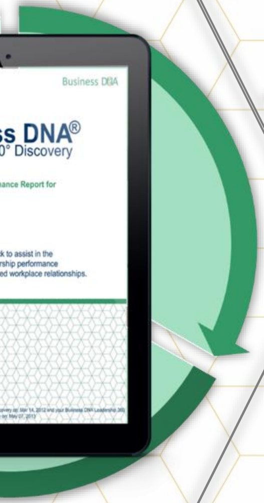
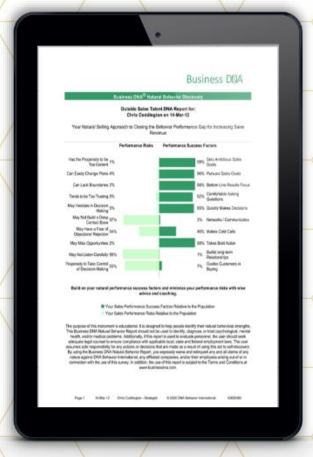
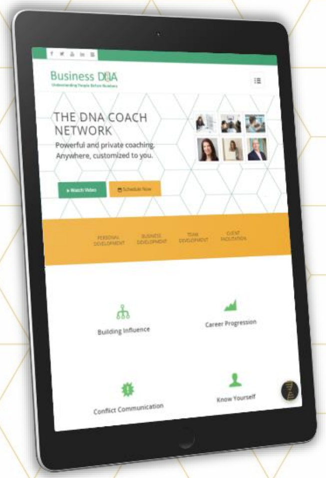
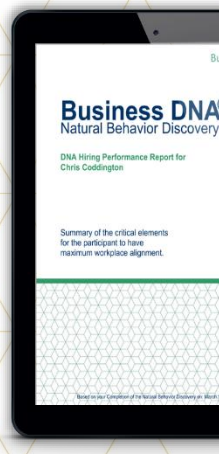
# DNA Behavior®

The Behavior and Money Insights Company


# Behavioral Biases Measured by DNA Behavior Enhancing Your Technical Understanding

Using This Guide:

1. This guide follows "Behavioral Finance Made Practical". Please read this guide first to understand how we infuse behavioral finance into the financial planning and investment management processes.
2. In this segment we have individually addressed each of the sixteen behavioral biases measured by DNA Behavior to provide you with enhanced practical and technical understanding.
3. In addition, we have provided training exercises for each bias.

# Advisors + Investors + Bias

Financial advisors are serious about understanding the behavioral components of investing.

Yet why, after significant time spent working on an investment policy statement, do investors react in the moment and revert to long-held beliefs that may hurt their returns?

# Advisors + Investors + Bias

Such an emotional response when markets are unpredictable, volatile or even stable is due to behavioral bias.

As an investor, bias can get in the way of your success.
But is this the client's bias or the advisor's bias?

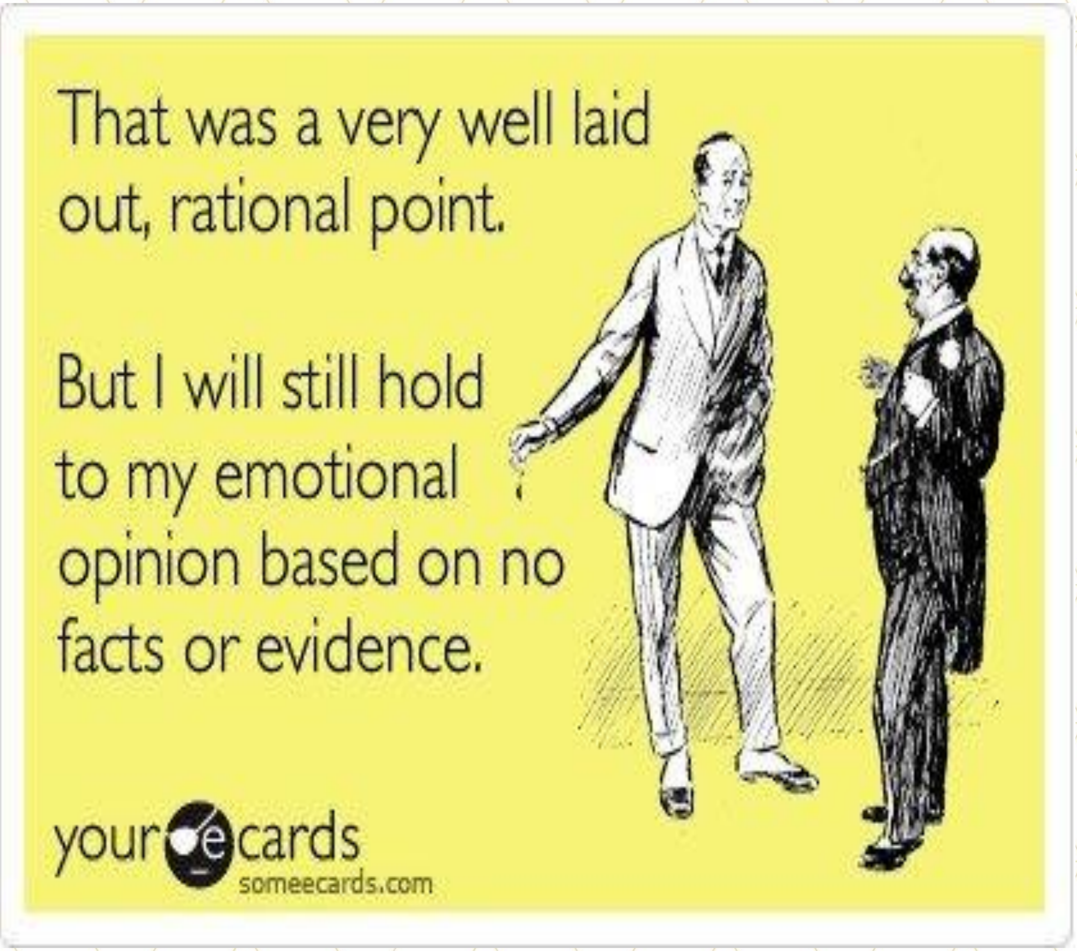
# Imperfect Decisions to Improved Decisions

- People have hardwired cognitive biases and a set of emotions
- For many investors, buying is a forward-looking activity and selling is backward-looking
- A money manager's behavior will be influenced by how his or her performance is measured, monitored, and rewarded.
- The two greatest stumbling blocks preventing managers from improving today – are the lack of quality feedback and a weak understanding of how their emotions run roughshod over their intentions.
- Investment is an inherently emotionally arousing process
- Failure to bypass or ignore feelings is likely to lead to poor decision-making outcomes.
- When unconscious motivations, urges, and intuitions push you toward success consistently, they are part of your skill set. When these same forces push you toward persistently faulty choices, they are behavioral tendencies.
- Learning to harness the unconscious deliberately, the way other top-performing professionals do is of obvious value.
- But professional investors have never done this before, and it will require retooling how managers go about the tasks of developing self-awareness and improvement.

# Advisors + Investors + Bias

An emotional response when markets are unpredictable, volatile, or even stable is due to behavioral bias.

When investors understand this behavior, financial advisers can frame investment decisions in a way that will increase the likelihood that they will stick with their plans.



# Bias is a Tug of War

Advisors and clients need to separate emotions from investing. Or rather, to know enough about inherent biases to be able to manage them.

# Manage the Emotional Roller Coaster of Events and Markets

Why do some investors repeatedly lose wealth and others accumulate it?

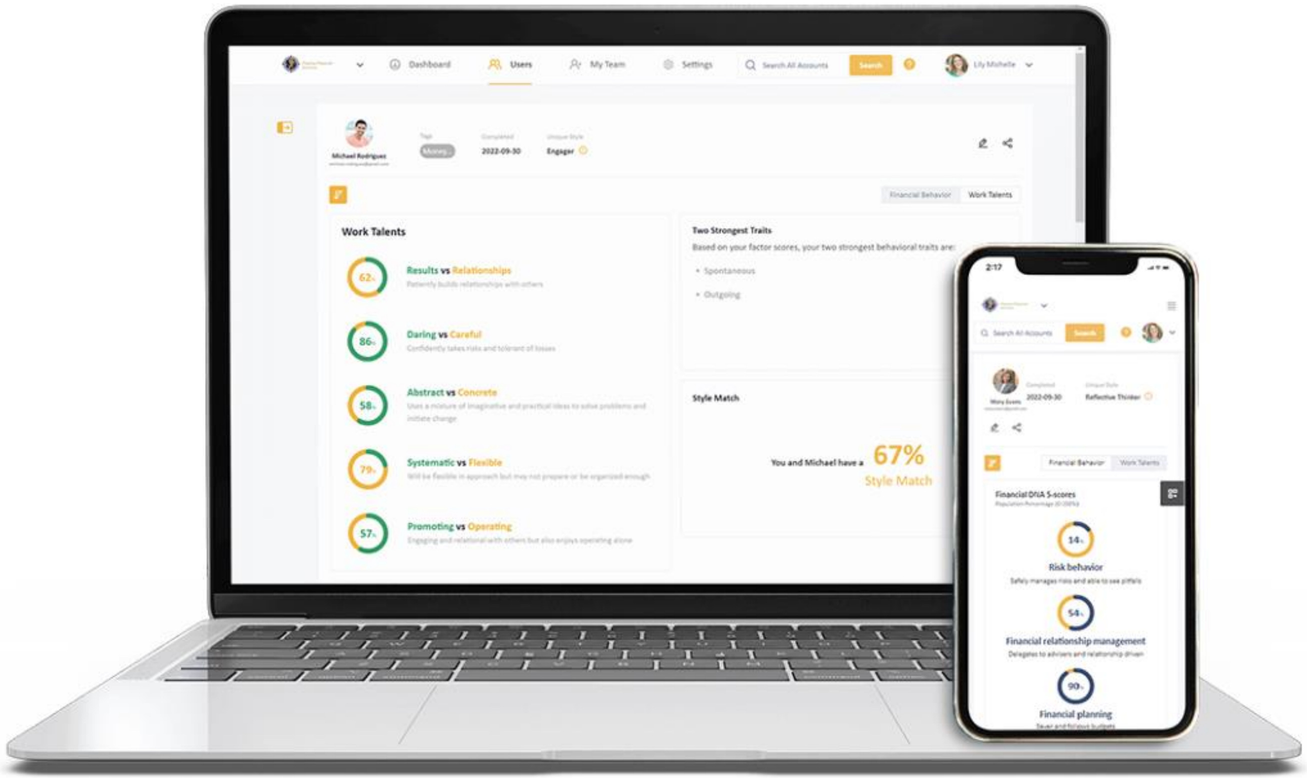
For clients to be financially successful, they need to be able to manage their "emotional reflex system" when events happen.

# Manage the Emotional Roller Coaster of Events and Markets

Investors can't control the markets but can develop their "Financial EQ" through behavioral awareness.

This insight will enable investors to manage how they react to events.

Achieving results is about how you predict and manage your behavior.




# Behaviorally Smart Decisions: Behavioral Bias Review for Behavioral Management of Clients

# Financial Personality Influences on Decision-Making
# Proactive Behavioral Bias Management

Risk of Not Achieving Goals

**Can Over-Influence Caution**

- Disposition Effect
- Mental Accounting
- Loss Aversion
- Pattern Bias
- Fear of Regret
- Status Quo Basis
- Risk Aversion
- Benchmark Focus

**Need to Increase Decision-Making Confidence**

**Can Increase Risk - Taking**

- Consolidated View
- Herd Follower
- Over Trading
- Instinctive
- Controlling
- Optimism Bias
- Over Confidence
- Newness Bias

**Need to Manage Expectations Down**

# Behavioral Finance Principles
# Financial DNA Behavioral Factors Connected to Biases

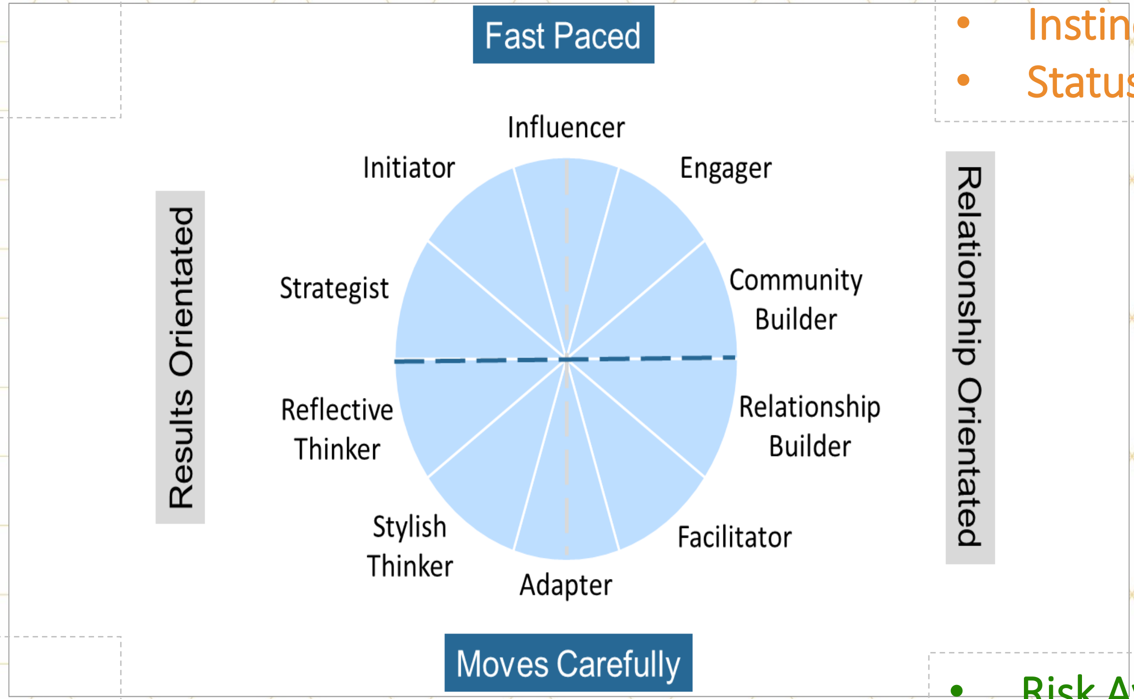
1. Every person has a different level of each behavioral bias naturally ingrained ("hard-wired") in them, which is predictable. Therefore, each bias can be measured by the Financial DNA Natural Behavior Discovery Process.
2. The Financial DNA, Natural Behavior reporting, reflects the predominant or combination of behavioral factors applicable in measuring each behavioral bias.
3. The extent to which each bias prevails in decision-making will be determined by the strength of the person's behavior in one or more factors. Further, some behavioral factors may apply to more than one bias at some level.
4. However, each behavioral bias can be learned or modified through experiences, values, and education.
5. Further, each behavioral bias, whether natural or learned, can be overcome with behavioral management.

# Financial DNA Natural Behavior Unique Style Matrix Including Behavioral Biases and Re-Framing Communications

- Consolidated View
- Over Trading
- Optimism Bias
- Risk Taker

- Spender
- Herd Follower
- Instinctive
- Status Quo

**Results Orientated**




**Relationship Orientated**

- Saver
- Mental Accounting
- Pattern Bias
- Benchmark Focus

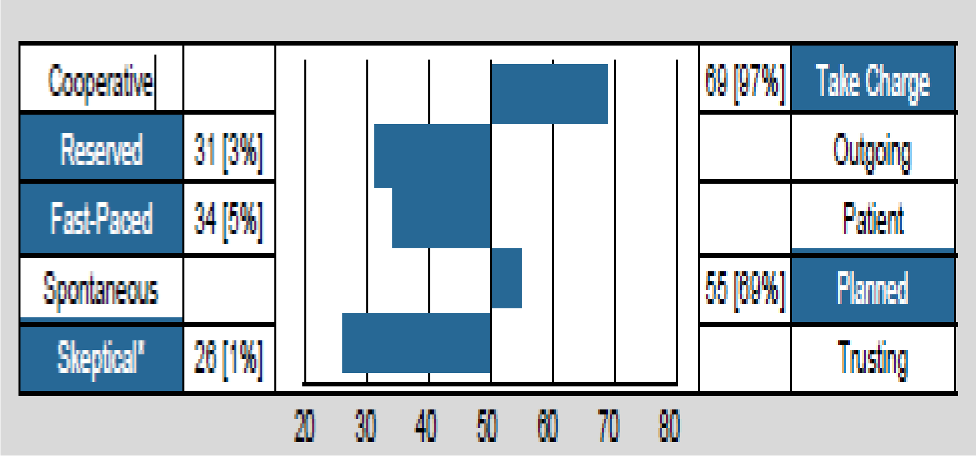
- Risk Aversion
- Loss Aversion
- Fear of Regret
- Disposition Effect

# The Need for Financial Personality Awareness
# Every Person Has Investing Strengths and Struggles

| DNA Behavioral Factor | Financial Performance Strength | Behavioral Challenge Under Pressure | Financial Performance Risk | Behavioral Finance Biases |
|---|---|---|---|---|
| Take Charge | Visionary | Does not listen | Over extends | Consolidated view |
| Cooperative | Compliant | Hesitant | Holds losses | Disposition effect |
| Outgoing | People connector | Becomes emotional | Sabotages self | Herd follower |
| Reserved | Reflector | Hoards | Fear of not enough | Mental accounting |
| Patient | Stabilizer | Procrastinates | Expects guarantees | Loss aversion |
| Fast Paced | Realist | Impatient for returns | Sells at wrong time | Over trading |
| Planned | Analyzer | Paralysis | Misses opportunities | Pattern bias |
| Spontaneous | Intuitive | Impulsive | Makes judgment errors | Instinctive |
| Trusting | Believer | Too receptive | Taken advantage of | Fear of regret |
| Skeptical | Questioner | Does not delegate | Misses market timing | Controlling |
| Pioneer | Goal driver | Over focused on success | Fails to change plans | Optimism bias |
| Content | Balancer | Stays in comfort zone | Lacks commitment | Status quo bias |
| Risk Taker | Venturesome | Takes poor chances | Low portfolio balance | Over confidence |
| Cautious | Conservative | Too calculated | Under performs | Risk aversion |
| Creative | Idea connector | Easily bored | Loses financial direction | Newness bias |
| Anchored | Implementer | Fixed on existing ways | Fails to adjust | Benchmark focus |

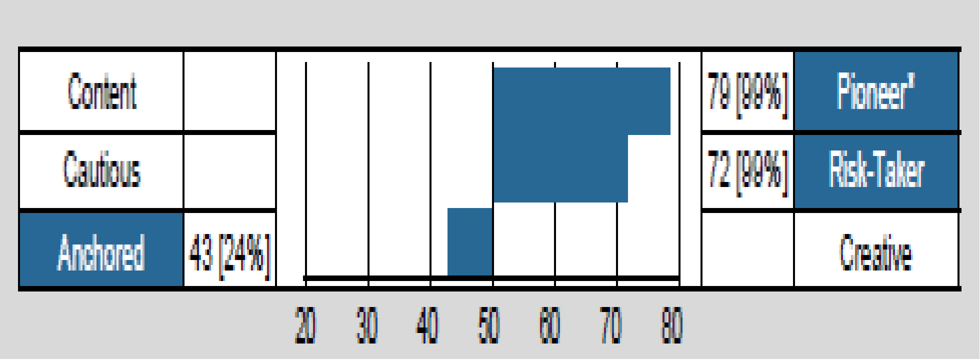
# Connecting Financial DNA Natural Behavior Factors to Behavioral Finance Biases

Disposition effect
Mental accounting
Over trading
Instinctive
Controlling




Consolidated View
Herd follower
Loss aversion
Pattern bias
Fear of regret

Status quo bias
Risk aversion
Benchmark focus




Optimism bias
Over confidence
Newness bias

# Specific Measurement of Each Behavioral Bias Insights for Behaviorally Managing Client Decisions

## 1.3 Influences of Behavioral Biases on the Client's Financial Decision-Making

The behavioral biases highlighted below are all patterns of behavior which if not managed can cause a client to make irrational decisions on a regular basis, increasing the risk of not achieving their goals. Discuss the strongest behavioral biases with the client and agree a strategy for managing them.

| Bias | Description | Score |
|---|---|---|
| **Optimism Bias** | Exhilarated by playing a big game even if they know it is difficult to win. Action: Consider the potential sacr ifice | 99% |
| **Over Confidence** | Can think they are more successful at investing than they really are. Action: Evaluate the dangers better | 98% |
| **Consolidated View** | Prefers to look at the aggregate portfolio rather than individual positions. Action: Monitor individual transactions | 97% |
| **Mental Accounting** | Likes to put money into separate buckets for specific purposes. Action: Adopt a more flexible approach | 97% |
| **Over Trading** | Tends to be impatient to get results and may sell at the wrong time. Action: Adopt a longer term approach | 95% |
| **Controlling** | Tends to control decisionmaking and take action without advice. Action: Seek others input | 93% |
| **Benchmark Focus** | Can be fixed on keeping in line with established benchmarks. Action: Consider alternative strategies | 76% |
| **Pattern Bias** | Desires order in the face of chaos by looking for predictable patterns in markets. Action: Be more flexible with strategy | 69% |
| **Instinctive** | In adversity tends to make decisions quickly and emotionally based on instinct. Action: Slow down and evaluate | 42% |
| **Newness Bias** | Likely to give more weight to recent information and ideas. Action: Adopt a structured approach | 24% |
| **Disposition Effect** | May sell winners and hang on to losers for too long. Action: Follow investment policies | 3% |
| **Herd Follower** | Tends to stampede into investments in exuberance and out in fear. Action: Make more educated decisions | 3% |
| **Risk Aversion** | Overly hesitant to take the necessary risks to make the required returns. Action: Learn calculated risk-taking | 2% |
| **Loss Aversion** | May not realize losses to avoid pain even though values may fall further. Action: Be more rational with decisions | 1% |
| **Fear of Regret** | Hesitant in case will miss out on a potential gain from the next best thing. Action: Set decision-making boundaries | 1% |
| **Status Quo Bias** | Likely to take notice of information which will keep their world the same. Action: Appreciate growth opportunities | 1% |

0% 25% 50% 75% 100%

# The Need for Financial Personality Awareness
# Summary of the Different Behavioral Finance Biases

| Behavioral Finance Bias | Communication in Up and Down Markets | Action in Up Market | Action in Down Market |
|---|---|---|---|
| Consolidated view | Provide options on recommended strategies | Review rational for holding each individual position | With overall result in mind address performance of individual positions |
| Disposition effect | Create relaxed environment and get feedback | Show impact of netting gains and losses | Provide investment policies on buying and selling boundaries |
| Herd follower | Let them know what other key people are doing | Set boundaries to manage over excitement | Show decisions that will protect their lifestyle |
| Mental accounting | Allow reflection time | Encourage them to revisit savings allocations | Demonstrate how they will have enough money in the end |
| Loss aversion | Express feelings and emotions | Show gains that may be lost by not taking losses | Present information that shows they will be safe if losses are realized |
| Over trading | Speak at a quick pace | Show the costs of trading strong performing positions | Show long term performance opportunities by not selling early |
| Pattern bias | Provide specific facts, data | Demonstrate potential missed opportunities from not being opportunistic | Show market patterns and long term impact of down turn on their plan |
| Instinctive | Provide broad facts and stories | Set clearly defined boundaries | Prevent them from being impulsive |
| Fear of regret | Allow open dialogue | Encourage small steps forward to build confidence | Keep them focused on taking some next steps in the present |
| Controlling | Quickly provide logical explanations | Provide well researched information and minimize surprises | Give them choices so they make the final decision |
| Optimism bias | Address progress to their goals | Monitor they are not unnecessarily over extending their finances | Positively present a plan revision and action steps |
| Status quo bias | Keep the conversation easy going | Present how they can safely come out of their comfort zone | Show how life balance and stability will be maintained |
| Over confidence | Present risk and return | Ensure they do not take a big risk without proper evaluation | Ensure they keep their portfolio balance reasonable |
| Risk aversion | Focus on certainties and minimize the risks | Show strategies for protecting downside | Show outcomes of reasonable calculated risks |
| Newness bias | Brainstorm different solutions with them | Review merits of new ideas against the plan | Do not let recent events distract from their financial direction |
| Benchmark focus | Keep the conversation tangible and logical | Show how another proven path may improve performance | Show where their performance is against the benchmark |

# Exercise:
# Incorporating Behavioral Biases into Client Meeting

**Step 1.** The facilitator will allocate you 2 case studies with different mixes of stronger behavioral biases out of the 16 (total).

