You are here: FPA Net > FPA Journal > Media > Press Releases > Journal Press Releases 2005 Return to normal view

FINANCIAL PLANNERS HELP CLIENTS OVERCOME INVESTING BEHAVIOR ROADBLOCKS

DENVER, CO….January XX, 2005…Destructive investing behavior by individual investors has captured the attention of academia in recent years. But what are CERTIFIED FINANCIAL PLANNER™ practitioners seeing in the way of problem behavior among their clients, and what are they doing to help their clients temper their emotion-driven decisions? Their perspectives appear in Nancy Opiela's article, "Rational Investing Despite Irrational Behaviors," in the January 2005 issue of the *Journal of Financial Planning*, published monthly by the Financial Planning Association.

"You hear that 95 percent of your return is asset allocation, but I believe 95 percent of your return depends on your behavior," says Sean Curley, CFP®, of Retirement Planning specialists in Greenwood Village, Colorado. "A big part of what financial planners offer is standing by their clients and helping them control their emotional responses to the market."

The most common problem that planners see among their clients is procrastination. They attribute this primarily to a combination of excessive optimism about investments, overconfidence in their own investing abilities, and information overload.

In response, planners say they try to choose carefully what information they provide to clients so as not to overwhelm them. They also try to make sure their clients truly understand what investment decisions they're making.

Client optimism and overconfidence is fed in part by the financial media playing to investors' emotions in order to sell their publications, contends Paula de Vos, CFP®, of Synergist Wealth Advisors LLC in Carmel, California. In Englewood, Colorado, Bob Foland, CFP®, of IRA Specialists, tries to "temper the impact of the financial press on my clients' thinking."

Optimism and overconfidence also are manifested in investor herd mentality, particularly within companies where employees overload on company stock because other employees are, too. One planner says that if he can't convince a client to reduce exposure to company stock, he recommends a selling strategy using publicly traded call options, which forces investors to pick a price and doesn't give them the opportunity to change their mind.

Planners cite conflicting views of money among couples as another cause of procrastination. Some planners try to minimize the conflicts by exploring the roots of those differing views.

Another common problem for clients, say planners, is that they make investment decisions based on isolation instead of the big picture. They'll fixate on a particular investment's underperformance, worry too much about recent, short-term results, or view their investments as separate buckets. The planners interviewed for the article said they spend a lot of time educating clients about the value of diversification and maintaining a long-term perspective in order to get clients to "buy into the big-picture approach to financial planning."

Planners also try to work around the reality that, for many investors, losses typically loom psychologically larger than comparable gains. Consequently, clients may be reluctant to invest in riskier but higher-return assets, or they're reluctant to sell a losing investment even though that may be the appropriate strategy. Again, planners emphasize the importance of a sound financial education to help clients gain perspective.

But the ability of planners to dramatically reduce bad client behaviors has its limits. Says one planner: "Planners can't play too much psychiatrist or be too much of a parent. It's better if clients simply see their situation more clearly and conclude what a better move would be."

-30-

First | Prev | Next | Last