Measuring and Managing Human Differences

Educational Scenario

Financial Advice Judgment Calls

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Educational Scenario
Financial Advice Judgment Calls

Objectives of this Educational Scenario:

1. Using a real-life scenario, questions, and discussions to explore Behavioral Variability in decision-making in the financial services advice arena.
2. To open conversations that recognize the need to put a monetary cost to variable behaviors that result in poor decision-making in the financial services industry.
3. Define solutions to control the human behavior variability problem of decision-making experts in their decisions to the extent that should not be tolerated.
4. Reveal how Behavioral Variability can be measured and managed.
5. Highlight that the early exercise of intuition can lead to sub-optimal results. Nevertheless, recognize that decision-making will be improved if the practice of intuition is delayed until there has been an appropriate level of cognitive reflection.
6. Demonstrate the practical application of DNA Behavior's "Gene Method" of structured decision-making management using the "Estimate – Profile – Review – Estimate" steps to: -

    - Explore why different decision-makers with the same specific task, including the same set of facts, circumstances, information, guidelines, or questions, respond differently.
    - Reveal the wide-ranging imperfection of individuals in exercising judgment due to a lack of understanding of behaviors and biases and the role each plays in driving decision-making in the advisor/client relationship.
    - Highlight the presence and consequences of unwanted Noise and its impact on Variability in decision-making.

Reasoning – What We Intend to Reveal:

The inherent Behavioral Variability in decision-making is caused by human differences that remain invisible and only become visible once costs to the financial services business and their clients are measured.

We will:

- Reveal the impact of Behavioral Variability in the decision-making process. That is the degree to which advisors given similar factual information about clients and guidelines then exercise their discretion (make judgment calls) to arrive at different decisions.
- Point to the need for advisors and clients to understand decision-making drivers, including natural DNA behavior, systemic biases, and other random "noise" factors.
- Show that there are no behavioral shortcuts because those in the decision-making space understand how each advisor approaches the decision-making process.
- Validate that greater decision-making consistency comes when individual behaviors are revealed, understood, and mastered.
- Indicate the monetary cost of variable decision-making for the financial services firm and their clients.

To do this:
We will feature a typical situation in the workplace where financial advisors come together with their principal to discuss questions raised by their clients about inconsistency in their investment approach.

The Decision-Making Event Structure:

Under the guidance of an external (independent) Decision Moderator, the Gene Method of "Estimate-Profile-Review -Estimate" will be deployed as follows:

- First, a sample decision-making group will be selected.
- Then, each member will be given a case study educational scenario to read.
- Next, each member of the group will independently (online) complete a range of questions to "estimate" what their decision would be.
- Each group member will participate in a scientifically formulated behavioral "profiling" instrument provided in the form of the DNA Behavior Natural Behavior Discovery with Business DNA and Financial DNA reports provided as applicable to the situation.
- In addition, there will be 1:1 facilitation of the DNA Natural Behavior Discovery reports prior to a group meeting.
- Next, the group will come together to "review" the scenario.
- Then, the group will reveal and share its profiling reports.
- Finally, the group will independently (online) answer the original set of questions a second time to develop a final "estimate."
- The Decision Moderator will compare both responses to the questions and capture any differences.
- The business stakeholder will formulate a cleaner approach to decision-making within their organization using the data collected during this event.

The Role of the Decision Moderator:

The Decision Moderator should be:

- Highly skilled and experienced in facilitating high-stakes decisions.
- Prepared to adopt the "Gene Method" of facilitation involving the Estimate-Profile-Review-Estimate steps.
- Certified by DNA Behavior to understand and manage scientifically measured behavioral styles.

They will work with C-Suite executives to ascertain the history of decision-making and choose the test group to undertake the proposed event.

The Decision Moderator will ensure that each participant in the decision-making group knows what is expected. They will outline the event's purpose with an upfront introductory letter, email, and/or video to ensure clarity and a common understanding.

They will then have a critical role in facilitating and moderating the event.

The Decision Moderator will ensure each person in the selected group has completed the following pre-event homework:

- Read the educational scenario.
- Independently answered the set questions to obtain an "estimated" decision in the scenario context.
- Completed an online DNA Natural Behavior Discovery with either/or both the Business DNA or Financial DNA reporting provided as applicable.

In the case of high-stakes decision-making, it would be appropriate for the Decision Moderator to meet online or in-person with each participant to individually discuss their DNA Natural Behavior Discovery Results so that there is personal clarity before the event.

Once the pre-event homework is completed, the DM will instruct each member of the decision-making group to come together in person or online to "review" the following:

1. Their interpretation of what they have read in the scenario.
2. How and why they have responded to the questions as they have.
3. Their DNA Natural Behavior Discovery results, in particular, their similarities and differences as a decision-making group or team.

The Decision Moderator will preside over the event and the discussions. They will monitor and record exchanges and conversations and, where necessary, move the conversation from one topic to another.

The Decision Moderator remains impartial, open, and unbiased and will not be part of the conversations or benefit from their outcome.