**Step 2**. Prepare for an interview with the investor case study person. You should:

- Determine how you would begin the initial conversation.
- Design 3 to 5 questions to help the investor client understand how their style could cause underperformance in the investment portfolio.
- Know how to adapt your communication style for this client to get them to listen and take action for change.

**Step 3**. Pair up with another participant and share how you would conduct the interviews for your 2 case studies.

# Client: Don Spring
# Top 5 Influences of Behavioral Biases

| Bias | Description | Score |
| --- | --- | --- |
| **Disposition Effect** | May sell winners and hang on to losers for too long. Action: Follow investment policies | 93% |
| **Risk Aversion** | Overly hesitant to take the necessary risks to make the required returns. Action: Learn calculated risk-taking | 92% |
| **Pattern Bias** | Desires order in the face of chaos by looking for predictable patterns in markets. Action: Be more flexible with strategy | 79% |
| **Loss Aversion** | May not realize losses to avoid pain even though values may fall further. Action: Be more rational with decisions | 73% |
| **Herd Follower** | Tends to stampede into investments in exuberance and out in fear. Action: Make more educated decisions | 69% |

# Client: Max Speed
# Top 5 Influences of Behavioral Biases

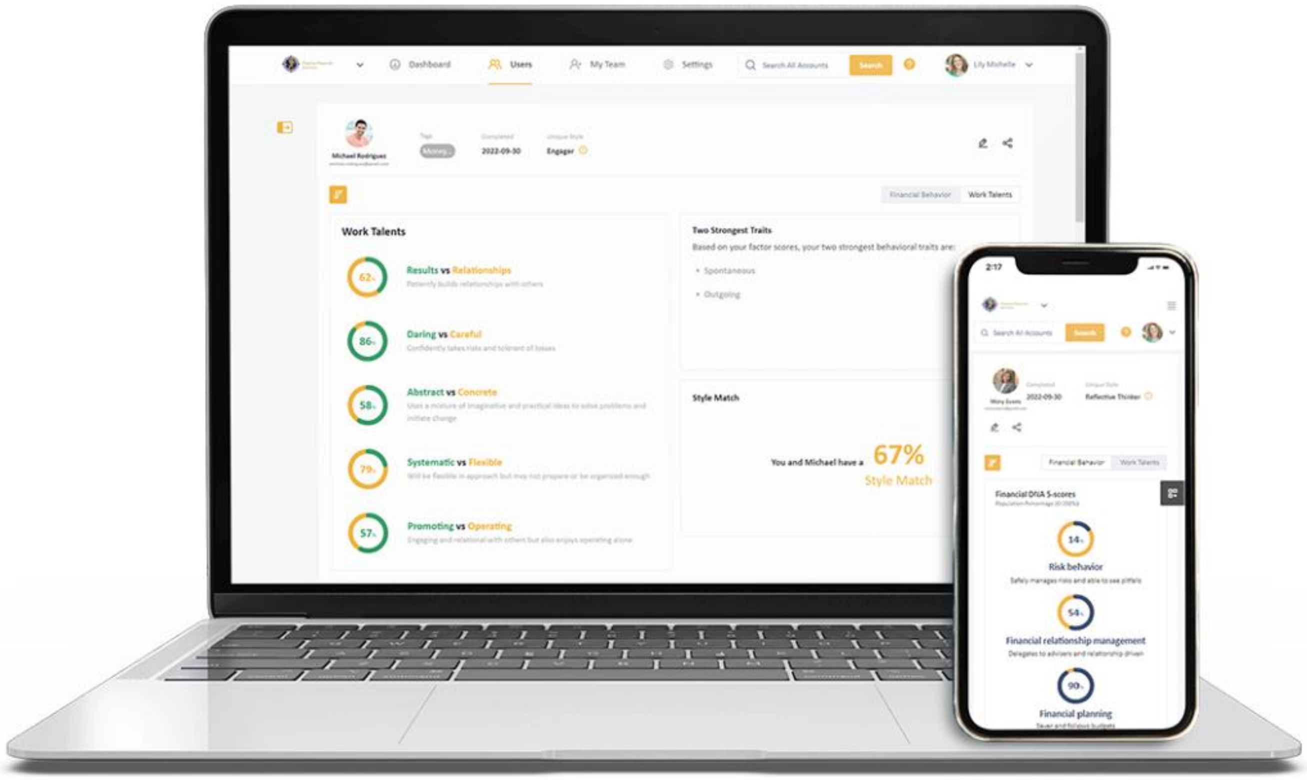
| Bias | Description | Score |
|---|---|---|
| **Over Confidence** | Can think they are more successful at investing than they really are. Action: Evaluate the dangers better | 98% |
| **Over Trading** | Tends to be impatient to get results and may sell at the wrong time. Action: Adopt a longer term approach | 98% |
| **Optimism Bias** | Exhilarated by playing a big game even if they know it is difficult to win. Action: Consider the potential sacr ifice | 96% |
| **Controlling** | Tends to control decisionmaking and take action without advice. Action: Seek others input | 95% |
| **Consolidated View** | Prefers to look at the aggregate portfolio rather than individual positions. Action: Monitor individual transactions | 95% |

# Client: Mike Tudor
# Top 5 Influences of Behavioral Biases

| | | |
|---|---|---|
| **Over Confidence** | Can think they are more successful at investing than they really are. Action: Evaluate the dangers better | 96% |
| **Instinctive** | In adversity tends to make decisions quickly and emotionally based on instinct. Action: Slow down and evaluate | 95% |
| **Over Trading** | Tends to be impatient to get results and may sell at the wrong time. Action: Adopt a longer term approach | 90% |
| **Optimism Bias** | Exhilarated by playing a big game even if they know it is difficult to win. Action: Consider the potential sacr ifice | 90% |
| **Consolidated View** | Prefers to look at the aggregate portfolio rather than individual positions. Action: Monitor individual transactions | 82% |

# Client: Penny Martin
# Top 5 Influences of Behavioral Biases

| Bias | Description | Score |
| --- | --- | --- |
| **Risk Aversion** | Overly hesitant to take the necessary risks to make the required returns. Action: Learn calculated risk-taking | 96% |
| **Herd Follower** | Tends to stampede into investments in exuberance and out in fear. Action: Make more educated decisions | 76% |
| **Disposition Effect** | May sell winners and hang on to losers for too long. Action: Follow investment policies | 73% |
| **Pattern Bias** | Desires order in the face of chaos by looking for predictable patterns in markets. Action: Be more flexible with strategy | 73% |
| **Status Quo Bias** | Likely to take notice of information which will keep their world the same. Action: Appreciate growth opportunities | 69% |




# Training for the 16 Behavioral Biases Measured by DNA Behavior:

# Financial DNA® Behavioral Bias Training and Exercises

Training together with Exercises helps Advisors and Investors drill deeper into behavioral finance and biases.

Both Advisor and Investor behavior often deviate from logic and reason, and investors display many biases influencing their investment decision-making processes.

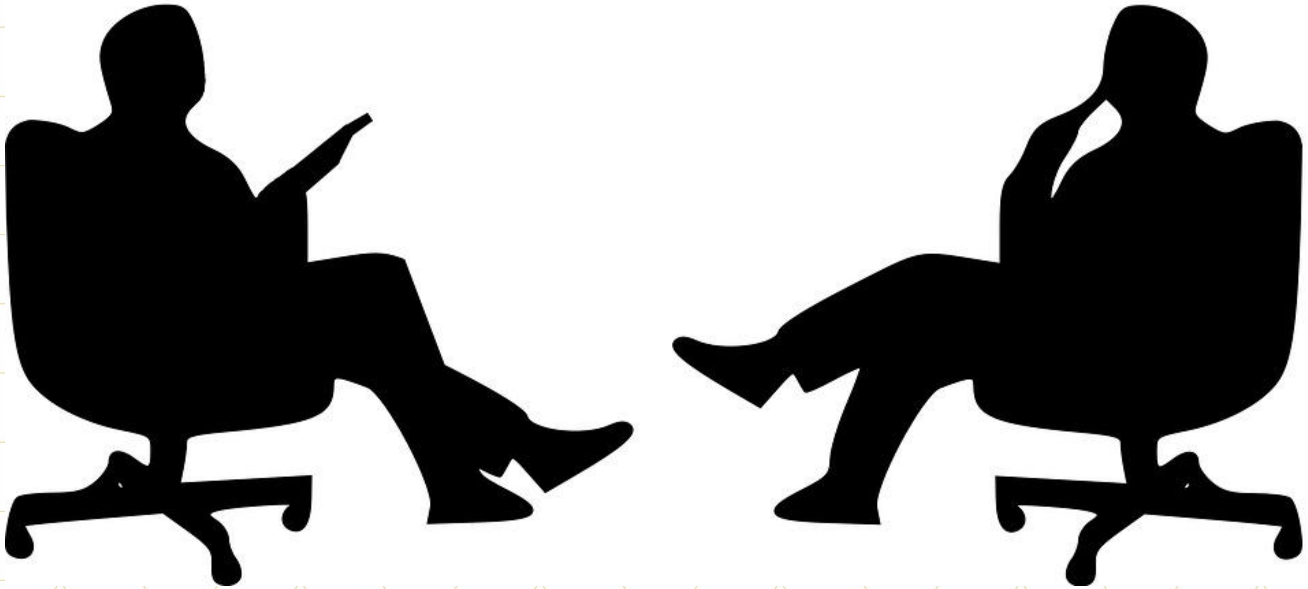
It is essential, therefore, to understand that inherent hard wiring predisposes people to make systematic mistakes about risk, for example. Understanding and recognizing the basis for such reactions in decision-making, which range from over-exuberance to irrational pessimism when markets move, will assist in revealing how to identify and manage biases to which financial advisors and investors are vulnerable.

# Exercises – Behavioral Biases Influencing Financial Decision-Making

Each participant in the training will be given information vital for the advisor to be aware of.
Breaking into two's one taking the role of the advisor and the other of the client, each will have details of the other's CDNA only and have to endeavor to uncover the piece of information using questions targeted at the CDNA style of the other.

Objective:

- Your ability to form long-term trusted relationships with clients will increase when you know how to help clients create their financial goals that lead to creating an appropriate investment program. Communication, therefore, is critical.
- These exercises are designed to help you understand the psychology and emotions underlying clients' decisions behind creating these goals.
- Their further intention is to provide insights into the importance of asking the right questions to uncover what information is lying below the surface that will inevitably add value to your understanding of how the client makes decisions.
- Such insights equip the advisor to deepen the client's bond, producing a better investment outcome and achieving a better advisory relationship.



# Wealth Mentoring Conversation Exercise

# Exercise:
# De-Brief Participant Reports on Decision-making Style

Swap your Financial DNA Natural Behavior Summary Report with another participant and de-brief each other on your financial and investment decision-making style using the information in the reports. Focus on their:

1. Behavioral style and biases
2. Risk profile and portfolio grouping
3. Performance strengths, struggles, and environment keys

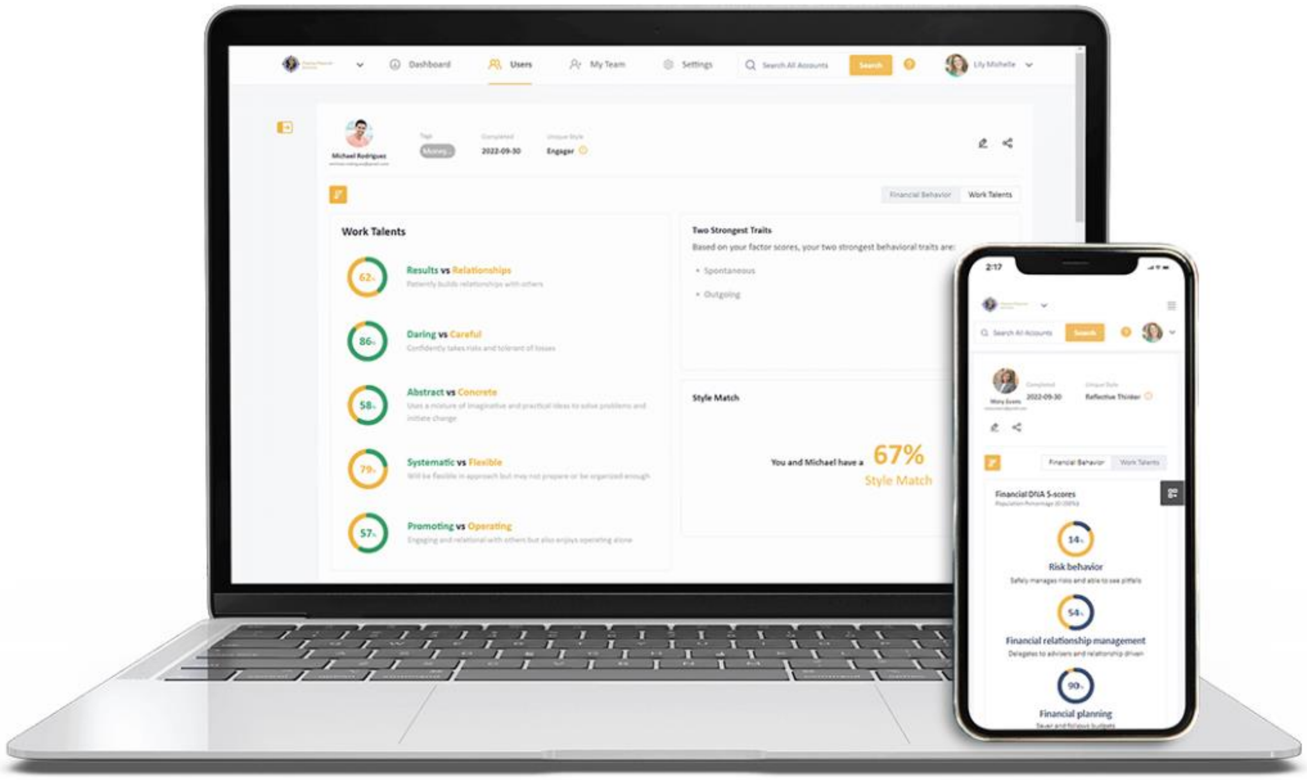
Repeat this exercise 2 times:

1. With a person similar in style to you, and
2. With a person opposite in style to you.

# Behavioral Bias Training Exercise
# Simulated Investor Client Meeting Role Plays

**Step 1.** The facilitator will allocate you 2 out of the 16 behavioral biases covered in training based on their perception of your financial personality.
**Step 2**. Pair up with another participant and share the two behavioral biases allocated to each other.
**Step 3**. You will both conduct a 5 to 7-minute interview as the advisor to the other, who is the investor client, based on their two biases. The objective is to use 3 to 5 questions provided for each behavioral bias to help the investor client gain deeper self-awareness of how their style could cause underperformance in the investment portfolio.
**Step 4**. In preparing for and conducting the interview as the advisor, you should:

- First, determine how you would begin the initial conversation.
- Strategize your approach if you feel the client is losing confidence in you.
- Know how to adapt your communication style for this client to get them to listen and take action for change.




# Behavioral Management of Clients: Consolidated View Bias

# Defining The Consolidated View Behavioral Bias In the Context of Financial Personality

**Investor**

Prefers to look at the aggregate portfolio rather than individual positions. The client doesn't want granular detail. Provide headlines

**Action**

Monitor individual transactions. Have the information to hand if needed.

# Application of the Consolidated View To The Financial Planning Process

- This investor knows where they are going.
- They can vision/strategize how to get there.
- They are naturally big-picture thinkers.
- They can confidently make financial choices.

# Application of the Consolidated View To The Financial Planning Process

- When managing investments, the consolidated view investor will likely look at an investment portfolio in the aggregate.
- They will look for the overall result.
- They won't get stuck looking at whether each investment is a winner or loser.

# Application of the Consolidated View
# To Advisor Client Communication

- This investor will set the direction of their overall planning; they will have built a detailed plan for wealth creation and, with their high-risk tolerance, will be comfortable taking chances; but always focused on the bottom line.
- Advisors will need to find out what goals would be the most important for them to achieve in their life goals.

# Application of the Consolidated View To Advisor Client Communication

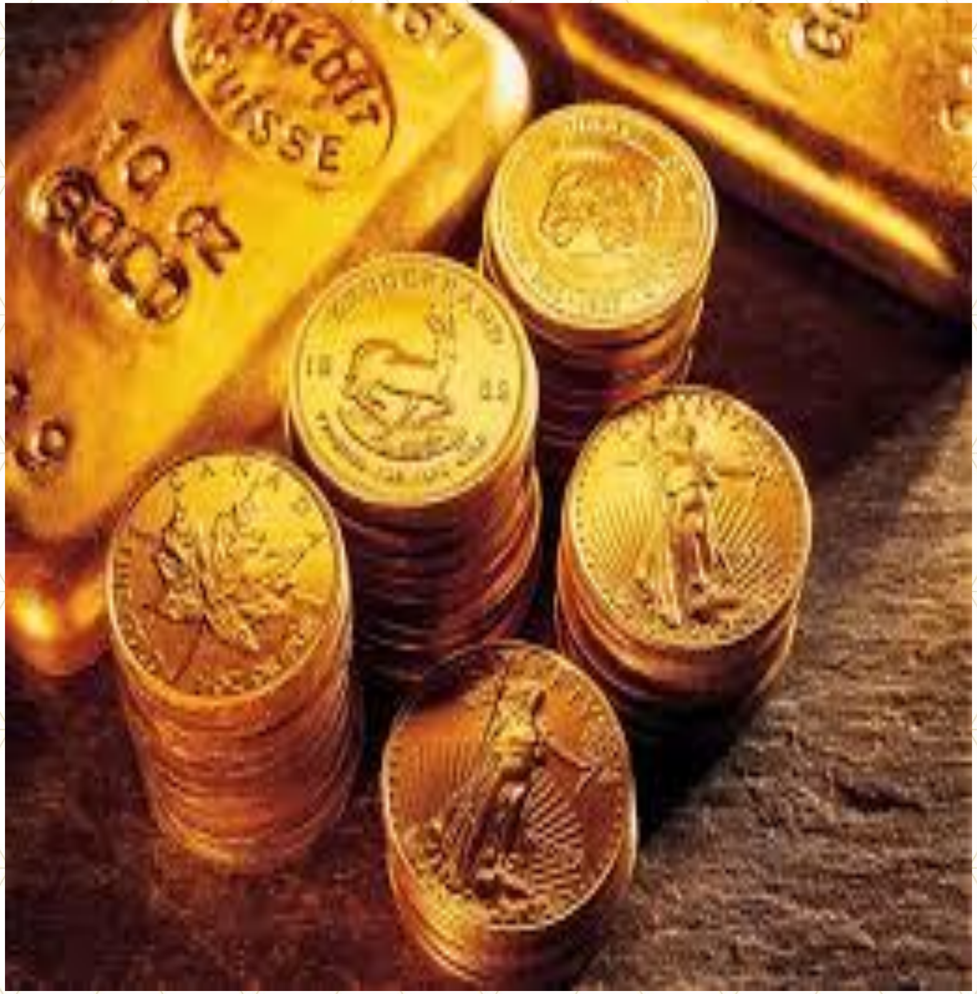
- Keep the discussion at a high level.
- Provide options and help them set realistic goals based on research and bottom-line protection.
- Build trust in the relationship; without it, the client may take control of the decision-making and sideline you.

