and social services as well as therapeutic mental health services. Financial counseling as defined in this paper refers to professional advisors who work with clients on specific personal financial issues, often in an attempt to remedy a serious financial problem. The counselor typically is not an

investment professional or a financial planner, and financial counselors often lack specific technical training in personal finance. Counselors also tend to focus on basic personal financial management rather than on more complex planning or investment strategies.

Rationale. Hackney and Cormier (1994) classify counseling as the 'helping profession.' The conditions required for helping to occur are complex, but they can be simplified and described as someone seeking help meeting with someone who is trained and willing to give help in a setting that allows help to be given and received. Professional counselors often work in institutional settings that allow the ongoing delivery of counseling services, including K-12 schools, colleges, religious institutions, and healthcare settings. Counselors must develop conditions that allow them to establish productive relationships with clients. These conditions include accurate empathy (accurately understanding a client's world and verbally sharing the understanding with the client), positive regard (appreciating the client as a 'unique and worthwhile person'), and genuineness (being honest, transparent, and open with the client).

Corey (2009) outlines 11 major approaches to counseling therapy. These include psychodynamic approaches (psychoanalysis, Adlerian theory), experiential and relationship-oriented therapies (existential, person-centered, Gestalt), action therapies (reality, behavior, rational-emotive behavior therapy, and cognitive therapy), systems perspective approaches (family and feminist therapy), and postmodern approaches (social constructionism, solution-focused brief therapy, and narrative therapy). Corey argues that counselors typically combine these theories in ways that prove most effective for clients.

Pulvino and Lee (1979) wrote one of the earliest articles on financial counseling. The authors divide financial counseling into three categories: remedial counseling, productive counseling, and preventative counseling. Remedial counseling is most common and often found

in financial institutions to deal with an immediate financial crisis. Productive counseling helps clients consider their existing resources and work to develop or expand those resources and move forward. Preventative counseling often deals with an immediate crisis, but it also entails working with a client to develop appropriate money management skills, plans, and goals. Pulvino and Lee describe a financial counseling model with six steps: (1) build a relationship, (2) diagnose needs and set goals, (3) generate alternatives, (4) choose a plan of action, (5) implement the plan, and (6) evaluate.

Considering again the taxonomy illustrated in Figure 1, financial counseling is similar to expert advice in the sense that it seeks to provide some degree of financial information to clients and to help them avoid mistakes. However, counseling is set apart from other advice models for several reasons. First, counseling typically aims to help clients resolve financial crises or overcome barriers. For example, bankruptcy counseling and credit counseling seek to help clients address acute financial problems. Other, more-proactive forms of counseling are aimed at helping individuals qualify for a mortgage or a small-business loan.

Second, like other models, counseling involves the provision of financial information. However, counseling also entails directing, instructing, and motivating clients (Kerkmann 1998), especially since individuals faced with a financial crisis may not know what options are available to them or may have difficulties searching for and processing information. Counseling can connect clients to public and private resources, and counselors can help clients navigate the bureaucratic requirements for obtaining resources. Financial counselors can help clients make sound decisions at a time when emotional stress may be distorting their decision-making processes.

Third, counseling services are unrelated to specific financial products. Counselors are typically not compensated through commissions or sales-related metrics. Counseling often targets people in financial distress who have limited ability to pay. Counselors also tend to earn lower wages and hold fewer credentials than the financial advisors discussed in the preceding sections. While the costs of counseling are lower than the costs of more technical advice, counseling costs are still often subsidized by public or private sources. This cost and funding structure leads to a large role for nonprofit and public organizations as providers of counseling services. Financial counselors work with clients across a range of financial topics, but individual counseling agencies may specialize in a particular area of counseling.

The federal government has increasingly enacted policies that either mandate or promote financial counseling in certain contexts. The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA) and the 2008 National Mortgage Foreclosure Mitigation Counseling Program (NMFMCP) are the two most prominent examples of federal policies that promote financial counseling. The BAPCPA requires individuals to complete counseling prior to filing for bankruptcy, and the NMFMCP was enacted in response to the spike in foreclosures that accompanied the decline of the United States housing market.

Empirical Evidence. Several studies have analyzed the impact of financial counseling. At least five recent studies have focused on counseling provided to homeowners who are delinquent on their mortgage payments. Collins (2007) studied a small sample of 299 clients who received face-to-face and/or telephone-based default counseling. Using an instrumental variables approach, each additional hour of counseling reduced the probability of negative foreclosure outcomes by 3.5 percent. Ding et al. (2008) studied a similar form of mortgage default counseling delivered via telephone. Their analysis indicated that the odds of reinstating a

defaulted loan were 50 percent higher for borrowers who received counseling than for noncounseled borrowers. Quercia and Cowan (2008) used the number of hours in counseling as an exposure measure to estimate the effects of a nonprofit foreclosure-prevention program. Each hour the nonprofit agency spent on a client's case reduced the client's odds of foreclosure by 10 percent. This study did not control for selection effects, however, and the program consisted of grants and other antiforeclosure programming beyond default counseling. A preliminary evaluation of the National Foreclosure Mitigation Counseling Program (Mayer et al. 2009) suggests that default counseling helps mortgage borrowers who are behind on their payments avoid foreclosure and receive more favorable loan modifications. Collins and Schmeiser (2010) find borrowers in the groups most likely to default are most likely to participate in counseling. However, after controlling for negative selection, default counseling is linked to an increase in the probability that borrowers will receive a favorable loan modification. Collins and Schmeiser conclude that the timing of counseling is an important determinant of outcomes.

Two studies were identified that examine credit counseling, which typically focuses on consumer credit cards and other nonmortgage consumer loans. Elliehausen et al. (2007) evaluate credit counseling using a quasi-experimental design. Counseling clients in their dataset participated in an initial 60 to 90-minute session, and some clients participated in more than one credit counseling session. A nonexperimental comparison group was comprised of similar borrowers who did not receive counseling. The estimated benefits of counseling decreased sharply after controlling for selection effects. Among counseled borrowers in the lowest credit score quintile, credit scores increased by only three-fifths of 1 percent more than the comparison group. There were nonsignificant effects on credit scores for individuals outside of the lowest credit score quintile. Aside from the small improvement in credit scores, counseling was

estimated to reduce debt by about 10 percent among individuals with low credit scores. In another credit counseling evaluation, Lyons et al. (2008) evaluate one-on-one telephone pre-bankruptcy credit counseling sessions that lasted between 60 and 90 minutes. Participants' mean composite financial knowledge scores improved by 6.5 percent from the pre- to the post-test. However, the treatment was not linked to behavior changes.

Prepurchase homeownership counseling seeks to help individuals who may otherwise not qualify for a mortgage become successful homeowners. Evaluations of prepurchase homeownership counseling primarily focus on mortgage performance. Hirad and Zorn (2002) conducted an oft-cited evaluation of prepurchase counseling's impact on 90-day delinquency rates. The authors compared a nonrandomized comparison group to borrowers who completed one of four modes of counseling: in person, classroom, home study, and telephone. When selection and assignment processes are modeled, only classroom counseling led to a statistically significant decline in 90-day delinquency rates. In a pair of related studies on prepurchase counseling, Hartarska and Gonzalez-Vega (2005, 2006) find a small increase in borrowers paying off their mortgages (typically through a sale or refinance) and a decrease in mortgage default relative to a nonrandom comparison group. Unobserved selection effects could explain these findings, however. Quercia and Spader (2008) evaluate four modes of counseling delivery: classroom, individual, home study, and telephone. The authors find that no form of counseling affects borrowers' propensity to default on their loans. Agarwal et al. (2009) analyze a counseling program comprised of educational classes and one-on-one counseling. The authors conclude that the program led to a significant decline in default rates. However, in addition to the counseling program, the results could also be explained by the education component and the type of mortgages offered to participants.[2]

Overall, the literature on financial counseling is subject to many of the same issues as the literature on technical financial advisors, especially in terms of potential selection biases and heterogeneous program designs. Initial descriptive findings across many of these studies (which simply compare outcomes between participants and nonparticipants but do not control for baseline differences between the two groups) suggest that counseling has significant impacts. However, once selection effects are controlled, most of the descriptive findings are negated. Financial counseling remains a rich area for further study.