They will collate and record the group's responses and document key behaviors observed as the decision-making group discusses the scenario and their responses to the questions.

Pre-Financial Advice Judgment Call Decisions Event Homework:

In advance of the event, the Decision Moderator will contact each participant of the selected group to arrange the following action:-

The group will be given an educational case scenario to familiarize themselves with. Though fictional, it is based on actual life facts and will form the basis of session work at the event. While reading this, they will be instructed to suspend reality and see themselves in the room, part of the sales group required to make a strategic decision about the impact of introducing a technical solution into the business.

The Educational Scenario:

Chris Coddington is the CEO of Coddington Financial Services, a well-established and highly respected financial services business.

Chris has received several client messages within the past year, not complaints, but concerns. He has had many discussions with his partners and ten advisors but still can't quite get to the bottom of the issues.

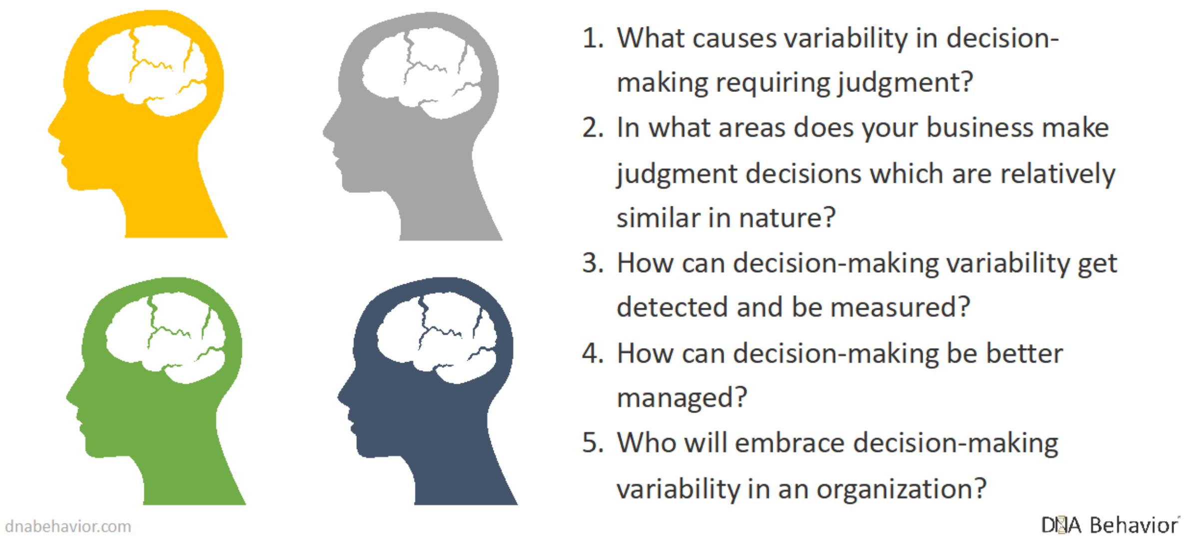
Chris is not just passing the concerns to a 'complaints department'; he takes client service very seriously.

The essence of the client concerns seems to focus on the inconsistency of decision-making by the advisors. Chris's initial reaction is that this cannot be so as each advisor has widely accepted guidelines in terms of the product offerings and high-level knowledge of potential risk tolerance, market movement, and bias. Yet still, Chris is unable to nail down the specific issue.

At dinner with a business consultant friend, Bob, Chris outlined his concern. Bob asked him if he had ever looked at the individual decision-making approach of his advisors. Maybe their different behavioral styles caused them to interpret what was needed for clients differently, which flowed through to causing the clients to have concerns.

Bob suggested that he'd recently read some interesting work on decision-making and human behavior. He suggested Chris read up on what was causing some of the workaround inconsistent decision making. In particular, he recommended Chris read the book "Noise" by Daniel Kahneman et al. In the meantime, Bob suggested some questions for Chris to think about in exploring the issues of Behavioral Variability in decision making as it applies to Coddington Financial Services.

Exploring Variability In Decision-Making



As he read and reflected, Chris began to understand the potential consequences of decision-making made by the inconsistencies of the human mind. Suddenly, he could see how "judgment call" decisions can vary from one individual to the next (or even the same individual on different days), even when his advisors had very similar client case facts.

Chris and his partner reviewed each of the cases of concern, and a pattern emerged. Variability of decisions from one advisor to another. They discovered that the significant degree to which the advisor's advice to clients varied was the issue.

Chris was determined that he as CEO and his board had to contain and resolve this judgment decision variability. He could see that there could well be compliance matters and failing to advise clients appropriately, not giving them a truly customized experience, not to mention the potential cost to the business.

Based on advice from his friend Bob, Chris reached out to a behavioral science company for guidance.

The behavioral sciences company recommended that a Behavioral Variability Study be conducted to investigate the causes of the inconsistent financial advice.