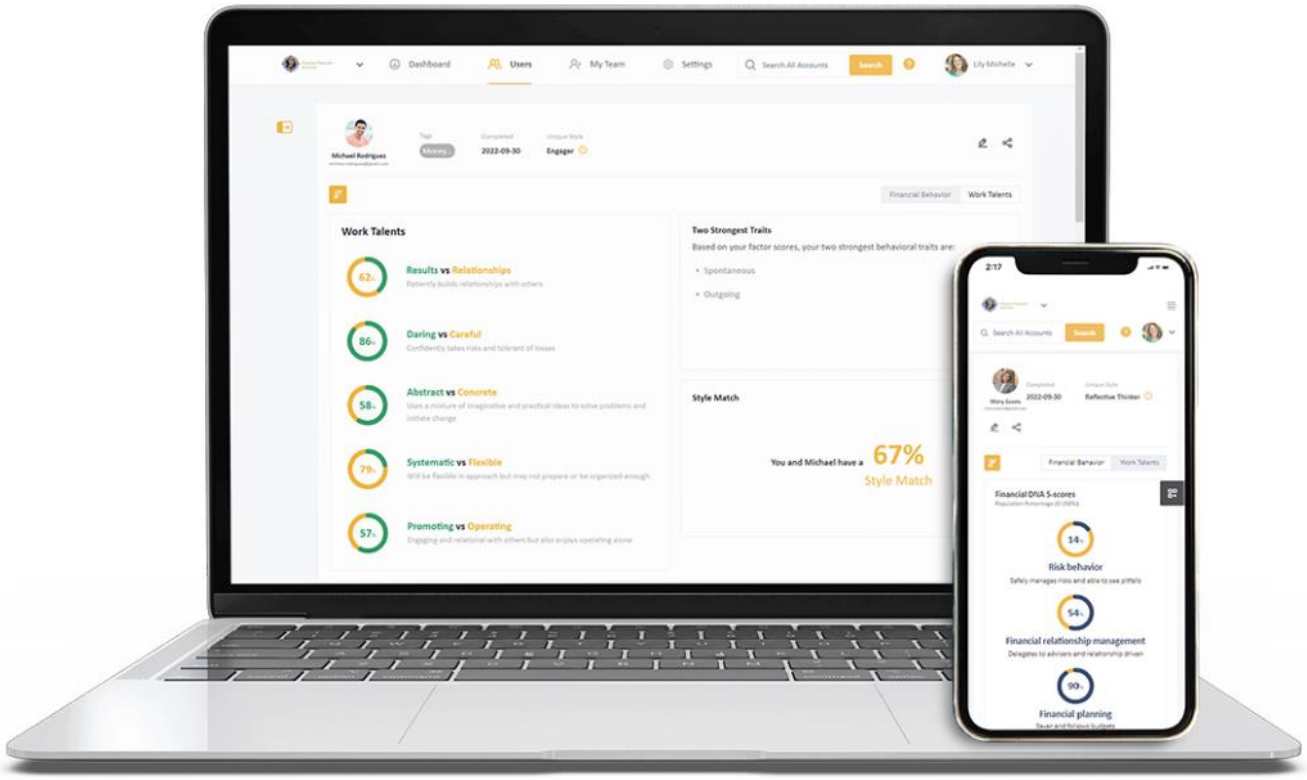
# Exercise for Consolidated View Bias

1. Focuses on the aggregate result to achieve their goals and not individual positions. What were the merits of making each investment in the portfolio?
2. How would you encourage the investor to focus on the performance of each investment in the portfolio?
3. Potentially comfortable losing 9 out of 10 times, providing there is overall satisfactory performance. How would you approach getting the investor to improve the balance of winners and losers in their portfolio?
4. How do you feel when an investment loses money? What is your approach to justifying this?

# Exercise for Consolidated View Bias

1. How would you begin the initial conversation with this client?
2. What are the top 5 questions you would ask to elicit information from a new client to understand their financial goals and agenda?
3. How would you prioritize the client's goals around their stated objectives?
4. What would you do if the client lost confidence in your relationship?
5. What would be the outward signs that the investor was no longer engaged in the conversation with you?






# Behavioral Management of Clients: The Disposition Effect Bias

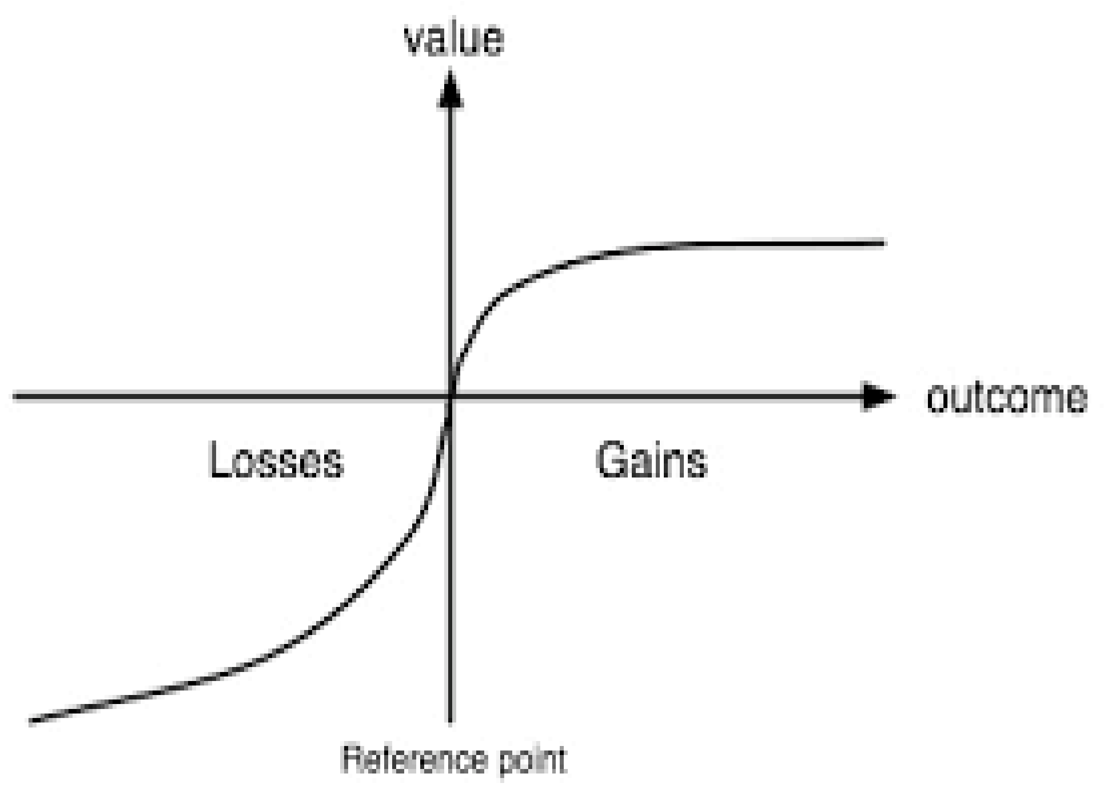
# Defining The Disposition Effect Behavioral Bias In the Context of Financial Personality

**Investor**

Disposition relates to the tendency of investors to sell shares whose price has increased while keeping assets that have dropped in value.

**Action**

Follow investment policies



# Defining The Disposition Effect Behavioral Bias In the Context of Financial Personality

It feels good to close a position with a gain (selling the winners). And it feels awful to sell at a loss. As a result, investors tend to hold onto their losers for longer -- often until they break even.

# Application of The Disposition Effect View To The Financial Planning Process

- This investor tends to buy high and sell low. They shoot themselves in the foot—because they follow their instincts.
- Encourage their input to decision-making and provide specific directions.
- They have trouble letting go of stocks that are worth less than they paid for them.

# Application of the Disposition Effect To Advisor Client Communication

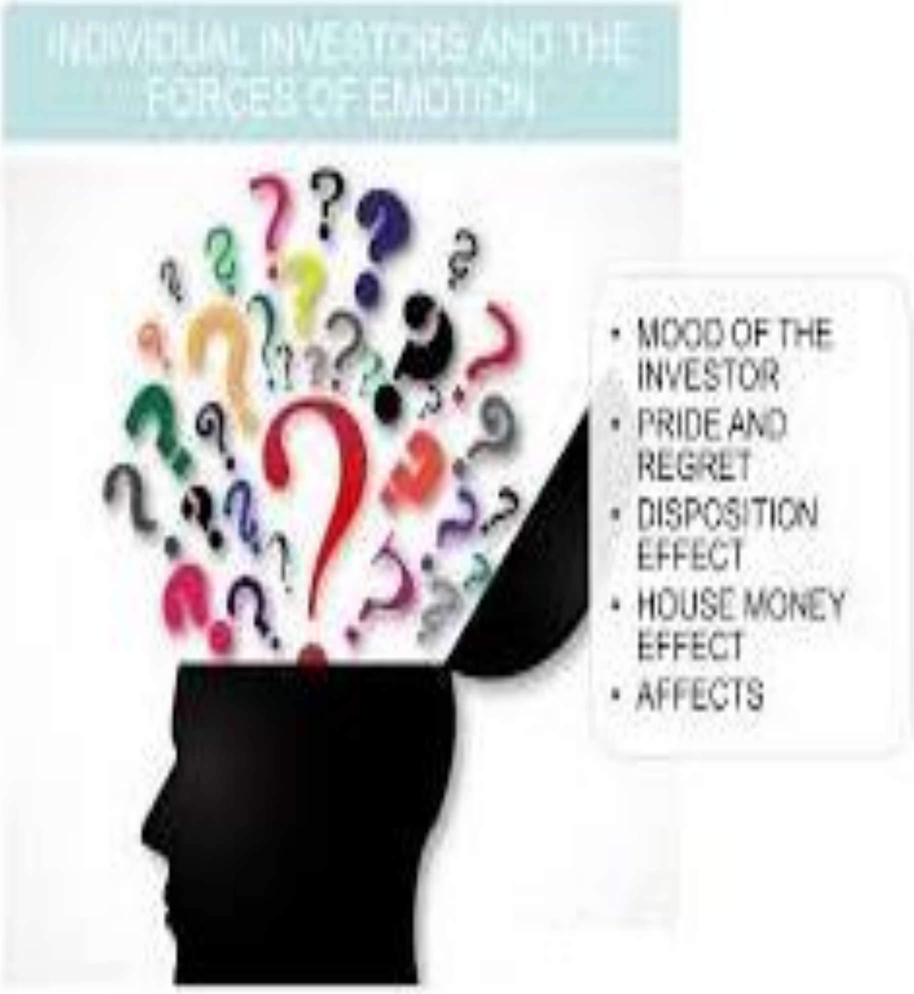
- These investors will hesitate to make critical decisions; they don't like to sell things at a loss.
- They will try to delegate responsibility for their overall planning to an advisor.
- They may procrastinate and then take the easy step in the short term
- They will focus on individual investments

# Application of the Disposition Effect To Advisor Client Communication

- They will follow a plan that is mapped with clear instructions to follow.
- Advisors should quickly establish confidence levels in decision-making.

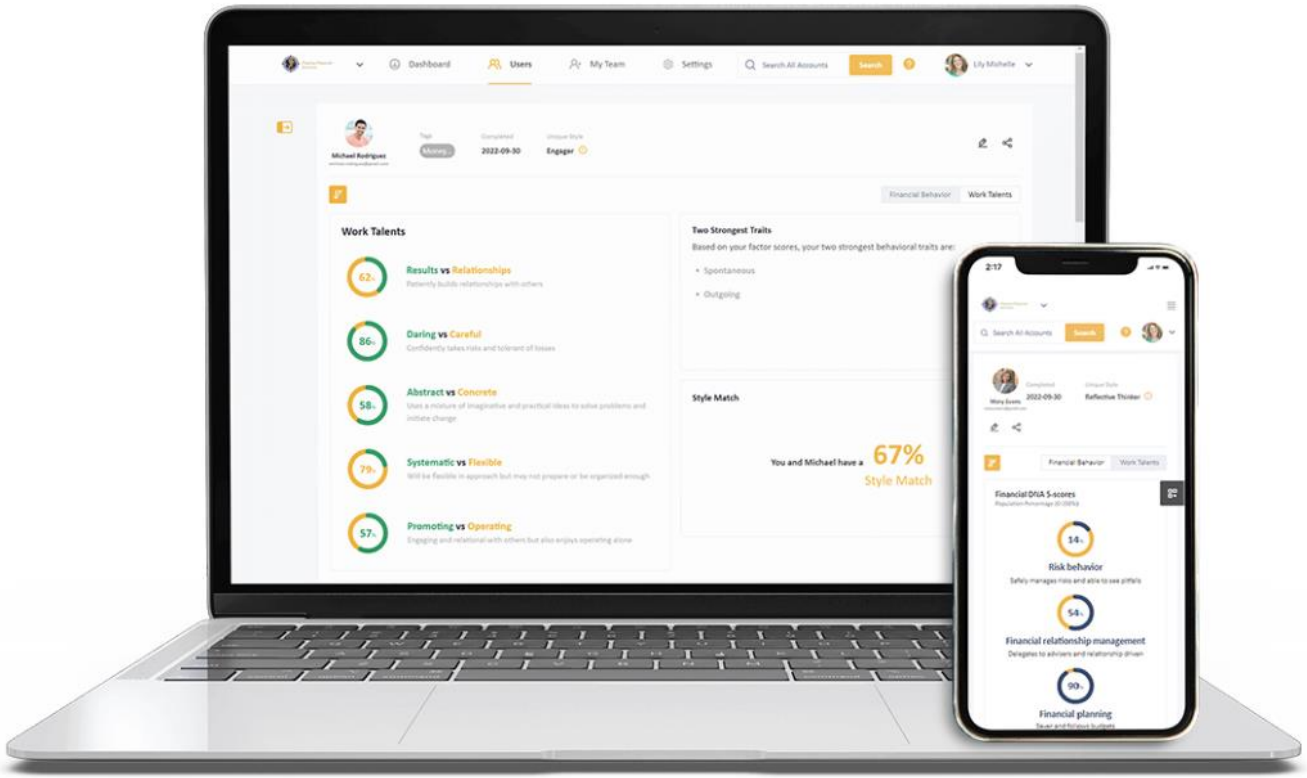
# Exercise for Disposition Effect Bias

1. This bias is formed in emotion -what part do pain and regret play in making investment decisions?
2. Selling winners early provides immediate gratification – how could following up on the winning stock to see what happens to them after you've sold change your decisions?
3. How many losing positions in your portfolio could have been sold earlier for a better outcome? How much wealth have you lost because of the fear of selling?
4. Why is it essential for wealth creation to educate yourself on when to buy and sell?
5. How could more discipline be brought into your investment management process?



# Exercise for Disposition Effect

1. List 4 questions you would ask your client to understand why they rush to sell investments that have increased.
2. List their likely responses.
3. Knowing this bias is formed in emotion, does this change how you approach your advisory responsibilities?
4. How would your approach to advising this investor change if you realized they were financially and behaviorally immature?
5. How would you change your approach from financial advisor to financial coach/mentor, or would you?




# Behavioral Management of Clients: Mental Accounting Bias

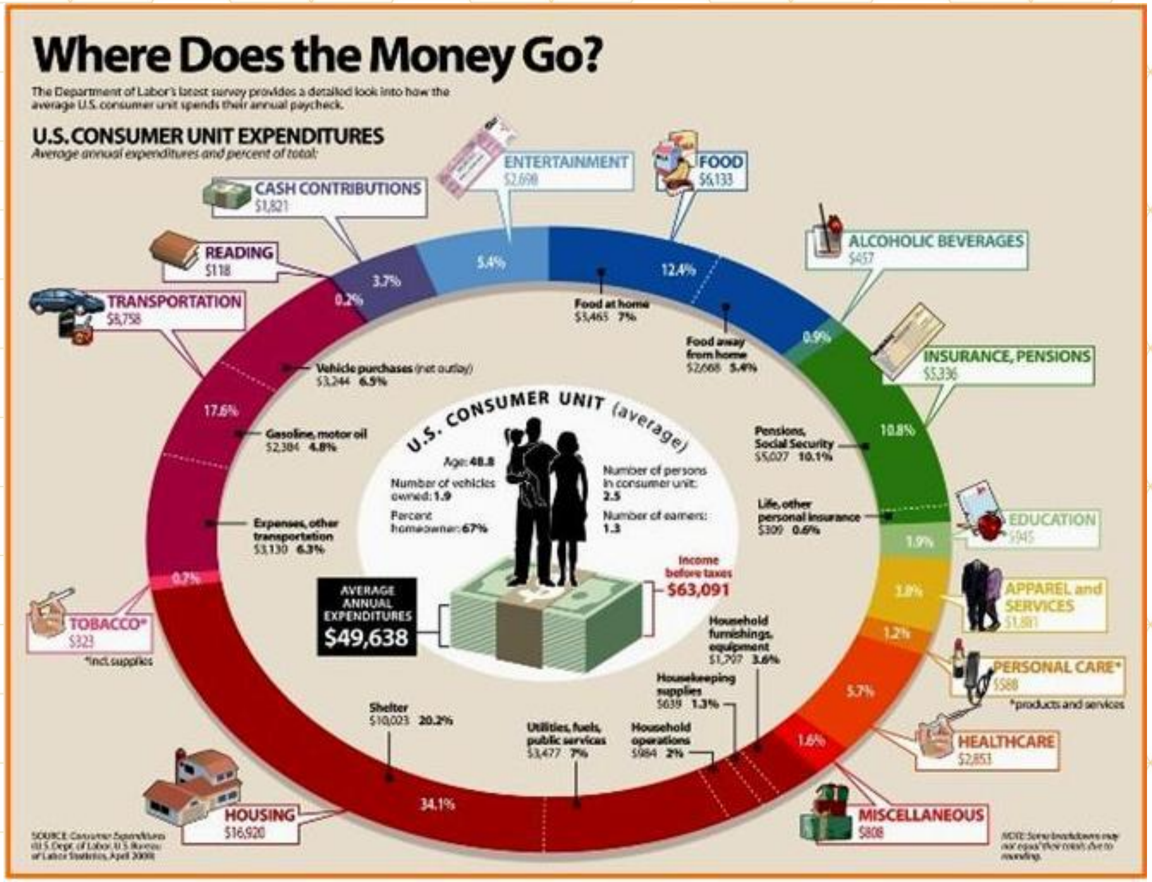
# Defining The Mental Accounting Behavioral Bias In the Context of Financial Personality

**Investor**
Likes to separate money for specific purposes.

**Action**
Adopt a more flexible approach.

# Application of The Mental Accounting View To The Financial Planning Process

- They will mentally account for their investments, working out the risks and potential losses.
- These investors are naturally focused and withdrawn but can think through issues well.
- They fear needing more money for particular purposes or even retirement.



# Application of The Mental Accounting View To The Financial Planning Process

- They will want to retreat and think and may become overwhelmed with emotion around new ideas.
- They will put the portfolio into compartments in their mind.
- They will mentally allocate what you are advising into different levels of risk.

# Application of the Mental Accounting View To Advisor Client Communication

- As an advisor, you must know that these clients won’t always give you much feedback.
- They will be processing information.
- Stay calm and focused; don’t push them for a quick response.
- Keep their confidence that they will have enough money in the worst-case situation.

# Application of the Mental Accounting View To Advisor Client Communication

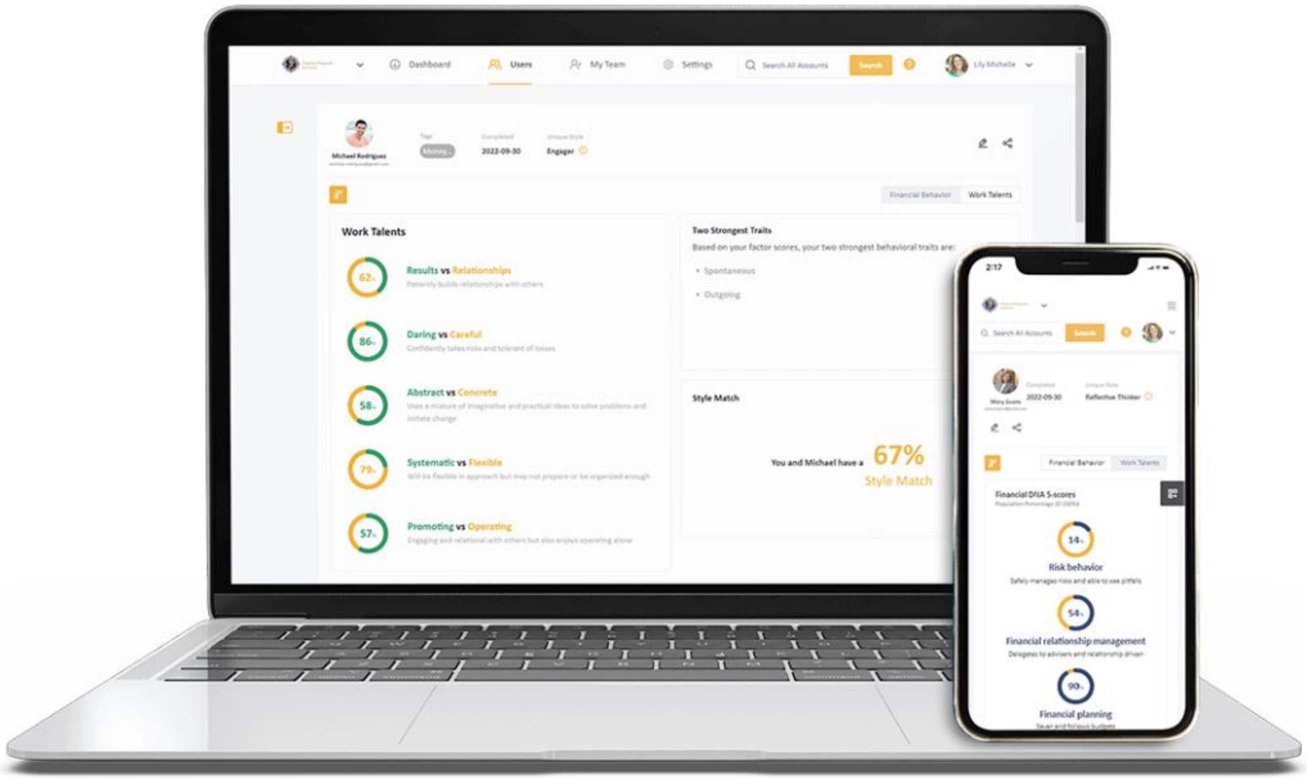
- Refrain from assuming they fully understand what you are saying; check their understanding appropriately.
- There could be a history of extreme Mental Accounting Behavior. However, this might only be uncovered when trust is built.
- Fear of insufficient funds for retirement is a good indicator that budgeting is an integral part of their financial personality.

