

EVOLUTION OF CYGNET

If in proper architectural design *form follows function*, the corollary for a proper a business model ought to be that *business operations follow need*. If there is a need for simpler computing, Microsoft, Google and others solve the need and prosper. There are endless examples of this in business. A casual glance at the sales and marketing tactics of the financial industry however, appears the do it backwards. *Cygnnet* was formed out of the inconsistency that I observed when I started working at a major life insurance agency back in 1979 and 1980. While on the one hand, their philosophy was one of total comprehensive financial service to the client, what they were in fact delivering was a mechanical process which, like a predetermined maze, was designed to guide the client to ultimately purchase a life insurance product. Although the need for life insurance was demonstrable, it did not really deliver the promise of total comprehensive financial planning that was promised. It seemed illogical to spend 15 hours planning for an eventuality (death) that most likely would not occur for the next 20 or 30 years, while putting on the back burner the current income tax, lifestyle and investment needs of the client.

I made two key observations at that time. First, the insurance industry, was promoting a desirable service but was in fact delivering something different. That inconsistency I believe was the basis for a lot of the policy lapses as well as the high failure rate that most agents were experiencing in trying to approach financial planning from that point of view.

Second, over the course of the development of this insurance oriented financial planning approach, there developed in the insurance industry a philosophy, or an accepted methodology, whereby in order to deliver this service, it became necessary to decorate the process and load up the presentation with a lot of unnecessary statistical analysis. I'm referring to the typical financial planning process where a client for a fee of \$1,200 to \$5,000 is subjected to several information gathering meetings, intermingled with a lot of analysis regarding the many legal and accounting aspects of the client's circumstances. This whole process eventually culminates in the delivery of a very comprehensive yet little understood, and hence of little value, document that contains all the many technical permutations and reasons (the alternative minimum tax calculations, the estate tax permutations, etc.) which impress the client and validate the credibility for the ultimate financial product sale or hourly fee.

This strategy was often used to outflank the client's attorney as well as the CPA so as to totally control the case and dominate the decision making process. If necessary, clients may be introduced to new advisors (attorney or CPA) who would be friendly to the agent's product recommendations. These two elements are nothing more than a charade capitalizing on clients' fears and misplaced faith that their needs are really being addressed, while all along the objective is to sell a product. No wonder the public had become wary of financial planners and saw them as primarily salespeople.

With this prevailing background in the early 1980's I saw an opportunity to develop a streamlined process to actually do what most people expected from financial planners.

I first began by trying to look at the elements of total financial planning to determine what it was really all about. My conclusion was that what clients really want from a financial planner is help in achieving and maintaining a desired lifestyle. The desired lifestyle can only be achieved by making sure that there is always enough cash flow for the client to accomplish the things they have planned to do. In the event of death, the corollary objective is to make sure there are adequate funds so that the desired lifestyle for the survivors is maintained.

That, in a nutshell is really what financial planning consists of at the initial stage. The subsequent levels of financial

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planning that may be necessary, involve the various interconnectedness of solutions that may apply to the client's particular circumstances (insurance, investments, estate planning, etc.).

Therefore, cash flow, lifestyle planning is at the core of any form of comprehensive financial planning. Whatever planning is done should always be responsive to and reflect the specifics of the client's present and future lifestyle needs, otherwise it's not a plan it's a sales pitch for something else.

It was at this point back in 1982 that my vision of a financial consulting firm led me to form Cygnet Financial Planning, Inc. The first thing I had to accomplish was to develop and actually automate the central nucleus of the planning process. I needed to develop a cash flow management system that would tie together all the aspects of the client's overall spending needs and income expectations over their lifetime. It took me approximately two years to accomplish this. This is where my background in mathematics and algebra came in handy. The *Cygnet* model ultimately evolved into a spreadsheet which when prepared by hand, would take two to three hours to calculate!!

I felt at that time that this process eventually could become a simple and universal mathematical model that would be equally valuable to the wealthy client as well as to clients of more modest means. I confirmed for myself that this model truly did work and could indeed produce credible conclusions of what the client's needs were in terms of savings as well as insurance. The first high point of this confirmation phase occurred when in 1983 we delivered a two-session workshop for a group of teachers in Waterford, Michigan for a fee of \$35.00. This was very successful. It not only validated our mathematical process but demonstrated that it was possible to apply the *mass customization* (a word not in the lexicon until 2001) concept to personalized group financial planning. The task now became one of making this model more efficient and less labor intensive.

My hopes and wishes were answered at that point when "Lotus 1-2-3" appeared on the marketplace. Over the course of the following year or so I was able to translate the formulas I had developed onto a Lotus spreadsheet, thereby reducing the calculation time to about two minutes. This was a milestone! I now had the nucleus around which I could streamline the *Cygnet* process. It was becoming apparent that this model would be efficient and profitable on scenarios across the total spectrum of client demographics. This led me to concurrently refine the presentation so as to effectively explain this financial planning service to prospective clients using various learning theory concepts.

With necessary refinements and modifications to take advantage of technology improvements along the way, we've used this approach successfully to help thousands of clients in since 1983.

Cygnet Institute has been given unfettered access to all the intellectual property developed by Cygnet Financial Planning, Inc. as described here. It is the goal of the Institute to use the significant knowledge developed over these many years to provide programs through employers groups, unions, government organizations, colleges, and libraries to help improve the financial literacy of communities.