Under instructions from the study project manager, Chris nominated one of his advisory teams led by Michelle and their support staff to participate in the Behavioral Variability Study. The Behavioral Variability study team was inherently diverse, consistent with the team approach to serving every client and the family. The study team was made up of 6 people as follows:

1. Michelle – Lead Advisor and Team Manager
2. Johnny – Advisor and Business Development
3. Adam – Analyst

4. Kelly – Client Service Specialist
5. Jill – Operations Specialist
6. Kenneth – Client Experience

--------End of Background to the Scenario…….

Having read the above background information and received a briefing, each advisory group member will be provided with the same four investor clients and asked to independently assess the risk tolerance and portfolio allocation for each of the four clients.

Remember that each advisory team member will see the same information about these four clients. The primary intention is to identify and understand the variation in advice/decision-making given to the clients. Then, with that information, measure the behavioral variation and estimate its potential organizational cost to the bottom line and the contingent risks.

Given that decision-making is placed in the hands of many individuals during a decision-making exercise, it is essential to ensure all advisory team members play their part in this exercise.

Behavioral Variability infiltrates every area of business. Without insight into this 'spread,' it would be impossible to measure and manage it.

The Behavioral Variability Study Sample Clients:

Client # 1 Jack Sun
A 40-year-old driven entrepreneurial businessman has met with you to discuss his finances. You have learned that Jack has just sold one of his businesses, and he now has the capital to re-invest. You ask Jack the question: What will your life be like in 3, 5, or 20 years? Jack can immediately respond that he loves running restaurants and managing people. As the discussion goes on, it becomes obvious that Jack has worked out his life plan and will not be retiring. Therefore, he says he is interested in the overall return and not the performance of any particular asset.

Client # 2 Craig Moon
A 52-year-old entrepreneur who has built a very successful accounting software business. He started as an accountant and then enterprisingly used his talents to design a software solution for small businesses and accountants. He brought in a marketing and sales team to make the business work. He is the President of a company that is now listed on the stock exchange, and he has a substantial amount of equity. Craig engages a financial advisor to help him safely manage his wealth and provide a stable future for his children. He has not had the time to spend researching investments and feels that he is out of his comfort zone in terms of knowledge to make investments. Further, he knows that he sometimes has to make difficult decisions and take losses even though that is painful. Craig's investment objective is wealth protection rather than substantial further wealth creation.

Client # 3 Helen Jones
A 38-year-old mother of 3 children who has a very bubbly, outgoing personality and an active social and community life. Helen openly admits that she has gone to lunch and dinner parties and hears the latest "hot tips" on high-flying stocks. Often in the moment's excitement, Helen has taken a few bets. She justifies that it will fund a vacation, or this will mean she can have some nicer clothes. However, after a

few years of much heavier losses than gains and her family's future on the line, Helen realizes something is wrong. Outside help is needed.

Client # 4 Max Speed
A 62-year-old senior corporate executive who is used to making difficult decisions. Some colleagues call him "Merciless Max" for his ruthlessness about numbers. His view is that forecasts have to be met every quarter and a "bottom line number" delivered. Predictably, Max believes that the same approach should be adopted with his investments. So, he looks at the portfolio quarterly and makes the tough decisions needed to keep the portfolio in line. He calls this "re-balancing." At times, however, his rational focus may mean a short-term swing is mistaken for a long pattern, so too much pruning goes on.

The Assignment:

Each member of the advisory team should now independently complete the following exercise.
<u>Do not share or discuss your responses with colleagues:</u>

As an advisor, consider the four clients' bio (above), and given the limited information that you have, please record how you would respond to the following Investment Portfolio Decision Questions:

Investment Portfolio Decision Questions	**Jack Sun**	**Craig Moon**	**Helen Jones**	**Max Speed**
What would be your overall assessment of the Portfolio Risk for the client? 1. Low 2. Medium 3. High				
What would be your capital appreciation portfolio structure grouping allocating between Defensive (Cash and Bonds) and Growth (Equities)? 1. Capital Protection 2. Ultra Conservative 3. Conservative 4. Balanced 5. Accumulation 6. Growth 7. Aggressive				
Would you offer the client a Strategic Portfolio with Alternative Investments? 1. No 2. Yes				

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The Coddington Financial Advisory Team Responses:

The independent, intuitive responses of Michelle and her advisory team are summarized in the tables below using the summary information that was provided about each client. [Note: The Decision Moderator does not reveal the group answers at this stage until there has been discussion]

