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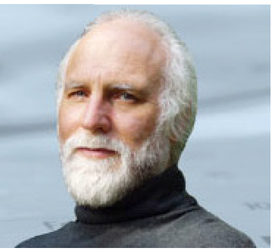
inside information



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Into the Mind of the Client

Synopsis: ***Here's a package of instruments that help advisors understand their clients at a deep level, which is designed to foster a much more effective working relationship.***

Takeaways: ***Certain financial habits tend to lead to outstanding financial outcomes—but how can advisors know who has these traits in advance? And how can they know who does not—and specifically where to apply their coaching and advising skills to best effect?***

Dr. Sarah Fallaw of DataPoints, LLC (*http://datapoints.com*) may be the profession's most important thought leader that you never heard of. She's the author of The Next Millionaire Next Door, a followup to the book that her father, Thomas Stanley, wrote to introduce the financial services profession to an entirely new, somewhat hidden, group of wealthy American families—and the habits/personality traits that made them wealthy. If you want a one-sentence synopsis of the original book, it is that there are a number of hard-working people who have excellent savings habits and do not feel compelled to enter into a spending contest with those extravagant spendthrifts 'the Joneses.'

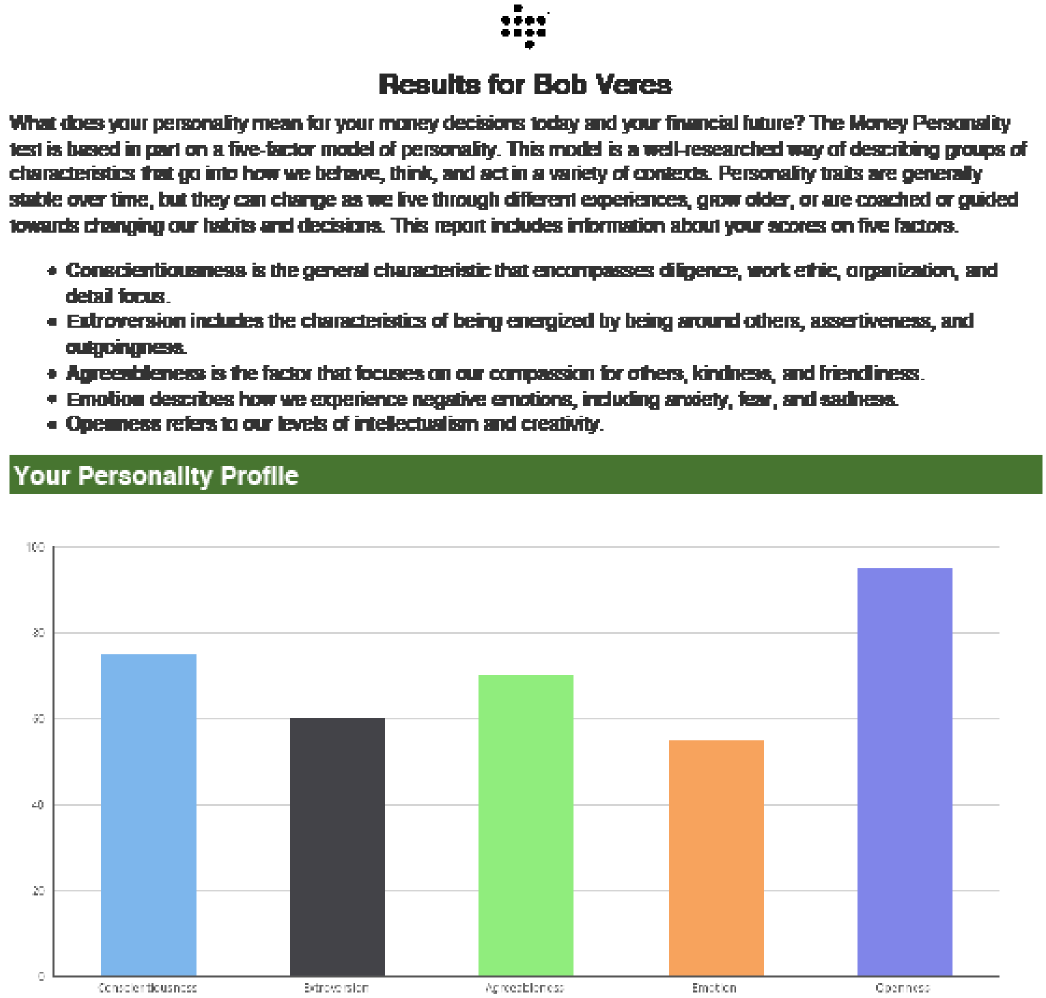
Fallaw's Ph.D. research included interviews with 600 of these quietly wealthy individuals, which became her book. At DataPoints, she has built a series of assessment tools for the financial planning profession to use with prospects, helping them identify, among other things, which of these healthy financial habits and tendencies their prospects and clients have currently, and how they (the advisors) might bend their clients' behaviors in that thrifty direction.