Financial Coaching

A growing number of for-profit and nonprofit entities have adopted the term 'financial coaching' to describe services designed to help clients reach their financial goals. Some of the entities that have adopted the financial coaching approach include the Annie E. Casey Foundation's Centers for Working Families; the Local Initiatives Support Coalition; the Co-opportunity Budget Coaching Program in Hartford, CT; the Central New Mexico Community College; NeighborWorks America; EARN of San Francisco; United Way Worldwide; Creating Assets, Savings, and Hope of Rochester, NY; and MDC, which is a network of community colleges. Interest in financial coaching stems from a desire to move beyond promoting financial literacy to focus on helping clients realize changes in their financial behavior. Financial coaching consists of regular one-on-one sessions with clients in order to 'coach' performance improvements and reach goals set by the client. Financial coaching is a process largely driven by the client. In contrast to financial counseling, financial coaching is not designed to aid clients in crisis resolution. While financial coaching may include a financial literacy component, it is not explicitly designed to convey technical information or advice to clients. Nevertheless, some

programs use financial coaching to describe education, advice, mentoring, and other services that fall outside the scope of financial coaching as defined in this paper.

While a financial coach may have financial expertise or training, a good financial coach is above all a coach—someone who listens; asks informed questions; and helps clients refine their goals, objectives, and strategies. A coach holds clients accountable for making progress toward their goals and provides a sounding board. The process of setting, revising, and ultimately achieving financial goals can be an important step in changing financial behavior patterns. Goal setting requires diagnosing a client's situation and reviewing potential choices about where to invest limited time and energy. However, setting goals alone is insufficient, as anyone who has attempted to keep a New Year's resolution can attest. The real value of a coach comes in helping people achieve their goals, despite all-too-human procrastination and self-control failures. Financial coaching as defined in this paper draws upon the more general coaching literature that has emerged in the relatively new field of positive psychology.

From a service delivery perspective, the financial coaching approach relieves the burden on counselors to be experts who must directly advise clients and fix problems. Transferring the responsibility of goal formation and attainment to clients may help staff feel more confident in their work and exhibit lower rates of burnout and turnover. While coaching may initially require spending more time with clients, the focus on positive behavior change may over time result in more resilient clients who are better able to weather future problems on their own.

Rationale. Because little academic literature addresses financial coaching, it is useful to begin by describing the more general literature on coaching psychology. Biswas-Diener and Dean (2007) contend that coaching is a subset of positive psychology since it focuses on utilizing personal and social strengths to attain goals and achieve happiness. Positive psychology

concentrates on using strengths, positive qualities, and virtues to help individuals enhance their lives (Linley and Harrington 2008). However, there appears to be some debate over the position of coaching within the field of psychology, since Grant (2008) places it in the realm of traditional psychology rather than positive psychology.

While at least one author brands coaching as 'a repackaging of certain practices that were once subsumed under the more general terms consulting or counseling' (Tobias 1996), coaching is distinct from therapy (Hart et al. 2001). Coaching and therapy share a theoretical background as well as core practice skills including listening and forming one-to-one relationships between practitioners and clients. The intentions of coaching and therapy differ, however. Coaching is more goal oriented and results focused than therapy. Coaches concentrate on helping clients achieve goals clients have defined. In contrast, therapy might focus on the reasons behind problems regardless of their relationship to goal attainment. Coaches also pay more attention to the future, while therapists tend to look at issues in the context of the past (Bluckert 2005b). Therapists tend to adopt more of a caretaking or healing role with their clients, but coaches focus on forming collaborative alliances with clients. There appears to be less stigma associated with coaching than with traditional counseling (McKelley and Rochlen 2007).

Whereas clinical psychologists and counselors work with clients who have an illness or are dysfunctional, coaching psychologists work with clients who do not suffer from mental illness and instead want to attain specific goals in their work and personal lives. Grant (2008) notes that all definitions of coaching agree that clients must be free of any serious mental health issues and that coaching is solution or outcome focused. Ideal coaching clients are interested in improving their situations—they have goals and are ready to begin making changes.

People often fail to achieve their stated goals due to self-control failures. Coaching addresses self-control problems in three ways. First, coaches help clients set specific and attainable goals. Goal setting helps bring an object into conscious awareness and thereby motivates clients to take action. The second facet of coaching that facilitates self-control is external monitoring. Coaches track clients' progress towards their goals through regular contact. External monitoring can prove more effective than self-monitoring in terms of clients' adherence to their goals (Ariely and Wertenbroch 2002). Third, coaching seeks to enhance clients' willpower, or the degree to which people can restrain impulses. Thus, coaching integrates goal setting, monitoring, and willpower to enhance self-control, potentially leading to greater goal attainment.

The concept of one's 'locus of control' relates to the potential benefits of financial coaching. Psychologists have found that people attribute the cause of an event either to themselves or to something in their external environment. Individuals who generally trace the cause of events to themselves have an internal locus of control (Spector 1982). People with an internal locus of control do better in problem-solving situations and are more responsive to reward systems. By focusing on behavior change to reach goals defined by the client, financial coaching may help shift an individual's locus of control toward the internal end of the spectrum, thereby increasing self-efficacy.

Client-centered goal setting is another factor that distinguishes coaching from other interventions. Goals are central to financial coaching and form the foundation of the coaching relationship. A coach is an external resource who can help clients form realistic goals and identify incremental steps towards achieving them. Despite the coach's presence, coaching clients are ultimately responsible for defining their own goals. Coaches may or may not endorse

a client's goal, but coaches patiently and supportively encourage clients to make progress towards goals that are realistic, measurable, and attainable. In general, the coaching relationship should be nonjudgmental and should be based on both the client's trust in the coach and the coach's trust that the client will follow through (Bluckert 2005a).

The centrality of goal formation to coaching is supported by psychological research on the effects of having a goal. Psychologists advocate goal setting as a means for acquiring knowledge and achieving personal success. Locke and Latham (2002) found that goals impact performance through four mechanisms: (1) goals serve a directive function by drawing attention and effort toward goal-relevant activities and away from goal-irrelevant activities; (2) goals have an energizing function leading to greater effort; (3) goals affect persistence and time spent on an activity; and (4) goals affect action indirectly by leading to the arousal, discovery, and use of knowledge and strategies relevant to the task.

Some coaches use the GROW model developed in the 1980s (Passmore 2008). This model has four stages: (1) identifying goals, (2) reviewing reality, (3) generating options, and (4) agreeing on a way forward. Solution-focused coaching directs attention away from a client's problems to potential solutions, and it encourages clients to use their existing skills and knowledge to find creative solutions to their challenges (O'Connell and Palmer 2008). Solution-focused coaches ask clients to set small, identifiable goals and develop strategies to achieve those goals. Coaches often assign tasks between sessions that involve making incremental changes on a daily basis.