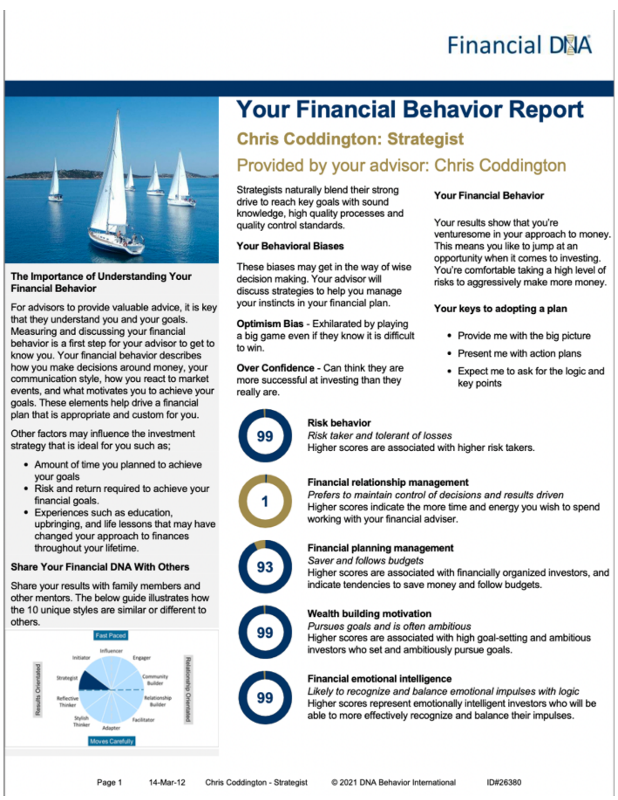
In Advance of the Client Portfolio Review Event:

The advisory team members will be asked to complete an online Financial DNA Natural Behavior Discovery Process to reveal their individual behaviors as part of the preparation work. They will receive a link to complete this process and allow 10 to 12 minutes. The completion of the questionnaire should take place in one go and without interruption.

Each participant will then receive a report showing a range of behaviors and a deeper understanding of their natural behavior style.

The reports will not be shared with the group until after they have completed their responses to the assignment.

Here is an example of the initial 1-page Financial Behavior report for Chris Coddington the CEO. Additional reports with further insights are available on request.



Financial DNA

Your Financial Behavior Report

Chris Coddington: Strategist

Provided by your advisor: Chris Coddington

The Importance of Understanding Your Financial Behavior

For advisors to provide valuable advice, it is key that they understand you and your goals. Measuring and discussing your financial behavior is a first step for your advisor to get to know you. Your financial behavior describes how you make decisions around money, your communication style, how you react to market events, and what motivates you to achieve your goals. These elements help drive a financial plan that is appropriate and custom for you.

Other factors may influence the investment strategy that is ideal for you such as;

- Amount of time you planned to achieve your goals
- Risk and return required to achieve your financial goals.
- Experiences such as education, upbringing, and life lessons that may have changed your approach to finances throughout your lifetime.

Share Your Financial DNA With Others

Share your results with family members and other mentors. The below guide illustrates how the 10 unique styles are similar or different to others.

Strategists naturally blend their strong drive to reach key goals with sound knowledge, high quality processes and quality control standards.

Your Behavioral Biases

These biases may get in the way of wise decision making. Your advisor will discuss strategies to help you manage your instincts in your financial plan.

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

Over Confidence - Can think they are more successful at investing than they really are.

Your Financial Behavior

Your results show that you're venturesome in your approach to money. This means you like to jump at an opportunity when it comes to investing. You're comfortable taking a high level of risks to aggressively make more money.

Your keys to adopting a plan

- Provide me with the big picture
- Present me with action plans
- Expect me to ask for the logic and key points

99 **Risk behavior**
Risk taker and tolerant of losses
Higher scores are associated with higher risk takers.

1 **Financial relationship management**
Prefers to maintain control of decisions and results driven
Higher scores indicate the more time and energy you wish to spend working with your financial adviser.

93 **Financial planning management**
Saver and follows budgets
Higher scores are associated with financially organized investors, and indicate tendencies to save money and follow budgets.

99 **Wealth building motivation**
Pursues goals and is often ambitious
Higher scores are associated with high goal-setting and ambitious investors who set and ambitiously pursue goals.

99 **Financial emotional intelligence**
Likely to recognize and balance emotional impulses with logic
Higher scores represent emotionally intelligent investors who will be able to more effectively recognize and balance their impulses.

Page 1 14-Mar-12 Chris Coddington - Strategist © 2021 DNA Behavior International ID#26380

In advance of the discussion with the Decision Moderator, each advisor will be given their report to bring to the session. It will form the basis of some conversations and activities.

The Decision Moderator will arrange for each advisor to receive one-on-one feedback on their behavioral report.

This will be made available online.

There will be an opportunity to share the contents of profile reports during the event.

Facilitation of the Advisory Decision-Making Group After Pre-Event Homework:

The advisory group came together to discuss the scenario, share their Financial DNA reports having completed the Financial DNA Natural Behavior Discovery, and address the respective client's investment requirements.

The Decision Moderator watches the exchanges and makes notes of the behavioral dynamics in the room. The observation of the discussion includes behavioral dynamics, the subtleties, and undercurrents that surfaced with the CEO in the room. Positional influence is the power or influence tied to a title or position, in this case, Michelle, the Advisory Group Team Leader (reporting to Chris Coddington, the CEO).

