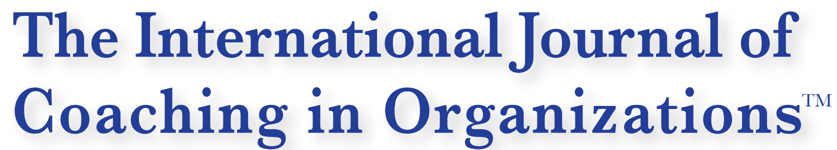

The Emotional Intelligence of Money: A Case for Financial Coaching

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The Emotional Intelligence of Money: A Case for Financial Coaching

Brenda Smith

Economic decisions are not only rational. They are emotional and biological as well. Millions of years of evolution and decades of conditioning have hard-wired habitual ways of relating to money and investing. To move from this old Working Strategy to a new Winning Strategy, investors need not have more information, but more awareness, insight and choice. Coaching for increased emotional intelligence allows for mastery of the biases of financial behavior. Financial leaders and intermediaries are facing changes in the industry and the investing public increasingly calls for coaching, stewardship and partnership in the delivery of financial guidance.

THE (IR)RATIONAL SCIENCE

"Jump off their supply curve: What good are economists, anyway?" Such was the cover story from the April 27, 2009 issue of *Business Week* magazine after economists failed to predict the most dramatic fall in the financial markets since the Great Depression. These tremors on Wall Street cracked many nest eggs on Main Street as investors moved to safe havens like cash and gold. A system based on trust challenged the country's belief in the future. With portfolio losses beyond 30%, the impact stirred some of the more base human emotions, hitting the nerve called survival instinct. As both an economic construct and an emotional trauma, we embarked on the credit crisis of 2009. No amount of financial knowledge, information, or investment diversification could quell the angst when allocation failed to counter risk. A kind of behavioral help desk was needed to allay the fear and calm the breakdown.

We often confuse the democratic political system that heralds equal opportunity with the economic system that calls for survival of the fittest. Long called the "dismal science," economics emphasizes *efficiency* in decision making through a series of tradeoffs in which we can have either guns *or* butter, but not both: resources are limited and people tend to make decisions that maximize value and minimize costs. As such, a basic principle at play is scarcity – that resources are dearth. Traditional economics moves to quantify a problem and use empirical evidence and logic to bottom line the result. While the science assumes people to be *homo economicus*, behaving hyper-rationally with omniscience toward the future, James Montier (2010) tells us, "they are also *homo mistakus*,"– a qualitative difference that undermines our *effectiveness* in certain situations when stress or affective states cause us to undermine our own best intentions. Richard Thaler, Professor of Economics at the Booth School of Business at the University of Chicago and

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a behavioral economist, states that standard economic theory is based on an idealized conception of behavior, "bestowing on humans the mind of the computer and the willpower of a saint. If this were true, people would rationally calculate how much they need to retire, save and invest, then reduce their consumption accordingly, invest optimally, never splurge nor speculate" (Thaler, 2009). While economists may be super-rational, the average person is not.

Millions of years of evolution, decades of conditioning in our families, and consistent reinforcement of behavior patterns create ingrained ways of perceiving events and this applies to money issues.

Nikolai Dmytriyevich Kondratieff, a Russian economist who developed the first five year plan under Stalin, surmised that there was a 'mood' that played on global markets. He suggested that as individuals grow, persevere and progress, our dreams, aspirations and opportunities are expansionary and the collective effort lifts the markets and we experience growth. Wars, defeats and failures cause us to retreat, and contract the economy. Such are long waves, known as *K-waves*, which represent dramatic changes aligned with life opportunities and limits. More than one hundred years ago, Kondratieff may have been the first to address that ineffable *woo-woo* factor that influences the booms and busts that we now know as market cycles.