> ***For the first time, wealth-building traits and habits are easy to identify in clients and prospects.***

Chances are, you know those habits, but you might not have been able to put a name to all of them. The list includes *frugality, financial confidence* (and composure during market volatility or financial rough patches), *responsibility, habits of planning and monitoring, focus* and the key that was outlined in Fallaw's father's book: *social indifference*, which basically means the ability to try to impress people with fancy new things. This cohort tends to live comfortably in affordable homes, drive cars that don't turn heads on the street, dress comfortably but not flashily, and in general their neighbors would be surprised if they were to somehow get access to their financial balance sheet.

"We have always said that managing personal finances is like a job," Fallaw explains. "Some of us have those skills naturally, and the behavior and personality and attitudes that lead to wealth creation. And some of us," she adds, "may be more challenged in that."

DataPoints' initial service included four instruments that assess how well (or not) a client fits with the Millionaire Next Door habits and personalities from various angles. The most basic is the Investor Profile, which assesses risk preference, risk composure, behaviors and personality, all focusing on how well a prospect or client would react to market volatility. This is a much more precise risk tolerance tool than some of the marketing-oriented instruments



Results for Bob Veres

What does your personality mean for your money decisions today and your financial future? The Money Personality test is based in part on a five-factor model of personality. This model is a well-researched way of describing groups of characteristics that go into how we behave, think, and act in a variety of contexts. Personality traits are generally stable over time, but they can change as we live through different experiences, grow older, or are coached or guided towards changing our habits and decisions. This report includes information about your scores on five factors.

- **Conscientiousness** is the general characteristic that encompasses diligence, work ethic, organization, and detail focus.
- **Extroversion** includes the characteristics of being energized by being around others, assertiveness, and outgoingness.
- **Agreeableness** is the factor that focuses on our compassion for others, kindness, and friendliness.
- **Emotion** describes how we experience negative emotions, including anxiety, fear, and sadness.
- **Openness** refers to our levels of intellectualism and creativity.

Your Personality Profile

(with naive 'zero to 10' scales) in the fintech space, in part because it teases out each of the components of client behavior when faced with uncertainty, in part because it focuses more on the ability to stick with an investment policy than the actual fear that the markets generate. Instead of getting a number, you can get a picture of the issues that you will need to address with specific clients—or not.

The most Millionaire-Next-Doorish assessment is Building Wealth, which helps evaluate a client's or prospect's habits, behaviors and competencies to see if this person is likely to build and maintain a high net worth. The simplest use of the tool is for advisors to see if a prospect is going to be easy to work with, but on a deeper level, the report will identify problem areas where the advisor can personalize recommendations for developing improved behaviors that will help clients achieve their goals.

A Financial Perspectives instrument asks questions that help identify how clients feel about managing their finances—and this one should be taken by each spouse separately, so the advisor who is working with the couple can see at a glance any discrepancies. The questions relate to client financial attitudes in such areas as investing, budgeting and spending.

And there's a Money Personality assessment which measures a client's or prospect's perspectives and attitudes related to money and finances—from a psychological perspective, providing scores related to conscientiousness, extroversion, agreeableness, emotion and openness.

Unique characteristics

What I've just described was DataPoints' bread and butter until fairly recently, when several things happened. The CFP Board expanded the criteria for financial planning to include a psychological component (and released a tome describing the various aspects of it). Advisory firms began to desire a deeper way to understand and interact with their clients, what used to be called life planning, now simply called coaching away various financial dysfunctions which (to bring DataPoints into it) an advisor would need to be aware of before they can be discussed. The instruments, old and new, generally facilitate deeper client conversations about who they are as people, which Fallaw (reasonably) thinks might be kind of important in the advisor/client relationship.

