

Hidden Psychological Factors in Financial Decision-Making: Helping Your Clients Navigate the Dangers

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Financial Professionals' Top 5 Complaints

1. My clients don't follow through on my recommendations;
2. My clients seek other financial professionals (or their widows and children do);
3. I can use more referrals from existing clients;
4. Sometimes I feel like a marriage counselor - and that's really not my skill set;
5. I would like to serve more diverse clients - not just middle-aged white males.

Differences Between our Expectations and Reality

WHAT WE EXPECT:

Perfectly rational decision-making based on our sound advice and evaluation of pro's and con's in perfect cooperation with partner/spouse

WHAT WE GET: Workaholism, under-earning, overspending, “forgetting”, not following through, arguments with spouse, not opening mail, gambling, making irrational decisions based on fear, hoarding, using money to control children and spouse, lack of understanding of basic math, excessive emotions, fraud and deceit, compulsive shopping, debt...

Psychological factors we will address today (What gets in our way?)

Temporary issues:

- Divorce and separation**
- Lack of work/life balance**
- Parenting and/or caring for aging parents**
- Lack of knowledge and skill**
- Illness of self or family member**
- Unemployment**

Psychological factors we will address today (What gets in our way?)

Permanent issues:

- Age cohort effect**
- Gender**
- Mental illness**
- Age-related mental decline**
- Early memories and experiences**
- Personality factors**

Temporary difficulties - What to do:

-- recognize signs of stress and frustration:
make decision-making as easy as possible
(e.g. right in your office)

-- address only pressing concerns - leave
the rest for when stress levels are back to
manageable levels

-- offer educational resources if needed

-- offer referrals if needed

-- offer Kleenex if needed (often a
sympathetic listener is all that is really
needed)

Permanent Issues

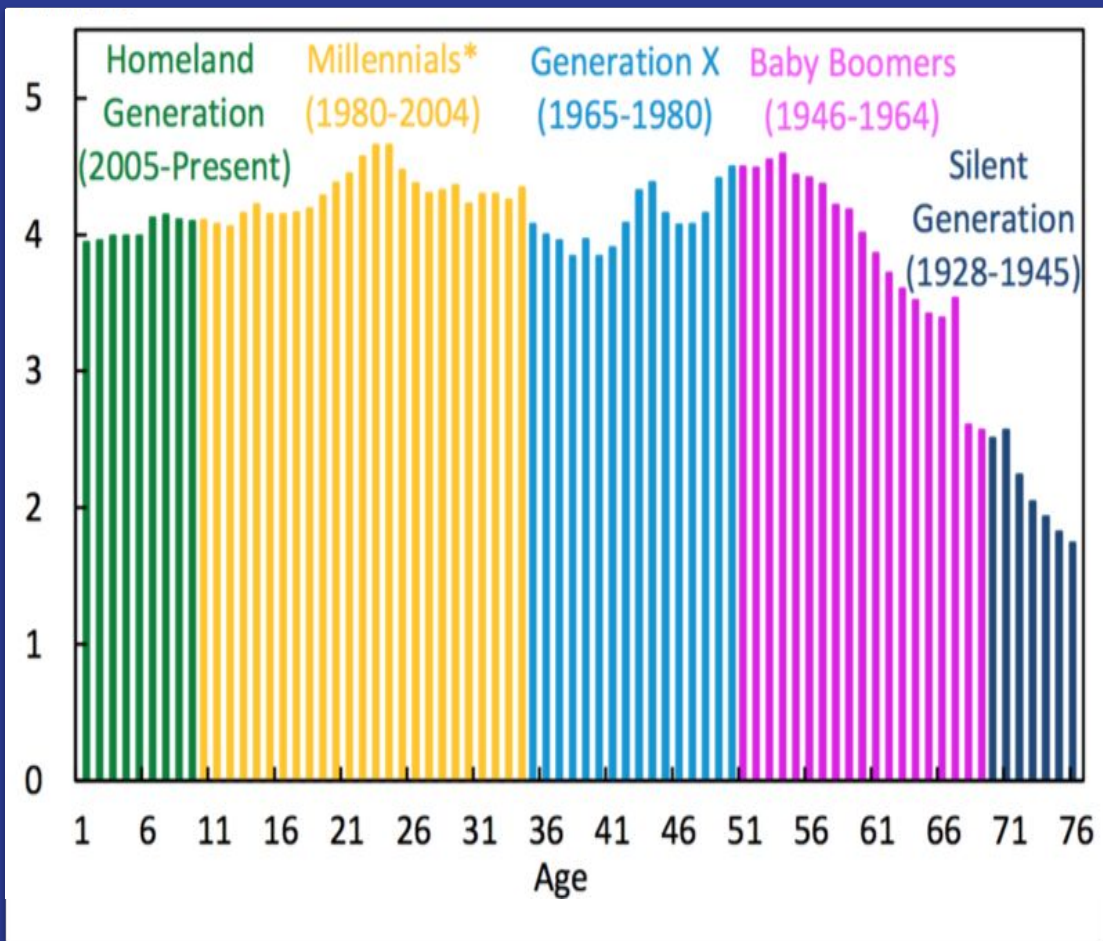
Age cohort effect - what is it and why does it matter?