In recent years, titles like *Fooled by Randomness*, *Animal Spirits* or *Irrational Exuberance* are pointing to the something beyond rational thought that moves people, the market and the economy. Robert Shiller, Professor of Economics at Yale University and co-author of the Case-Shiller Home Price Index, considers constructs like confidence, fairness, bad faith and other behavior as 'animal spirits' that guide attitudes and economic action. Shiller contends that movements in our macro-economic climate are merely an amalgam of individual spirit and action and he attributes market cycles to the collective heartbeat of the investing public. Shiller and Kondratieff addressed this in theories and books. Other economists have also considered an emotional element, giving us the Fear Index, the Confidence Index and the Happiness Index, all of which adds irrational or emotional qualities to the science of economics.

MONEY AS A MIRROR

Oprah Winfrey says a "man who loves a woman will do almost anything for her, *except lend her money*." We're told not to speak of sex, religion, politics or money. When we do speak of money, we dare not speak of bankruptcy, inheritances or debt. Yet, we're all too eager to talk about our wins, bargains, or deals. Money is valued by tribal communities, global power brokers and everyday people to achieve their aims. Yet, perhaps it's not the MBAs, or formally trained financiers with objective training, but the general public who are most at risk.

Money is no more than scrip, a token used in exchange for goods and services, a means to meet obligations and measure value. It

has no intrinsic value: shells, rocks, feathers and fish have all served as money, as did tobacco in the new world until settlers started to grow their own and it lost value. Even the word 'salary' comes from traditional payments made in salt. In this way, money has a *form*, the most concrete of the three dimensions of money.

Two other dimensions are subjective and unique to every individual. We *assign value* to money, believing it gives us love, security, pride or prestige. In this way, money is a reflection of our own values. When we accumulate more, we feel expansive; when we lose it, we feel scarce. Even people who have achieved most of their personal financial goals continue to look for an external change that will give them inner peace. In this way, we have an emotional attachment to money which characterizes our relationship to it and how we behave around it. Our history, early education and family values will also influence how we relate to our money and make financial decisions. We call these our *conditioned tendencies*, which are based on our early learnings about money and what it means to us. All three categories inform our behavior, and cause us to assign value emotionally, as well as rationally.

In a similar three-part model, Meir Statman, Chair of the Finance Department, Leavey School of Business at Santa Clara University, tells us that when it comes to investments, we are both "normal smart" at some times, and "normal stupid" at others. His model (2010) asserts that investments offer three kinds of benefits. *Utilitarian* benefits guide our decisions and answer the question, 'What does it do for me and my pocketbook?' in terms of a return commensurate with the risk taken. *Expressive* benefits reflect our tastes, values and status, and inform the question, 'What does it say about me to myself and to others?' *Emotional* benefits are more about our wants, which are visceral and temporal, and often conflict with our 'shoulds.' We may want to sell out of our portfolio, just as we want the red sports car, while we should sock that money away for retirement, save more, spend less, and buy and hold.

OUR EVOLUTIONARY HERITAGE: WORKING STRATEGY

An emerging field of neuro-economics gives us a window into how our physiology influences our financial decisions. A combination of economics, psychology, and neuroscience, it looks at how the brain influences our quest for rewards, our evaluation of risk, and the way we make decisions. It reveals that how we invest – whether personally, financially or emotionally – may not make rational sense, but does make emotional sense.

Millions of years of evolution, decades of conditioning in our families, and consistent reinforcement of behavior patterns create ingrained ways of perceiving events and this applies to money issues. Over time, through a series of complex associations and links, billions of neurons in our brain burn well traveled, familiar

and routine pathways that keep us repeating behaviors that may have outlived their context and current usefulness to us. Habits are formed because neurons that have been associated together over time will fire together automatically and work as a dyad in something called a synaptic connection (Manich, 2004). This process becomes hardwired; we automatically and unconsciously jump on this track. Like coffee and a cigarette or chocolate and the loss of love, experiences we have are either consonant with these long-standing associations, or they are dissonant.

Biologically, we stand at the ready if our life or livelihood is threatened. For some of us, a 30% drop in our investment portfolio may qualify as a near-death experience.