As interest in financial coaching has increased, so too has the availability of training opportunities. Just a few short years ago, there were virtually no training programs that provided both financial content and coaching skills. Today, numerous organizations offer financial coaching training. One of the entities that has taken the lead nationally in training financial coaches is the

Central New Mexico Community College (CNM), which has adopted a broad range of coaching services for its students and has helped train coaches throughout the nation. One of the most valuable lessons that CNM has learned since they started delivering financial coaching is the importance of training the coach. Providing all coaches with knowledge, skills, common tools, and a common language has been instrumental in the program's success. CNM's experience also underlines the importance of gaining buy-in not just from frontline staff, but also from senior management, which was a vital factor in expanding the program throughout CNM's entire community college system of 30,000 students. The materials and topics covered in CNM's training for individuals interested in becoming financial coaches have been replicated and used on a national basis as part of more than 10 coaching trainings. While CNM is a leader in delivering coaching trainings, several other organizations have also developed training programs. Nonetheless, a standard financial coaching credentialing system has yet to emerge. While it is impossible to predict whether such a credentialing system will materialize, one possibility is that the financial coaching field could adopt a preexisting coaching credential, such as the International Coach Federation's certification, to the specific needs of the financial coaching field.

Empirical Evidence. Since financial coaching is such a new field, little empirical evidence about its effectiveness has emerged. However, evaluations from other fields are suggestive. In healthcare settings, coaching has shown promise for improving fitness and treating chronic disease. In one study, individuals in California who had chronic health conditions had the opportunity to participate in health coaching, self-care training, community resource referrals, and a fitness program (Tidwell et al. 2004). The researchers concluded that in the area of health promotion, coaching could enhance adherence to treatment as part of a multifaceted intervention. Another study looked at health coaching for diabetic women. Women who participated in the

program reported higher treatment satisfaction, had a higher attendance rate, and had a lower dropout rate than women in the control group (Whittemore et al. 2004).

Data Analysis on the Take-up of Financial Advice

A number of factors may motivate individuals to seek financial advice. Financial literacy is strongly and positively associated with seeking financial advice (Lusardi and Mitchell 2008). The propensity to seek financial advice also appears to relate to race and ethnicity (Richman et al. 2008). Hackethal et al. (2010) conclude that being self-employed increases the probability of using a financial advisor and that females, married individuals, and individuals over 50 years of age are more likely to use financial advisors. Haslem (2008) finds that investors who are older, who are female, and who have greater asset levels are more likely to seek financial advice. Individuals who receive a lump sum of money or who are experiencing an important life event are also more likely to seek financial advice. Gerhardt and Hackethal (2009) find that investors who are older, female, married, more risk-averse, and wealthier are more likely to use financial advisors. Hung and Yoong (2010) find that being married increases one's propensity to seek financial advice.

Figure 3 shows the share of the American population that have received some form of financial advice, estimated across four studies. Estimates of the proportion of individuals who use financial advisors vary widely across these surveys. Some of this variation is likely attributable to the fact that each survey uses a slightly different definition of financial advice, and the surveys were administered at different points in time. Elmerick et al. (2002) conducted a survey for the CFP board, finding that just over 20 percent of households use financial planners for advice on credit and borrowing, saving, or investing. The FINRA Financial Capability survey

used a similar definition, including any provider of advice on investments. In this survey, as many as one-third of respondents reported receiving investment advice. The Survey on Consumer Finances asked respondents to identify where they obtain information on borrowing and investing. In 2007, 29 percent of the respondents reported receiving investment advice from lawyers, accountants, and other financial advisors (Bucks et al. 2009). Hung and Yoong (2010) used the American Life Panel to estimate the take-up of financial advice related to investment and retirement, finding 18 percent of respondents reported such activity.

Figure 3 here

The notion that advice can help people with low-financial literacy overcome their problems may be misguided, at least if these households are less likely to seek advice. As a final exercise, this paper seeks to construct a stylized example of who takes up various forms of advice using newly available data.

Data. The National Financial Capability Study, which was commissioned by FINRA in 2009, surveyed 1,488 people in the United States on a range of financial matters. Using a random-digit dialed telephone survey with oversampling by selected demographic variables, the dataset provides a reasonable cross section of United States residents (for more on the survey see: http://www.finrafoundation.org/).

One section of the survey contained this question: 'In the LAST 5 YEARS, have you asked for any advice from a financial professional about any of the following: 1) Debt counseling, 2) Savings or investments, 3) Taking out a mortgage or a loan, 4) Insurance of any type, and 5) Tax planning?' Three attitude questions were also asked: 1) 'I would trust financial

professionals and accept what they recommend,' 2) 'Financial professionals are too expensive for me,' and 3) 'It is hard to find the right financial professional for me.' These questions were each rated on a 1 to 7 scale, with 1 being 'Strongly Disagree' and 7 being 'Strongly Agree.' The survey includes demographic characteristics, which allows for a general illustration of consumers' take-up of advice and their attitudes towards advisors by gender, age, race, education, income, financial literacy, and negative financial experiences. Information on the variables used in this analysis is provided in Appendix B.

Statistical Specification. Using an ordinary least squares (OLS) linear probability specification with corrections for heteroskedastic errors, the following specification is used:

Eq. 1 $$Y = \alpha + \beta1(\text{gender}) + \beta2(\text{age group}) + \beta3(\text{racial group}) + \beta4(\text{education level}) + \beta5(\text{income level}) + \beta6(\#\text{ children}) + \beta7(\text{owner}) + \beta8(\text{fin lit score}) + \beta9(\text{fin lit perception}) + \beta10\ (\text{difficulty paying bills}) + \beta11(\text{large drop in income}) + \beta12(\text{regional fixed effects}) + \varepsilon$$

where Y is the take-up of debt advice, savings or investment advice, mortgage or loan advice, insurance advice, or tax planning. An additional model defines Y as any form of advice, meaning that at least one of the prior dependent variables is positive. The three attitudinal measures of trust, perceived costs, and difficulty in finding an advisor (each scaled 1 to 7) are modeled using a standard OLS regression with robust standard errors. These models are intended to test for differences in the take-up of advice by demographic characteristics, including the extent to which populations with historically low savings rates access such services. This equation also captures the effects of financial literacy and awareness on consumers' take-up and perceptions of financial advice. Drops in income are included as a covariate to test whether this trigger event might have some association with seeking financial advice.

Findings. Table 1 displays the descriptive statistics from this analysis. Fifty-seven percent of survey respondents report receiving some form of financial advice; 8 percent report obtaining

advice on debt management, 24 percent report receiving advice on a loan, 21 percent report seeing a tax planner, about one-third report obtaining advice on insurance, and one-third report obtaining advice on investing.

Table 1 here

Figure 4 shows differences in the take-up of any form of advice by income, and Figure 5 shows the same distribution by education level. Overall, a predictable pattern emerges. Individuals with higher incomes and higher educational attainment are more likely to take up advice of any kind.

Figure 4 here
Figure 5 here

Of course, these simple comparisons might obscure the association of other demographic factors with seeking financial advice. Table 2 displays the take-up of advice controlling for the variables described in Equation 1. Here, it appears that the take-up of each form of advice varies across several demographic characteristics. The take-up of debt advice modestly increases with education (at least some college relative to no high school) as well as with greater income. As might be expected, self-reported difficulty paying bills is related to the take-up of debt advice. The take-up of advice on savings and investing is less likely among males, which is consistent with prior studies. The take-up of savings and investing advice also increases significantly at higher income levels (a test of coefficients suggests advanced education has significant effects over college education alone). Performance on the financial literacy questions has a positive

effect, with stronger performers seeking investment advice at higher rates. Self-reported financial literacy has weaker effects.[3] Experiencing a large drop in income is associated with seeking a financial advisor. Overall, savings or investment advice is unrelated with age after controlling for the other factors, but strong income and education effects exist such that people with higher incomes or more education are more likely to report taking-up such advice. This is consistent with the most financially capable people being more likely to use investment advisors. Figure 6 summarizes the results of the regression estimates.

