

## The Drive of Natural Behavior on Financial Decisions - by Hugh Massie, April 2005

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Can you predict how you and your clients would behave if there were to be a negative event tomorrow? Industry research shows that in such a situation, many advisors cannot reliably forecast the behavior of clients nor do they have the tools to do so. Financial DNA Resources, Inc. has developed a new way for financial advisors to evaluate their clients' financial planning needs.

Financial DNA® is a scientifically validated profiling program that enhances the discovery process by firstly uncovering the naturally motivated ("hard-wired") behavior of clients in making financial decisions through its Financial DNA® Path 4 and 6 profiles. This part of the process has been extensively tested through more than 70,000 assessments and validated by Lee Ellis of RightPath Resources, Inc with a team of consultants associated with the University of Georgia's Applied Psychology Department. The core concept of the process is that every person's unique financial decision-making pattern - their "Financial DNA®" - evolves from their natural behavior. Natural behavior generally shapes how people respond to the world around them and is a key part of the unique construct of the Financial DNA® process, setting it apart from other client assessment processes. Unlike many other assessment processes and risk profiling instruments, Financial DNA® reliably predicts the total behavior of the person.

Hugh Massie, President and Founder of Financial DNA®, has observed at first hand how in many families the siblings who have been brought up in a similar environment with the same opportunities, values and beliefs, can have different attitudes to money. In one particular family, the oldest brother, a "Strategic Thinker", has a strong belief that money should be used to meet ambitious business goals even if some is at risk on the way; money may be created in the learning process and used as a tool for further growth. His younger brother, a "Supporter" and 18 months his junior, believes that the purpose of money should be to provide for the stability of his family life; beyond that, money is not important. The reason for these contrasting attitudes is the brothers' inherently different natural behaviors. When they completed their Financial DNA® assessments at a time when major family decisions had to be made, getting such a deep understanding of the difference without being invasive helped them see more objectively each other's perspective. This brought a new bond to their relationship and liberated them to work out the best solution with less emotion.

As natural behavior is so stable and highly predictable, it very often reveals itself when a person is under pressure. This answers a significant criticism about profiling instruments and their value, namely how reliable they are in changing circumstances. We know through the validation that the stability over time is high and this has consistently proven true in practical use where people have taken the instrument with 5 year or more gaps and very consistent results have been measured. Too many people assume that all personality profiles are the same. In reality, there are many different profiling instruments in the market and designed for a multitude of purposes.

*As Hugh Massie comments "Most assessment tools measure learned behaviors, which generate your attitudes, beliefs, and values, and are extremely dynamic. They can shift based on what's going on in your life. Natural behavior, on the other hand, is very stable over time and, in fact, shapes how people respond to the world around them."*

Overall a person's personality is dynamic but is driven by hard-wired natural behavior and then shaped by experiences, values and education. Hence the outcomes of many personality assessments are governed by how the person feels at that time, who they want to be, or think they should be when they did it. Investors are likely to have a higher risk tolerance when the stock market is on a "bull run" and they are swimming in money. What happens when the market has a sudden jolt, or there is some other negative event and they have lost money? Interestingly, their risk tolerance often appears to decline. But is that really the case? Has that person changed at the core? Generally they have not. The important factor to be determined is their real risk propensity and whether they have sufficient emotional comfort around their financial decisions.

Hugh Massie reveals a case where an executive has made millions from the sale of stock in his employer company but, through his advisor's risk profiling assessment, he indicates a desire to take little risk and build a very secure portfolio. However his Financial DNA<sup>®</sup> Path 4 and 6 profiles reveal that he has a naturally high propensity to take risks and importantly has a high natural risk tolerance level - his ability to live with losses and set-backs. Now a significant potential gap has been exposed between who he is and who he says he is. If the advisor relied on the first risk profile assessment, this client would be guided to a portfolio that significantly underperforms his naturally higher desire for results and this will reveal itself at some point. So with Financial DNA<sup>®</sup> the advisor at least has a chance to undertake a deeper discovery conversation with the client to better manage long-term expectations.