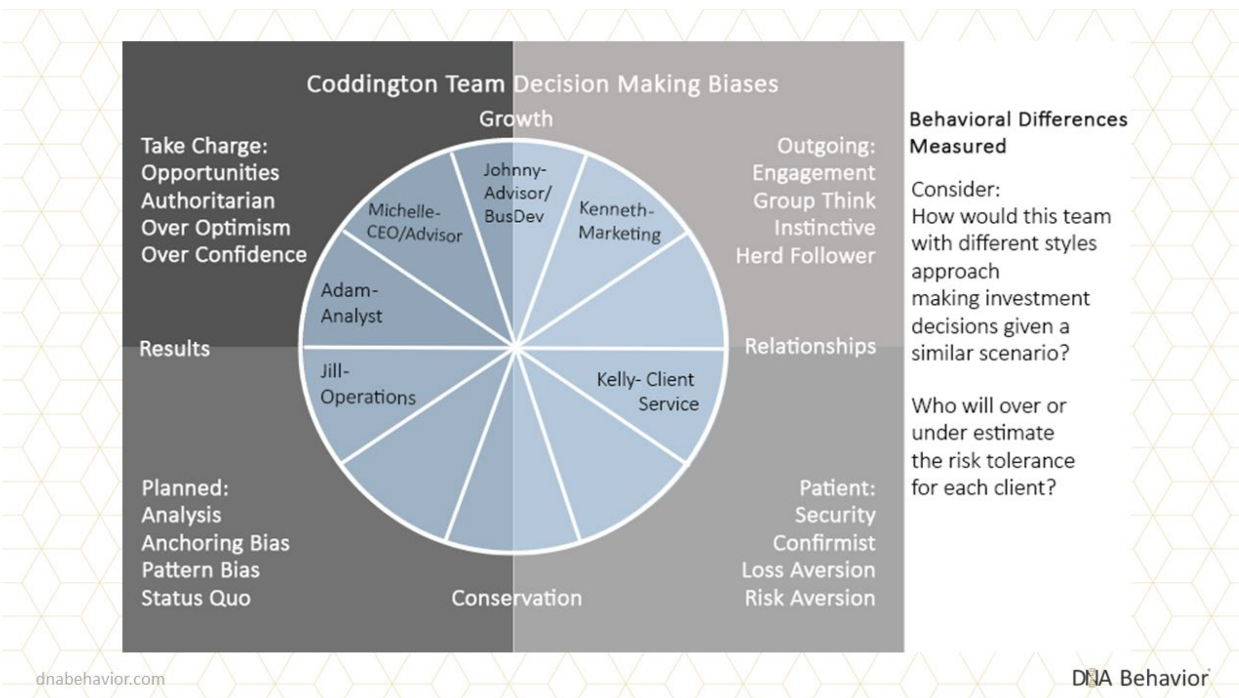
Of the Advisory Group Team Leader (Michelle) and five members of the advisory group in the room, their behavior and response approach broke down into the following categories:

The Decision Moderator notes the following group and individual decision-making behaviors and biases in this group session:

- Take Charge: Those with authoritarian behavior, focused on goals and with over-optimism and over-confidence biases, tended to be more bullish about the risks that the clients would take in their portfolios and investing for long-term growth.
    - In the Initiator, Influencer, Strategist behavioral styles – Michelle, Johnny, and Adam
- Outgoing: Those with a more group thought-oriented approach were instinctive, so they were more focused on what the others were saying in the team and distracted by what they heard on

the street from other so-called experts. They demonstrated both instinctive and herd-follower biases.
   - In the Engager behavioral style – Kenneth
   - Also, to some level in the Influencer Style - Michelle
- Patient: Others were more conformist, loss and risk-averse, and patiently discussed the portfolio judgment calls. They tended to wonder what others thought and indicated their willingness to go along with the majority to avoid any conflict.
   - In the Adapter, Community Builder, Facilitator behavioral styles - Kelly
- Planned: Some were simply anchored and had pattern and status quo biases, therefore heavily questioning the need for change. They asked for examples of how these proposed changes had worked elsewhere. They were not convinced of any need to change without further data. They questioned the return on investment (ROI).
   - In the Reflective Thinker, Stylish Thinker behavioral styles - Jill
   - Also, to some level in the Strategist Style - Adam

Behaviorally the study group is divided into behavioral decision-making styles aligned with their profile discovery.



The results were shown to the group, and a facilitated discussion continued based on a deeper understanding of the inherent behaviors and biases of the advisory group.

Remembering that each member of the advisory group had the same access to the bio of the clients, the Decision Moderator then shared their initial individual and cumulative responses to the exercise provided independently of group discussion using their intuition:

Dispersion in Intuitive Assessment of Portfolio Risk

	Jack Sun, 40, (Young Entrepreneur)	Craig Moon, 52, (Mega Entrepreneur)	Helen Jones, 38, (Trainer and Mother)	Mary Winter, 55, (Executive)	Max Speed, 62, (CEO Near Retirement)
Michelle (Goal-Setting Visionary)	High	High	Low	High	Medium
Johnny (Outgoing Driver)	Medium	High	Low	Medium	High
Adam (Bottom Line, Data Driven)	Medium	High	Medium	Medium	Medium
Kelly (Warm, friendly)	High	Low	High	High	Medium
Jill (Operations Specialist)	Low	High	Low	High	High
Kenneth (Marketing Consultant)	Medium	High	Medium	High	Medium

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The Decision Moderator then showed a summary of what the advisory team had initially decided based on averaging their selections. The average of the selections was converted to show an Estimated Initial Portfolio Grouping based on a similar grouping methodology used by DNA Behavior in its Financial DNA System.