Table 2 here

Figure 6 here

An income effect is also observed for advice on loans or mortgages, with higher-income individuals much more likely to report the use of such advice. Homeowners are more likely to have received advice on loans, likely due to their mortgages. Again, males are less likely to report using such advice. Insurance advice shows similar positive associations with education and income, and here again males are less likely to use this form of advice. Notably, African American respondents are more likely to use insurance advice, controlling for other factors, perhaps due to the role of targeted insurance brokering and marketing to this group. Having more children increases the likelihood of receiving insurance advice, as does greater financial knowledge scores and self-reported financial literacy. There is a positive relationship between seeking advice on insurance and experiencing an unexpected drop in income. Tax planning advice follows the same income and education patterns as savings/investment and insurance advice. An unexpected drop in income is associated with a higher likelihood of using tax advice,

as is having higher self-reported financial literacy. Here the Hispanic/Latino race indicator suggests that Hispanics are less likely to seek advice on taxes. Overall, males and Hispanics are modestly less likely to take-up any form of advice. Homeownership, income, education, and financial literacy are generally associated with increases in the use of financial advice across the regression outputs, as is a drop in income.

Table 3 displays the regression outputs concerning clients' attitudes and behaviors surrounding financial advising. Regarding clients' trust in financial advisors, males, people who had experienced a large drop in income, and homeowners were less likely to agree that they trust financial advisors. Asian respondents were more likely to perceive advisors as too expensive. There are clear income effects. As income increases, the likelihood of agreeing that advisors are too expensive drops significantly, and people with higher incomes are more likely to report meeting with multiple advisors. Meanwhile, individuals struggling to pay their bills are more likely to think advisors are too expensive and difficult to find. Males are more likely to report meeting with multiple advisors, perhaps because they express less trust in financial advisors. Figure 7 summarizes these findings.

Table 3 here

Figure 7 here

Overall, these findings suggest that the use of financial advice is more likely among individuals with higher incomes and higher educational attainment.[4] Minorities are less likely to seek some forms of advising. Controlling for other factors, age did not have strong effects. A recent drop in income is associated with higher take-up of some services. Gender is statistically

significant in several models, consistent with prior studies showing males may be more prone to overconfidence bias (Odean 1999).

These results suggest that financial advice—with the exception of relatively infrequently used debt advice—is a complement to financial capacity. As income, education, and financial literacy increase, the use of advice is also predicted to increase according to these findings. Of course, this might also suggest that consumers with lower functional financial literacy—the people who may have the greatest need for advice in order to avoid making financial mistakes—are among the least likely to take it up. While advice may be hypothesized to be most valuable to people with lower education levels, both because they may face higher information acquisition and cognition costs and because they may be more likely to make errors, these results do not support such a hypothesis. These data suggest higher-income individuals consume more advice, perhaps due to the potential of larger perceived marginal benefits, a greater willingness or ability to pay, or the use of investment products that may be more closely tied to advisor-sales networks.

Implications for Vulnerable Populations

The literature review reveals that financial advice tends to focus on investment and higher-order financial planning needs. Financial counseling (and to some extent coaching) focuses more on basic financial needs and financial problems. To the extent that vulnerable populations are more likely to experience negative financial shocks (including job loss, uninsured medical expenses, and credit defaults) and are more likely to have lower incomes, smaller amounts of savings, and more debt, financial counseling may prove more applicable to these populations than other forms of advice.

The potential for principal-agent problems exists in many client-advisor relationships since advisors' compensation is often linked to product sales. Because low-income and other vulnerable populations use financial advisors less frequently, the repeated-game nature of the client-advisor relationship (which may mitigate conflicts of interest that arise from an advisor's compensation) may be weakened. Thus, individuals who use financial advice infrequently and people who seek advice in the midst of a financial crisis may be more likely to receive biased financial advice. Few financial advisors operate on a fee-only basis and fewer still actively seek out clients with low asset levels.[5] The empirical findings are consistent with this institutional structure—lower-income people are less likely to use all forms of financial advice based on the analysis of the FINRA Financial Capacity Survey.

People with higher financial literacy and higher educational attainment are more likely to use investment, tax, and insurance-related financial advice, but not debt or credit-related advice. This in part likely reflects the prevalence of investable assets among these groups, but also shows that financial advice is not necessarily a substitute for financial literacy. In fact, financial advice may be a complement to financial literacy. As an individual's financial literacy and capacity increase, so does the likelihood that the individual uses financial advice, especially in the area of investing.

Conclusions

This paper summarizes the wide range of studies addressing various financial advice models. One contribution of this paper is the development of a model (Figure 1) that categorizes advice models within a broader financial capacity-building framework. The distinctions between

technical experts, transactional agents, counselors, and coaches are admittedly arbitrary in some regards, but they reflect legitimate differences in practices across the field.

While not intended as a comparative analysis, this paper provides a useful summary of each model of advice. Financial coaching proved to be the least studied area, although this model benefits from a growing literature in psychology. Expert financial advice is widely studied, especially by economists. Yet despite the development of theoretical models on expert advice, evidence of its impact is lacking in the literature. Financial counseling presents the opposite challenge; there are many applied studies on counseling's impact but little theoretical work from any field on how counseling affects outcomes. Financial coaching holds promise but remains the least developed of the four models. The literature on transactional agents is also well developed, but given the recent shifts in regulations for brokers and advisors related to fiduciary duty, this is an area for more study.

Regarding take-up, the empirical results suggest that (1) a majority of respondents report that they have used some form of financial advice, (2) people with low financial literacy are less likely to obtain advice, and (3) factors correlated with low financial capability are also related to lower take-up of financial advice. Thus, it appears that advice is an important part of the landscape for consumers. If broadening access to advice is a policy goal, more efforts might be needed to increase the availability of low-cost, objective, high-quality advice for households with low educational attainment and low incomes. There is a high correlation between advice seeking and financial literacy. As such, the demand for financial advice may increase if financial literacy levels increase across the population.

Overall, more research is needed to better define, quantify, and measure the impact of each of the advice models presented. Establishing causal effects will require new data and even

field experiments. More robust evidence on the costs and benefits of various forms of financial advice can help inform policy decisions and guide consumers regarding the value of professional advice.

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Appendix A: Informal Information Sources

Herbert and Turnham (2010) asked focus group participants about where they receive financial information. The most common source was from friends and family members, who individuals relied on due to 'expedience and trust.' The second most common source was segments from television shows including local newscasts, the Oprah Winfrey show, and CNN. Some participants mentioned finding financial information on the Internet. Other information sources included employers, banks or credit unions, and churches.

Building on this evidence, the following sections describe related literature that supports the notion that there are informal forms of advice that consumers also may use.

Social Networks and Health

Research on health and social networks elucidates the importance of family and friends on health behaviors. Christakis and Fowler (2007) study the effects of social networks on individuals' health. The authors found that if an individual was connected with one degree of separation to an obese individual, then the individual's risk of obesity increased by 45 percent. If the individual was connected by two degrees of separation, the risk of obesity was about 20 percent higher, and for three degrees of separation the risk was about 10 percent higher. Christakis and Fowler suggest that social networks should be utilized to encourage behavioral changes and point to studies that show smoking and alcohol-cessation programs and weight-loss interventions that include peer support are more successful than interventions that do not include social supports (Christakis and Fowler 2007).

