

Financial DNA® White Paper Understanding Financial Behavior Under Stress

"How I got here is pretty simple in my case. Its not IQ, I'm sure you'll be glad to hear. The big thing is rationality....It gets into the habits and character and temperament, and behaving in a rational manner." - Warren Buffet

With turbulent financial markets it is far more likely that your true financial behavior will emerge and strongly influence your financial decisions. The degree to which this true financial behavior emerges and your ability to effectively manage it will to a large degree depend on how much pressure you come under because of financial concerns and difficulties.

How are you going to navigate these difficult times? To what extent will your emotions drive decisions? Do you really know your true level of risk tolerance? How will you communicate with others? If you are a financial advisor, can you truly predict how your clients will behave under pressure? A number of independent research studies show that experienced advisors do not believe they can predict the behaviour of clients. So, then the question becomes how will you get to understand the stress behaviors of your clients and how you will manage them?

For many, your true financial behavior will have been masked by the good times when markets and the economy have been riding high and there has been no financial chaos. The decision making patterns for many of us can change radically when the good times turn to bad. Why does this happen?

When under pressure our natural instincts take over. This is what we call the natural "hard hard-wired" behavior. Or put another way your default behavior. This behavior is fixed into your make up from the age of 3 years old and is the core of your "DNA". Whilst your overall personality may evolve as you go through life, there will be certain core behavioral traits which do not change and often are more clearly demonstrated when you are under stress. In fact, when you are under stress these natural instincts instantaneously take over and for many they have little control over it. It just happens. This is why you often see a high degree of emotional decision-making which is not rational. For those who are highly aware of themselves, are financially educated and experienced, have a sound relationship with money, and further have developed a high level of emotional intelligence this will be less so. However, even then there will still be the natural drive to behave a certain way.

Why is understanding your natural instinctive behavior in making financial decisions under stress important? What has been seen from extensive research and experience over the past 15 years is that your inherent life motivations will have a large bearing on the financial decisions you make. That is whether you spend or save, how you set goals, lifestyle needs,

risk tolerance and other investment behaviors. In many ways, your life and financial choices are highly intertwined. So under stress, these instinctive decision making patterns will emerge more clearly. With greater self awareness of these behaviors then you have a much greater chance of managing yourself when under pressure and are less likely to make financial decisions based on emotional surges. Further, if your advisor is aware of how you may behave under stress he or she has a much better chance of providing the correct guidance as you make key decisions. Also, the trust in the relationship will be higher because the communication is improved with this behavioral knowledge.

One area that is always addressed in the context of making financial decisions is that of risk tolerance. Based on our research what we have seen is that a person's propensity to take risks is often different to their ability to live with the consequences thereof. This is particularly important because in good times many people have a much greater propensity to take risks that they will not be able to live with under more stressful times. Having specific insights into your tendency to take risks and your true risk tolerance under pressure is critical to your financial success and the advisor being able to give you the proper guidance. Also, you will gain more confidence from having this knowledge.

Discovering the core of who you are and how you may behave under pressure is not easy. Our approach is to use a series of University validated assessments which in a very short period of time (15 minutes or so) specifically identify your natural behavior based on instincts. The assessments have been carefully structured with forced choice wording to deliberately put you under pressure. We find this approach provides very accurate and objective measurement of these natural behaviors without the bias of human assessment, judgment and blind-spots that come from simply asking questions in the traditional way. Also, the insights from this approach are more reliable over long periods of time than those assessments which are designed to identify your preferences in a situation or at a particular time. Some of these other systems capture who you want to be rather than who you are.

Getting Below the Surface to Discover Your Financial Behavior

To learn more about who you are and how you make financial decisions then we suggest you do the following:

- Complete the **Financial DNA[®] Path profiles** to gain objective insights into your natural instinctive behaviors and how this will influence your financial decision-making. [Click Here](#)
- Complete the **Financial Directions Profile** to gain greater insights into your financial preferences and aptitudes. [Click Here](#)
- Review the **Financial Behavior Analysis** and **Inside-Out Portfolio** that we prepare based on your profiles to assess the degree to which you are making decisions in alignment with who you are and to help you identify potential blind-spots that are impacting your decisions.
- Show your financial advisor or one of our Certified Wealth Mentors your Financial DNA Profile reports. This will enable them to guide you through making financial decisions

with far greater clarity. Also, ensure you show your spouse, family and other associates.



If you would like more assistance with understanding your financial behavior, please contact us at wealthmentoring@financialdna.com

For more insight into this topic, please refer to Chapter Eight of Hugh Massie's book "[Financial DNA® - Discovering Your Unique Financial Personality for a Quality Life](#)".