Deeper than Skin Deep:
The Psychology of Financial Planning (Part I)

By Carol Yip

From the perspective of the financial planner, the six-step financial planning framework is a logical and systematic approach to helping the client sort out his or her financial affairs. But the client does not always live a well-defined life. In other words, the client does not necessarily have a framework for your easy reference. Therein lies the challenge of planning.

The dynamics of your client's lifestyle depend on his or her family upbringing (including the relationship with parents, siblings and relatives), friends' influences, marital relationship with spouse and children, social (including media influences) and cultural environment in which he or she lives in, professional as well as a host of other personal and business challenges.

Other than the psychological make up of your client, he or she also has various life roles to play – like son, daughter, father, mother, grandfather, grandmother, sister, brother, friend, spouse, employer and employee. The list goes on. And each life role has its own unique financial obligations and complications. But just how complicated can they get? The simple answer: very complicated.

And each time the client experiences changes in his or her life roles and life cycle, there is a financial impact. For instance, career transitions, business sentiments, migration, parenthood, marriage difficulties, relationship breakups, divorce, death of a spouse, single parenthood, being single (confronting loneliness) and extra-marital affairs. The client may not be able to handle the emotional impact attached to these experiences, and they could affect whatever financial plans that have been drawn up earlier.

So if you, as a financial planner, are confronted with these issues, are you going to talk professionally and logically to the client about the impact of these circumstances on his or her financial plan, or listen emphatically to their emotional grievances?

The fact of the matter is even if the client is enjoying success in his life, he may have difficulties in his financial plan if he is not disciplined enough to follow through with it. A bad investment, an economic downturn, overspending and greed may negatively affect his financial plan.

Then, there's also something called the generation gap. This gap will have a bearing on the definition of financial planning and the definition of financial success. What is considered successful to a young, upwardly mobile professional or 'yuppie' may differ a great deal from a middle age person. So the question is: will financial planners of a 'different generation' be able to understand the client's definition of financial planning and financial success? The effectiveness of a financial plan may hinge significantly on the interpretation of the definitions.

Does the six-step financial planning framework fit the client's unique lifestyle?

Step 1 of the six-step financial planning framework is the most challenging step for a very simple reason that every one of your clients is unique.

Whilst Step 1 is about understanding your client, you need to ask yourself how much and how deep do you really know

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your client. You may know the theory, but how much of that theory is applied? You may want to know as much and as deep about your client, but will he reveal everything to you? How well and how deep you know your client will determine how good the financial plan is. So could this be the missing link for you to create a better plan for your client – your ability to understand the depth of your client's thoughts, emotions and behaviours?

The client's money belief

Have you ever wondered why money works so well in some people's lives and so destructively in others? Why is it that some people are able to manage their money well (creating and accumulating financial wealth) while others allow money to control them – getting into financial debts?

Some people seem to be able to manage money so effortlessly to fulfill their life's plans and goals. Others, meanwhile, are still searching for their life's purpose and goals. Why is that so?

The answers, contrary to popular belief, do not lie in cold financial facts. One must always look at both the financial and psychological factors when it comes to money matters. Sometimes it may not be just about being rich financially, but it is also about achieving other life's successes that may not even have money implications – the psychological and emotional factors.

Money is just a medium for the exchange of goods and services. It does not buy your client happiness. It does not buy him success, recognition, power, friendship or status. They are the intangibles, but no less significant. And they are important to your client. And they are important because money becomes a substitute for love, a symbol of power, a benchmark of success, a tool for doing good deeds, a source of great anxiety, a scapegoat, and a flash point in a marriage – an emotional force of its own. Understanding this need is crucial in the overall scheme of things when it comes to understanding your client well.

Money is both a personal and emotional to your client. If your client is well endowed with money, he may be fearful of being cheated by unscrupulous people. But if he is drowned in a sea of debts, he may be too embarrassed to talk about it – his ego is at stake! You can bet you last dollar that he is insecure, mortified even.

Your client's belief system or concept of money creates his or her perception and expectations of what finance is to him or her (what money can do for them), which leads to their feeling and behaviour towards money. For instance, a client's money belief can be as simple as: "Life's too short. Let me enjoy now and worry later." As you can see in the example, the client's self-concept of life is not congruent with the concept of personal financial planning!

So, what are this client's financial expectations, perception of money and way of life? Will this person have the urgency to save more money to enjoy life later or spend money now to enjoy life?

The client's emotions towards wealth

Financial planning is about creating and preserving wealth for your clients. But evidence from a recent study shows that 90 percent of wealth is lost due to poor financial and emotional preparation. Only 10 percent of wealth lost is due to poor financial planning. If this is the case, you as the financial planner, must pay more attention to ensure that there are adequate financial and emotional preparation before your clients embark on their financial planning process. These, as you can see, are key aspects of growing and preserving wealth for your clients.

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Research also shows that money and wealth can create both positive and negative feelings and relationships for the individuals and people that your clients come in contact with on a regular or daily basis, for instance, spouses, family members, colleagues and friends.

While it is difficult to generalise, in many cases, the more wealthy a person is, the less emotionally secure he or she becomes; a paradox indeed. Their external life (the facade) may appear solid, but on inside, they frequently harbour debilitating concerns about family conflicts, self worth, fears, failures, inadequacy, responsibility, and ironically even survival. Society's assumption that material success and wealth guarantee happiness merely exacerbates these concerns.