In a study on the social dynamics of smoking, Christakis and Fowler use the same data to analyze smoking habits between 1971 and 2000 (Christakis and Fowler 2008). In 1971, smokers

were more likely to be in the center of their circles of friends and families. By 2000, most people had stopped smoking, and individuals who continued to smoke were more likely to be on the periphery of their family and friend networks. If an individual was directly connected to a smoker, that person had a 61 percent increased chance of being a smoker. At two degrees of separation from a smoker, the increased risk was 29 percent. At three degrees of separation, the increased risk is 11 percent. Individuals with more education were more influential and more likely to be influenced when a person connected to them stopped smoking.

Informal Financial Recommendations

A number of studies consider the impact of stock recommendations made through cable news shows, magazine columns, and semiprivate mailing lists. For example, Womack (1996) analyzed data from First Call, a database of daily commentaries from portfolio strategists, economists, and security analysts that is sold to professional investors. The author concludes that buy or sell recommendations have a substantial impact on stock prices both immediately and over several months (Womack 1996). Lim and Rosario (2010) review the stocks mentioned on CNBC's Mad Money. The authors look at the host's (Jim Cramer) endorsements and rejections of stocks that are either advocated for by the host or mentioned by a caller. The authors find that effects are higher for the hosts recommendations than caller recommendations (Lim and Rosario 2010). A study by Keasler and McNeil (2010) also looks at Cramer's recommendations. The authors find uninformed investors do make decisions based on Cramer's recommendations, often not tied to information involving the actual value of the stock. Additionally, the authors find that a portfolio composed only of Cramer's buy recommendations does not generate positive long-term returns (Keasler and McNeil 2010).

Appendix B: FINRA Financial Capability Survey: Variables used in the Analysis

'In the LAST 5 YEARS have you asked for any advice from a financial professional about any of the following?'	
Seen advisor: Debt	K1 'Debt counseling'
Seen advisor: Investing	K2 'Savings or investments'
Seen advisor: Loan	K3 'Taking out a mortgage or a loan'
Seen advisor: Insurance	K4 'Insurance of any type'
Seen advisor: Tax planning	K5 'Tax planning'
Received any advice	obtained by summing K15 and setting equal to 1 if sum was >=1
Met multiple advisors	K6 'Typically, when looking for a financial professional, do you meet with or talk to MORE THAN ONE advisor before making a choice?'
Checked advisor background	K7 'Have you ever checked with a state or federal regulator regarding the background, registration, or license of a financial professional?'
'How strongly do you agree or disagree with the following statements? Give your answer on a scale from 1 to 7, with 1 being 'Strongly Disagree' and 7 being 'Strongly Agree'	
Trust advisor	K8a_1 'I would trust financial professionals and accept what they recommend'
Advisors too expensive	K8a_2 'Financial professionals are too expensive for me.'
Difficult to find advisor	K8a_3 'It is hard to find the right financial professional for me.'
Demographics	
Gender (Male=1)	A3 'Record gender.'
Age (18 34 yrs) (35 54 yrs) (55+ yrs)	Created age dummies from the age group variable (a3ar) which roughly distributed the participants into a third of all observations in each group. (Actual question, which isn't in data set, is 'What is your age?')
Caucasian (African American) (Hispanic) (Asian) (Other Race)	Created race dummies from A4 where other race includes 'Native American or Alaska Native' in addition to the group 'Other' ('Which of the following best describes your race or ethnicity?')
No high school (High school) (Some college) (Graduate degree)	Created education dummies from A5 where some college includes 'Some college' and 'College graduate' ('What was the last year of education that you completed?')
Income under 25k (25 50k) (50 100k) (100k+)	Created income dummies from A8 into groups ('What is your/household's approximate annual income, including wages, tips, investment income, public assistance, income from retirement plans, etc.?')
# of children	A11 'How many children do you have who are financially dependent on you or your spouse/partner? Please include children not living at home, and stepchildren.'

Financial literacy and current financial status	
Homeowner	Ea_1 'Do you or your spouse/partner currently own your home?'
Financial literacy score	Created by taking the sum of 5 financial literacy quiz questions (M6 10), where the correct answer to the question was assigned a 1 and all others were assigned a value of 0.
Self report financial knowledge	M4 'On a scale from 1 to 7, where 1 means very low and 7 means very high, how would you assess your overall financial knowledge?'
Difficult to pay bills and expenses	J4 was recoded so 'not at all difficult' was 0 and 'somewhat difficult' and 'Very difficult' were 1. 'In a TYPICAL MONTH, how difficult is it for you to cover your expenses and pay all your bills?'
Large drop in income	J10 'In the PAST 12 MONTHS have you/your household experienced a large drop in income which you did not expect?'
All questions were encoded so that 'Don't know' and 'Refused' were changed to missing.	

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Notes

1. The National Association of Personal Financial Advisors, which is comprised of fee-only advisors, has compiled several documents that critique commission-based pricing (see http://www.napfa.org/).

2. While the literature on financial counseling is growing, studies on health counseling also add insight into the efficacy of counseling models. For example, one study looked at the impact of behavioral counseling in adults with an increased risk of coronary heart disease (Steptoe et al. 2001). Twenty primary care centers were randomized, with one-half offering lifestyle counseling and one-half offering health promotion information (control group). The authors found that providing behavioral counseling helped patients decrease their risk factors for heart disease.

3. Correlation of financial literacy score with self-report score=0.207.

4. Post regression tests of coefficients suggest significantly different beta estimates at higher education and income levels relative to lower levels.

5. For an example of a fee-only network of financial planners with no minimum asset size, see http://www.garrettplanningnetwork.com.

Tables and Figures

Table 1
Descriptive Statistics of 2009 National Financial Capability Survey

	Mean	SD	N	Min	Max
Seen advisor: Debt (1=Yes)	0.08	0.272	1485	0	1
Seen advisor: Investing (1=Yes)	0.333	0.472	1485	0	1
Seen advisor: Loan (1=Yes)	0.235	0.424	1486	0	1
Seen advisor: Insurance (1=Yes)	0.337	0.473	1485	0	1
Seen advisor: Tax planning (1=Yes)	0.209	0.406	1481	0	1
Received Any Advice	0.567	0.496	1488	0	1
Trust advisor (1=Strongly disagree, 7=Strongly Agree)	3.95	1.769	1468	1	7
Advisors too expensive (1=Strongly disagree, 7=Strongly Agree)	4.323	2.021	1456	1	7
Difficult to find advisor (1=Strongly disagree, 7=Strongly Agree)	3.93	1.936	1452	1	7
Met multiple advisors (1=Yes)	0.566	0.496	828	0	1
Checked advisor background (1=Yes)	0.144	0.351	840	0	1
Gender (Male=1)	0.484	0.5	1488	0	1
Age 18–34 yrs (constant)	0.306	0.461	1488	0	1
Age 35–54 yrs	0.374	0.484	1488	0	1
Age 55+ yrs	0.32	0.467	1488	0	1
Caucasian (constant)	0.64	0.48	1488	0	1
African American	0.124	0.329	1488	0	1
Hispanic	0.102	0.303	1488	0	1
Asian	0.101	0.301	1488	0	1
Other Race	0.034	0.18	1488	0	1
No high school diploma (constant)	0.102	0.303	1488	0	1
High school	0.276	0.447	1488	0	1
Some college	0.496	0.5	1488	0	1
Graduate degree	0.126	0.332	1488	0	1
Income under 25k (constant)	0.307	0.461	1488	0	1
Income 25–50k	0.241	0.428	1488	0	1
Income 50–100k	0.284	0.451	1488	0	1
Income above 100k	0.168	0.374	1488	0	1
# Children (0=No children, 4=4 or more children)	0.962	1.194	1488	0	4
Homeowner (1=Yes)	0.618	0.486	1483	0	1
Financial literacy score (0=Low, 5=High)	2.783	1.398	1488	0	5
Self-report financial knowledge (1=Very low, 7=Very high)	5.022	1.505	1481	1	7
Difficult to pay bills and expenses (1=Yes)	0.467	0.499	1485	0	1
Large drop in income (1=Yes)	0.324	0.468	1481	0	1