“Age cohort” refers to someone’s
GENERATION

People born in the same generation experience similar events - and those events shape their emotions and behavior.

Understanding cohort effect will help you understand how you can become more effective with clients of that generation.

Consider THE MILLENNIALS



MILLENNIALS

Born between 1980 and 2004

- Largest generation, representing $\frac{1}{3}$ of the total population in 2013
- Most diverse and most educated; many born to foreign parents.
 - The first generation who grew up in the Internet era - primary producers and consumers of technology
- Value being connected to others (virtually or not), especially their parents
- Came of age during the Recession of 2007

MILLENNIALS - Tips

-- Want to have *a relationship* with their advisor - but not in the way you may think - they will inherit close to \$30 trillion in the next 30 years

-- Want to keep fees to a minimum; willing to be more hands-on with their investments

-- Tend to be sceptical and distrustful - strive for transparency and collaboration

-- USE TECHNOLOGY - FaceBook, Twitter, Skype, email etc.

-- Offer online tools, calculators, budget software etc.

-- Help them manage student loans so that they have more investable assets

Working with Couples

- Money issues are the #1 argument starter and the #1 reason for divorce
- When couples fight about money, they actually fight about “hidden issues” rather than actual dollars and cents
- “Hidden issues” include: personal values, control/power, gender differences, commitment and appreciation
- Beware especially of “financial infidelity” - making financial decision in secret from one’s partner or spouse (including spending, saving, giving loans).

Working with Couples - tips

- Engage with both spouses equally as often as you can - wives outlive their husbands and 70% of them leave their financial advisor after becoming widowed
- Know your area of expertise - you are not an unlicensed marriage therapist!
- Learn about “hidden issues” - point them out when you feel that the fight in front of you is about more than just dollars and cents
- Be aware that “status reverse” couples - where the wife outearns her husband are especially prone to conflicts, financial and otherwise

Mental Health Issues

Depression with lifetime prevalence between 8% to 12% for men and 20% to 26% for women

Anxiety disorders with lifetime prevalence around 18%

Attention Deficit Hyperactivity Disorder with prevalence between 3% and 7%, depending on age

Substance Abuse - in the past month, 9.4% of Americans used an illicit substance of some kind; additionally about 2% of women and 6% of men have alcohol dependency

**Dementia - 14% in individuals 71 years old and older;
Alzheimer's - one in nine in individuals 65 years old and older**

Gambling - under 1% but often co-occurs with other mental illnesses

Mental Health Issues - Tips

Learn the basic signs and symptoms and the ramifications to financial decision-making.

