Attitude to money impacts advice delivery

Wouter Klijn | Benchmark Media | 20 August 2015

People have different relationships with money and understanding the nature of these relationships can help financial planners deliver advice more effectively.

Speakers at the PortfolioConstruction Forum's Finology Forum agreed that changing client behaviour was an essential part of a financial planner's skills, yet that part of the job had not been approached with the same level of scientific rigour as a planner's technical skills.

"Understanding where people are and what money means to them will help you deliver financial advice," United States-based Pinnacle Advisory Group partner, Michael Kitces, said at the Forum in Sydney yesterday.

"What is your relationship with money? Some people are hoarders, some people spend a lot of time worrying about money, while others don't want to think about it at all.

"Some people are even financial monks; they don't want to touch it; they see it as impure."

Understanding people's attitude towards money and financial matters can aid in the development of strategies to help them change their behaviour and stick with a designed investment strategy.

"How do we get our clients not just to hear advice, but take advice?" Kitces asked rhetorically.

The term finology was coined by Richard Wagner, a past president of the Institute of Certified Financial Planners, a forerunner of what later became the Financial Planning Association in the US.

It is an area of psychology that deals with behavioural finance, behavioural change and communication.

ScenarioNow president Dr David Lazenby said that area was often incorrectly referred to as a financial planner's soft skills.

"The soft skills are the hardest," Lazenby said.

He said more attention should be placed on the process of developing an investment strategy together with clients and the best way of communicating it in a language they understood rather than simply defining a number of financial goals.

"Helping people achieve their goals... that is completely wrong," he said. "Because if you focus on goals and you don't make those goals, then everything is bad after that."

Instead, he argued, financial planning was about preparation. "What is the best way to prepare? [It is] to practise, to rehearse," he said.

"My clients were not happy about the GFC (global financial crisis), but they had all rehearsed [the scenario]."

At the Finology Forum, farrelly's Investment Strategy principal, Tim Farrelly, discussed a number of strategies that could help planners communicate financial concepts to their clients. Among the strategies was the concept that increases in account balances through investment returns were not for clients to keep, as markets were very volatile.

"We tell clients that they don't own the good years," Farrelly said.

Other strategies included an update to see whether clients were on track with their predetermined investment goals and assessing whether markets were cheap or expensive at any given time. Farrelly has designed a colour-coded chart that shows overvalued assets in red, assets at fair value in yellow and cheap assets in green.

"We are trying to get clients to buy low and sell high and, as long as they are not colour blind, this is really useful," he said.

PortfolioConstruction Forum publisher Graham Rich suggested behavioural changes could be helped by changing the language in communicating with clients.

"We should strike a line through the word retirement and think about financial independence," Rich said.

"That is the conversation starter."

Wouter Klijn is Editor of theinstoreport, an online publication for the institutional and superannuation sectors in Australia, launched in March 2013.

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