Table 2:
OLS Results of Financial Advice Obtain by Form of Advice

	Seen advisor: Debt (1=Yes)	Seen advisor: Investing (1=Yes)	Seen advisor: Loan (1=Yes)	Seen advisor: Insurance (1=Yes)	Seen advisor: Tax planning (1=Yes)	Received Any Advice (1=Yes)
Gender (Male=1)	-0.0099	-0.0486*	-0.0441*	-0.0680**	-0.0186	-0.0495*
	(0.0145)	(0.0237)	(0.0223)	(0.0246)	(0.0206)	(0.0246)
Age 35-54 yrs	0.0213	-0.0175	-0.0291	0.0221	-0.0188	-0.0090
	(0.0199)	(0.0307)	(0.0304)	(0.0319)	(0.0265)	(0.0323)
Age 55+ yrs	0.0216	0.0226	-0.1492**	-0.0473	-0.0089	-0.0464
	(0.0205)	(0.0329)	(0.0318)	(0.0344)	(0.0293)	(0.0355)
African American	0.0292	-0.0317	-0.0281	0.0862*	-0.0182	0.0124
	(0.0252)	(0.0348)	(0.0312)	(0.0383)	(0.0291)	(0.0381)
Hispanic	0.0178	-0.0357	0.0109	-0.0324	-0.0599+	-0.0779+
	(0.0272)	(0.0390)	(0.0385)	(0.0399)	(0.0322)	(0.0427)
Asian	0.0087	-0.0982*	-0.0506	-0.0589	-0.0102	-0.0720
	(0.0253)	(0.0434)	(0.0380)	(0.0429)	(0.0408)	(0.0449)
Other Race	0.0110	-0.0374	0.0261	0.0155	0.0094	0.0473
	(0.0425)	(0.0615)	(0.0590)	(0.0658)	(0.0542)	(0.0684)
# Children (0=None)	0.0015	-0.0090	0.0152	0.0230*	0.0079	0.0109
	(0.0070)	(0.0104)	(0.0111)	(0.0114)	(0.0097)	(0.0113)
Home owner (1=Yes)	-0.0398*	0.0510+	0.0752**	0.0254	0.0227	0.0600+
	(0.0197)	(0.0284)	(0.0273)	(0.0296)	(0.0238)	(0.0312)
Financial literacy score (0=Low)	-0.0017	0.0290**	0.0032	0.0202*	0.0157+	0.0304**
	(0.0059)	(0.0095)	(0.0087)	(0.0095)	(0.0086)	(0.0100)
Self report financial knowledge (1=Very low)	0.0000	0.0143*	0.0037	0.0173*	0.0143*	0.0269**
	(0.0052)	(0.0071)	(0.0067)	(0.0078)	(0.0067)	(0.0083)
Difficult to pay bills and expenses (1=Yes)	0.0882**	-0.0378	0.0440+	0.0441	0.0069	0.0226
	(0.0166)	(0.0270)	(0.0252)	(0.0276)	(0.0224)	(0.0280)

Table 2 continued

	Seen advisor: Debt (1=Yes)	Seen advisor: Investing (1=Yes)	Seen advisor: Loan (1=Yes)	Seen advisor: Insurance (1=Yes)	Seen advisor: Tax planning (1=Yes)	Received Any Advice (1=Yes)
Large drop in income (1=Yes)	0.0338*	0.0685**	-0.0240	0.0752**	0.0804**	0.0859**
	(0.0172)	(0.0259)	(0.0238)	(0.0272)	(0.0234)	(0.0268)
High school	0.0081	0.0185	-0.0183	-0.0180	-0.0070	0.0204
	(0.0236)	(0.0345)	(0.0349)	(0.0389)	(0.0284)	(0.0451)
Some college	0.0461+	0.1210**	0.0303	0.0868*	0.0386	0.1386**
	(0.0254)	(0.0362)	(0.0363)	(0.0405)	(0.0299)	(0.0452)
Graduate degree	0.0443	0.2384**	0.0679	0.1044+	0.1334**	0.1813**
	(0.0323)	(0.0533)	(0.0512)	(0.0554)	(0.0500)	(0.0566)
Income 25–50k	0.0585**	0.1118**	0.0785**	0.1322**	0.0237	0.1629**
	(0.0226)	(0.0315)	(0.0274)	(0.0332)	(0.0244)	(0.0374)
Income 50–100k	0.0452+	0.2065**	0.1840**	0.2049**	0.1165**	0.2636**
	(0.0233)	(0.0366)	(0.0331)	(0.0369)	(0.0302)	(0.0394)
Income above 100k	0.0527+	0.1986**	0.1811**	0.2170**	0.2476**	0.2366**
	(0.0269)	(0.0471)	(0.0427)	(0.0466)	(0.0419)	(0.0483)
Census Region: Midwest	0.0301	-0.0353	-0.0101	0.0482	0.0517+	0.0252
	(0.0211)	(0.0358)	(0.0335)	(0.0362)	(0.0314)	(0.0376)
Census Region: South	0.0203	0.0007	0.0054	0.0790*	0.0078	0.0492
	(0.0191)	(0.0333)	(0.0309)	(0.0333)	(0.0278)	(0.0343)
Census Region: West	0.0398+	-0.0370	0.0115	0.0540	0.0787*	0.0613+
	(0.0216)	(0.0367)	(0.0337)	(0.0360)	(0.0321)	(0.0371)
Constant	-0.0505	-0.0031	0.0981+	-0.0789	-0.0778	0.0267
	(0.0402)	(0.0596)	(0.0561)	(0.0616)	(0.0527)	(0.0656)
Observations	1468	1467	1468	1466	1464	1469
R-squared	0.050	0.147	0.101	0.116	0.121	0.165

Standard errors in parentheses
+ p<0.10, *p<0.05, **p<0.01

Table 3
OLS Results of Feelings Towards Advisors

	Trust advisor (1=Strongly disagree)	Advisors too expensive (1=Strongly disagree)	Difficult to find advisor (1=Strongly disagree)
Gender (Male=1)	-0.2152*	-0.1546	-0.0583
	(0.0957)	(0.1081)	(0.1067)
Age 35-54 yrs	-0.2545*	0.0901	-0.0363
	(0.1221)	(0.1384)	(0.1318)
Age 55+ yrs	-0.1348	-0.1247	-0.2850+
	(0.1377)	(0.1518)	(0.1494)
African American	-0.0148	-0.3432+	-0.1484
	(0.1636)	(0.1860)	(0.1707)
Hispanic	0.0486	0.1476	0.0037
	(0.1547)	(0.1818)	(0.1721)
Asian	0.0881	0.6093**	0.3315+
	(0.1523)	(0.1669)	(0.1764)
Other Race	0.2673	0.1733	0.0337
	(0.2758)	(0.2780)	(0.2858)
# Children (0=None)	0.0667	0.0739	-0.0482
	(0.0437)	(0.0497)	(0.0484)
Home owner (1=Yes)	-0.3248**	-0.0693	0.0309
	(0.1243)	(0.1372)	(0.1294)
Financial literacy score (0=Low)	0.0269	-0.0138	0.0112
	(0.0382)	(0.0447)	(0.0447)
Self-report financial knowledge (1=Very low)	0.0535	0.0083	0.0337
	(0.0369)	(0.0406)	(0.0384)

