

Behavioral Advice—Advisor, Heal Thyself

By Lisa Valentine

Aligning your values with your actions reduces stress and enables you to make better financial decisions for your clients.

Feeling stressed? You're not alone. According to the Lennick Aberman Group, a leader in behavioral advice services, 60 percent of advisors are feeling at least slightly elevated levels of stress. Of the 611 advisors responding to a stress survey in April 2009, 19 percent report a "more elevated" level of stress and almost one-quarter report that they are "not coping well" with stress.

Many scientific studies have confirmed that stress can have a detrimental effect on health, from headaches and insomnia to heart disease and increased blood pressure. But stress can also negatively impact investment advice and portfolio performance.

Financial advisors are accustomed to dealing with stressed-out clients who insist on making emotionally charged investing decisions, from the client responding to the current downturn by wanting to move all stock holdings to cash to the client wanting to buy stocks at their peak because they are afraid of losing out on a rally. In these cases, the role of the advisor is to instill calm in the client so the client will make investment decisions based on information rather than emotion.

But, as the Lennick Aberman Group stress study results confirm, advisors are not immune to elevated levels of stress. And, this stress can impact decision-making. "It's not only clients who make wrong investing decisions in the heat of the moment," says Doug Lennick, managing partner of the Lennick Aberman Group in Minneapolis. "Advisors also are guilty of emotionally charged decision-making." Adds Rick Aberman, Ph.D., a founding partner of the group, "Stress interferes with our decision-making ability. Stress physiologically activates the flight-or-fight reflex in our brain. that reflex is helpful if we're cavemen being chased by a saber-toothed tiger, but it's less helpful when we're financial advisors being chased by portfolio performance."

More than Meditation

While practices such as meditation, visualization, and breathing control can be helpful in controlling stress, Lennick believes that behavioral advice has the most impact on controlling stress. Behavioral advice is the integration of traditional finance with behavioral financial and neuroscience, explains Lennick. "Behavioral advice is about knowing—and knowing what to do

with knowing—that financial advisors and their clients are heavily influenced by emotions, psychology, and overconfidence in personal opinion. It’s how one’s thoughts and emotions impact financial decision making and understanding how those emotions and thoughts impact our decision-making enables us to improve our decision-making ability.” Behavioral advice is putting yourself in the best possible physiological position to make a good decision, says Lennick, calling behavioral advice the “iPod of financial services” for its transformative effect on the advisor/client relationship.

Kirk Osborne, an independent financial advisor with Amerprise Financial in Rockford, Ill., has used behavioral advice to improve his decision-making with clients. “Once you realize that either you or your client is emotional, you can take steps to put that emotion in perspective and keep it from getting in the way of financial planning,” says Osborne. “Our biggest value as financial advisors is not picking the best growth fund, but keeping clients from making emotional decisions.”

Peak Performance

Aberman consults with advisors as well as athletes, and he draws parallels between financial and sports performance. “The goal of an athlete is to achieve sustained optimal performance, and that boils down to the ability of the athlete to make good decisions under stress,” explains Aberman. “Sustained optimal performance is critical whether it’s making a free throw in the last seconds of a tied basketball game or giving financial advice. Financial advice requires performance under pressure and, like an athlete, financial advisors can train to make better decisions under pressure.”

Making better decisions under stress requires first determining our values and then using them as an internal compass to guide decision-making under difficult circumstances. Assume that a financial advisor lists integrity as a value. A very persistent client wants to make a stock purchase but the advisor believes it isn’t a wise investment. Most advisors in this situation will acquiesce, notes Aberman. The client is happy for a time, and the advisor receives compensation, but eventually the client will become dissatisfied because it was not an appropriate stock. Aberman maintains that the advisor who acts in alignment with his or her values will experience less stress and be less apt to make poor investment decisions. “Decisions aligned with values may even mean losing a client,” he says.

Moral Competence Improves Performance

A 2007 study conducted by the Consortium for Research on Emotional Intelligence quantified the portfolio performance of what the group defined as “morally competent financial advisors.” The study found that those advisors who demonstrated high levels of moral and emotional competency outperformed the S&P 500 by 73 percent during the years 2001 to 2004.

The moral and emotional competencies most important in predicting advisor success were, first to last: integrity, customer service orientation, concern for order/quality, teamwork and collaboration, self-confidence, and achievement orientation. “Integrity is walking the talk,” notes Aberman. “Those advisors with integrity perform better in the long run.”

Jim Bennett, senior financial advisor with Bennett & Associates, in Bellevue, Wash., says that the awareness and skills he learned from a behavioral advice workshop have made him a better advisor. “My advice to my clients is less emotional and more rational,” he says. “I take the time to stop and think about my feelings and whether they are in alignment with my real self. Am I getting caught up in the news? Is my client getting caught up in the news?”

“Our biggest value as financial advisors is not picking the best growth fund, but keeping clients from making emotional decisions.”

It’s important to understand client values as well, notes Aberman: “Once an advisor understands the client’s values, he or she can act in ways to support the client in making decisions aligned with their values.” Bennett has found that understanding his personal values has allowed him to help his clients become clear about their own values and to align their financial planning goals with those values.

Like Bennett, Osborne has discussed values with many of his clients and reports that not one client has named money as his or her number one value. Understanding that money isn’t what they are “about” redirects client thoughts and makes them more rational in their decision-making, says Osborne.

Both Osborne and Bennett have seen improvements in their personal lives as well as their business lives. Bennett has even taught some aspects of behavioral advice to his school-aged son. “I put a rock in his pocket that he can feel when he gets stressed to remind him to think about what is really important to him and not get caught up in what is happening around him. It has really helped him stay focused and less stressed and emotional.”

This article originally appeared in the September 2009 issue of *FSIVoice*, ©Financial Services Institute. Re-printed with permission.

Subscribe to Cannon Insights at <http://www.cannonfinancial.com/newsletter/subscribe>

Disclaimer: The materials and information contained herein are intended for educational purposes, to stimulate thought and discussion so as to provide the reader with useful ideas in the area of wealth management planning. These materials and information do not constitute and should not be considered to be tax, accounting, investment, or legal advice regarding the use of any particular wealth management, estate planning, or other technique, device, or suggestion, nor any of the legal, accounting, tax, or other consequences associated with them.

While the content herein is based upon information believed to be reliable, no representation or warranty is given as to its accuracy or completeness. For this reason, the program of study should not be relied upon as such. Although effort has been made to ensure the accuracy of these materials, you should verify independently all statements made in the materials before applying them to your particular fact pattern with a client. You should also determine independently the legal, investment, accounting, tax, and other consequences of using any particular device, technique, or suggestions, and before using them in your own wealth management planning or with a client or prospect. Information, concepts, and opinions provided herein are subject to change without notice.

The strategies contained within these materials may not be suitable for all clients. For many concepts discussed herein, clients are strongly urged to consult with their own advisors regarding any potential strategy and will need to discuss their particular circumstances with their legal and tax advisors beforehand to determine whether a particular strategy described herein is suitable for their particular circumstances.

Examples, provided throughout these materials, are for illustrative purposes only, and no representation is being made that a client will or is likely to achieve the results shown. The examples shown are purely fictional and are not based upon any particular client's circumstances.