

The Data Dilemma

by Edward McCarthy, CFP

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You arrive in the office early in the morning to boot up your computer network. Your investment portfolio data management program launches automatically, logs on to the various custodial services and retrieves updated information on your clients' accounts.

As you enjoy a cup of coffee and scan your e-mails, the downloaded data are transferred to the other programs in your system. Changes in portfolio values automatically flow through to your asset allocation and financial planning software, updating cash flow, income tax, retirement and estate planning projections. If the changes in a portfolio's value affect those projections significantly, the planning program flags the item for your attention. Because your contact management software is linked to your other software, you immediately pull up the screens detailing previous client meetings, to-do items, and the client's communication preferences. You decide to do a more detailed analysis before calling the client, so you open your spreadsheet software, where the client's updated information is now available in your customized worksheets.

In a perfect world, the software programs that resided on your PC would work as one seamless productivity tool. You would manually enter or electronically retrieve new data just once. Data exchange between programs, whether through a common database or import/export methods, would take place behind the scenes without requiring your intervention. "If I could have my ideal software, it would allow me to enter data once, and the data would then flow through for whatever purpose I need," says Connie Dupras, CFP, of Capital Assets Planning, Inc. in Dunnloring, Virginia. "It would flow from portfolio tracking to cash flow projections to tax projections or net worth statements. Then I would be able to do automatic updating of that portfolio through downloads and that information would flow across all the available spreadsheets I want to work with. I don't think it would need to do client management because there are programs to track client contacts, but it would be something nice to throw in. But the software must run under Windows 95 and be networkable."

In this era of increasing PC power and easier access to online information, Dupras's request seems reasonable. Unfortunately, many of the programs that planners use do not share data. Portfolio transaction programs don't link to financial planning programs; planning software can't share information with contact managers; and the information you need to analyze your business activities is scattered across multiple programs. The industry's electronic Tower of Babel has a direct impact on productivity, as planners and their staffs are forced to re-enter data in a variety of formats. This article examines the problem and discusses steps that vendors and users are taking to solve the data dilemma.

The Problem

Greg Friedman, CFP, considers himself to be a knowledgeable computer user. As a sole practitioner with Friedman & Associates in San Rafael, California, for the past ten years, he's spent a fair amount of that time on planning-related technology. "On a scale of 1 to 10 in understanding computers, I'm probably a good strong 7," Friedman says. "I know what's out there and I've been continually frustrated with our industry's vendors. There are good and bad programs, but they don't integrate—they don't speak to each other."

As he reviewed his practice's technology requirements, Friedman focused on several critical areas. "The first area was client and contact management. There are some great contact managers out there but they didn't integrate with everything else I was doing. The second was practice management. I wanted to automate my business better and that was very closely integrated with contact management. Information about activities with a client also dovetails with who needs to be doing what with that client. My third area was marketing. There are lots of great marketing programs, but I wanted something that I could use to develop and track marketing campaigns. I also wanted to be able to handle routine compliance issues. The system would track not only the information we give the client, but at the push of a button I could look up the documents we sent them—correspondence, everything. My last goal was customized reports—I wanted to learn from the information as a

database so I could analyze my business."

Your reaction to Friedman's software wish list will depend on your perspective. Fellow planners will nod their heads in agreement. "After all," you might respond, "data are just electronic bits moving around the computer." Software developers have a much more cautious reaction, however. Bill Porter, president of Lumen Systems, Inc., producers of the Financial Planning Professional software, sees the problem on a different level. "There is a conception in the world that it's trivial to make data go from one place to another," Porter contends. "The dilemma is that you have contact managers and portfolio managers and other programs that do specific calculations, portfolio optimization, and so on. These programs all use some of the same data, and the dilemma is that there really is no standard, at this point, to help define a methodology where companies can readily interface with each other."

Bill Overman, vice-president of development for Financial Profiles, Inc., echoes Porter's comments. "We use probably 2,000 to 3,000 pieces of data in preparing a financial plan," Overman says. "Most plans won't use all of that data, but potentially you could have that many items in a complete plan. Some of that is useful to be shared with other applications, but some of the data is very specific to planning, so it wouldn't be shared. So the trick is to figure out what data is useful to share and to do that in a way that can be used by many applications."

Stumbling Blocks

Even if software providers could agree on the data they will share, Porter points to several stumbling blocks in exchanging data between programs. The first problem, defining data fields, seems almost trivial, but it is an important software coding issue. What happens if your planning software allows 32 characters in the data field for last names, but your contact management program can fit only 24? How do you move that client's name from the planning program to the contact manager if it exceeds 24 characters? Do you truncate it or block the data import? The second critical issue is data control. Do you allow changes made in contact manager data fields to flow back to the planning software? Or should you restrict access to the planning data? Should other programs be allowed to make changes to the portfolio management software data? Repeat those decisions for several thousand data fields and the multiple inter-program links and you begin to see the developers' challenge.