Table 3 continued

	Trust advisor (1=Strongly disagree)	Advisors too expensive (1=Strongly disagree)	Difficult to find advisor (1=Strongly disagree)
Difficult to pay bills and expenses (1=Yes)	-0.0235	0.4081**	0.2783*
	(0.1090)	(0.1224)	(0.1204)
Large drop in income (1=Yes)	-0.2316*	0.0797	0.1021
	(0.1089)	(0.1218)	(0.1177)
High school	-0.0427	0.2400	-0.1392
	(0.1949)	(0.2114)	(0.1997)
Some college	0.1159	0.1615	-0.1796
	(0.1922)	(0.2077)	(0.2013)
Graduate degree	-0.0546	-0.0494	-0.3543
	(0.2252)	(0.2501)	(0.2564)
Income 25-50k	-0.1907	-0.1433	-0.2015
	(0.1411)	(0.1585)	(0.1508)
Income 50-100k	0.0234	-0.2706	-0.1885
	(0.1531)	(0.1679)	(0.1642)
Income above 100k	-0.0652	-0.6912**	-0.1261
	(0.1809)	(0.2087)	(0.2049)
Census Region: Midwest	-0.0900	-0.1995	-0.4045*
	(0.1448)	(0.1660)	(0.1577)
Census Region: South	-0.0590	-0.1152	-0.3367*
	(0.1361)	(0.1500)	(0.1458)
Census Region: West	-0.0746	-0.1952	-0.1632
	(0.1427)	(0.1589)	(0.1562)

Table 3 continued

	Trust advisor (1=Strongly disagree)	Advisors too expensive (1=Strongly disagree)	Difficult to find advisor (1=Strongly disagree)
Constant	4.1168**	4.3355**	4.2484**
	(0.2928)	(0.3250)	(0.3056)
Observations	1451	1439	1435
R-squared	0.027	0.055	0.026

Standard errors in parentheses
+ p<0.10, *p<0.05, **p<0.01

Figure 1
Models of Financial Capacity Building

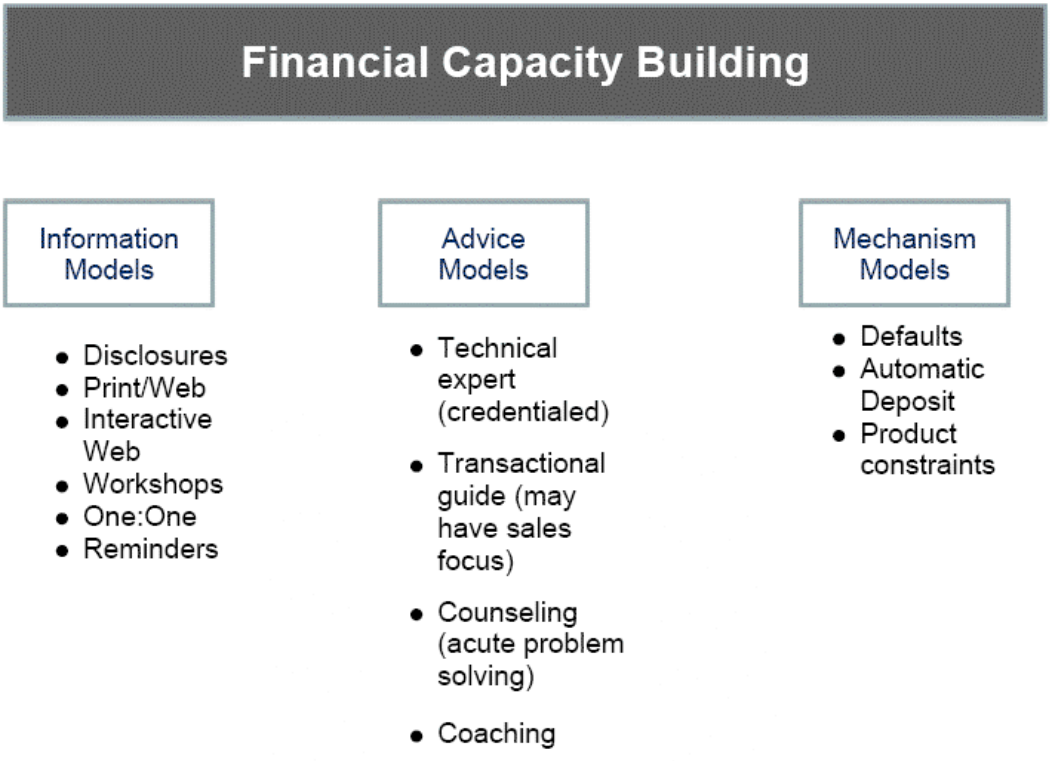
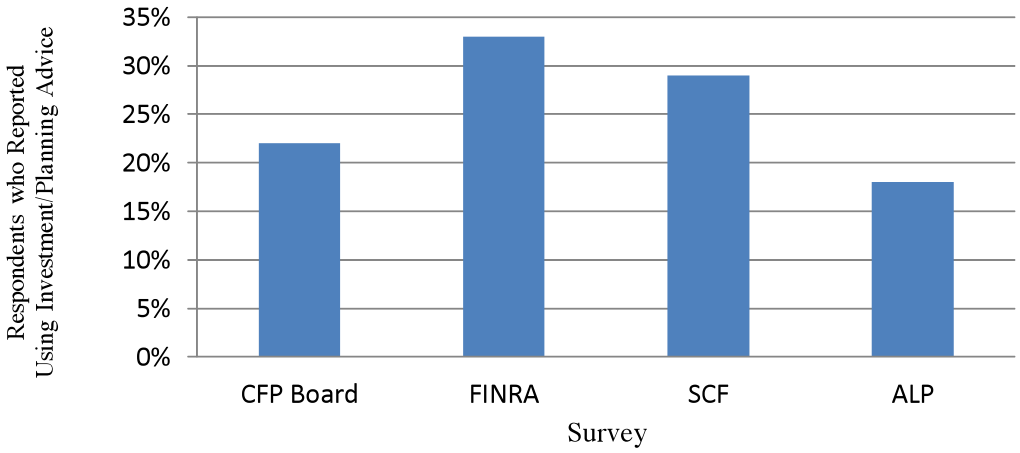