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Measurement of the Team's Intuitive Team Assessment

Actual Style	Jack Sun, 40, (Young Entrepreneur)	Craig Moon, 52, (Mega Entrepreneur)	Helen Jones, 38, (Trainer and Mother)	Mary Winter, 55, (Executive)	Max Speed, 62, (Executive Near Retirement)
Overall Team Intuitive Assessment	Medium	High	Medium/Low	High	Medium/High
Estimated Initial Portfolio Grouping	Group 5	Group 7	Group 3	Group 6	Group 5

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Clients Behavioral Style and Risk Tolerance Group:

The four sample clients had completed a Financial DNA Behavior Natural Discovery as part of the study. Below are their Natural Behavior Portfolio Risk Group allocations based on the completion of Financial DNA.

Jack Sun

The Natural Behavior Portfolio Risk Group that should be considered as a starting point in determining the structure of the your investment portfolio is indicated below.The Portfolio Risk Group shown below has been determined based on the blend of your Natural Behavior Risk Propensity and Risk Tolerance Scores as summarized in the table above.

Based only on your Natural Behavior Risk Score, your Portfolio Risk Group is **Group 6.**

Portfolio Risk Group	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
Percentage of the population with a risk taking level less than you	<2%	2-16%	17-30%	31-69%	70-83%	84-98%	98%>
Portfolio Structure	Capital Protection	Ultra-Conservative	Conservative	Balanced	Accumulation	Growth	Aggressive

Your Overall Portfolio Risk Group that is ultimately used in the Financial Plan and Investment Policy Statement will also be influenced by other factors. Prior to determining your final Portfolio Risk Group, please review the following with your advisor to determine the portfolio that is most suitable for you.

Craig Moon

The Natural Behavior Portfolio Risk Group that should be considered as a starting point in determining the structure of the your investment portfolio is indicated below.The Portfolio Risk Group shown below has been determined based on the blend of your Natural Behavior Risk Propensity and Risk Tolerance Scores as summarized in the table above.

Based only on your Natural Behavior Risk Score, your Portfolio Risk Group is **Group 3.**

Portfolio Risk Group	Group 1	Group 2	**Group 3**	Group 4	Group 5	Group 6	Group 7
Percentage of the population with a risk taking level less than you	<2%	2-16%	**17-30%**	31-69%	70-83%	84-98%	98%>
Portfolio Structure	Capital Protection	Ultra-Conservative	**Conservative**	Balanced	Accumulation	Growth	Aggressive

Your Overall Portfolio Risk Group that is ultimately used in the Financial Plan and Investment Policy Statement will also be influenced by other factors. Prior to determining your final Portfolio Risk Group, please review the following with your advisor to determine the portfolio that is most suitable for you.

Helen Jones

The Natural Behavior Portfolio Risk Group that should be considered as a starting point in determining the structure of the your investment portfolio is indicated below.The Portfolio Risk Group shown below has been determined based on the blend of your Natural Behavior Risk Propensity and Risk Tolerance Scores as summarized in the table above.

Based only on your Natural Behavior Risk Score, your Portfolio Risk Group is **Group 4.**

Portfolio Risk Group	Group 1	Group 2	Group 3	**Group 4**	Group 5	Group 6	Group 7
Percentage of the population with a risk taking level less than you	<2%	2-16%	17-30%	**31-69%**	70-83%	84-98%	98%>
Portfolio Structure	Capital Protection	Ultra-Conservative	Conservative	**Balanced**	Accumulation	Growth	Aggressive

Your Overall Portfolio Risk Group that is ultimately used in the Financial Plan and Investment Policy Statement will also be influenced by other factors. Prior to determining your final Portfolio Risk Group, please review the following with your advisor to determine the portfolio that is most suitable for you.

Mary Winter

The Natural Behavior Portfolio Risk Group that should be considered as a starting point in determining the structure of your investment portfolio is indicated below.The Portfolio Risk Group shown below has been determined based on the blend of your Natural Behavior Risk Propensity and Risk Tolerance Scores as summarized in the table above.

Based only on your Natural Behavior Risk Score, your Portfolio Risk Group is **Group 4**

Portfolio Risk Group	Group 1	Group 2	Group 3	**Group 4**	Group 5	Group 6	Group 7
Percentage of the population with a risk taking level less than you	<2%	2-16%	17-30%	**31-69%**	70-83%	84-98%	98%>
Portfolio Structure	Capital Protection	Ultra-Conservative	Conservative	**Balanced**	Accumulation	Growth	Aggressive

Your Overall Portfolio Risk Group that is ultimately used in the Financial Plan and Investment Policy Statement will also be influenced by other factors. Prior to determining your final Portfolio Risk Group, please review the following with your advisor to determine the portfolio that is most suitable for you.