BIASES OF BEHAVIORAL FINANCE

As a result, we filter incoming data through our history, experience and habits. The consequence is our perception and, as Einstein tells us, "We don't see the world as *it* is; we see the world as *we* are." We're constantly filtering information for what's familiar and known to us, seek consonance with what we believe, and are biased in the direction of information that supports our existing view and undervalues contrary information. Acting against our beliefs makes us uncomfortable and if we can blame someone else for our errors, we experience no dissonance. Conversely, we put more trust in information provided by someone we like, according to Thomas Wacker, the lead wealth management analyst at UBS, AG. He notes that *selective perception* is one of the strongest biases that get an investor into trouble (Wacker, 2007).

Consequently, we may be intellectually committed to a financial goal or course of action; yet, we still hoard, splurge, spend and repeat our behaviors around money because physically and biologically ingrained, automatic patterns trump logic. We take intuitive shortcuts that align with who we believe we are and what we believe to be true. We call this old, habitual way of doing things our W*orking Strategy*, because it may have worked in the past. However, it doesn't work anymore. The way to move to a *Winning Strategy* is to become aware of and insightful about our biases and pre-conceived notions so we can manage them. Financial success is less about our capacity to understand a financial strategy or construct, and more about our ability to manage these unconscious tendencies that derail us.

Our thinking and feeling brain

One of the great lords of American finance, J.P. Morgan, stated, "A man makes a decision for two reasons – the good reason and the real reason." What's typically presented is the socially acceptable and logical argument; the more covert or real reason may be highly subjective, intuitive or instinctual. Morgan was reflecting what scientists later discovered: we have two different systems operating in our brains. One is emotional, intuitive and fast, and has been around for more than 500 million years. Montier (2010) borrows from neuroscience to give us a shorthand for these complex systems: the "C" and "X" Systems. The X system works the emotional track and is the default option for our survival. The

X system evolved to allow humans to quickly size up danger and opportunity so the survival of the species was assured. Innately, our brain will guide us toward life-affirming experiences like food, love and safety and away from threats to our wellbeing. This drive to survive is called the *pleasure principle*. It's an evolutionary legacy of all humans and operates automatically and subconsciously, leading us to a state of fight, flight or freeze. If we are ambivalent, a pull in both directions can result in paralysis.

As part of our working strategy, these automatic, emotionally driven responses often take over beyond our awareness and lead us to actions that might not align with our long-term intentions. Muscle memory is a term most often attributed to this system: it mobilizes our major muscle groups to defend our physical body, and heightens our ability to make quick, visceral judgments based on familiarity, similarity and proximity in time. Because the X system operates automatically and without conscious thought, it's able to process substantial stimuli simultaneously, giving an approximate or intuitive sense, rather than a precise answer. Biologically, we stand at the ready if our life or livelihood is threatened. For some of us, a 30% drop in our investment portfolio may qualify as a near-death experience. In their "2009 Annual Study on the American Dream," MetLife noted that today more than 86% of investors would forgo earnings in return for safety. This flight to quality, this risk aversion, comes from a basic human emotion: fear (MetLife, 2009). The same area of the brain that processes life-threatening danger is the location where we experience financial loss.

Pride and regret bias

A corollary to the principle of seeking pleasure is that we avoid pain and feelings of loss. According to Daniel Kahneman, psychologist at Princeton University, financial decision-making is not just about money. Our investing brain doesn't only compute the buy low/sell high, win/lose risk calculations. It's also about intangible motives like avoiding regret or holding pride. In their Quantitative Analysis of Investor Behavior, DALBAR (2009) showed that emotions continue to play havoc with investor behavior as demonstrated by the painful results when individuals time their entry and exit from the market, indicating they tend to hold their losers too long and sell their winners too fast. Over the past twenty years, the S&P, a passive and unmanaged index, averaged over 8% returns. Individuals in their own portfolios averaged 1.9% as they tend to buy at the worst possible time and sell at the bottom. It would follow from the logic of the pleasure principle that we seek a gain. Yet, we often make choices that produce results contrary to this maxim.

