Financial DNA® White Paper
Research Insights on Practice Behaviors

"If 20 people come in, there will be 15 different styles that you have to adjust to. It's a matter of reading and reacting to the client's style." – Financial Planning Magazine, July 2004 (Article: The Shape of Things to Come)

Do you know your clients? In pressured times can you reliably predict the behavior of your clients? How is your ability to manage your clients when they are feeling stressed by market conditions or life transitions? What processes are you using and how much time are you spending to understand the behavior of your clients?

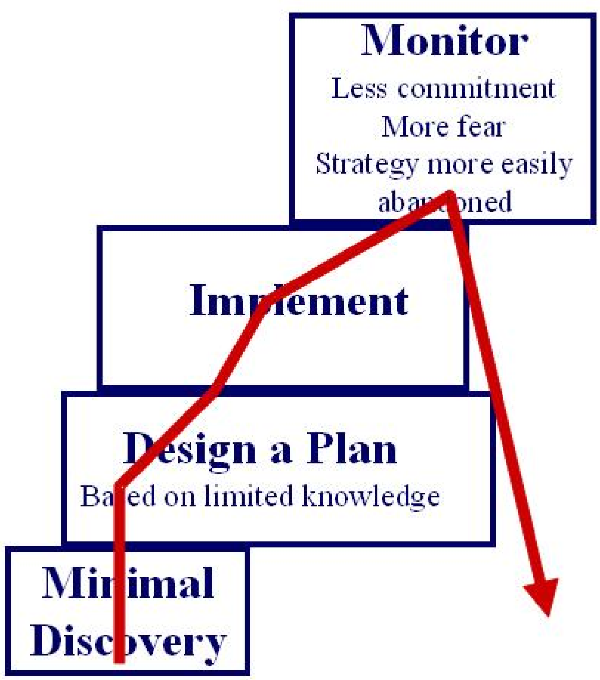
Why is understanding behavior important? In essence, human behavior is foundational to influencing our life perspectives and how we process the environment in which we live. This then drives many of the life decisions that we make. It is these perspectives and motivations which strongly influence our financial behaviors and how we make financial decisions. Ultimately, our life and financial choices are intertwined and our behavioral style is at the center. Further, a core part of our behavioral style is how we uniquely communicate with others and learn information. This is foundational to our relationships and the life and financial choices that get made.

Summary of the Research

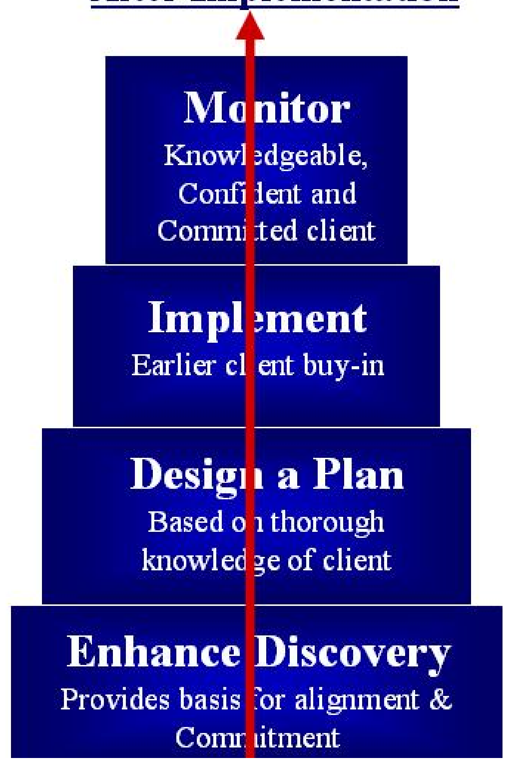
In February 2009 we completed a short survey of 100 successful financial advisors with practices having assets under management over $50 million. The overall conclusion would be that advisors could be doing more to use human behavioral insights as a foundation for building their practice in the future. The message is not that human behavior is seen as unimportant by advisors. Rather, more behavioral discovery could be done. This behavioral information could then be far better leveraged to improve performance for the practice and your clients.

"Greater client discovery – increased time savings and results for advisor and client"

Before Behavioral Discovery



After Implementation



Key Research Insights

1. Communication:

- Since the financial crisis, 84% of advisors are saying that they are communicating with their clients more.
- For those advisors communicating more frequently with clients, 79% are calling their clients more often than they have in the past and 63% emailing their clients more often. Only 45% are having more face-to-face meetings than normal.
- Only 7% of the advisors are uniquely customizing their communications to the clients in terms of talking points, materials and communication style and 29% are mostly customizing.
- **Comment:** This would suggest that whilst advisors are communicating with clients they may not be communicating the right way. The natural tendency is to communicate through your own lens and we all have blind-spots. Communicating the same way with every client could be risky as over half your clients could feel misunderstood.