Max Speed

The Natural Behavior Portfolio Risk Group that should be considered as a starting point in determining the structure of your investment portfolio is indicated below.The Portfolio Risk Group shown below has been determined based on the blend of your Natural Behavior Risk Propensity and Risk Tolerance Scores as summarized in the table above.

Based only on your Natural Behavior Risk Score, your Portfolio Risk Group is **Group 7**

Portfolio Risk Group	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
Percentage of the population with a risk taking level less than you	<2%	2-16%	17-30%	31-69%	70-83%	84-98%	**98%>**
Portfolio Structure	Capital Protection	Ultra-Conservative	Conservative	Balanced	Accumulation	Growth	**Aggressive**

Your Overall Portfolio Risk Group that is ultimately used in the Financial Plan and Investment Policy Statement will also be influenced by other factors. Prior to determining your final Portfolio Risk Group, please review the following with your advisor to determine the portfolio that is most suitable for you.

The advisors did not have access to this information until after the initial estimation exercise had been completed. They were then able to see the Behavioral Variability in their decision-making between their initial intuitive decision and what the Financial DNA Natural Behavior Discovery objectively recommended.

Comparison of Decision-Making After Completion of FDNA

Actual Style	Jack Sun, 40, (Young Entrepreneur)	Craig Moon, 52, (Mega Entrepreneur)	Helen Jones, 38, (Trainer and Mother)	Mary Winter, 55, (Executive)	Max Speed, 62, (Executive Near Retirement)
Overall Team Intuitive Assessment	Medium	High	Medium/Low	High	Medium/High
Portfolio Grouping	Group 5	Group 7	Group 3	Group 6	Group 5
Financial DNA Style	Initiator	Relationship Builder	Engager	Facilitator	Initiator
Risk Level	High	Low	Medium/High	Medium	Medium/Low
Risk Pop %	99%	21%	73%	69%	31%
Portfolio Grouping	Group 7	Group 3	Group 5	Group 4/5	Group 4/3
Behavioral Variability: Intuition To FDNA	Under	Over	Under	Over	Over

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The analysis highlights big perception gaps on an under and over basis. Some of this was systemic bias and some were random bias.

The problem is that with people having different behavioral styles and perspectives, the early use of their intuition without enough cognitive reflection can lead to sub-optimal decisions. Had they understood their behavioral style and bias and their clients at a deeper level, the recommendations made are likely to have been more accurate.

The point here is that if advisors are making decisions about clients, the early use of intuition based on prejudgments or a preconceived notion of what you want the answer to be can lead to making a wrong decision.

This goes to the need to have a deeper understanding of self and clients' life goals, bias, risk, spending pattern, background experiences, education, values, and so much more.

When You Know Yourself and Your Client's Financial DNA Style:

The Decision Moderator explained that completing the Financial DNA Natural Behavior Discovery is a critical step in the cognitive reflection stage to help uncover human behavior and money insights that may influence decision-making.

The power of the Financial DNA Natural Behavior Discovery is that it provides over 575 objective behavior and money insights about people, which may not be intuitively known without many interactive experiences over a lengthy period. Further, it precisely measures the biases that will impact each person's decisions and has a 91% scientifically proven accuracy level. Additionally, it measures a person's automatic "go-to" pattern of making decisions throughout their lifetime, particularly when under pressure caused by money and relationships.

As the group began to understand their behaviors, bias, and response to random noise factors, they were asked to return to the client's bio's and Financial DNA reports, based on their own and their client's more detailed insight, complete the questions again to come up with a final decision.

Below is a table showing the final decision-making based on client insight with a deeper dive into their financial personality and group discussion.

1. The top 2 lines show the group's initial intuitive assessment; and
2. The middle line shows the Financial DNA Portfolio Grouping measured objectively
3. The bottom line shows the Final Team Decision after group discussion and analysis. Generally, the decision was in line with Financial DNA and, in some cases, a bit more conservative.

Final Team Decision After Group Discussion

Actual Style	Jack Sun, 40, (Young Entrepreneur)	Craig Moon, 52, (Mega Entrepreneur)	Helen Jones, 38, (Trainer and Mother)	Mary Winter, 55, (Executive)	Max Speed, 62, (Executive Near Retirement)
Overall Team Intuitive Assessment	Medium	High	Medium/Low	High	Medium/High
Initial Portfolio Grouping	Group 5	Group 7	Group 3	Group 6	Group 5
Financial DNA Portfolio Grouping	Group 7	Group 3	Group 5	Group 4/5	Group 4/3
Final Team Decision After Group Discussion	Group 6	Group 3	Group 4	Group 4	Group 4

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A keynote for leadership is the Behavioral Variability in decision making when intuition forms the basis of decision making. This could show alarming business issues with a high financial and reputational cost:

1. Overestimating a client's ability to manage risk could cost them dearly if they cannot manage the client’s emotions when under pressure caused by loss aversion.
2. Underestimating a client's ability to manage risk could result in lost opportunities to help them achieve their goals.
3. Both mistakes could result in a loss of the client's business and a flow-on impact into lost upsell and referral opportunities.