"Our newest assessments are designed to help advisors understand their clients in terms of their unique characteristics, to help them uncover things about them and discuss these issues with some element of knowledge," says Fallaw. "Advisors are using our newer assessments to facilitate conversations about money-related experiences, and goals and attitudes. The point is to understand where your clients are today."

These tools include a couple of instruments created in partnership with financial psychologist Dr. Brad Klontz: the Klontz Money Scripts Inventory, designed to measure money beliefs or narratives that a client or prospect might have developed from childhood experiences. Many of these were formed before the client or prospect could gain an adult perspective, and so they lurk unseen in the emotional part of the brain and suddenly jump out to manifest in irrational financial decisions. (Klontz also partnered on the development of a Money Behaviors Inventory tool, but this is only offered to licensed therapists and clinicians.)

Another tool is the Financial Health Scale instrument, which is designed to measure a client's or prospect's feelings and behaviors related to money and personal finances. Unlike the other tools listed here, this one can be administered throughout the advisor/client relationship, to see how the advisor's advice and counseling has led to improvements in a client's financial health.

And advisors can give their clients a Retirement Approach Test, which assesses whether prospects or clients are mentally prepared for the challenge of leaving work for the next chapter of their lives. (Sample questions that clients can agree or disagree with: *I dislike days when I do not have a clear schedule. I enjoy trying many different new activities or hobbies. I do not have specific plans for the future.*)

Fallaw is currently beta-testing a ReFocus test (a different retirement readiness instrument) and WealthTrek (designed to help advisors understand a client's or prospect's openness to having financial discussions, making financial changes and ability to stick with long-term goals.

The Financial Health Scale instrument can be administered throughout the advisor/client relationship to see how the adivsor's advice had led to improvements in the client's financial health.

Advisors can buy various combinations of these instruments to use with clients and prospects for pricing ranging from $60 to $120 a month, and that comes with a dashboard that lets the firm see, in one place, the various results of the various instruments of the clients and prospects that have taken them. For those prices, advisors can put links to shorter versions of some of the quizzes on their website, as client self-assessment tools that generate more engagement with prospects and visitors.

And advisors can also get some content that Fallaw and her team produce, called Mind and Money, which includes articles for advisor blogs or client newsletters. "We produce two or three articles every month," Fallaw explains. "It's a nice way to introduce the quizzes, and we always tie back to research or an article that went through some of that research."

Some recent examples includes a short article, referring back to a research report published by the Society for Personality and Social Psychology, that notes that boredom can be a potentially-dangerous gateway emotion to risk-taking. Another references psychologist Dr. Beth Kurland, and offers five ways that people can make better financial decisions in their lives.

Deeper dives

Fallaw's research is, to put it bluntly, light years ahead of the profession's general understanding of what drives client behavior. Her instruments are designed to isolate a lot of drivers that are mixed up together in the emotional and experiential soup of the human mind: habits, perspectives about different aspects of life and money, likelihood of various behaviors in the face of market volatility, agreeableness that can lead to giving away or lending money to friends or relatives, aversion to financial information or budgeting—all the things that you hear advisors say they wish they had known about their clients before giving this or that advice or having the client leave over this or that market movement. Or before they took on this or that client not knowing this or that about how the relationship would go.

As mentioned earlier, we

used to call these deeper dives into the mind of a client 'life planning,' which is now (reluctantly, on the part of some) incorporated into normal financial planning. But that aspect of the service still tends to be a bit crude, mostly focused around helping clients articulate their goals and priorities before jumping in with advice. DataPoints seems to me to be close to the completion of this trend, where advisors are able to find out, early in the relationship, where to coach their clients toward better financial behaviors, and what obstacles they are likely to encounter to their best advice. In its purest essence, these are the core goals of a financial planning relationship.

Fallaw's father stunned the financial profession by showing how certain good financial habits trumped—by a wide margin—rates of return and good portfolios. It showed how ordinary people could achieve extraordinary financial results with what seems, when laid out in black and white, fairly ordinary habits followed over longer periods of time. Fallaw's DataPoints service could be the key for advisors who are so motivated to help many more of their clients become extraordinary navigators of our financial landscape. ■

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