BEHAVIORAL FINANCE

TOOLS & INSIGHTS TO HELP INVESTORS THINK CLEARLY & PLAN WISELY

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DOES IT FEEL LIKE EMOTIONS CLOUD YOUR CLIENTS' JUDGMENT?

IT'S TIME FOR BEHAVIORAL FINANCE

Sadly, far too few Americans have prepared sufficiently for the future. Lifelong habits and attitudes toward money have been distorted by undisciplined spending and irrational decisions involving money. Such misbehavior limits saving for home ownership, college educations, retirement, and retirement healthcare costs.

Behavioral finance is much more than a trendy topic used to draw advisors to conferences, or for advisors to convey intellectual gravitas in their recommendations to clients. Strip everything away and the central premise behind behavioral finance is getting folks to behave more rationally regarding their money, beginning with saving more and spending less.

Behavioral finance represents a seismic shift in the ways financial professionals engage and understand their clients, and it will form a core part of our industry's value proposition in the years ahead.

This toolkit will help you start conversations with clients at any stage in life, help you understand their behavior, and, most important, provide you with actionable steps to help your clients make their living plans.

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BEHAVIORAL FINANCE LEADS TO BETTER PLANNING

Behavioral finance prioritizes client relationships over products. And we know relationships build strong portfolios, for your clients and you. To build those relationships, you need to understand your clients' motivations and behaviors. That's where behavioral finance comes in.

By knowing more about attitudes, biases, and preconceptions about money, financial professionals can positively influence savings habits and deliver truly comprehensive retirement planning. How someone was raised and when they were born drives a clients' behavior when it comes to how they manage their finances. Understanding these insights is crucial to a successful relationship with your clients.

Financial professionals can leverage their understanding of behavioral finance fundamentals to improve a clients' attitudes and practices, which in turn helps the client achieve the financial future they, and their family, deserve. Looking across generations will illustrate how a client's attitude toward saving and investing is affected by their upbringing and when they were born.

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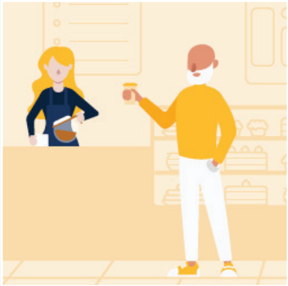
DIFFERENT GENERATIONS, DIFFERENT INVESTING STYLES

Every person is unique. But investors share many of the same behaviors, goals, and concerns as their generational peers. These conversation starters and strategies can help you meet your clients where they are on their financial-planning journeys — because what resonates with a Millennial may not have the same emotional impact for a Baby Boomer.

BOOMERS



Baby Boomers were the first Americans to routinely use credit cards. They pioneered and perfected the practice of "buy now, worry later." For Boomers, achievement is closely associated with work effort. Many became workaholics. Yet many Boomers are not financially prepared to retire even though the clock is ticking.

Conversation starter:

"There is still time to plan for a secure retirement."

Strategies:

- **Remind** Boomer clients they will likely live longer than their parents and will need a different approach for their retirement finances
- **Educate** Boomer clients about smart strategies regarding Social Security enrollment and optimal scenarios to claim benefits
- **Alert** Boomers to the need for an income stream throughout retirement (beyond Social Security benefits) that will cover healthcare costs

GEN XERS

Gen Xers — the first generation of kids to spend their earliest years away from home in day care — had to learn how to take care of themselves earlier in life. As adults, Gen Xers have known IRAs, 401(k)s, and 403(b)s as their primary retirement funding pathways, but 32% have already borrowed from critical retirement savings.[1] According to projections, Gen Xers could be the first retirees to fare more poorly than their parents.

Conversation starter:

"Retirement may not happen any time soon, but now is the time to prepare for a lengthy post-work life."

Strategies:

- **Be available** with expert advice and strategies to help your Gen X clients succeed — because unlike their parents, they are primarily responsible for structuring their retirement finances
- **Encourage** clients to "pay themselves first" by maximizing pretax contributions to their retirement accounts
- **Alert** Gen X clients to the disadvantages of premature enrollment in Social Security

[1] *"19th Annual Transamerica Retirement Survey: A Compendium of Findings About U.S. Workers,"* nonprofit Transamerica Center for Retirement Studies, December 2019

MILLENNIALS

As a group, Millennials are technologically savvy and comfortably rely on online tools for investment advice. Many mistrust the status quo and seek to reverse "wrongs" they see in this world. They value work/life balance, while their older employers may consider them soft and entitled. Many Millennials must incorporate college student debt repayment into their financial plans, competing with meaningful retirement savings opportunities.

Conversation starter:

"Time is giving you a powerful opportunity. If you start saving early and invest prudently today, you can live better tomorrow."

Strategies:

- **Encourage** Millennials to maximize their participation in workplace savings programs such as 401(k)s, 403(b)s, and HSAs
- **Introduce** your Millennial clients to the wisdom of establishing a personal budget with an emphasis on savings
- **Advise** Millennials not to let student debt become a crutch. Stay abreast of ongoing legislative efforts and competitive hiring trends that may reduce or eliminate student debt
- **Be prepared** to clearly explain the genuine benefits of establishing a personal advisor relationship. Ask open-ended questions that illuminate a prospective client's biases or potential misunderstandings

Advisors have an opportunity to build closer personal connections with clients by anticipating, observing, and effectively addressing their emotional reactions.

Never overlook the power of *“Tell me more… ”*

MAKE A HUMAN CONNECTION

An oft-quoted adage of Theodore Roosevelt applies here: "People don't care how much you know until they know how much you care!" Approach clients as fellow humans. Not just as customers. Doing so will expand your awareness of the powerful emotional component infused within client financial decision-making. Conversely, ignoring the emotional dynamic can lead to confusion, flawed communications, false assumptions, and missed opportunities.

PRACTICE ACTIVE LISTENING

It's important to recognize that clients' emotions continuously percolate within all discussions regarding their assets and investment choices. Clients who are approaching or entering retirement have likely already acquired significant assets. As much as they would like to increase the current value of their portfolios, their chief (and often unspoken) concern is the fear of making a mistake that could jeopardize that retirement nest egg. Validating that concern to your clients shows them you understand how they feel, reinforcing their confidence in your recommendations.

Emotions are distilled from individual ideas, whether based in reality or imagination. Enthusiasm about securing a better financial future can be quickly offset by fears over potential losses. Financial professionals who practice active listening can quickly audit these trouble spots and formulate informative and reassuring responses. Clear dialogue, accurate information, and thoughtful explanations can mute negative emotions.

DIG DEEPER

As you ask questions to better understand your client's situation, be alert for warning signs. When you encounter a discordant or unexpected response from your client, that is a signal to put down your pen and dig deeper. The client's emotions are fully engaged at this moment, whether you sense them or not. Respectfully inviting the client to elaborate will generate clarity for everyone, and it will offer you the opportunity to educate and reassure. Never overlook the power of *"Tell me more... "*

ANTICIPATE

Manage client emotions to better manage their assets. Specifically, financial professionals need to be aware that when clients suffer painful anxiety over anticipated losses in their portfolios, it often leads to irrational financial decisions and poor outcomes. It's worth repeating: The anxiety relates to anticipated losses — not the losses in real time. To effectively manage anxieties, start conversations with clients about decisions and strategies that can cushion the severity of potential losses. When it comes to retirement planning, clients seek clarity and confirmation that the assets they will need in the decades ahead will always be there.

When planning for their future there's no time like the present.

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