Anticipating financial events can be more intense than realizing them, and this can keep us paralyzed. Harry M. Markowitz, an expert in linear programming, won a Nobel Prize in the 1950's for his work with "Portfolio Selection" and his ability to analyze the co-variances for the trade-off between risk and return in

a portfolio. Despite this, when faced with choices to make for his own investment portfolio, Markowitz was paralyzed by the anticipated grief if he was left out of a market rally. Further, his fear if the market went down and he was fully invested had him make investment decisions contrary to his award-winning theorem. Because of the interaction within parts of our brain, what we know intellectually and how we act are not always aligned and coherent. Our biology informs how we make decisions – and most importantly, how aware we can be and conscious of our choices in the moment. Perhaps we are better served by giving a risk score to the *investor* rather than the *investment*.

Perhaps we are better served by giving a risk score to the investor rather than the investment.

Social group bias

Our physiology is invested in our social group and its success for survival – not just things that hurt us in the conventional way, but events and people that hurt our self-image, our social standing and actions that diminish us. The people around us weigh heavily on our judgments, and can have a negative effect on financial outcomes. Well synchronized groups can optimize decision making if dissent is encouraged, resulting in improved accuracy and a broader range of possibilities. Though informal groups and social systems can lead us to pitfalls, *groupthink* (when one or more people tailor their opinions to the consensus view) encourages conformity and dilutes the kind of active dissent that creates the best decisions. Family discussions or golf foursomes create subtle pressure to buy into the latest investment trend, and may overshadow an individual's time horizon and risk tolerance (Wacker, 2007).

Friction in healthy discussion encourages opposing ideas and is the best remedy to avoiding groupthink or herding behavior. The consequence of presumed infallibility often comes from overconfidence in a group. When individual group members consent in unison and without an apparent leader or planned course of action, the fallacy of *herding behavior* is taking over. As evidenced in the migration of animals across the Savannah, moving as a herd collectively reduces vulnerability to attack. We can be deceived by the protection of the group in terms of the risk of our financial decisions. Market bubbles are evidence of this. In 1999, investors poured more money into technology stocks and hi-tech funds at the height of its value, so as not to be left out of the bull-run. Continued popularity among the masses pushed returns beyond any fundamental analysis to unsustainable levels. When assets levels fell in 2003, en masse, the herd closed out their positions in a classic 'buy high, sell low' outcome. Both groupthink and herding behavior will lead investors to make decisions that violate their risk profile and depart from their individual judgments about what's suitable for them.

According to Benartzi (2007), when we talk about financial literacy, we are speaking about behavior. Fields such as Behavioral Finance or Behavioral Economics look at recurring social, cognitive and

economic biases and how these influence financial decision-making. These biases include:

- Selective perception: We focus on supporting existing views and disregarding contrary information.
- Group dynamics: We follow trends that increase our risk by making decisions that don't suit us.
- Pride and regret: We hold investments too long, while selling investments with a gain too soon.
- Speculation and risk: Some investors take on more risk when confronted with a potential loss.

Because these lie below the level of consciousness, we need to become aware of these biases to understand how they are at work on us, and then how we can start to see them and manage them.

No amount of financial advice can land well without addressing the emotional fog that impedes discipline governed by logic.

Logic is trumped by emotion

The argument might be made that we have the power of will and of rational thought to counter these strong emotional influences. Well, yes and no. When yes, this is where our self-awareness and insight are operative and where we can make conscious choices. However, higher order thought is slower, more deliberate, anthropologically "younger" and smaller than our emotional drives. This C system, as the shorthand goes, makes meaning by following a slow, serial process; it must be consciously engaged to reason factually and must interpret and reflect on nuance to help us integrate with social norms. But the C system is very limited. Conscious thought takes lots of energy and attention. According to J. Pawliw-Frye of the Institute for Human Potential in Toronto (2000), our mental awareness can only hold about seven bytes of data at a given time (think of a phone number without the area code). As a result, we rely on shortcuts and selective perceptions. MRI technology reveals that the brain takes in about 400 million bytes of information per second, but only perceives 40,000 bytes. Similarly, the American Optometric Society tells us the eye is capable of picking up 10 million bytes of information per second but only 40,000 become mental images. That means we're constantly barraged with more information than we can consciously process and only a small percentage of it (less than .0005%) reaches our conscious awareness (Zimmerman, 1986). Most information is captured unconsciously, comes in shortcuts to our deliberate thought processes, or misses us completely, indicating that we need to rely on our perceptions, habits, intuitions and unconscious ways of processing data.