Clients with depression:

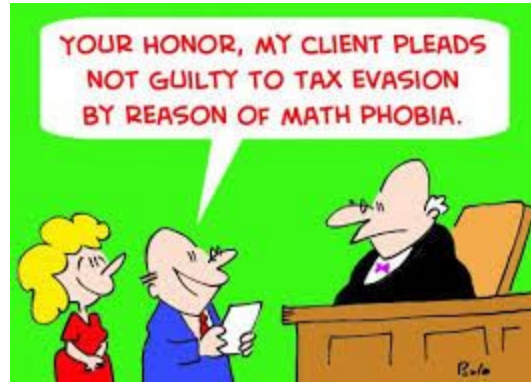
- Likely to withdraw, can be tearful, sad, have low energy**
- Live in denial of necessary action, lack follow through**
- Become overwhelmed easily**
- Are irritable, easily frustrated and argumentative**

Mental Health Issues - Tips

Clients with anxiety (actually an umbrella for many different kinds of problems):

- Likely to feel overwhelmed easily, problems with concentration
- Gets confused when you start talking numbers
- Can be very risk-averse, can hoard money and possessions
- Can be intense and not easily pacified
- Can experience sleep problems and poor memory
- Can exhibit sudden intense fear, odd cognition or actions, phobias (yes, math phobia is a real thing)

Mental Health Issues - Tips



Mental Health Issues - Tips

Clients with Attention Deficit Hyperactivity Disorder:

- Likely to have a sense of underachievement/underemployment and job loss**
- Can be easily flustered, stressed out and irritable**
- Often has trouble staying motivated and on task**
- Hypersensitive to criticism**
- Has low self-esteem and sense of insecurity**
- Often runs late, disorganized, easily loses important items**
- Tends to seek novel experiences to keep attention span high**
- Higher than average rates of divorce and substance abuse**
- Brings chaos with them wherever they go**

Mental Health Issues - Tips

Clients with Age-related Mental Decline:

- Exhibit poor memory
- Have poor social skills, and have problems with communication and language
- Have diminished ability to focus and pay attention
- Have decline in reasoning and judgment
- Have poor visual perception, leading to disorientation
- Can be irritable, depressed or paranoid
- Can show dramatic personality changes (e.g. violence)

TEN YEARS

Substance Abuse - tips

Each drug is different, and each user/abuser is different, but in general, clients with SA or alcohol dependency exhibit:

- Sudden change in behavior
- Mood swings; irritable and grumpy and then suddenly happy and bright
- Withdrawal from family members
- Loss of interest in hobbies, sports and other favorite activities
- Changed sleeping pattern; up at night and sleeping during the day
- Red or glassy eyes and sniffly or runny nose
- Explained expenses or "lost money"
- Pattern of acquiring possessions only to sell or pawn them later

Early Memories and Personality Factors

The intersection of formative memories and personality factors AND financial decision-making is discussed by

FINANCIAL PSYCHOTHERAPISTS

Financial Psychotherapy Association was established in 2010

Can be found at <http://www.financialtherapyassociation.org/>

Financial psychotherapy is “the integration of cognitive, emotional, behavioral, relational, and economic aspects that promote financial health”

Organization welcomes participation from researchers, clinicians and financial professionals

Conclusion - Tips

- Avoid using jargon; if you can't explain a concept in plain English, you may not understand it well enough yourself and your clients won't either
- Use visual tools (e.g. graphs and charts) and auditory tools (verbal explanations) to assist different learners
- connect with both members of the couple AND their children
- avoid sports metaphors and patronizing language with women clients
- avoid home-based work - try to accomplish as much as you can during the meeting in your office
- keep math simple (explain the rule of 72)

Conclusion - Tips

- understand that clients will have trust issues - some will trust too easily, some not at all (do not take this personally)
- look for patterns of behavior - the way we do anything is the way we do everything
- develop a network of trusted professionals for referrals if needed

Thank you

Please get in touch with me with questions, comments or requests for assistance or resouces if you wish.



SEVEN MONEY LANDMINES

*That Lead to Couple Conflict and
How to Diffuse Them Before your
Relationship Explodes*

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