# Exercise for Mental Accounting Bias

1. How has segmenting your portfolio into separate buckets caused you to miss out on opportunities? Where could you bring more flexibility into your portfolio construction to take advantage of opportunities?
2. This bias can sometimes be associated with misjudging risk tolerance. So how could having a proper asset allocation and investment strategy helps to avoid any adverse effects of mental accounting bias?
3. Mental accounting might be irrational, but only sometimes a bad thing. The key is to find a middle ground that utilizes your mental accounting decision-making bias for good. How would you do that?
4. How many investment buckets are necessary for you to achieve your goals?
5. Given this client might take time to reveal information: What steps would you take to ensure you remained neutral, nonjudgmental, and non-directive?

# Exercise for Mental Accounting

1. How would you encourage this client to 'open up' and share information?
2. How would you begin to ask questions to discover any historical or generational financial behaviors that have caused this client to fear having finances?
3. Given this client might take time to reveal information: What steps would you take to ensure you remained neutral, nonjudgmental, and non-directive?
4. What approach could you take to satisfy the client's need to have specific accounts in buckets?
5. How would you manage your own bias?




# Behavioral Management of Clients: Following the Herd Bias

# Defining The Herd Follower Behavioral Bias In the Context of Financial Personality

**Investor**
Tends to stampede into investments in exuberance and out in fear.

**Action**
Make more educated decisions.

# Application of Herd Follower View To The Financial Planning Process

- Naturally expressive and talkative, they're good networkers.
- They may make uneducated bets by following the herd that sabotages their portfolio.
- At the same time, they create the perception of being risk takers they often aren't.

# Application of Herd Follower View To The Financial Planning Process

- Often quite emotionally vulnerable and desire instant gratification, leading to impulsive decision-making and later regret.
- They tend to leap into an investment and quickly leap out with great wealth destruction consequences.

# Application of the Herd Follower View To Advisor Client Communication

- Be aware that these investors will respond to many up-and-down emotions with every investment opportunity.
- Each one needs to be discussed, so that wise decisions are made.
- Find out where they get their investment ideas from.

# Application of the Herd Follower View To Advisor Client Communication

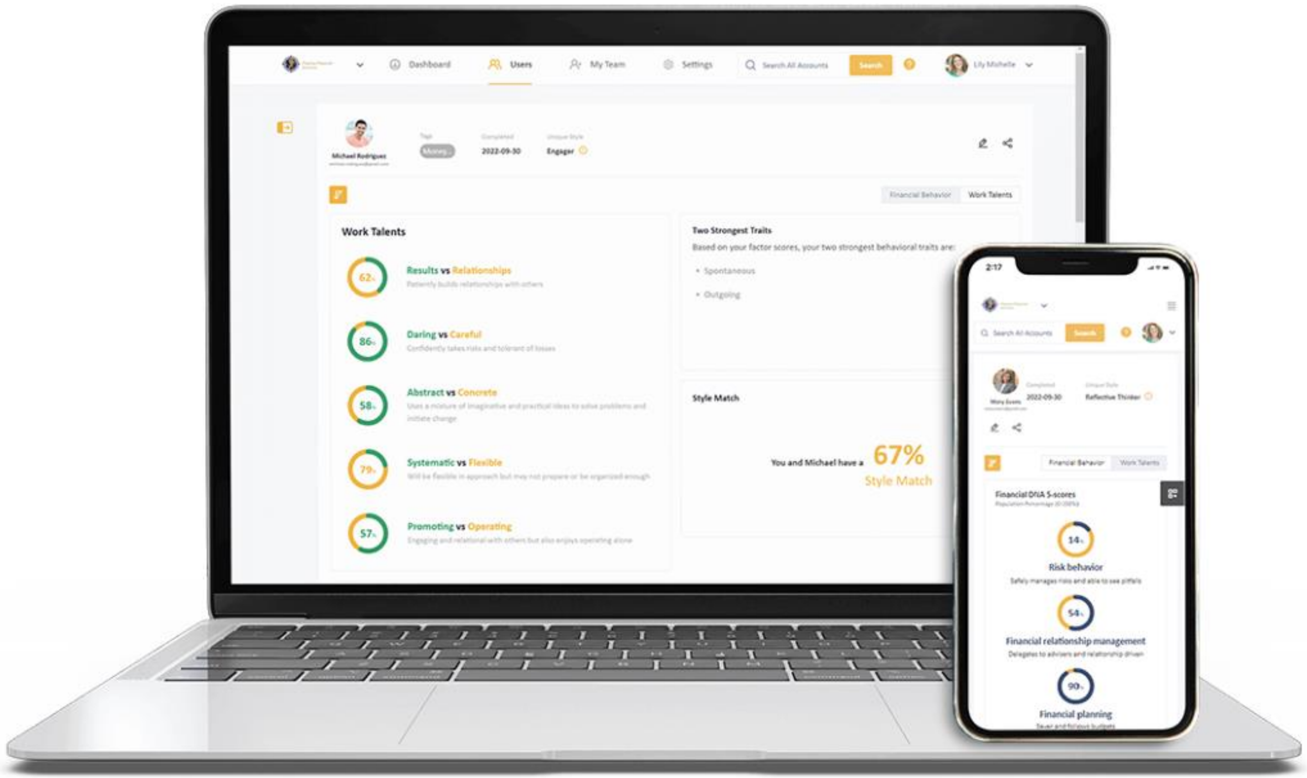
- Keep the environment relaxed; open up a conversation with light dialogue.
- Find out how they do their due diligence with the opportunities presented.
- Be prepared to reign in the exchange if it gets off track.
- Ask what conversations they've had recently that could have fed into her financial thinking.

# Exercise for Herd Follower Bias

1. If your investing instinct is to follow the behavior of others unconsciously, what could you do to counteract these influences and make fewer judgment errors?
2. Investors often innocently follow their friends, family, or TV/Newspaper recommendations without doing much of their analysis. So how has following others caused your portfolio to underperform?
3. Investors tend to herd more intensively during either an upward or downward movement of the market. What can you do to adjust this kind of herding bias behavior?
4. Usually, retail investors herd more toward growth stocks or glamour stocks, which capture the attention of the masses. However, how could you focus on more reliable sources of advice if you take advice from anyone and everyone? What processes will you put in place to check yourself before making decisions?

# Exercise for Herd Follower

1. What steps would you take to plan meetings with this client? And how would you, as the advisor, respond to a client who places value in the last conversation/opportunity they had?
2. If this investor takes advice from anyone and everyone, how would you educate them to focus on one source of advice?
3. Would you be able to recommend some trustworthy reading for this client?
4. How might establishing rapport by sharing personal information about your life with this client help or hinder the advisory process?
5. How would you encourage this client to have a mentor?




# Behavioral Management of Clients: Over Trading

# Defining The Over Trading Behavioral Bias In the Context of Financial Personality

**Investor**

Tends to be impatient to get results and may sell at the wrong time

**Action**

Adopt a longer-term approach

# Application of the Over Trading View To The Financial Planning Process

- These investors are naturally logical and challenging; they can make rational decisions without getting stuck but may overtrade the account through impatience for returns.
- They will know when to sell winners and cut losses
- They are rational enough to see that selling losers instead of winners needs to happen, even if it is embarrassing or causes short-term pain

# Application of the Over Trading View To The Financial Planning Process

- Acts decisively and moves on without getting too emotional when making hard decisions
- Their natural lack of patience may cause them to sell investments too fast because of a market blip.
- They may sacrifice what is a good long-term investment for short-term results.

# Application of the Over Trading View To Advisor Client Communication

- Provide bottom-line results and keep the discussion quick.
- These investors need an advisor to help them with re-balancing their portfolio regularly to maintain diversification.
- Show them the long-term investment fundamentals before short-term decisions get made.

# Application of the Over Trading View To Advisor Client Communication

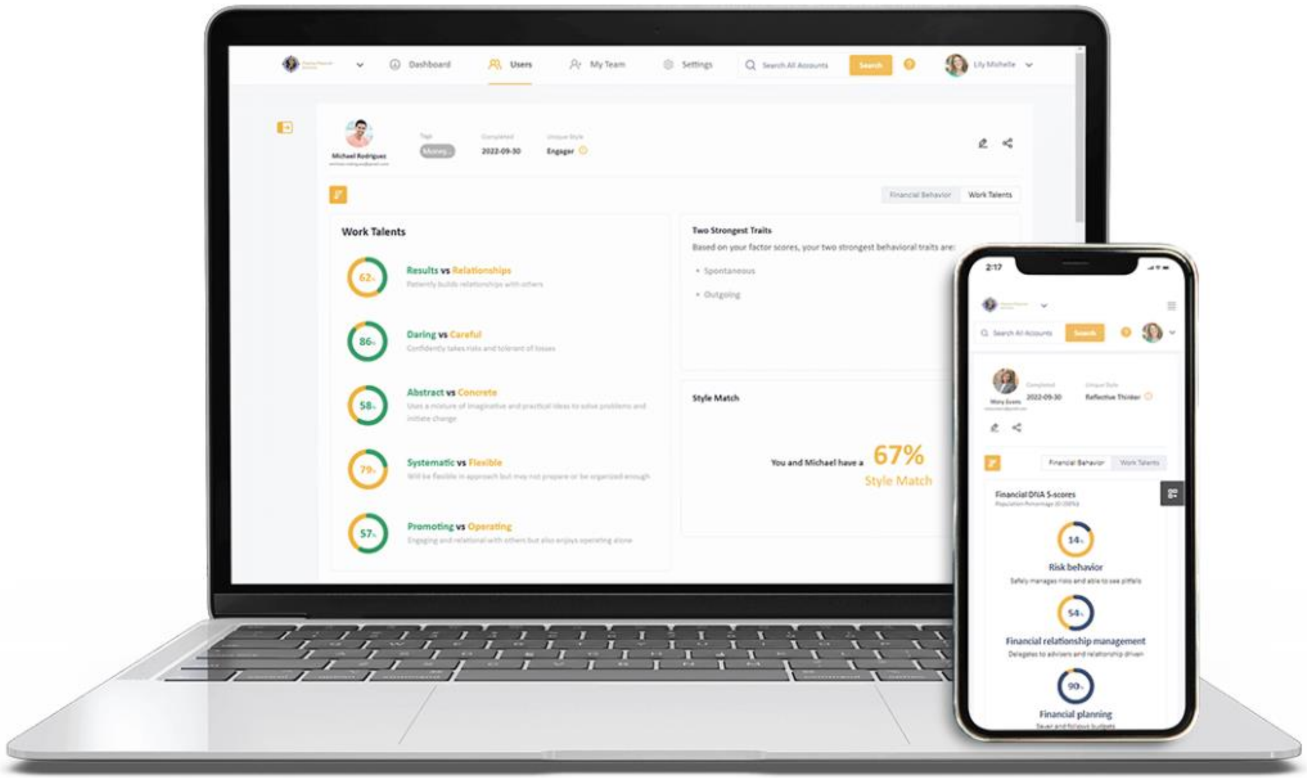
- Talk to them about how they approach making challenging investment decisions.
- Ask them to describe what type of performance they expect from their investments.
- Share with them an example of when you over-traded and lost, later realizing you should have held back; explain what you learned about yourself during that time.

# Exercise for Over Trading Bias

1. How would you address the need for adopting a longer-term investing approach?
2. Churning needs to be managed as a protection against overtrading.  How would you approach the suggestion to have an index fund or a more passive strategy when the client is impatient and tends to sell at the wrong time?
3. How would you recommend the client disciplines the triggers to excessive buying and selling activity?
4. If the client's approach led to them thinking they could control the market – what would be your approach to managing this aspect of their financial behavior?

# Exercise for Over Trading

1. What would you do to keep up with a client whose approach to investing was fast-paced?
2. How would you manage their overconfidence?
3. If their approach led to them thinking they could control the market – what would be your approach to managing this aspect of their financial behavior?
4. If your approach to investing was more stable and measured – how would you manage your bias when advising the client?
5. How would you approach a conversation around work/trading/life balance with them?




# Behavioral Management of Clients: Loss Aversion Bias

# Defining The Loss Aversion Behavioral Bias In the Context of Financial Personality

**Investor**

May not realize losses to avoid pain even though values may fall further.

**Action**

Be rational with decisions.

# Application of the Loss Aversion View To The Financial Planning Process

- Naturally understanding and tolerant investors can relate well with others but have a natural loss aversion, not wanting to absorb the pain of taking losses.
- A strength is they will generally be patient long-term investors who will not unnecessarily churn their portfolio.

# Application of the Loss Aversion View To The Financial Planning Process

- These investors will seek to steadily build the portfolio and seek guidance from a trusted advisor.
- They will be quite emotional if they make investment losses and will procrastinate with decision-making.

# Application of the Loss Aversion View To Advisor Client Communication

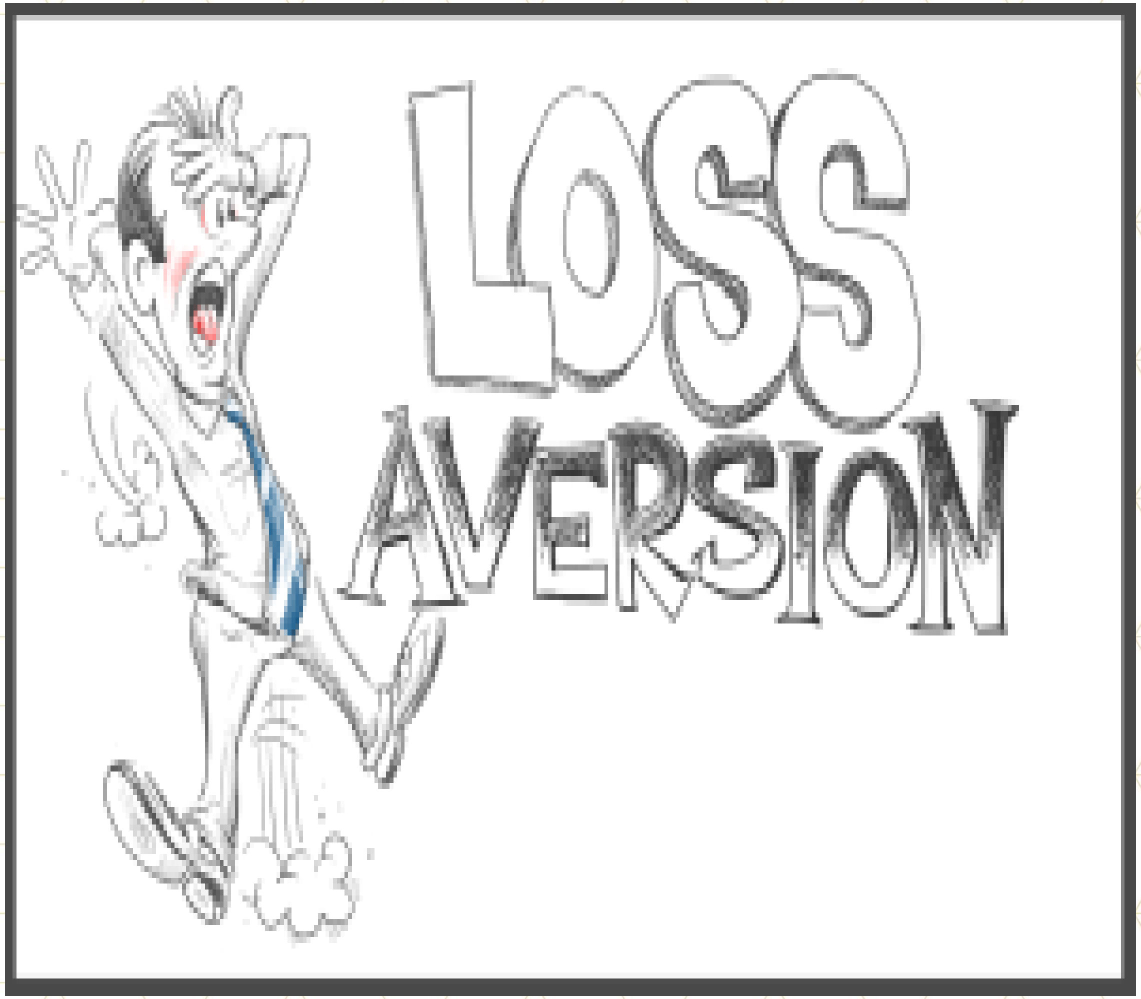
- This investor will be very approachable and warm and will value building a relationship before getting down to the specifics of dealing with financial issues.
- They will usually be understanding, tolerant, and desire to function in a steady environment.

# Application of the Loss Aversion View To Advisor Client Communication

- Express your feelings and emotions about the situation or proposal and create a relaxed environment.
- This investor does not like the personal conflict of making difficult decisions and would prefer that their investments offer guaranteed returns.

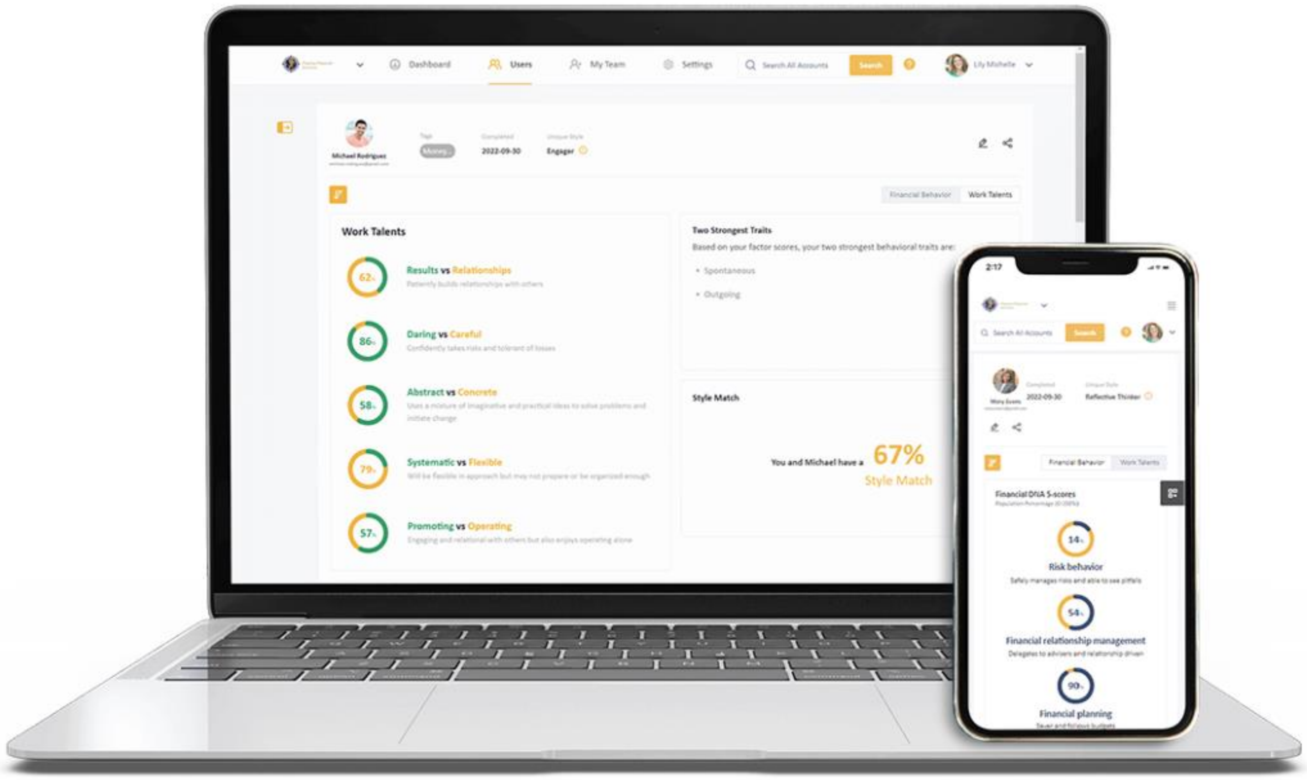
# Exercise for Loss Aversion Bias

1. Loss Aversion tends to reveal investors as more vulnerable and fearful. How would you approach advising this client?
2. This bias is about the pain of losing and is psychologically twice as powerful as the pleasure of gaining. So how would you rationalize with a client the dichotomy of taking risks to generate returns and yet seeking to avoid losses?
3. Fear is an emotional trap; overreacting to negative information can lead to loss aversion. So what kind of discussions should you have with the client about market expectations and managing emotions during downturns?
4. Some investors feel like they're missing out, so they buy to avoid being the loser.  What strategies could/should you use to counter this aversion?
5. How would you encourage this client to take a loss and sell an underperforming investment?