The unique ability of Financial DNA<sup>®</sup> Path 4 and 6 to uncover the natural behaviors comes firstly from the directions given to participants to look at their instinctive behavior regardless of whether they consider it to be good or bad. Then the construction of the forced choice wording questions, such as: "Rate the following words from 4 (Most Like You) to 1 (Least Like You): Enthusiastic, Loyal, Detailed, Commanding and "From each group of 3 words, indicate the one word that is MOST like you, and the one word that is LEAST like you: Good Listener, Consistent, Brave".

In contrast, those personality and psychological assessments that identify learned or situational behavior typically ask you to choose your preference between 2 scenarios based on your mental focus at a particular time, or some ask "If I... type questions", such as: "If I were to lose my job today, I would...." or "If the market value of a mutual fund fell by 20% I would...."

The impact on the outcome is significant as choosing between single words encourages a more general, non-situational frame of mind for a person responding and will therefore be more likely to generate a more accurate result from the perspective of highlighting naturally motivated behavior. In contrast, with the "If I...." type questions, the responses could change depending on how one feels on the day.

Another common situation in which we have seen one of the many advantages of Financial DNA<sup>®</sup> is in the area of "financial management" and "budgeting". Many people who are naturally spontaneous and tend to be spenders rather than savers have learned the need to be organized and to have a budget. However, because they are not naturally hard-wired this way there is a tendency at times of stress, pressure, sadness or even euphoria to revert to their less disciplined ways. It is important for the advisor to know how to communicate with and manage the client; how they appear on the surface may be misleading particularly at critical times.

Many behavioral profiling processes measure human behaviour on 4 factors, and very often these factors differ depending on the construct of the instrument. The Financial DNA<sup>®</sup> Path 6 profile measures 6 factors

and 22 pieces of behavioral information. Its strength is giving you the “why” of behavior. For instance, whilst many instruments may indicate a person will take risks or be adventurous, the Path 6 profile will tell you whether that is from a natural propensity to take chances or alternatively ambition with regard to goals. Some people are ambitious with their goals but very cautious regarding the chances they will take; others take risks but are not ambitious. Some people are both and hence more extreme. If the person is spontaneous then their propensity to take risks may be higher and it is likely that they will skimp on analysis. Other people are highly enthusiastic and create the impression that they are risk takers when in fact they are not at all. This clearly demonstrates is that if behavioral analysis is not broken down to this level, there is a risk that a client could be significantly misunderstood.

In the Financial DNA<sup>®</sup> process there is another profile known as Financial Directions, which measures learned financial behaviours and preferences at a deeper level with 18 factors and 63 sub-factors identified. This profile with the Financial DNA<sup>®</sup> Path 4 and 6 Profiles means the full Financial DNA<sup>®</sup> of a person is revealed. The analysis of the Financial Directions Profile is very powerful as it enables the actual financial behaviors and preferences to be compared to the natural behaviors revealed by the Financial DNA<sup>®</sup> Path and 6 profiles. The outcome is that the causes of these gaps are identified which sets the advisor up with more information to guide the client and pinpoint the right financial decisions. In the case of the executive client mentioned earlier, this was important as it was subsequently discovered that the desire for a low risk portfolio instead of a more growth orientated portfolio was actually triggered by bad memories of a family bankruptcy.

In conclusion, the depth and reliability of Financial DNA<sup>®</sup> gets the client discovery process going in the right direction. If other analytical processes are used to supplement Financial DNA<sup>®</sup> then there will be an even more robust basis for making financial decisions.

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#### **About the Author:**

Hugh Massie is the President of Financial DNA Resources. In his work as a Wealth Mentor, Hugh specializes in human behavioral discovery using the proprietary Financial DNA<sup>®</sup> Discovery Process to liberate and empower people, families and organizations internationally to implement committed wealth creation decisions aligned to the core of who they are. Hugh is the author of a book “Financial DNA<sup>®</sup> – Discover Your Unique Financial Personality for a Quality Life”.