In Conclusion:

Determining a client's risk tolerance is critical of the advisory process. Designing appropriate asset allocation hangs on having this insight. Without a deep understanding of a client's financial behavior, bias, life, and financial goals, it is impossible to get through the Behavioral Variability of the advisory process to assess the risk appropriately.

This educational scenario was designed to provide leadership in the financial services industry with insight into the silent behaviors that could significantly impact the bottom line of their business.

Behavioral Variability is the silent stalker that invades every aspect of the advisory and decision-making process. It's invasive, but thankfully industry is beginning to understand it has to be faced and dealt with.

A simple synopsis to revealing this issue is to focus on the behavioral styles of teams. Simple exercises such as the outline in this brief can alert leadership to the topic.

However, the next step must include a system to reveal the inherent behavior required to make important business and client decisions.

A simple audit as an outline will undoubtedly reveal an issue, but without a deep dive into the underlying behavioral causes using a scientifically-based approach, the leadership will not be able to monetize the decision-making issues.

Without insight into Behavioral Variability caused by diversity in decision-making, it is impossible to formulate plans and manage change involving a diverse range of people.

This educational scenario is based on a real case study where skilled financial advisers were asked to rate clients into a risk group for their portfolio allocation. The degree to which the advisors misplace the clients had significant consequences to both the clients and the business.

All acknowledged that there had been a lack of understanding of their clients' behaviors and biases. But, more worryingly, they recognized that they had not engaged with the importance of placing a $ value on poor decision-making.

Takeaways for CEO's and Leadership:

There is a risk that delegation of high-stakes decision-making could have devastating consequences to the business operations in every organization.

Not every high-stakes decision necessarily sits with the Board and C-suite. Although, this is often where complex decisions get made either individually or by groups with material consequences. Further, knowing the potential dangers and impacts of professionals and experts within the business regularly making key sales and operational related decisions that require the exercise of judgment requires further review, along with any group decision-making.

Unknown behaviors, biases, inconsistent decision-making are all part of the Behavioral Variability, often insidious, that can cause successful companies to lose substantial amounts of money and growth opportunities.

This scenario should act as a serious thought bubble for executives. Whether your business is in the financial services industry or not, the principles are serious and can be overlaid in any industry.

In brief, CEOs need to ask whether we have a problem with the quality of our decision-making. From our experience and research, everyone has to a greater degree than they think by up to 5 times.

Having acknowledged the importance of testing the quality of decision making – the first step is to appoint a highly qualified Decision Moderator.

The Decision Moderator will:

- Work with CEOs to identify key personnel in the decision-making scenario.
- Outline the proposed decision scenario based on the CEO's business need, or create a case study scenario for training purposes.
- Brief the C-suite on the importance of understanding how different individuals interpret the same message, giving the exact instructions, and the risk this presents to any business.
- Reveal individual behaviors that, if not known, tend to assume a confidence level in their judgment and their ability to sway others' opinions, which creates Noise around decision making.
- Demonstrate how behaviorally structured decision-making, which includes all opinions, delivers greater certainty in the quality of decisions.
- Show that there are no behavioral shortcuts because the decision-making group understands how each individual approaches the decision-making process.
- Validate that decision-making creates a broad diversity of thought when individual behaviors are revealed, understood, and mastered. However, the diversity can also lead to Behavioral Variability that must be managed.

The scenario outlines a range of biases that have been revealed as part of this test case. But it should be understood that individual decision-making biases are at play in most business decision-making environments and the broader teams.

The most dominant biases in individuals are:

1. Over Optimism Bias – pioneering individuals
2. Loss Aversion Bias – patient people who tend to balance overconfident people
3. Pattern Bias (data) – planned, structured individuals
4. Anchored bias – relying on pre-existing information, may be unwilling to change

The most dominant biases in groups are:

1. Authority Bias – take charge needs to control
2. Group Think bias – want to get the group to a consensus
3. Confirmation Bias – willing to hang back, patient
4. Status Quo Bias – content with the way things are

DNA Behavior in 2022:

In 2022 DNA Behavior International will be introducing a range of new dashboards and functionality to enhance their already significant offering from a depth and real-time usability perspective. This will take all the heavy lifting from understanding your people and clients (or customers).

The ability to measure and better manage Behavioral Variability in the decision-making of your executives, experts, and professionals will be accessible for the individual or the group on every device at the push of a button.

Traditional economic theories rely on the proposition that decision-making is rational and therefore perfect. However, this misses the principles of behavioral finance, which says that the natural variability of the human mind leads to imperfect decisions because of inherent biases and random noise factors, including emotions. The power of the DNA Natural Behavior system is its capability to predict the decision-making patterns of the human mind with the scientific measurement of over 575 validated behavior and money insights at a 91% reliability level.

2022 will bring faster, more extensive behavioral data to you to improve your organization's decision-making.

About DNA Behavior

Rethink and reshape how you measure and manage human differences in high-stakes decision-making. Manage the talents and financial behaviors of your employees, advisors, and clientswith DNA Behavioral.

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