



## Behavioral Financial Advice and a Deep Support Economy

By: James A. Barnash



Besides being professionals, we are all consumers, as well. As consumers we seek simplicity, convenience and hassle free relationships and transactions from those who provide us services and product. Today, many consumers are frustrated by the way they are treated by corporations around the globe. The internet and globalization that were supposed to bring us the convenience and simplicity have instead brought us complexity and frustration.

The same goes for the world of financial advice for our clients. We went from being attorneys, accountants, trust officers, insurance agents, bankers and stock brokers to being financial planners or financial advisors, now to wealth managers and managed to confuse our clients and prospects along the way. Consumers are confused and frustrated trying to figure out what we do, how we get compensated and whether we provide the service they believe they need. We tell our prospects that our services is about them and yet we try to get them to fit in with our pre-determined solutions. After all, we know what will work best even if they don't understand it.

In their book, "The Support Economy", Shoshana Zuboff and James Maxmin, write that an evolution in the form of capitalism is already beginning. The book delves into our "managerial" and "transactional" capitalism of today and how corporations talk about how important the consumer is to them and yet spend all their energies trying to drive the most profit with the least amount of service. Managerial capitalism is all about having the least number of people, real estate, and customized services or products and the most about driving down costs to maximize profits.

There is nothing wrong with profits, which is why capitalism has worked so well and been so adaptable for hundreds of years. Consumers however are tired of fitting into the "round" holes that corporations make regardless of whether their customers are square, rectangular, or diamond shaped. The consumer would be willing to pay more if they could

avoid the hassles that go along with today's managerial and transactional brand of capitalism.

In the world of financial services the industry has evolved with modern portfolio theory, asset allocation, diversification, re-balancing, dozens of trusts and techniques for estate planning, secondary guarantee riders for life insurance and annuities, complex investment products, etc. Each "expert" believes they have the right solution. What's missing is the client's involvement in the process. Each expert understands the legal, tax and return aspects of their product or service and thus they know "it" works. Clients aren't interested if "it" works until they know that it meets the criteria for their personal values and goals.

Over the years we have witnessed the transformation of the advice business go from silos for each area of the industry to one where bankers can sell investment products and insurance, stock brokers can sell insurance and banking services, etc. We saw the introduction of formalized financial planning 40 years ago with the first class of Certified Financial Planners™ followed some 25 years later by "life planning." Each movement has become more about the client experience and getting to what matters most for the client before getting to the solution. Now we have the transformational trend, Behavioral Financial Advice (BFA).

Certainly not new to the academic community, but very new to the advisor community, BFA brings an understanding, tools and methods to the advisor in which they can work with their clients and prospects from an entirely new direction. Emotions play a part in just about every life decision, but especially so in financial decisions. BFA teaches the advisor to help their client understand that worry, fear, exuberance are all normal, natural emotions. It is OK to experience these emotions; we couldn't stop them if we tried. With proper education the client begins to understand why they should not make financial decisions when they experience these emotions. What they need to do is practice certain techniques which allow them to slow down, think

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about their goals and come back to their values. Then they, with the help of their trusted advisor should make smarter decisions regarding their investments.

When you think about a “deep support” economy for financial services, Behavioral Financial Advice certainly is headed in that direction.

I look forward to exploring this topic further on August 5, 2009 at the Planning for the Generations Symposium in Chicago where I will present a session entitled: Working with Clients in the Face of the “New” Economy.

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