Software vendors are acutely aware of planners' desire for seamless data exchange. Dusty Huxford, president of Financial Computer Support, Inc. (FSCI), lists several of the most common PC tasks under the rubric "Global Office Management." These tasks include the following:

Transaction information

Portfolio management

Asset allocation system

Administrative

Contact manager

Client reports

Financial planning system

Management and production

Huxford knows that planners want to move data from their portfolio management software to their other programs. "Our firm transfers data between all tasks and has for years," Huxford says. "However, to do this seamlessly from the user's perspective is difficult. Seamless data transfer is what I call the software Nirvana—it currently does not exist. As software companies work more closely together in the future, Nirvana can be achieved. The ideal solution would be for a singular database to exist from which and to which all packages transfer data. Think about that for a moment. Each individual software package has unique sets of data. That singular database would be astronomical in size to accommodate all the different types of data. To complicate matters even more, what if in the process of receiving or sending data, the database inadvertently becomes corrupted—whose fault is it and how do you fix it? Those two issues must be addressed to bring data Nirvana to the advisor in the future."

Industry Solutions

Software firms have tried different methods to facilitate data exchange. One approach is to build proprietary links between programs. That method gives users of the two programs a quick fix, but it excludes users of third-party software, and the links can require updating with each new release of the programs. An alternative solution is to create voluntary industry standards. Financial Profiles' Bill Overman

reports that his firm has incorporated the OLiFE data integration standard into its Profiles+ software. OLiFE, an alliance between several insurance companies and software vendors that was formed in 1994, allows single entry of client information with automatic updating across multiple applications. According to Overman, the alliance has made good progress in developing data specifications.

There are successful examples of data exchange standards already in operation. Joanne Reed, director of technology marketing for Charles Schwab & Co., Inc., points to the development of OFX, or Open Financial Exchange. "OFX links the Intuit exchange language with Microsoft financial exchange language, enabling customers to send data from their bank or brokerage firm to their software packages, such as Microsoft Money and Intuit's Quicken," according to Reed. "I think Schwab was one of the first partners. We decided we wanted an open file format that could seamlessly send data to and from banks and custodians to different portfolio management software so we published the data structure externally. That's been a very positive thing for the industry. But the institutional world is not so simple to work with because there are already some very strong standards established, the technical requirements are much more complex and there are more players involved."

Another approach is to offer software users data export methods into widely used formats. "We don't have a specific planning package that we integrate with today," says Gail Romano, product line manager for Internet data services at Advent Software, Inc., developers of the Axys portfolio management software. "To compensate for that fact, we allow our clients to export anything into Excel. So any report that our software creates can be exported from Axys to Excel where it can be moved and massaged so it can go into a proper format for the planning tools."

An Individual Solution

Presently there are two solutions to the data exchange problem. The first is to select your software with the goal of maximizing inter-program connectivity. For example, if you choose Schwab or Fidelity as custodian, you'll want your portfolio management and transaction software to link with that vendor. The next step is to look for programs that can link with your portfolio manager; but as the planners interviewed for this article noted, that goal is difficult to achieve with ancillary programs. There is also a risk to focusing primarily on the ability to exchange data when evaluating software because you might wind up with programs that don't meet other requirements.

When Greg Friedman examined his options, he chose an alternative route: customization. Friedman contacted Ken Golding, owner of Ken Golding Software in Katy, Texas, to inquire about developing practice management software. Friedman had seen examples of Golding's work and was intrigued by the possibility of customizing his office's system. "In my frustration I e-mailed Ken—we've still never met," Friedman explains. "But I was very organized—I had five or six pages of notes on what I wanted my system to do. Ken had strong references, gave me samples of his work, and we negotiated our terms."

After agreeing to the project's goals, Golding began developing an interface with Microsoft Visual Basic for Applications (VBA) using Microsoft Access as the primary interface. "Greg had financial planning and client transaction software," Golding says. "We wanted to integrate those two applications. We decided to centralize everything in one location and then put the data out to wherever it's needed with all the changes made in the main location, with the exception of the client portfolio information. Because of the importance and value of the portfolio data, we don't work directly with the data. We could just have a live link to it, but instead we wrote a routine that copies that data from the portfolio program to a separate directory, and then we link to a copy of the data. It's an extra step, but it also provides a backup copy of the data in case the other program fails."

The initial development phase lasted roughly three months with a final cost of roughly \$20,000. Stating that Friedman and his staff are pleased with the investment would be an understatement. "When I'm in a client record, the software is set up in a tabular format, like most contact managers," he reports. "From a practice management perspective, I wanted the information that staff would need at their fingertips to put new account forms together, insurance applications—all that information is part of the profile screen. The staff puts the information in once and it's accessible—they almost never have to go to the filing cabinets. Also, I now have full functionality for finding people that own a particular asset and I can use that record in a marketing context and not worrying about messing up asset management numbers, which is very important information." (Note: You can find more details on Greg Friedman's client management software at the CFP Biz Web site: <http://web.archive.org/web/20031222083724/http://www.icfpbiz.net/>)

Looking Ahead

The bad news is that financial planners using off-the-shelf software will continue to face the data compatibility problem for the foreseeable future. Although the

industry's software vendors recognize the problem, there is no consistent effort being made to alleviate it. It is also unlikely that an external party such as Microsoft would develop and attempt to enforce data standards—the planning market is too small to warrant the effort.

There is another choice if you are interested in customized software but don't want to bear the full cost of developing a brand new system. Golding (kgolding@flash.net) has started selling the customized practice management software he developed for Greg Friedman, and he reports that two other planners have purchased the program. You could also pool resources with other planners to jointly hire a programmer. You'll need to agree on the details, as in any joint venture, but teaming up could give you access to a reasonably priced solution.

Ed McCarthy, CFP, is associate editor of the Journal of Financial Planning and author of The Financial Advisor's Analytical Toolbox (Irwin, 1997).

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