# Exercise Loss Aversion Bias

1. How would you manage your frustration when working with an investor with a loss aversion bias?
2. Write down five responses you would use to encourage this client to take the loss and sell an underperforming investment.
3. What questions would you ask to uncover why they hold onto particular poor performers?
4. How would you manage the client's emotions when their loss aversion bias leads to the fear of taking a trade?
5. How would you educate them to be more rational with decisions?




# Behavioral Management of Clients: Instinctive Bias

# Defining The Instinctive Behavioral Bias In the Context of Financial Personality

**Investor**
In adversity tends to make decisions quickly and emotionally based on instinct.

**Action**
Slow down and evaluate.


"You have written an interesting book about investing. Did I read it correctly that your best advice is to listen to your gut?"

# Application of the Instinctive View To The Financial Planning Process

- These investors are naturally instinctive and flexible
- They can be impulsive and overconfident, leading to the making of judgment errors.
- They are generally flexible enough to take opportunities when presented and avoid getting stuck in over-analysis.

# Application of the Instinctive View To The Financial Planning Process

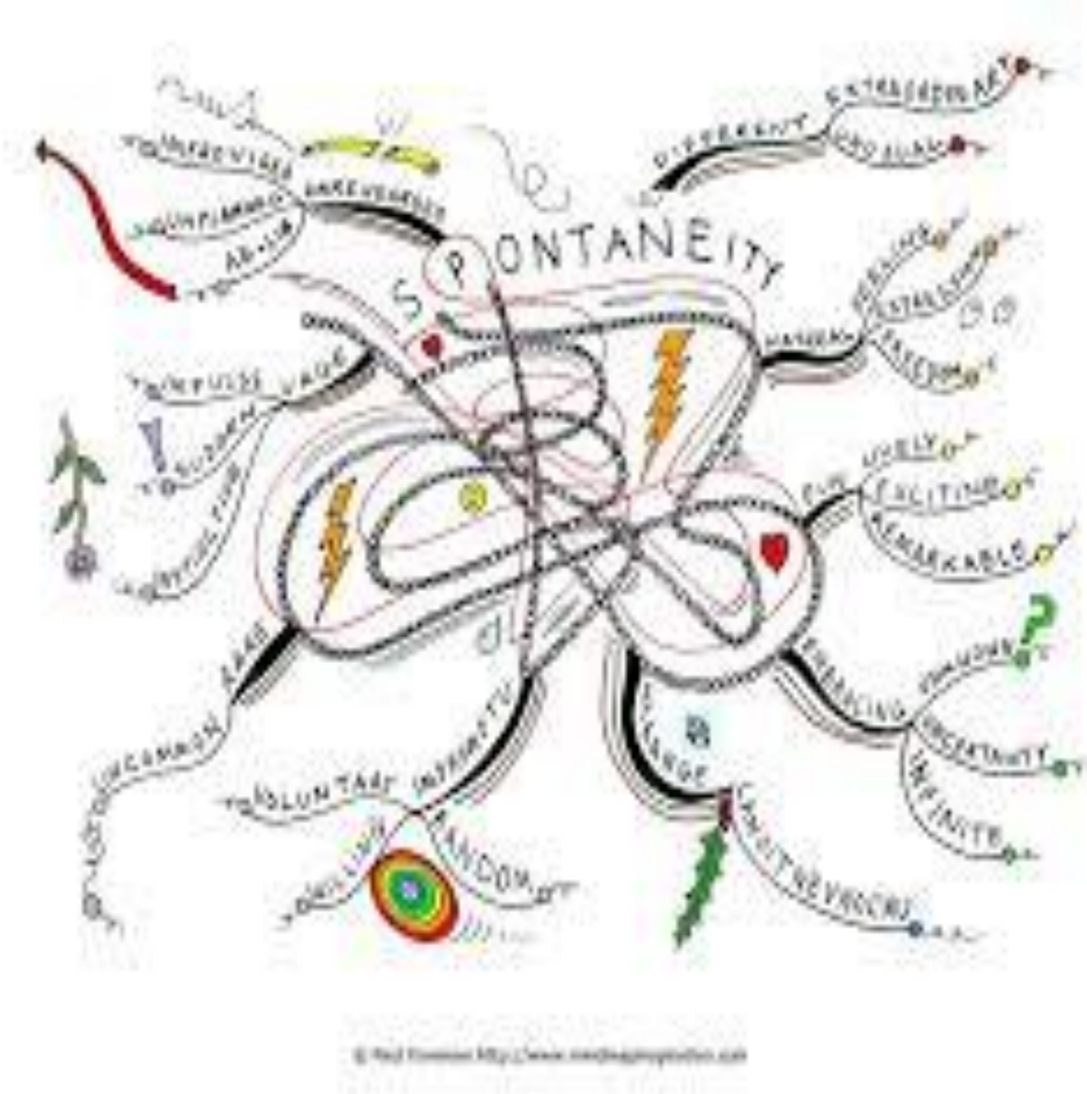
- These investors will make confident decisions unless they've experienced a negative event.
- Their flexible nature may result in an unstructured investment portfolio that reflects no attention to asset allocation, appropriate risk weighting, or diversification.
- They could suffer from taking big chances that could be better thought out.

# Application of the Instinctive View To Advisor Client Communication

- Provide them with broad facts and encourage them to discuss their thinking.
- Check out their prior investment experience to intuitively know that their gut feeling is right. Then, once a decision is made, this investor will run with it and not look back.
- They will have a strong sense that things will work out.
- Poor decisions they make could come from insufficient research and not enough listening to the advice being given.

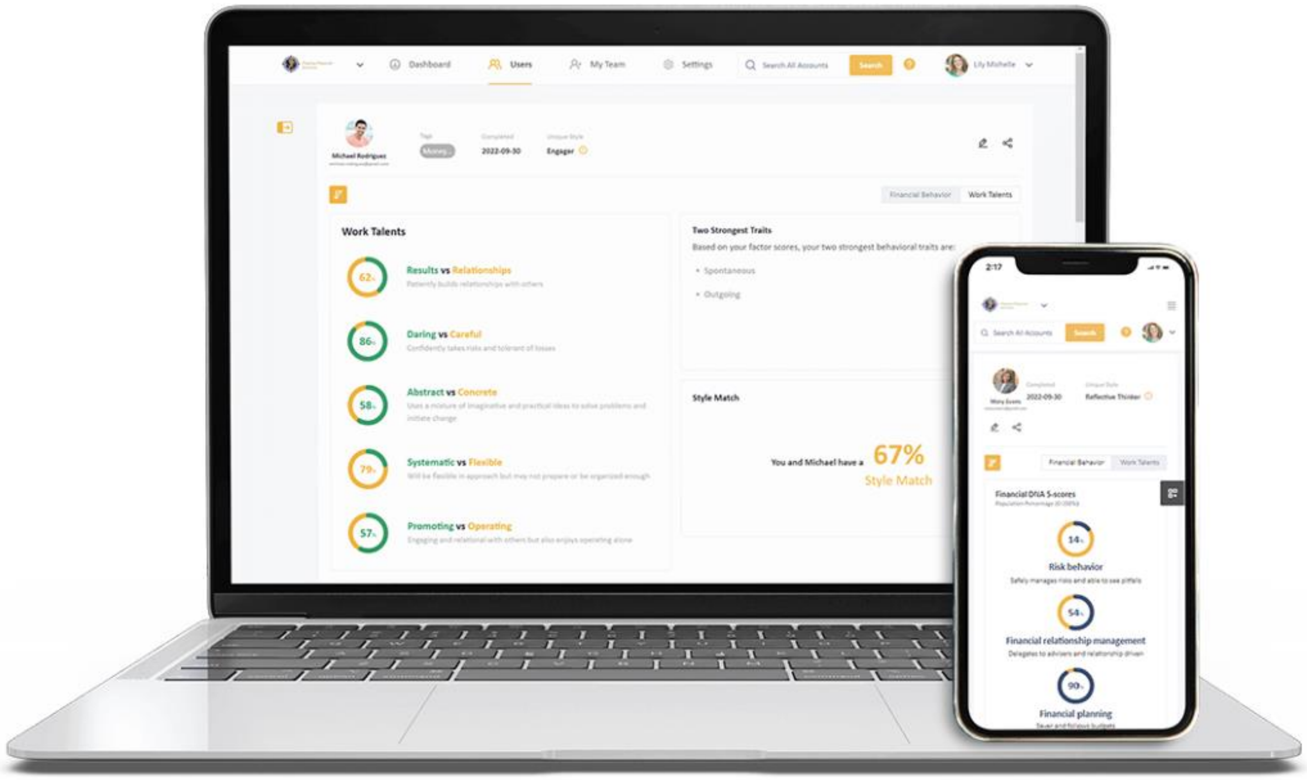
# Exercise for Instinctive Bias

1. When clients' emotions are triggered, they can follow their instincts/gut feelings. What coping mechanisms would you advise your investor to work on?
2. In adversity, there is a tendency to react emotionally. What investment decisions have you instinctively made? What is the investment return on these investments?
3. Instinctive behavior leads to a lack of focus and quickly jumping into poor financial decisions. How would you help investors stay focused on long-term goals and the parameters of each investment to stay the course when market corrections occur?
4. Money can produce powerful emotions and triggers that influence our investing behavior. How would you help clients better manage these emotions and triggers?



# Exercise for Instinctive View Bias

1. List five questions you would ask this investor to establish spontaneous decisions made that were successful and those that weren't.
2. How would you establish where and how they sourced information to inform their decision-making?
3. What kind of research and evaluation would you encourage them to undertake to avoid making 'gut-driven decisions'?
4. Frame a conversation you would have to uncover emotions driving their decision-making.
5. How would you manage your own bias and frustration if the client continued to make what you considered were reflex decisions?




# Behavioral Management of Clients: Pattern Bias

# Defining The Pattern Behavioral Bias In the Context of Financial Personality

**Investor**

Desires order in the face of chaos by looking for predictable market patterns.

**Action**

Be more flexible with strategy.

# Application of the Pattern View To The Financial Planning Process

- Naturally systematic people who can make considered decisions will tend to have pattern bias which makes their decision-making relatively rigid.
- Analytical, precise planner prefers to research and make considered decisions systematically.

# Application of the Pattern View To The Financial Planning Process

- They don't like being rushed or pushed into a sale.
- Trust in the financial planning process will be determined by the level of transparency and accuracy of information.
- As they constantly seek patterns and predictability, their desire for information can make them picky and rigid.

# Application of the Pattern View To Advisor Client Communication

- As an advisor, provide specific facts, details, and data for them to analyze.
- Analytical, pedantic investors who demand high levels of detailed information and research data can be challenging.
- Be prepared to provide extensive in-depth intelligence so they can be satisfied with the reliability and integrity of what is being offered.

# Application of the Pattern View To Advisor Client Communication

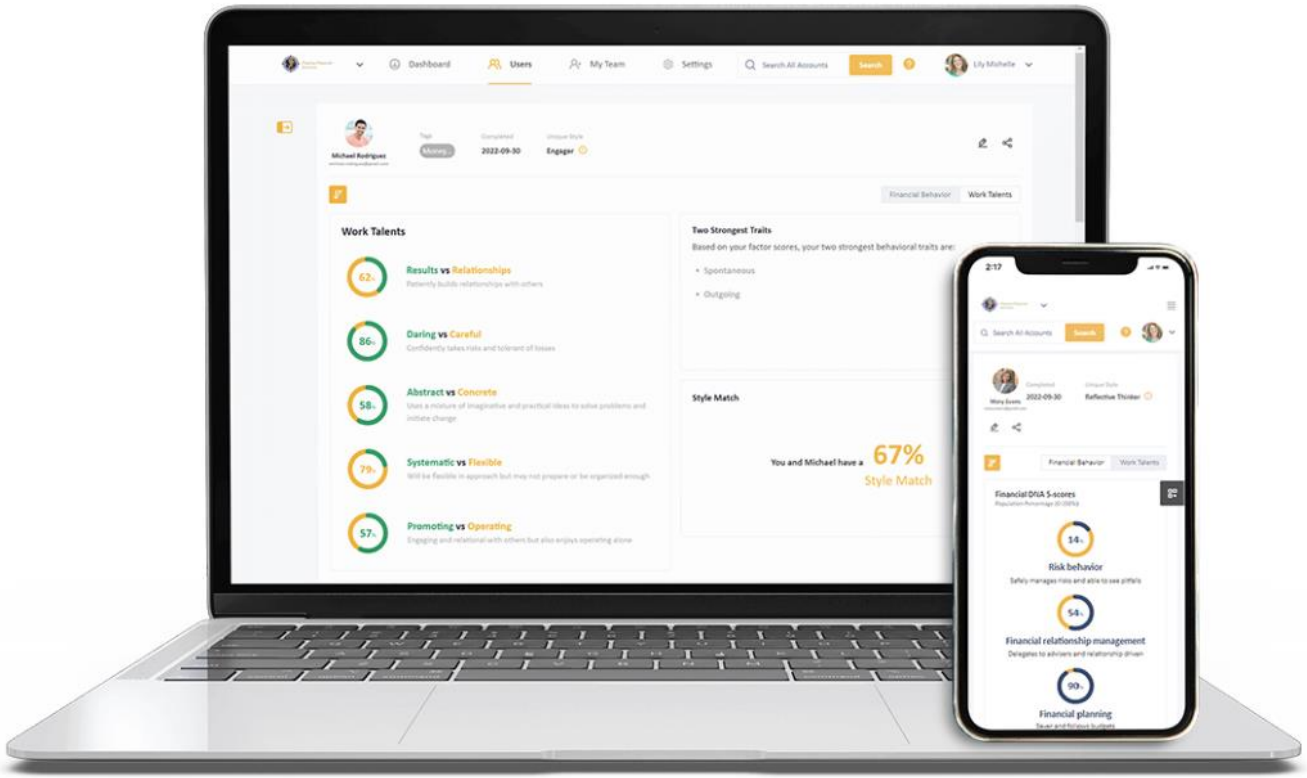
- Check out how much information they need to be comfortable in making decisions.
- Get them to share a time when they failed to identify a predictable pattern when the market mood was in a state of flux and chaos; and how did they react/feel.
- Try to understand the decisions and outcomes at that time in terms of investment planning.

# Exercise for Pattern View Bias

1. Investors often extrapolate trends into perceived patterns where none exists. Could this lead to overpaying for opportunities that appear to have recent good performance, and how would you approach this investor?
2. Both good and bad trends eventually revert to ‘normal.’ So what could you do to break pattern bias in clients?
3. Markets move – it’s a fact. So how could you demonstrate missed opportunities from inflexibility and the impact on wealth creation in a way that the investor changes behavior?
4. How would you educate a client who continually looked for market patterns to understand that prior performance only sometimes reflects future returns?

# Exercise for Pattern View Bias

1. List five questions you would ask to determine how the client formulated and weighted their decisions.
2. How would you educate a client who continually looked for market patterns to understand that the market is, in fact, often quite random?
3. How would you advise a client whose decision-making process felt like analyses paralysis?
4. What could you do to manage your frustration and bias with a client who continually sought data and facts?
5. What approach would you take to educate the investor to be more flexible?




# Behavioral Management of Clients: Controlling Bias

# Defining The Controlling Behavioral Bias In the Context of Financial Personality

**Investor**

Tends to control decision-making and take action without advice

**Action**

Seek others input

# Application of the Controlling View To The Financial Planning Process

- They will be naturally guarded and wary and seek to remain in control of their portfolio; they won’t easily delegate to advisors.
- They are strategists and tend to be very skeptical of others’ ability to give advice –a “do it yourself investor.”
- By nature, they will be very investigative and independent decision-makers.

# Application of the Controlling View To The Financial Planning Process

- Will be cautious in what they say and yet ask many questions.
- They will take responsibility for their own decisions.
- They are prone to trying to time the market and always believe they can control the outcome.
- A lesson they will need to learn is that they will be the ones in the way of their success.

# Application of the Controlling View To Advisor Client Communication

- Provide logical explanations and the key points straightforwardly.
- This investor won't find it easy to delegate to an advisor.
- This will come only after making a lot of mistakes and realizing that they do need help.
- They will take back control when the expected results have not been achieved.

# Application of the Controlling View To Advisor Client Communication

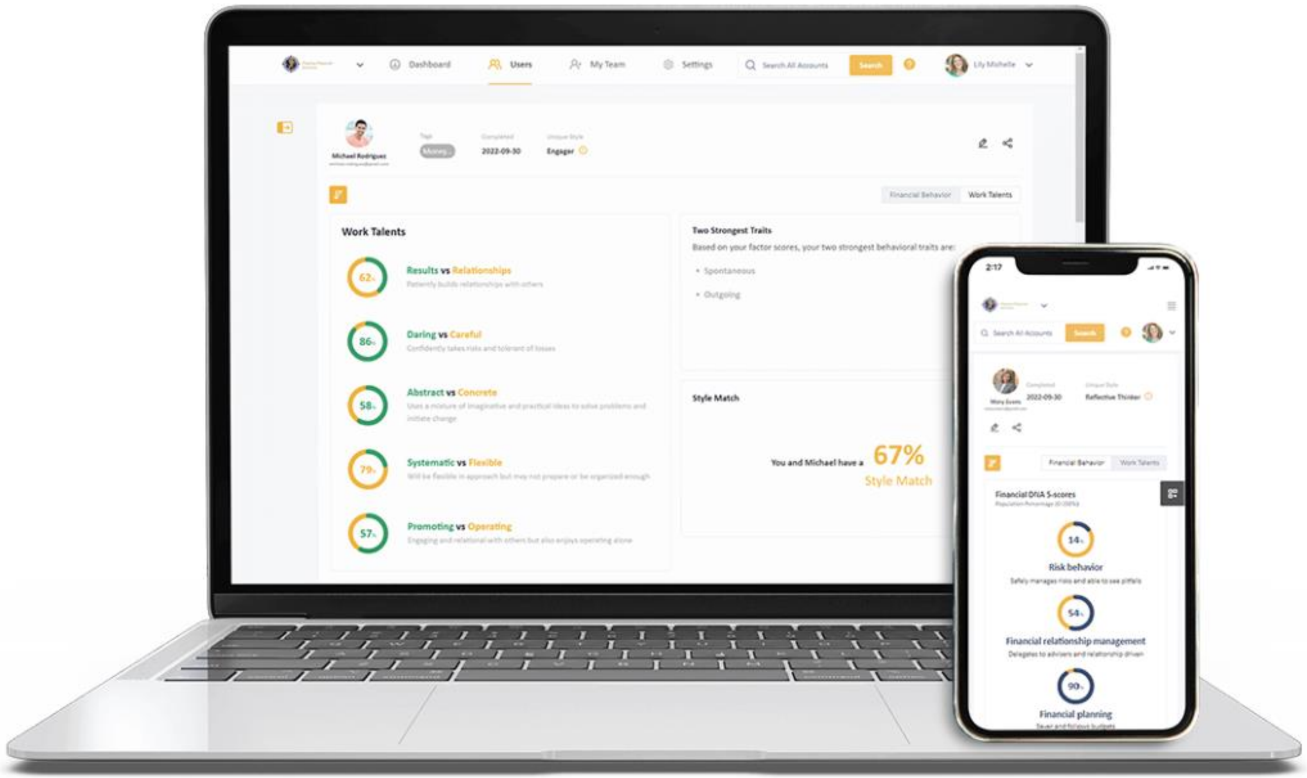
- This kind of investor is controlling, questioning, and skeptical.
- Be prepared to ask insightful and wise questions to challenge their decisions.
- You'll need to learn to wait before being allowed into this investor's inner world.
- Ask for examples of how they think they have sabotaged their success in the past.

# Exercise for Controlling Bias

1. Investors who present with a Controlling Bias often seek to time the market and refrain from taking input from others. How would you manage this client being skeptical?
2. They tend to be skeptical of others' input. So how could providing logical and proven advice change how they approach investing?
3. How would you uncover inherent personal beliefs and biases driving their fear?

# Exercise for Controlling Bias

1. List five questions you would ask this client to build trust.
2. How would you manage their skepticism?
3. What preparations could/should you make before meetings to answer their inevitable testing of the validity of the advice you are giving?
4. How would you uncover inherent personal beliefs and biases?
5. What would be your response if the investor listened to your advice and continually failed to follow it?