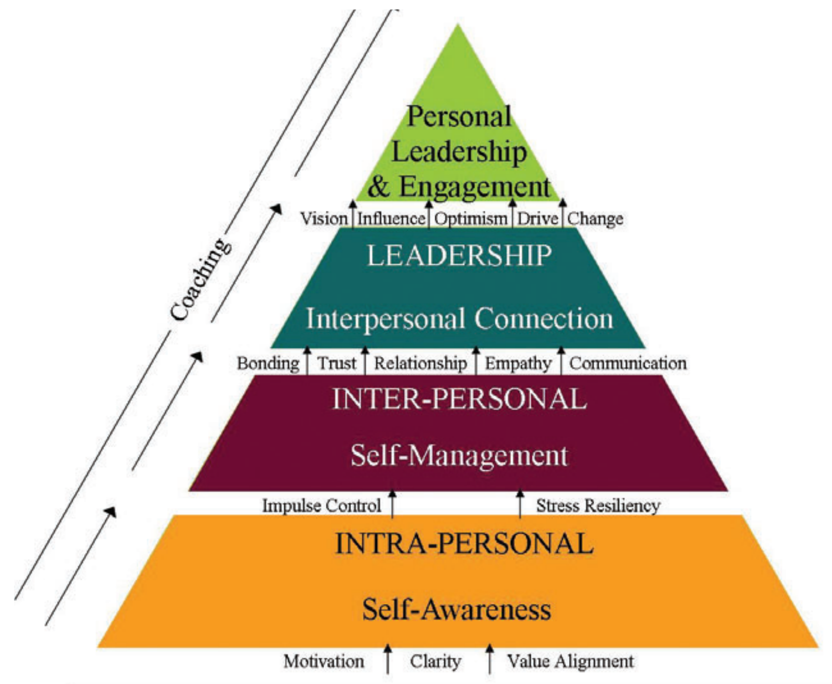
Emotions are not peripheral: we evolved the need for emotion before we evolved logic. Our rational brain takes longer to engage: it is the emotional brain that first filters and then validates our decisions. Emotional reactions happen in 1/5 the time as our conscious, cognitive brain takes to integrate and respond to a

stimulus (Marcus 2002). The circuits and channels of our rational, conscious C system are called upon to modulate the influence of the powerful physical messages coursing from the emotional X system. These emotional connections are older, bigger, stronger, more ingrained and more powerful than those running from the opposite direction, by a ratio of 10:1. The thinking C system of our brain confers with and can even be deferential to the survival instincts and emotional memories that we live in our more primitive, non-rational parts (LeDoux, 2004). This helps to explain why our reactive behaviors may override our ability to think, as our emotional system can hijack our most rational thinking

Emotional intelligence [EQ]
Descartes' rallying cry of "I think, therefore I am" could be amended to "I also feel, therefore I am!" As *homo sapiens*, our nomenclature defines us as those who think. Yet, *intelligence* includes the ability to hold two or more contrary or competing thoughts or feelings in awareness simultaneously and only then decide how to take action in the moment. Merely thinking is not enough: we need the ability to modulate immediate, automatic reactions with higher order thought. Put another way, high emotional intelligence means our C system would be stronger, more aware, and more able to guide our powerful X system (Montier, 2010). *Emotional intelligence* (EQ) is the ability to have a feeling, recognize and understand it, and manage it so as to take appropriate, goal-directed action, by ourselves and in context with others.