Figure 2
Financial Advisor Certifications

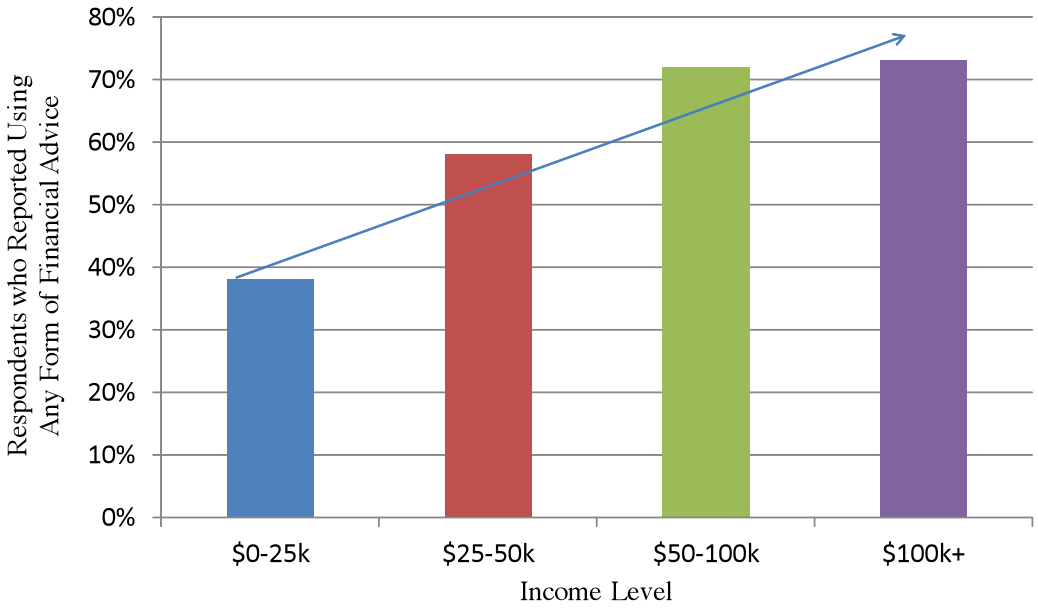
Certification	Certifying Body	Certification Requirements	Maintaining Certification	Number of Individuals Certified
Accredited Financial Counselor (AFC)	Association for Financial Counseling and Planning Education	2 years financial counseling experience; 2 self-study courses (100 to 150 hours per course); Pass the final exam for each course	30 hours of continuing education every 2 years	Unavailable
Accredited Investment Fiduciary (AIF)	Center for Fiduciary Studies	Complete either a web-based program or a capstone program; Pass final certification exam	6 hours of continuing education every year	3,500 +
Certified Financial Planner (CFP)	Certified Financial Planner Board of Standards	Bachelor's degree; 3 years full-time personal financial planning experience; Complete CFP board-registered program or hold one of the following degrees: CPA, ChFC, CLU, CFA, Ph.D. in business or economics, Doctor of Business Administration, or licensed attorney; Pass CFP certification exam	30 hours of continuing education every 2 years	50,000 +
Certified Public Accountant (CPA)	American Institute for Certified Public Accountants	Accounting degree; Pass the Uniform CPA exam; 1 to 2 years of experience under the supervision of a CPA; Other state requirements (e.g.) passing an ethics exam	40 hours of continuing education every year; Renew state license every 1 to 3 years, depending on the state of licensure	360,000
Chartered Financial Analyst (CFA)	CFA Institute	Undergraduate degree; 4 years of professional investment decision-making experience or 4 years of qualified work experience; Self-study program of 250 hours of study for each of 3 levels; Pass the corresponding exam for each level	No continuing education requirements	97,000 members in 130 countries
Chartered Financial Consultant (ChFC)	The American College	3 years of full-time business experience; Complete 6 core and 2 elective courses; Pass final exams in each course	30 credits of continuing education every 2 years	Unavailable
Chartered Life Underwriter (CLU)	The American College	3 years of full-time business experience; Complete 5 core and 3 elective courses; Pass final exams in each course	30 credits of continuing education every 2 years	Unavailable
Personal Financial Specialist (PFS)	American Institute for Certified Public Accountants	Member of AICPA; hold a CPA license; Earn 100 points under the PFS point system; Business experience in personal financial planning-related services; Pass final exam	Acquire 60 PFS points every 3 years	4,100 +

Figure 3
Take-Up of Financial Advice Across Surveys



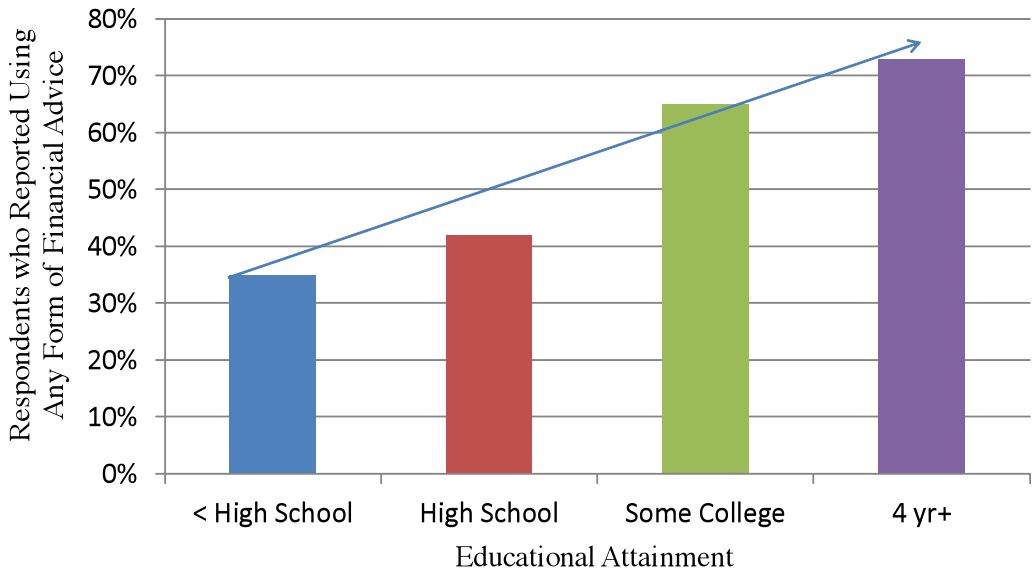
Sources: CFP - Elmerick, S. A., C. Montalto, et al. (2002). "Use of financial planners by US households." Financial Services Review 11(3): 217-231.FINRA - Applied Research & Consulting LLC (2009). Financial Capability in the United States: Initial Report of Research Findings from the 2009 National Survey. 2009 National Financial Capability Study, FINRA Investor Education Foundation. SCF – Federal Reserve Board, 2007. ALP - Hung, A. and J. Yoong (2010). Asking For Help: Survey And Experimental Evidence On Financial Advice And Behavior Change. RAND Working Paper Series WR-714-1

Figure 4
Take-Up of Advice by Income



Source: Tabulations of FINRANational Financial Capability Survey

Figure 5
Take-Up of Advice by Education



Source: Tabulations of FINRANational Financial Capability Survey

Figure 6
Summary of Take-Up Estimates

Factor	Debt Advisor	Investment Advisor	Loan Advisor	Insurance Advisor	Tax Advisor
Gender	--	**Male ↓**	**Male ↓**	**Male ↓**	--
Income	↑	↑	↑	↑	↑
Education	--	↑	--	↑	--
Race	--	**Asian ↓**	--	**African American ↑**	**Hispanic ↓**
Financial Literacy Score	--	↑	--	↑	↑
Income Drop	↑	↑	--	↑	↑
Homeowner	↓	--	↑	--	--

Source: Tabulations of FINRANational Financial Capability Survey

Figure 7
Summary of Perception Estimates

Factor	Trust advisor	Advisor too expensive	Met multiple advisors
Gender	**Male ↓**	--	**Male ↑**
Income	--	**↓ as income increases**	**↑ as income increases**
Education	**↑**	--	--
Race	--	**Asian ↑**	--
Income Drop	**↓**	--	--
Homeowner	**↓**	--	--

Source: Tabulations of FINRANational Financial Capability Survey

The Financial Literacy Research Consortium

The Financial Literacy Research Consortium (FLRC) consists of three multidisciplinary research centers nationally supported by the Social Security Administration. The goal of this research is to develop innovative programs to help Americans plan for a secure retirement. The Center for Financial Security is one of three FLRC centers and focused on saving and credit management strategies at all stages of the life cycle, especially helping low and moderate income populations successfully plan and save for retirement and other life events, including the use of Social Security's programs.

The Center for Financial Security

The Center for Financial Security at the University of Wisconsin-Madison conducts applied research, develops programs and evaluates strategies that help policymakers and practitioners to engage vulnerable populations in efforts which build financial capacity. The CFS engages researchers and graduate students through inter-disciplinary partnerships with the goal of identifying the role of products, policies, advice and information on overcoming personal financial challenges.

For More Information:

Center for Financial Security
University of Wisconsin-Madison
Sterling Hall Mailroom B605
475 N Charter St.
Madison, WI 53706
(608) 262-6766

cfs@mailplus.wisc.edu
http://www.cfs.wisc.edu/