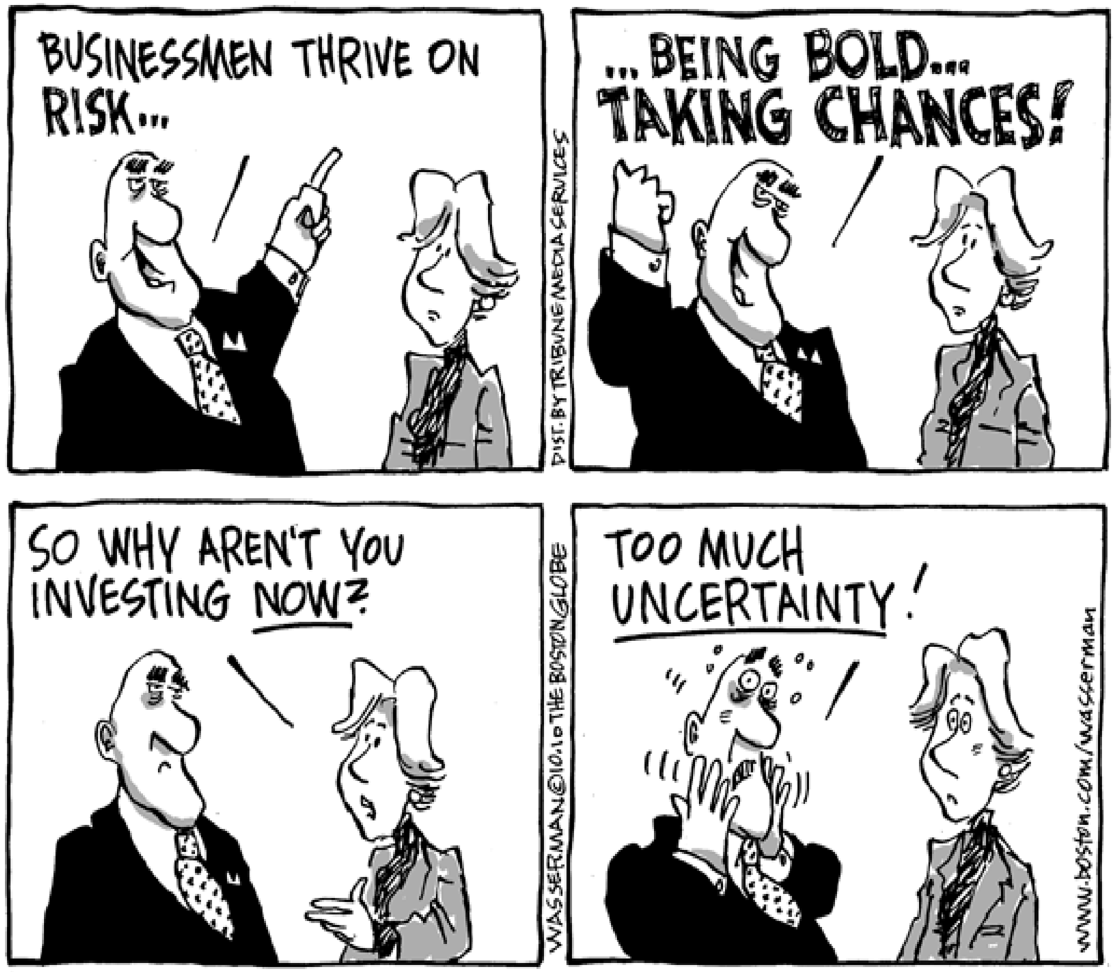



# Behavioral Management of Clients: Fear of Regret

# Defining The Fear of Regret Behavioral Bias In the Context of Financial Personality

**Investor**
Hesitant in case they miss out on a potential gain from the next best thing.

**Action**
Set decision-making boundaries



# Application of the Fear of Regret View To The Financial Planning Process

- Investors with this inherent behavior need to manage their fear of regret.
- They may think they missed out on potential gains from the next best thing.
- They may chase the newest high-flying stock or get into a poor real estate deal.

# Application of the Fear of Regret View To The Financial Planning Process

- These investors are naturally receptive and forgiving people who trust and believe the best of others.
- They may not set boundaries and fail to check representations/advice given to them.
- When things get difficult, they find it hard to make rational decisions.
- They must develop restraint and not allow themselves to be pushed into the latest deal.

# Application of the Fear of Regret View To Advisor Client Communication

- This investor will generally follow the advice provided; they will be open to being guided and will share information with others.
- As an advisor – share your feelings and emotions about their ideas.
- This investor trusts and believes in others and will work very well with advisors who build a long-term relationship with them and have their best interests in mind.

# Application of the Fear of Regret View To Advisor Client Communication

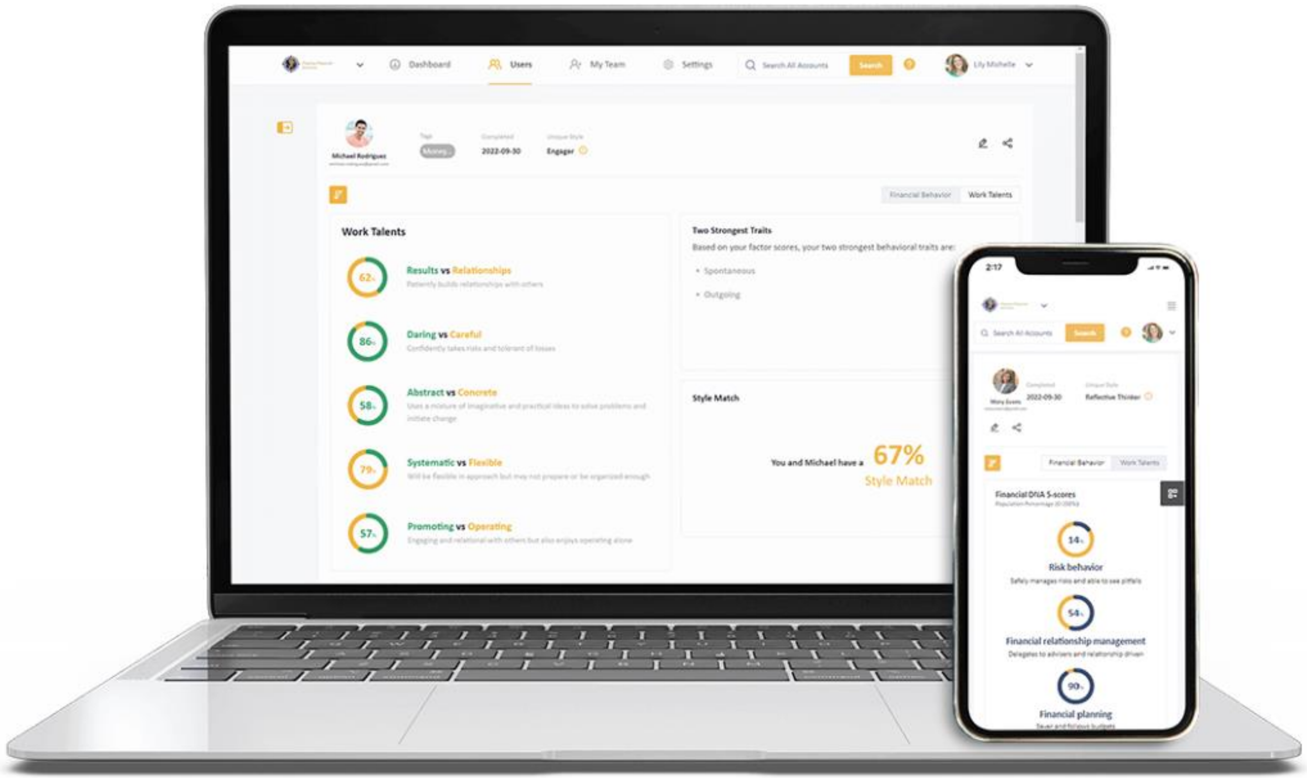
- These investors may refrain from taking decisive actions because they fear whatever they decide will be less than optimal.
- Check out past poor decision making which is getting in the way of today's decisions. Establish how they process and review new information.
- Try to understand any circumstances where they have been taken advantage of by not setting boundaries.
- Talk to them about fear and how they overcome it.

# Exercise for Fear of Regret Bias

1. When an investor loses sleep over decisions needed to be made, this is Fear of Regret Bias. How could investors avoid this bias?; should they match their fear of regret with an appropriate asset allocation strategy? Should they have a more conservative and hence less risky investment portfolio?
2. Fear of Regret investors tends to fear the consequences of omission, i.e., missing out on not buying the right investment. So how would you guide them through such regret?
3. Often investors think irrationally and need to make better decisions in buying and selling their investments. So how important is it for advisors to encourage open dialogue with these clients?
4. Hesitation is this investor’s enemy; they may wait for a stock to break a price point to buy. They buy elsewhere only to find the price breaks the point and moves up by %.  How can you encourage investors to learn from their buying and selling history?
5. Fear of Regret Bias requires a) attention to investment history and small steps to build confidence. What approach would you take to educate this client? How would you mentor them away from the fear of making decisions that might result in a loss?

# Exercise for Fear of Regret Bias

1. Write down five questions you would ask to uncover the degree to which this investor avoids making decisions based on emotions.
2. How would you mentor them away from the fear of making decisions that might result in a loss?
3. How would you uncover whether their fear of regret bias stemmed from failing to make a decision or making a decision that resulted in a loss?
4. Why is it important to understand the difference?
5. What trading rules/plans would you implement to ensure the investor's decisions were not driven by emotion?

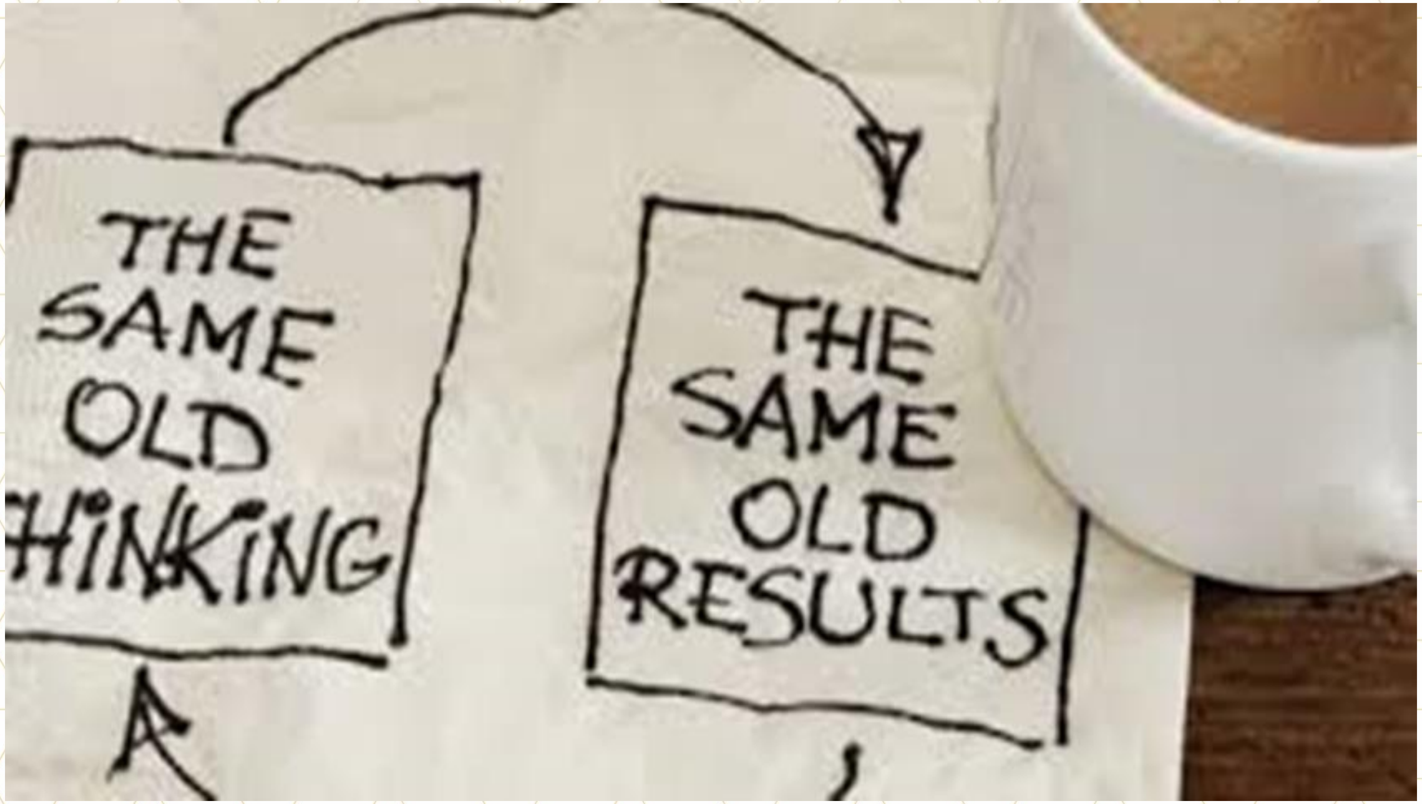



# Behavioral Management of Clients: Status Quo Bias

# Defining The Status Quo Basis Behavioral Bias In the Context of Financial Personality

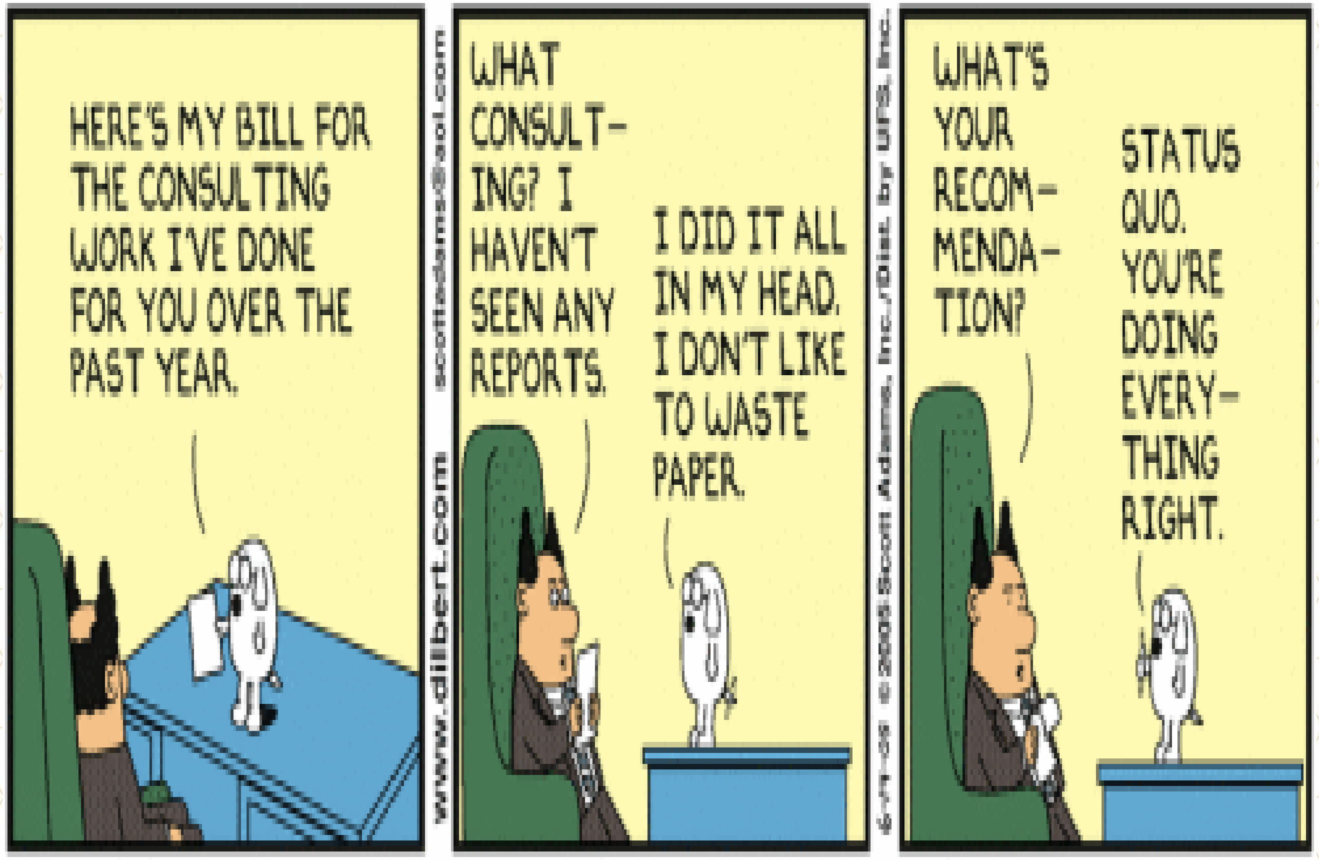
**Investor**
They are likely to take notice of the information that will keep their world the same.

**Action**
Appreciate growth opportunities.



# Application of the Status Quo View To The Financial Planning Process

- This investor needs to maintain/safeguard their current lifestyle.
- They won't want to set ambitious goals and will not want to move out of their comfort zone, particularly if that will cause stress.
- They seek steady growth, with the end result being a comfortable retirement.






DNA Behavior®

# Application of the Status Quo View To The Financial Planning Process

- Needs financial information that is consistent with existing views and preferences.
- Won't want a lot of new ideas and challenges
- When the information is confronting, it will be hard for this investor to accept the need to make changes.

# Application of the Status Quo View To Advisor Client Communication

- Focus on their life balance and stability.
- They tend to seek information to confirm their beliefs and opinions.
- Be aware when these investors filter out facts and opinions because they don't align with their preconceived notions.
- Any response they make will affect their decisions and can cause them to make poor choices.

# Application of the Status Quo View To Advisor Client Communication

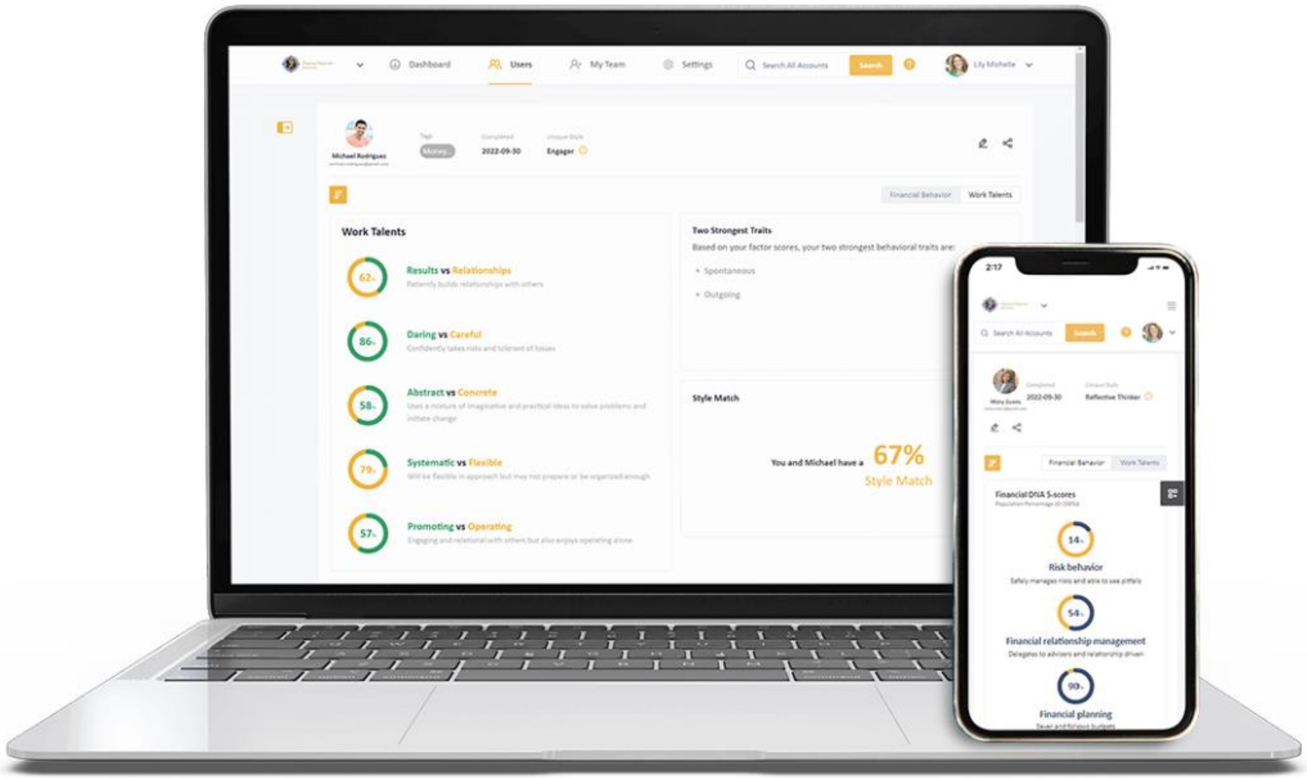
- Naturally, satisfied and easygoing people prefer a balanced life and like to have confirmation of prior existing beliefs and consistent information. Consequently, they are not prepared to step outside their comfort zone. Hence status quo bias.
- Challenge them sometimes not to take life for granted and to ensure they are committed to achieving their goals.
- Ask them to talk about their track record in following through on goals.

# Exercise for Status Quo Bias

1. Status Quo Bias is about a need to keep things the same.  Investors often take the wait-and-watch approach rather than make a decision. How would you help this investor overcome their procrastination?
2. Much of this approach for investors is feeling 'safe' in their comfort zone. This results in lost opportunities. How would you approach conversations so that the client could share why they find comfort in age-old thinking?
3. Important to advising this client is to show how life balance and stability will be maintained. How would you do this?
4. Often these investors regret not buying into the markets when there are buying opportunities. How would you advise/educate this investor to refrain from thinking about the results of past decisions while making present decisions?

# Exercise for Status Quo Bias

1. List five questions you would ask this client to determine what emotions underpin their need to keep things the same by doing nothing or by refusing to move from a previous decision they have made.
2. Status quo bias is an emotional bias; it is strong and difficult to overcome. How would you manage your biases and reactions in dealing with such a client?
3. How would you approach educating this investor to overcome this inertia bias?
4. What would you say to this client to encourage them to try something new?
5. An essential aspect of this process is establishing a balance between trust and control in the client-adviser relationship. How would you approach this?