As we can see in Figure 1 on the following page, EQ has a heightened sense of awareness at its foundation. In this way, we are informed by emotions, but not dictated by them. As individuals evolve up the Maslowian pyramid, the more self-managed and more interpersonally effective they become. The pinnacle is leadership, as one masters e-motion (the energy of motion) and authors his or her own direction. Daniel Goleman, who popularized the concept in his 1995 book of the same title, claims emotional intelligence is responsible for up to 95% of our success (Pawliw-Frye, 2000). Studies show us that high emotional intelligence (EQ) speaks to hard results: salespeople generated 37% more in sales; partners in professional service firms generated 125% more income than their colleagues; and more executive level managers were promoted from within, based on empathy and self management, than any other trait (*ibid.*). The emotional intelligence of money calls for helping clients recognize and suspend their overwhelming feelings in favor of making a more rational choice that aligns their actions with objective financial knowledge and goals. The more conscious people become about their emotional tendencies, the more able they are to manage them and take deliberate, financial action. No amount of financial advice can land well without addressing the emotional fog that impedes discipline governed by logic.

Figure 1. Peoplesmith Global EQ Model℠



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WINNING STRATEGY: FINANCIAL LITERACY REDEFINED

In pursuit of a winning strategy with profits, products, money, clients and ourselves, we can't aim simply for more knowledge of a financial nature. We need to counter our old winning strategy with more self-awareness, insight, choice and deliberate action in the face of group dynamics, selective perception and pride or regret. Winning strategies mean stepping around the limitations of our biology and biases when it comes to financial decisions. Business schools can teach us critical thinking. The internet gives us financial information about how to retire secure, invest in China, buy gold or leverage the equity in our house. However, more knowledge does not a successful strategy make. The ubiquitous presence of financial information and strategies will not reverse years of evolution and conditioning. We need to build a new kind of (financial and) personal literacy.

Most financial education comes from the school of hard knocks: people learn what to do or not to do, for better or worse, by making mistakes and correcting along the way. It's a long, expensive and not very purposeful way to master money. Since roughly 2/3 of our brain is wired for survival and about 1/3 is open to new learning and exploration, subject matter expertise is a necessary but not sufficient source of financial mastery. We know that we need more consciousness and insight that can increase awareness of ourselves

and our behavioral tendencies (Pinker, 2003).We want to enable choice about how we manage ourselves and act deliberately. We know that biases and habits are overlearned and unconscious, so that both sticking to a discipline and not succumbing to our X system are equally important. Financial decisions call on us to use past data, develop current hunches and estimate anticipated risks and rewards for our needs in the future—often at the same time. So we must consider the conditions under which our biology plays a part in these very rational, financial decisions:

Like financial guidance, coaching occurs within a highly confidential, trusting relationship, dedicated to achieving the client's goals.

- Most decisions occur rapidly and unconsciously.
- Memories are formed and held emotionally.
- Habits and perceptions are evolutionary, historic and embodied.
- Decisions are influenced by emotions, both before and afterwards.

Awareness begets learning

Awareness is the foundation of emotional intelligence and also the fulcrum for balancing the X and the C systems. Without awareness of the potholes we tend to fall into, we're destined to take a tumble again and again. We are biologically challenged, on our own, to achieve this. So how can we do this? Abraham Maslow, the father of modern management psychology, tells us that to change a behavior, we must evolve from our own unconscious incompetence (we don't know what we don't know) to conscious incompetence (where we start to know what we do not know) and ultimately to conscious competence (where we are aware of what we know and we act accordingly). The ultimate destination is unconscious competence where we are so habitual in our discernments and practiced behaviors that we make good decisions and deliver effective performance 'naturally.' Education – and literacy with financial decisions, particularly – involves moving clients through these stages. As Timothy Gallwey, author of a number of *Inner Game* books and a world renowned business coach demonstrates, financial literacy is both about our outward performance and our inner discipline:

> In every human endeavor there are two arenas of engagement: the outer and the inner. The outer game is played on an external arena to overcome external obstacles to reach an external goal. The inner game takes place within the mind of the player and is played against such obstacles as fear, self-doubt, lapses in focus, and limiting concepts or assumptions. The inner game is played to overcome the self-imposed obstacles that prevent an individual or team from accessing their full potential. (Gallwey, 2008, para. 1)