There is no magic formula on how to address these issues. They are a different set of challenges for the financial planner. However, a two-pronged approach is found to be most effective when dealing with the challenges of money and wealth. One is approaching the issue at the *personal level*, and the other is focusing on the *practical financial* aspects.

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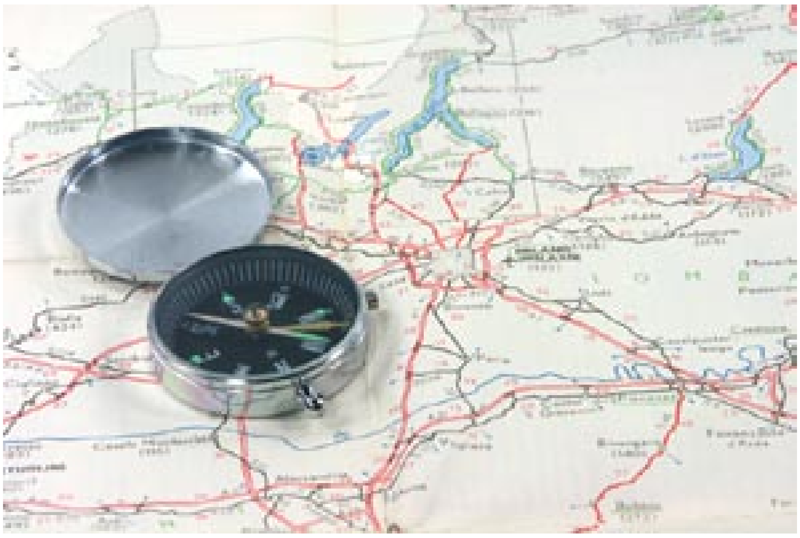
At the *personal level*, the primary objective is the emotional education, which can begin by exploring the underlying concerns and psycho-dynamics that are related to the person's life and his or her financial consciousness.

The *practical financial* aspects relate to financial education, and the giving of suitable information to your client on how to better manage and preserve money.

It is crucial for the financial planner to understand that a financial plan only offers guidance. It does not, in any way, impose on the clients to make crucial decisions. As a financial planner, you must accept the client as he or she is, without making personal judgments. Next, you must listen in a way that provides the client with clarity and security. He or she must be able to realise that there is a way forward in the maze to his or her happiness and financial freedom, and that you are their guide in this journey.

A financial planning process is considered successful when your client is able to add intrinsic value to *self worth* (non-financial wealth – the wealth of life values, meaningful purposes and experiences), in addition to the *financial worth* (financial wealth). Your client must know how to use money to achieve his or her life purposes or meaning in life, other than retirement, saving for his or her children's education, buying a dream house or going on an expensive vacation. He or she must also know how to use money to build his or her self-esteem, meaningful relationships with people, and meet personal needs and emotions.



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The client's financial behaviour

Each one of your clients has a unique childhood experience – upbringing by the parents, different parenting styles, and different influences from siblings. Don't forget also the influences from friends and the people they come in contact with, and challenging environment at their workplace, and accompanying social activities.

Understanding your client's worldview and their relationships with people around them will help you communicate effectively with your clients, and enhance the financial planner-client relationship. Also, your emphatic understanding of client's personal self will help you gather important information for the fact-finding form in Step 1. You ask the right questions:

- about his strengths and weakness in money management, like the ability to save money, being thrifty or spendthrift, addictions like gambling, drinking and other vices

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- about his past experiences in investments that may have an influence on his investment decision-making. For instance, a bad stock market investment experience (the market crashed or listed company wound-up), a bad property investment (like abandon projects), or lost money in financial scams (like overseas investment)

- about personal financial commitments or debts that he or she have not revealed

And since the client's worldview is personal, what do you do in Step 1 to open the door to see how he or she sees the world? Below are some helpful tips:

- client observation
- attending to the client with the right questions
- skillful reflective listening to the client
- paraphrasing and summarising the client's uttered statements
- reflecting on the feeling and meaning of the client's words
- handling confrontation in situations when there is inconsistency

Going forward as a financial planner

Let's face it. The job of a financial planner is getting tougher by the day. It is not only complex, but difficult as well, no thanks to growing consumerism, globalisation, liberalisation, the rise of the Internet, and the increasing sophistication in digital technology. These developments have a "knock-on" effect on your clients' lifestyle, and bring about some unique challenges to their personal financial planning.

Will the financial plan that you prepare for your client cater for changes throughout the client's life as he or she moves from young adulthood to middle age, and subsequently the golden years? In other words, can your financial plan be foolproof enough so that the client will not blame you when they face financial difficulties later in life?

You do not define what financial success is to the client. It is defined by the client's worldview and life's purposes. When you are able feel how and what your client feels (by putting yourself in your client's shoes and not make assumptions of what they want is what you wished for them, your client will appreciate your effort in creating meaning to the financial plan. It is the personal approach of financial planning that will enlighten your client and endear him or her to you.

Believe me, it is a life changing moment when you can help your clients to unleash their past and motivate them to create future financial success! 4E

The writer is the founder and CEO of Abacus Advisory Sdn Bhd. She is also the author of Smart Money-User. *More of her work and contribution can be found at* www.AboutMoneyTalk.com *and* www.AbacusForMoney.com.