# Behavioral Management of Clients: Optimism Bias

# Defining The Optimism Behavioral Bias In the Context of Financial Personality

**Investor**

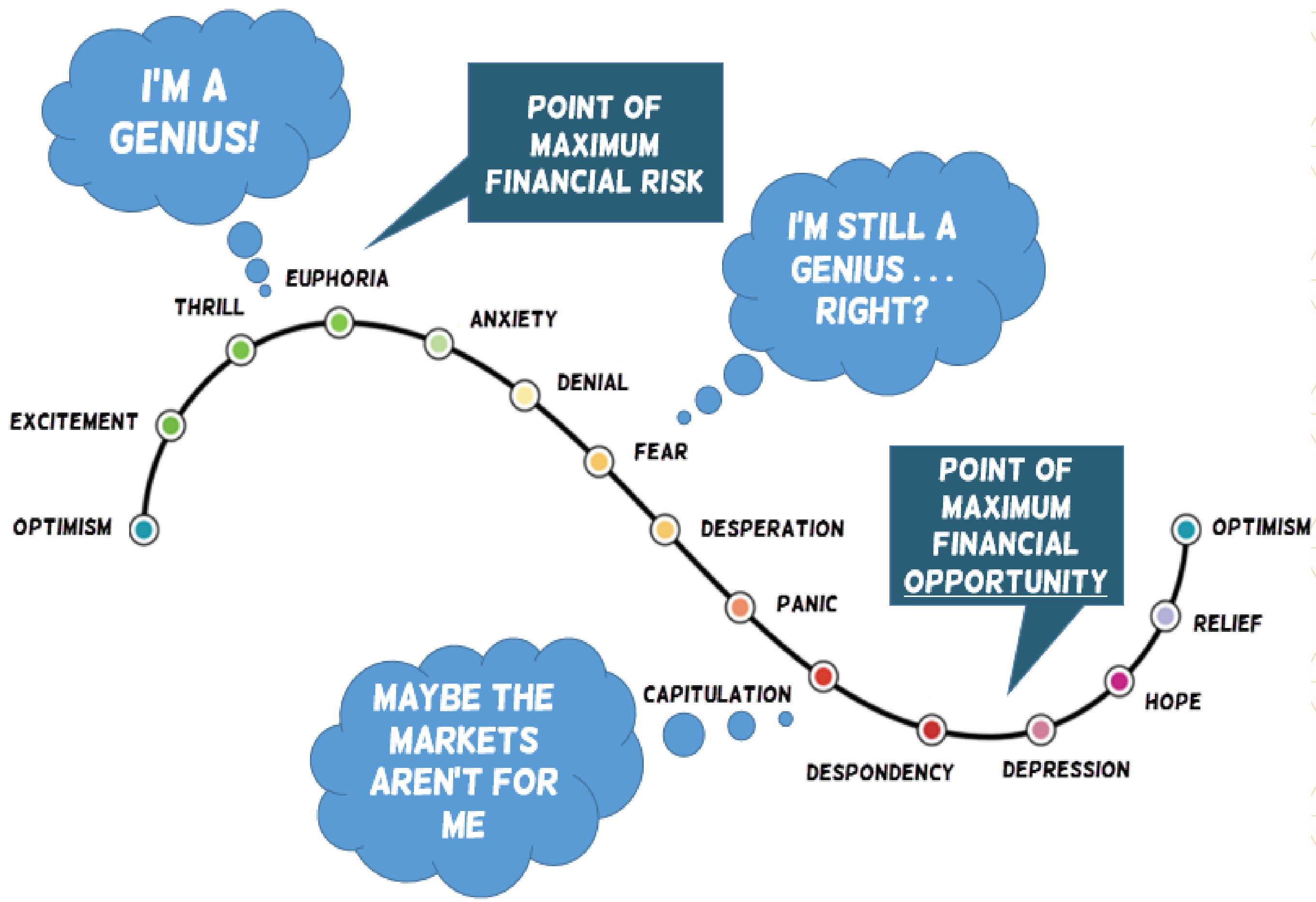
Exhilarated by playing a big game even if they know it is difficult to win.

**Action**

Consider the potential sacrifice.

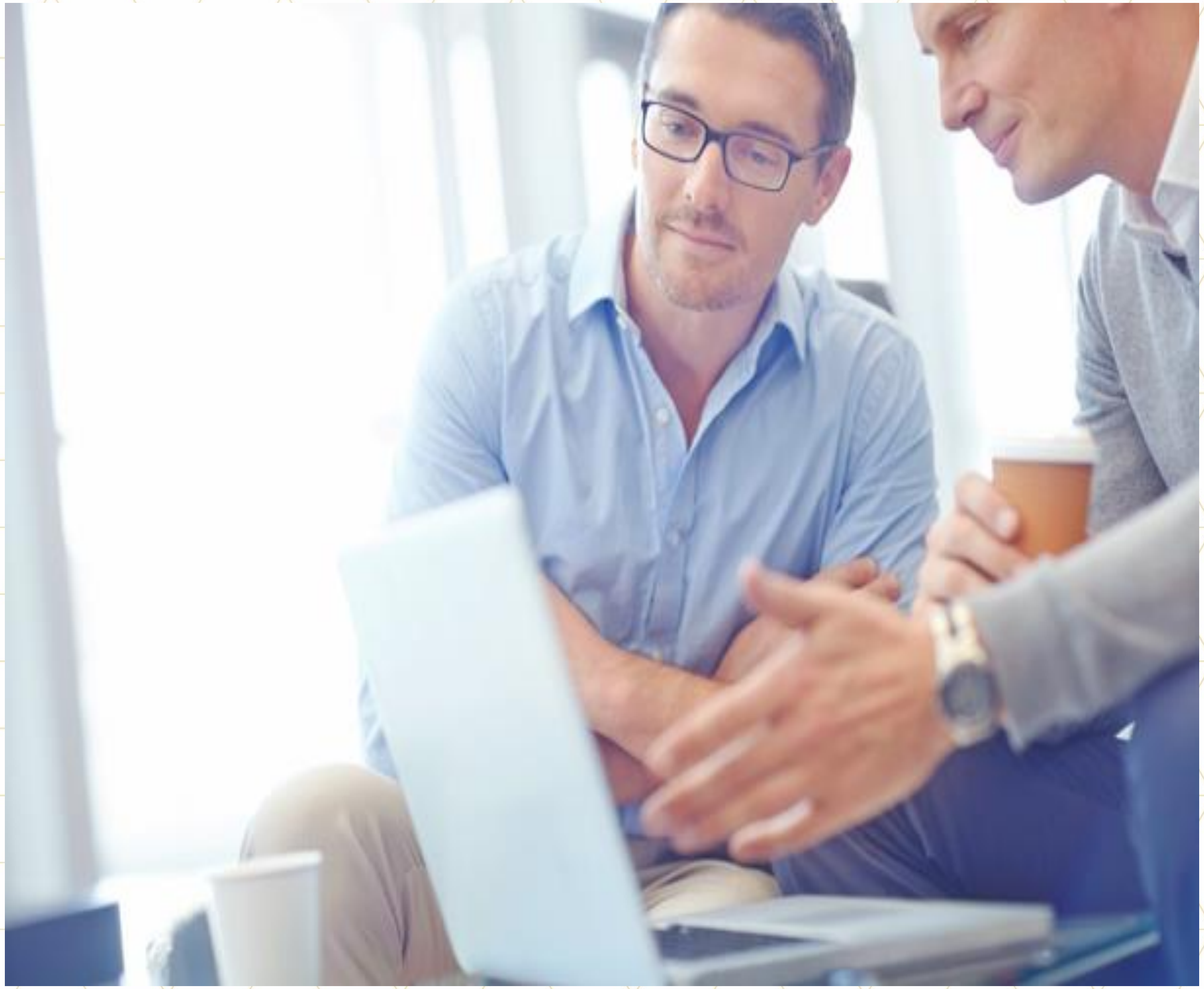
# Application of the Optimism View To The Financial Planning Process

- Naturally ambitious and driven, this investor is focused on growing wealth; has a high level of optimism.
- Can vision big goals ahead; can see that it is viable and there are signs of success; will keep on going and may even increase intensity toward the goal.



# Application of the Optimism View To The Financial Planning Process

- From an investment perspective, these investors can set long-term goals and, with a high optimism bias, will keep with the strategy so long as progress is made.
- They tend not to make emotional decisions that ruin any progress that has been made.
- But maybe should be more focused on success and change plans when needed.



# Application of the Optimism View To Advisor Client Communication

- This investor won’t be contented to take the more “work-life balance” option. Instead, address their goals and remember their need for quick action.
- As an advisor understanding optimism bias and how your client outworks this behavior is crucial to the advisory process.
- These investors are influential. They carry people with them, They are exciting to be around, and this is an inherent behavior.

# Application of the Optimism View To Advisor Client Communication

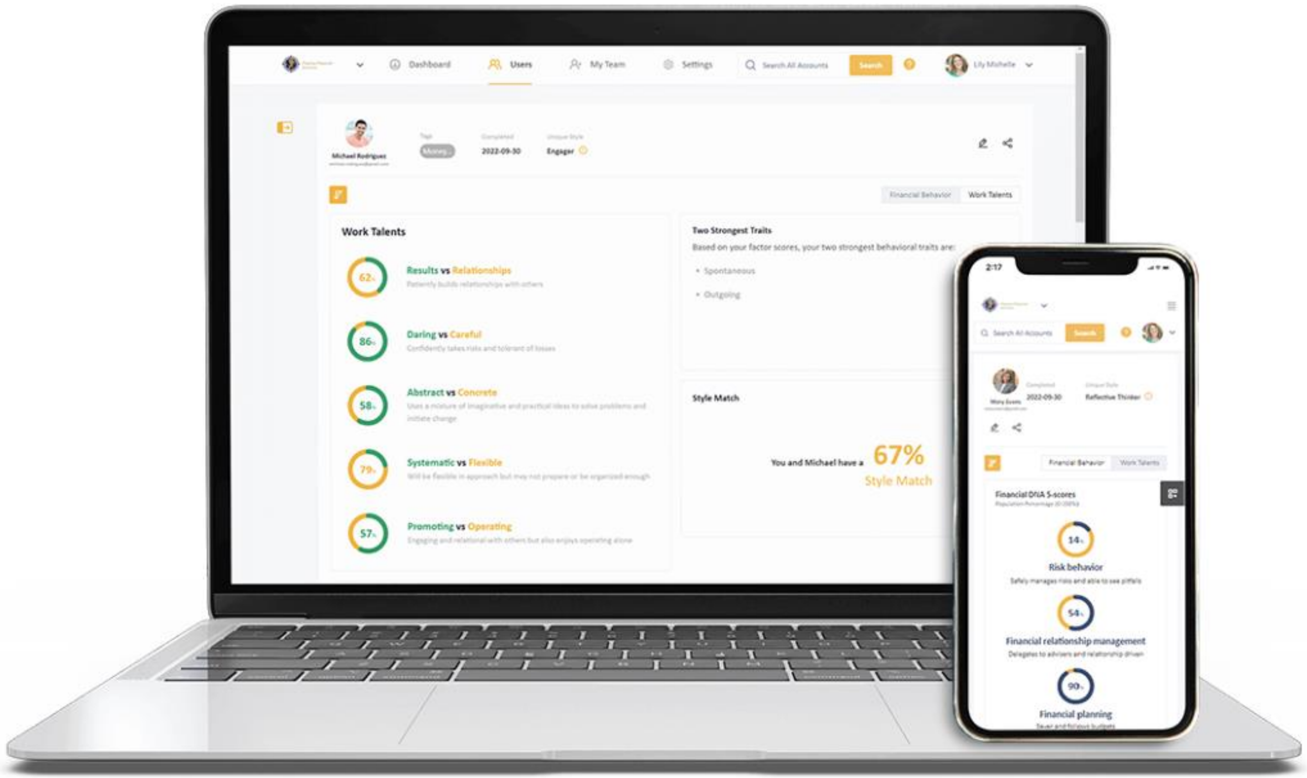
- Question in depth on the realism of their goals and deep-down desire to diligently achieve them.
- You need to understand their subjective confidence in their judgments is reliably greater than their objective accuracy.
- Guide them to set a concrete action plan and establish how you are progressing towards achieving your goals.
- Understand how important it is for them to be seen as financially successful.

# Exercise for Optimism Bias

1. These investors tend to be more optimistically biased when they believe they have more control over events than others. Is this false pride? If so, how would you advise and manage this investor?
2. Believing themselves at less risk of failure than others means they are likely to overpay for investments based on unrealistic expectations. What strategy would you put in place to save them from themselves?
3. Those with an Optimism bias tend to compare themselves to others and believe they are less at risk of making unwise decisions than others. So, what would this investor be prepared to sacrifice for success?
4. Overextending finances can have an adverse impact not just on lifestyle but also in terms of missing out on big opportunities. How would you approach this investor to present a more realistic plan together with the action steps?
5. Successes often lead to feelings of well-being and self-esteem. Unfortunately, this can lead to risky behaviors and not taking preventive measures for safety. What would be your approach to educating and managing this bias?

# Exercise for Optimism Bias

1. What would you consider the first five steps to take to fully understand the source of this client's optimism bias and behavior?
2. How would you encourage them to have a trading plan?
3. Consider how this approach might keep their over-enthusiasm in check. Write down your thoughts.
4. What do you think would be their reaction to facing up to not just losses but the reasons/causes behind the losses?
5. Given that this bias is emotional drive – how would you explore the impact it is having on unbalancing other areas of their life – or would you?




# Behavioral Management of Clients:
# Risk Aversion Bias

# Defining The Risk Aversion Behavioral Bias In the Context of Financial Personality

**Investor**

Overly hesitant to take the necessary risks to make the required returns.

**Action**

Learn calculated risk-taking

# Application of the Risk Aversion View To The Financial Planning Process

- Naturally calculated and careful people require a high degree of certainty before committing to opportunities and with their loss aversion the portfolio can underperform by not taking losses when it is rational to do so.
- Cautious and conservative and expects to receive information and data to support any advice given to her.
- Shrewd investor.

# Application of the Risk Aversion View To The Financial Planning Process

- They want everything in their life ordered, yet they also have a high lifestyle desire.
- They act cautiously and make conservative decisions.
- They may hang on to losing investments, hoping they will one day come good.
- Advisors need to manage this aspect so that there is a portfolio underperformance that doesn't threaten their lifestyle.
- Financial losses cause fear in terms of making them look bad.

# Application of the Risk Aversion View To Advisor Client Communication

- Focus on the certainties and minimize the risks.
- These investors prefer avoiding losses rather than accruing gains.
- Advisors must find the balance between helping their clients achieve their lifestyle goals and taking the necessary risk to achieve them.
- Get them to define the merits of taking a risk.

# Application of the Risk Aversion View To Advisor Client Communication

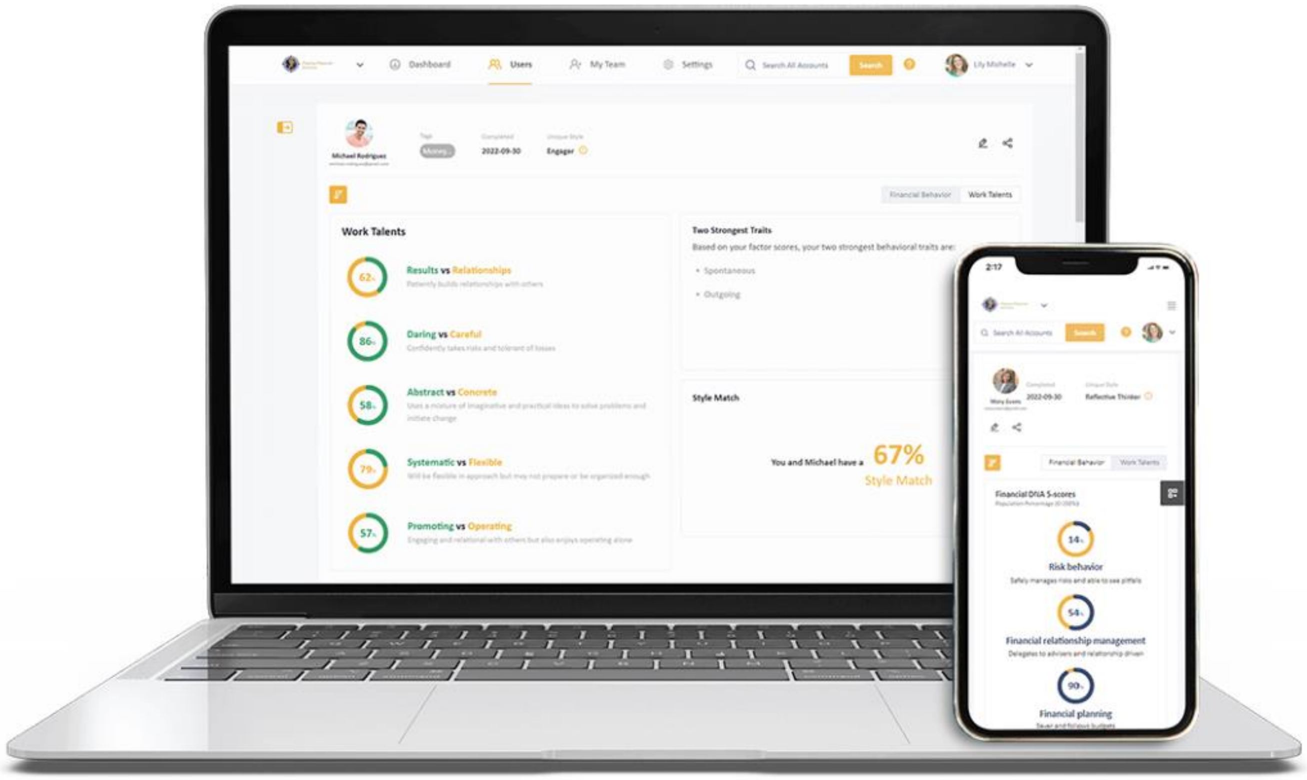
- Talk to them about where they find opportunities.
- Establish how they approach any new opportunities.
- Be calculated to discern what is sound. They like to get the best advice and guidance available.
- The key for them is to get enough technical information to confirm the advice is correct, and at the same time, they want to engage in discussion.

# Exercise for Risk Aversion Bias

1. Risk aversion bias investors tend to sell winners early, taking money off the table. How would you help them to keep the position longer, so they achieve a return commensurate with the initial risk taken?
2. A risk-averse investor won't want to be offered risky opportunities with a high degree of uncertainty. So how would you approach adding higher risk investments to their portfolio knowing they would offer a better rate of return needed for achieving their goals?
3. Risk Aversion Bias needs education. What approach would you take to educate this investor in showing outcomes of reasonably calculated risks?

# Exercise for Risk Aversion Bias

1. List five questions you would ask this client to uncover the emotion/circumstances that underpin their inability to take risks.
2. How would you work with a client who prefers a sure outcome over a gamble with higher or equal expected value?
3. How would you manage your own bias if your ability to take risks was higher than your clients?
4. What approach could you take to breaking down a risk-averse bias, especially when you know that failing to add high-risk stocks or investments to their portfolio would cause them to lose out on higher rates of return?
5. What education would you use to give this client the confidence and information to take on more risk?

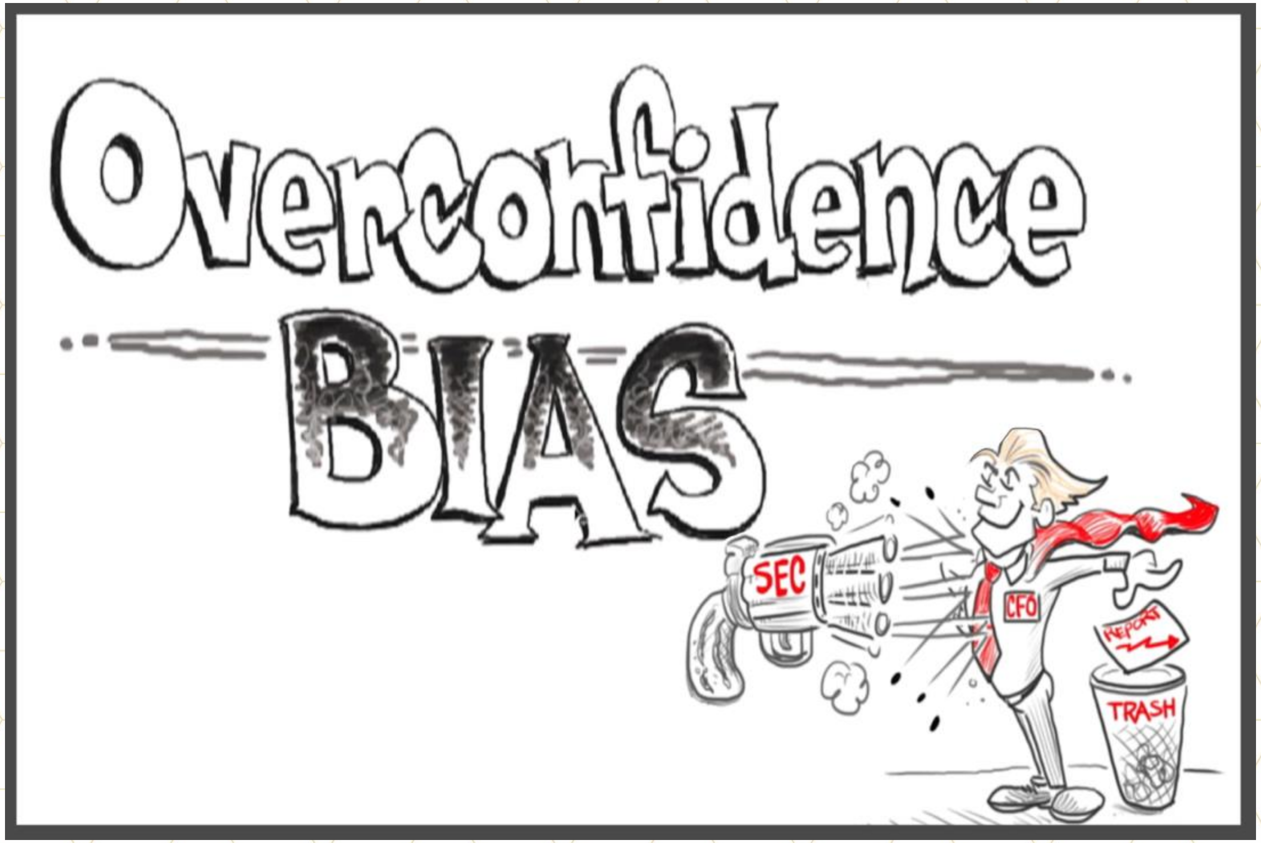



# Behavioral Management of Clients: Over Confidence Bias

# Defining The Over Confidence Behavioral Bias In the Context of Financial Personality

**Investor**
Can think they are more successful at investing than they are.

**Action**
Evaluate the dangers better.



# Application of the Over Confidence View To The Financial Planning Process

- Naturally daring and courageous investor; prepared to take opportunities but with overconfidence may take poor chances at times.
- These investors without a high level of self-awareness think they are far more risk-tolerant than they are.