Coaching and the power to change

Gallwey and Maslow both influenced the rise of the coaching profession, which is a field that seeks mastery of both our inner world and outer performance. Like financial guidance, coaching occurs within a highly confidential, trusting relationship, dedicated to achieving the client's goals. The coaching relationship, however, is primarily focused on the person and developing a client's learning that will result in increased skill and performance. The work to be done has no other agenda than this. The ability of the coach to suspend their agenda in favor of the client's makes their relationship a co-creative, learning partnership in which the coach works to raise awareness of how the client is challenged by the environment, others or him or herself. By holding a neutral view, the coaching relationship can evolve the client to a state of awareness and insight where the client can exercise full choice about their financial decisions. This particular quality of the relationship is so central that the very presence of the coach has the power to activate a biological learning process.

Coaching interventions can accelerate our ability to grow and develop new habits, using the power of emotions to fire, rewire and strengthen new neural associations that effectively compete with the old. Leslie Greenberg, author of *Emotive-Focused Therapy* and professor of psychology at the University of New Hampshire, tells us that the only way to change an emotion is with another emotion. He observes that some emotions are productive and some are not. Helping clients move to more productive emotions can have huge implications for how strongly people feel in pursuit of their goal. This also has implications for those who offer guidance, particularly in the financial services realm. The advisor's ability to recognize and acknowledge the client's mindset and biases and deal with a wide range of client emotions (with no agenda but to listen) can be a very powerful experience for the client.

Through the artful delivery of powerful, thought-provoking questions, coaches can leverage the client experience, tap into and activate a mirroring process. As Gallwey's approach suggests, *asking*, rather than *telling*, allows the client to learn, self-correct and make new associations to illuminate answers and generate solutions themselves. When the brain is working in this way, MRI technology shows how the brain lights up as new flashes of insight are revealed in a process known as neuro-genesis, the propagation of new neural connections (which occur throughout life) and is accelerated when the client "feels" the unconditional presence of their coach. The thinking stimulated by these kinds of interventions can override old, habitual synaptic connections that history and conditioning installed. This process is energized through verbal and non-verbal communications and the empathy inherent in a relationship in which unconditional positive regard exists. This makes a strong case for a fully present coach to mirror back our goals, support our emotions and hold an objective reality that guides us in purposeful behavior (Hill, 2008).

When we are heard and seen, our readiness to imitate, or mirror and empathize with, another human being is reinforced. Peter Senge (1994) alludes to this deeper level of learning that he calls *metanoia*. This kind of learning is experiential and is more than just taking in a concept intellectually. There's emotional buy-in and, as Senge suggests, it is generative learning – real learning that gets to the heart and causes a "fundamental shift or movement of mind in which our behavior will follow this new mindset in a transformative experience." In this way, coaches bring a *process* expertise that facilitates new awareness and new possibilities for decision making.

Change is on the horizon for traditional investment intermediaries and competitive pressures will redefine what investment guidance means in the industry.

WHAT DOES THIS MEAN FOR FINANCIAL ADVISORS?

Financial Services is also a relationship business. Relationships, defined as agreements made and kept over time, are both implicit and explicit. They are a place of trust and a safe haven amidst the turbulence and perceived danger of financial markets. Research and experience show that how investment professionals relate to clients can make or break the relationship. Once a client has had a positive experience with their advisor, their expectations are set. After two positive events, the human brain is set to anticipate a third event of like kind. The disappointment is greater if delivery falls short (Zimmerman, 1986). According to Gabriel (2009, p. 1), "Poor communication, patchy service, persuasive competition and piecemeal advice can send your clients packing. Financial advising is 50% finance and 50% advising. It requires good relationship management and good communication."

For the average person, a vacuum in communication touches the survival instinct and fills the void with negative conjecture and opinion. How would coaching, with its emphasis on learning and growth, impact the delivery of guidance in the financial services industry? What is the opportunity to combine the subject matter expertise of finance with the process and communications expertise of the coaching experience? The two are not mutually exclusive if inherent conflicts in delivery can be reconciled.