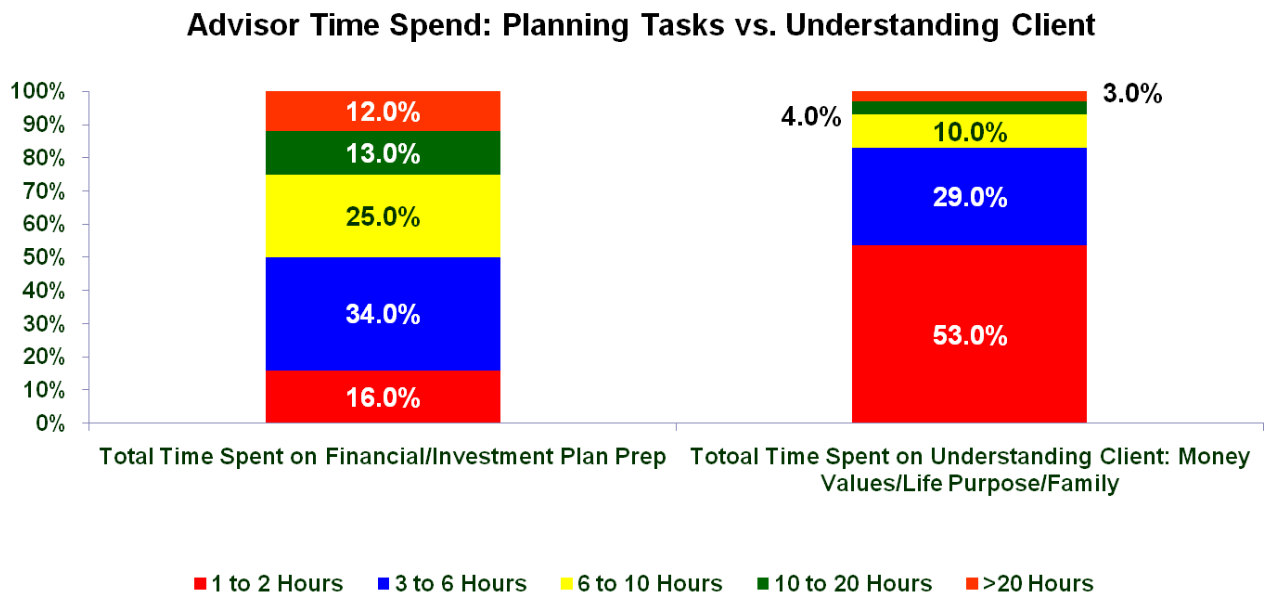
2. Asset Allocation

- Asset allocation and portfolio construction decisions are driven 91% by investment time horizon, 91% by intended use of the assets and 81% by risk questionnaires. Only 13% is driven by behavioral profiling.
- **Comment:** How much does behavior influence these decisions? No doubt a lot. One of the problems is that many risk profiling instruments used by advisors are situational and only measure today's behavior and not that of tomorrow or the long term. Therefore, the risk profile outcomes are not reliable for the period of the portfolio.
- There is also a need for highly objective and robust behavioral profiling because a client will often sign on for more risk than they can actually tolerate, and a smaller number may sign on for less risk than they ought.

3. Ability to Predict Behavior

- 70% of advisors said that they were surprised to some degree by the client's reactions to the turbulent markets.
- Historically, when asked this question advisors have only been confident about reactions when the person has been a client a very long time and through a serious downturn.
- **Comment:** When advisors interact with clients generally there are a lot of learned behaviors on display which are the "party manners". These learned behaviors are often not who the person is when their natural instinctive behaviors have taken over which is generally when there is pressure.

4. Client Discovery



- Only 19% of advisors have both a formal discovery process and use behavioral profiling to understanding a prospective client's motivations, goals, life purpose, and potential personal/family issues around money. A further, 38% have a formal discovery process but this is not behavioral and the remaining 43% have an informal approach based on a few questions.
- 16% of advisors spend under 1 to 2 hours in investment and financial plan design and preparation and 34% spend 3 to 6 hours. Then 25% of advisors spend 6 to 10 hours, 13% spend 10 to 20 hours and 12% spend over 20 hours.
- 53% of advisors would devote 1 to 2 hours towards understanding a prospective client's motivations, goals, life purpose, and potential personal/family issues around money and 29% spend 3 to 6 hours. Then 10% spend 6 to 10 hours, 4% spend 10 to 20 hours and 3% spend 20 hours.
- **Comment:** Advisors are spending a relatively low amount of overall time in the up-front phase of the financial planning process. Further, very little of that time is actually spent understanding who the client is and determining what the real inputs to the plan should be. This would suggest that the planning process is not being treated as an art. How much better could the results be for the client and the advisor if more time was spent on discovery?

Five Steps for Using Behavior To Build Your Practice

Regardless of whether there is a crisis or profitable times, the following steps can be implemented to build the foundations of your practice with more behavioral insights:

1. Communicate with clients on their unique terms at all touch points. You could have the clients complete the Communication DNA Profile to discover their natural "hard-wired" propensity to communicate. You can learn more and have clients complete their Communication DNA at www.communicationdna.com.
2. Build your own self understanding and emotional intelligence so that your capability to manage clients is improved. This will come from completing your own Financial DNA Profile and being coached on your strengths and struggles. Please visit www.financialdna.com to learn more and complete a Financial DNA profile.
3. Gain objective and measured behavioral insights into your clients up-front by having them complete a behavioral profile during the discovery phase. This will help in understanding their overall financial behaviors, life motivations, values, purpose and goals. The clients can complete a Financial DNA Profile.
4. The behavioral information gathered in step 3 can be used to reliably assess the clients' true risk tolerance position and develop a behavioral based asset allocation from the "inside-out".

5. Review your business model and in particular the structure of your revenue streams. You can consider how to introduce and/or increase the level of fee based services that you offer which will also support the continuity of assets under management revenue.

Financial DNA Resources has developed a number of unique services that advisors can learn to deliver using our structured processes. For more information, please visit www.financialdna.com

For more insight into how to build your practice using a behavioral model, please read Hugh Massie's book "Financial DNA: Discovering Your Unique Financial Personality for a Quality Life".