# Application of the Over Confidence View To The Financial Planning Process

- This investor could be driven by outside pressures and desires to make money or ignorant about investment returns and how money is made.
- Watch out for the investor who naturally has a significantly greater behavioral propensity to take risks beyond their risk tolerance capacity.
- Severe movement in the market will reveal their level of risk tolerance.

# Application of the Over Confidence View To Advisor Client Communication

- Present the risk and return of each investment.
- This investor may recognize signs of overconfidence in themselves and might even know how to navigate this behavior; under pressure, overconfidence bias will overrule their reasoning.
- Advisors should provide them with boundaries to manage their propensity to take risks.

# Application of the Over Confidence View To Advisor Client Communication

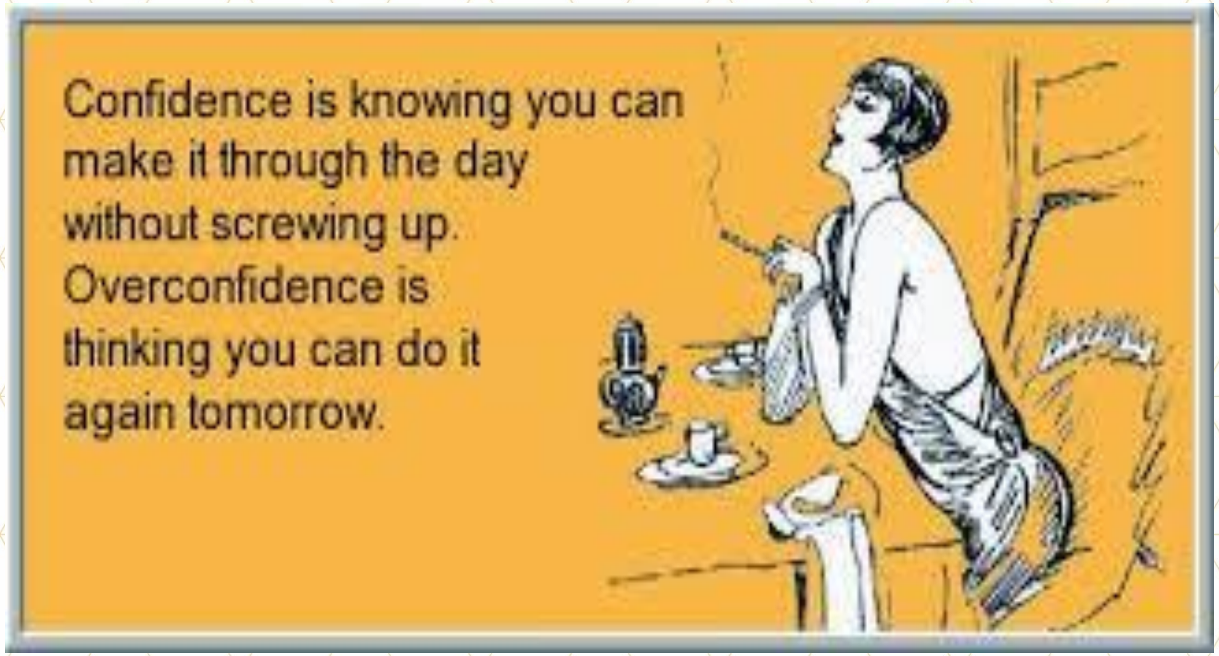
- Establish reality checks on their tolerance for living with those risks.
- Get them to share what courageous goals they have set.
- Talk to them about what safety nets they might need in their life and at what points.

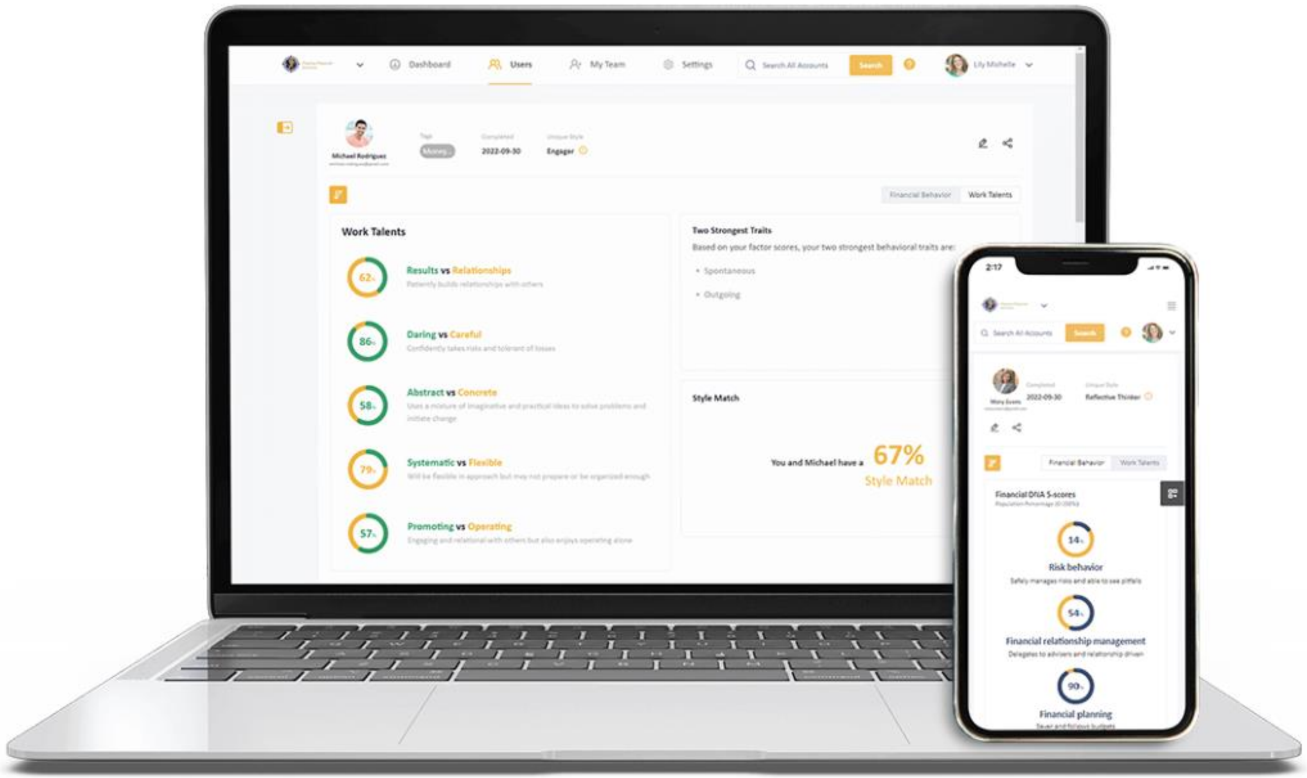
# Exercise for Over-Confidence Bias

1. With this bias, a few wins that boost confidence can soon turn into over-confidence. So how would you steer a new investor away from believing that 'lucky one-offs' are the norm?
2. Over Confidence Bias tends to fail to read danger signs. How would you work with this investor to apply the brakes to their approach and make the signals more visible to them?
3. A key indicator would be failing to use wise reasoning before investing. So, how could an advisor give key points to help the investor overrule their emotions and become steadier in their approach?
4. These investors tend to overestimate their skills, abilities, and forecasts of their potential success. Unfortunately, such overconfident behavior often involves excessive trading and poor investment returns. What approach would you take to steer this investor into investing for the long term rather than trading for the short term?
5. How would you frame questions around times when their overconfidence was poor judgment and hurt their returns?

# Exercise for Over Confidence Bias

1. List 5 questions you would use to reveal the degree to which this client's overconfidence stems from success or bravado.
2. How would you frame questions around times when their overconfidence was poor judgment and hurt their returns?
3. How important would you as an advisor be to discover their end vision in building their wealth?
4. How would you manage your own bias and the temptation to tell them that their information and intuition are unlikely to provide successful results?
5. What kinds of reality checks would you encourage the client to take on board to manage their overconfidence bias?






# Behavioral Management of Clients: Benchmark Focus Bias

# Defining The Benchmark Focus Behavioral Bias In the Context of Financial Personality

**Investor**
It can be fixed by keeping in line with established benchmarks.

**Action**
Learn calculated risk-taking

# Application of the Benchmark Focus View To The Financial Planning Process

- The Investor is a thinker and will focus only on salient points.
- The investment approach will be around the familiar; this is very important to their emotional comfort.
- They will adopt a logical and sequential "left-brained" approach in choosing tried and tested products and solutions.
- Provide them with straightforward strategies and a concrete investment plan with clear implementation steps and measurement benchmarks.

# Application of the Benchmark Focus View To The Financial Planning Process

- May become too focused on a strategy and specific investment; might not look out to re-adjust when needed.
- They could lock themselves into a strategy/plan without the drive or creativity to get out.
- Taking on new ideas is quite risky. They do not need to be on the cutting edge of everything.

# Application of the Benchmark Focus View To Advisor Client Communication

- These investors are naturally consistent and experience-driven, able to focus on a plan and follow investment benchmarks but may need to be fixed on existing ways and need to adjust.
- Be prepared to advise/educate these investors, as they need careful thought and a structured approach. Keep it tangible and provide logical steps.
- They might need to rely more heavily on the first information offered, which becomes their anchor when making decisions. This establishes their 'platform' going forward.

# Application of the Benchmark Focus View To Advisor Client Communication

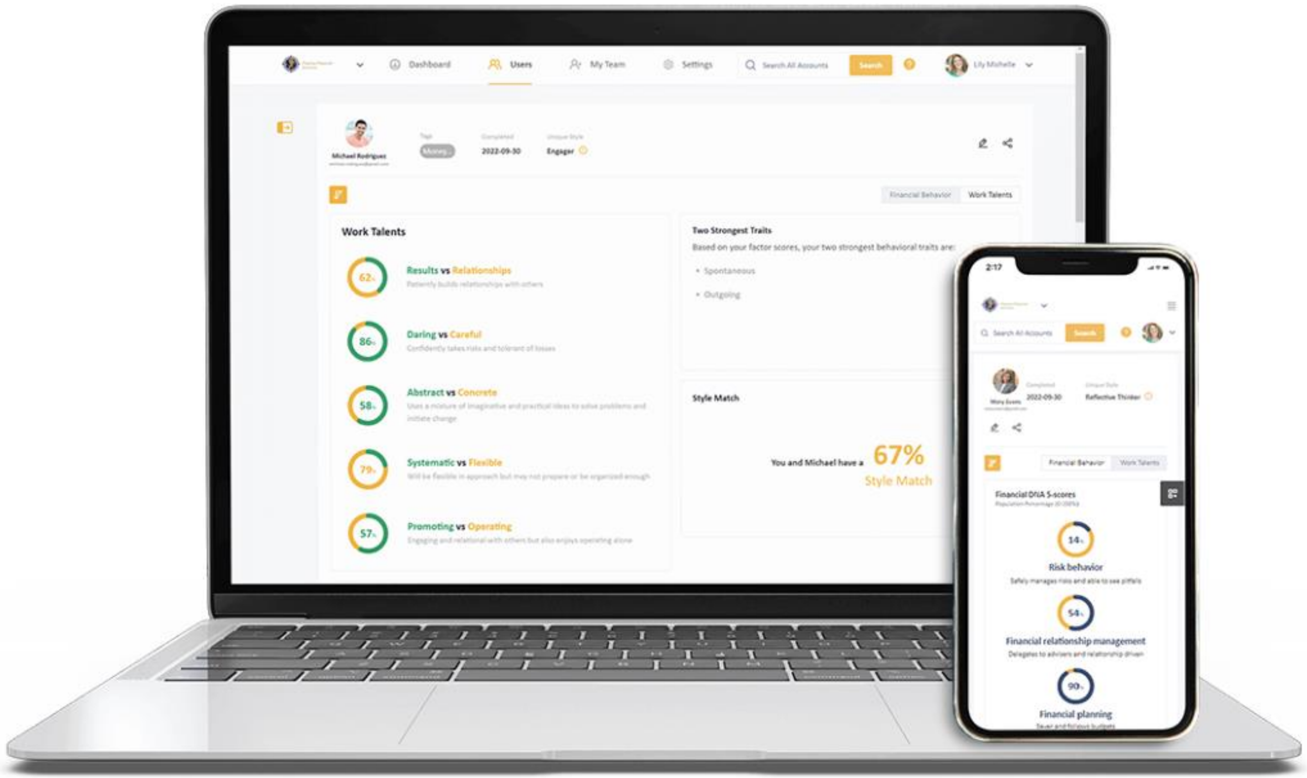
- Keep them focused on their long-term investment goals and maintain a consistent process.
- Avoid artificial or narrowly focused benchmarks. These might distract them from the bigger picture of achieving their goals.
- Establish how they would like your financial plan presented and monitored.
- They will be overwhelmed by advisors who give them non-traditional investments to try out.

# Exercise for Benchmark Focus Bias

1. Benchmark Focus Bias tends to mean investors do not rely on fundamental factors. They would instead base their investment decisions on the price at which the stock was purchased or another arbitrary baseline measurement, believing it to be an anchor or benchmark. Having established these initial default positions, how would you advise your client to shift and be open to new opportunities?
2. Keeping in line with established and previously used benchmarks could prove financially fatal for the investor. What steps would you take to educate this client when they continue to hold on to a losing stock hoping it will improve, therefore justifying their use of it as a benchmark?
3. This bias tends to fixate investors on a particular sell-price target even when current research shows a shift in the landscape. So what could/would you do to prevent them from becoming stuck in this scenario, even to the point of seeing markets flop?
4. Self-knowledge could help this investor make more rational decisions based on current information. How could you help this investor to understand how looking backward could result in underperformance?
5. Using a subjective anchoring/benchmark approach to investing can make decision-making more transparent. How would you advise the investor on how they should consider a broader range of decision-making choices and not focus their financial decisions on a specific reference point of information?

# Exercise for Benchmark Focus Bias

1. List five questions you would ask to discover the benchmarks the client currently uses as default anchors in their decision-making.
2. Having established these initial default positions, how would you advise your client to shift and be open to new opportunities?
3. What steps would you take to educate this client when they continue to hold on to a losing stock hoping it will improve, therefore justifying their use of it as a benchmark?
4. How would you manage your own bias and frustration if the client continued to wait for losing investments to improve when you could see this wouldn't be the case?
5. Consider how building trust with a client would help them review and set different benchmarks.

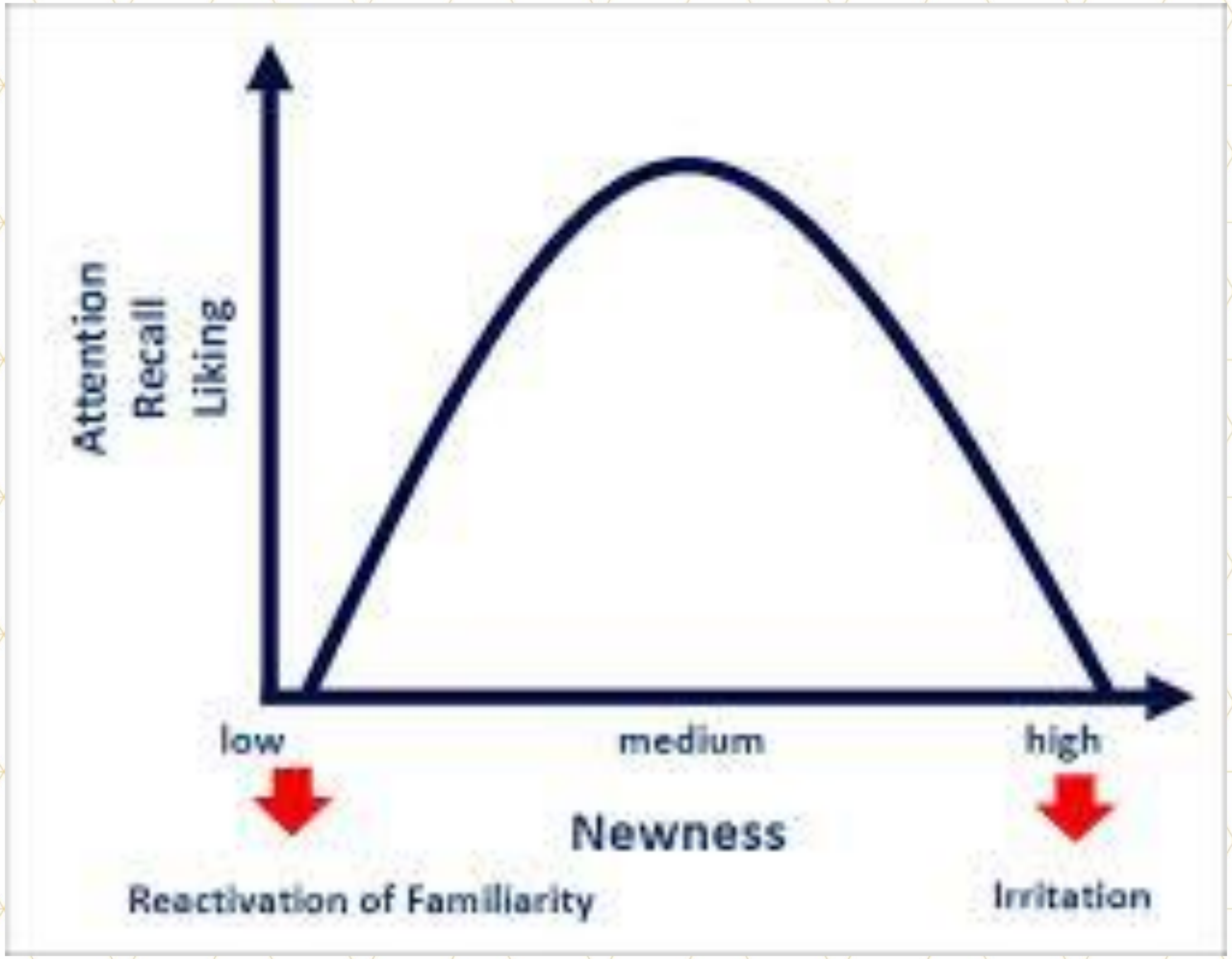



# Behavioral Management of Clients: Newness Bias

# Defining The Newness Behavioral Bias In the Context of Financial Personality

**Investor**
Likely to give more weight to recent information and ideas.

**Action**
Adopt a structured approach.



# Application of the Newness View To The Financial Planning Process

- This naturally original and imaginative investor can discuss new ideas openly but must ensure they do not have a newness bias for information that causes them to miss existing critical data.
- Sometimes thinking will be pretty random with a more creative “right-brained” investing approach.

# Application of the Newness View To The Financial Planning Process

- They will back new ideas and a more creative solution so long as it will not destabilize their overall need for life security.
- They may take on too many ideas, leaving their financial planning and investment portfolio unstructured.
- They may give more weight to recent information.

# Application of the Newness View To Advisor Client Communication

- Encourage brainstorming sessions; allow feelings to be presented.
- This investor is naturally original and imaginative in their thought processes, able to openly discuss new ideas.
- Enjoys meeting and getting to know interesting people.

# Application of the Newness View To Advisor Client Communication

- Introduce these investors to people in your network or business; this makes them feel comfortable and assures them that they are getting the best service.
- Ensure they do not have a newness bias for information that causes them to miss existing critical data.

# Exercise for Newness Bias

1. Newness Bias is the desire to give more weight to recent information and ideas to support a particular investment outlook. How would you work with this client to steer them away from thinking that an investment is worthy of their attention just because the latest economic data says so?
2. The latest, most significant trend is soon forgotten. The danger is damaging investment decisions while the trend is 'hot.' So how can you manage the emotions that lead to newness bias and re-balance their overexcitement often found in the latest trend opportunities?
3. There are risks in focusing investment decisions on new ideas. So how can you brainstorm solutions with your clients that are more reliable in producing performance and managing risk-reward?
4. Newness Bias keeps investors distracted. How will you set boundaries with them to ensure they do not let recent events and ideas confuse their financial direction?

# Exercise for Newness Bias

1. List 5 questions you would use to uncover the degree to which this client is impacted by the 'latest greatest' trend in all areas of their life.
2. Why would it be necessary for the advisor to have this information?
3. What steps would you take to educate this investor to understand that they are giving more weight to recent information and ideas to support a particular investment outlook.?
4. Describe the types of boundaries you would work with the client to put in place.
5. How would you manage your own bias?

DNA Behavior®

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