The financial services industry is already being challenged to move in this direction. The move from "suitability" of recommendations to a higher fiduciary standard means investment guidance is not merely based on a client's age, means or investment objectives. It must be oriented to the client's best interests. The advisor is being called upon not only to give appropriate guidance, but also to keep the investor on track to their goals, appropriate to their risk tolerance and perhaps their cognitive hiccups as well. Historically, financial advisors have received more left-brained, technical and product training. Ray Sclafani, Founder and President of ClientWise LLC in New York (personal communication, May 20, 2010), tells us, "We are witnessing a transformation of the financial services industry and in order to restore the trust that

the American public has in the financial services system, today's financial advisor will seek to expand their role as 'guide', not just 'advisor'."

Bob Veres, the editor and publisher of *Inside Information*, and named one of the most influential people in the financial planning profession by both *Investment Advisor Magazine* and *Financial Planning Magazine*, tells us that the demands of the market are calling for more personal planning expertise to be integrated with financial advising – though this will require a disruptive approach to today's industry (2010). The first phase of all financial guidance is to get to 'know' the client and help a client, through self-discovery, to develop their goals and a path to achieving them. Veres tells us consumers want this standard, and good advisors have both of these skill sets; however, financial advisors continue to be challenged because this value-add doesn't align with an industry model that encourages the broker to 'earn' their seat by meeting assets and revenue goals of the firm. The traditional time and revenue models of the industry means success is motivated and rewarded by assets gathered and sold. So it's not surprising that, over time, the emotional and expressive needs of the client get short shrift. As the individual investor reels from 1000 point market drops and 30% portfolio loses, the financial services industry is invited to consider shifting secular trends that ask for a re-definition of its business. Sclafani tells us, "Most Americans don't yet fully understand the role of the financial advisor and the significance these professionals can have in their lives."

The trend toward a fee-based compensation model may allow financial intermediaries to focus on these more qualitative, personal issues with more latitude in their practice. Veres makes the observation, "Life planning and coaching is the future, and the handwriting is on the wall: investors want something more." But individual attention and emotional engagement, while it drives loyalty, is messy and takes time away from efficiency and "production" (the industry term that speaks to revenue generated). Financial service firms typically hire and reward according to set success criteria: ambitious, high achievers who are willing to perform to and be rewarded financially for their efforts. Yet, compensation is still based more on sales performance, while "knowing the client" is just a regulatory constraint that needs to be met early on in the process of qualifying the client. The retail brokerage business model has inherent conflicts of interest in a sales culture that originates and then markets proprietary investments. This pushes up against a fiduciary standard in which actions are unconditionally done in the interest of the client. Today, many advisors struggle to balance the labor-intensive client care with the reward structure of the firm.

Financial services leadership has traditionally inspired a sales culture driven by revenue. Veres (2010) tells us that the industry is trending toward "breakaway brokers," many of whom are high-end

producers or integrated teams that leave the large firms so they can provide this level of guidance. Not only are these advisors free of product quotas or proprietary product sales goals, they also are free to provide a higher level of value and modulate their time invested in personal relationships. The trend, Veres contends, is that wire-house brokers are starting to ask, "What am I doing here?" Their departure allows a freedom that threatens the traditional sales structure. Veres surmises that a visionary leader will emerge who cares more about the brokers than the company, someone who will orchestrate a buyout of the field delivery channel (sales force). In this way, the product origination and distribution of services will become separate entities.

Whether or not such a disruptive strategy arises, the message is clear: change is on the horizon for traditional investment intermediaries and competitive pressures will redefine what investment guidance means in the industry. Leaders will have to contend with a model that embraces some of the softer skills, like life planning, behavioral finance, deep listening and coach-like conversation. This will be a tough sell to the hard-nosed, bottom line leaders who separate financial capital and human capital; it will push on the hiring model and ask leaders to think differently about their revenue model. Initially, what it may take is a business model that embraces two profit centers: coaching with asset gathering, where coaching services are either built into the fee structure or generate a separate line of revenue to the firm. Certified coaches could work in tandem with the investment advisor as a team, focusing on dreams, goals, biases and capabilities as a way to augment the investment advice. With the trend toward teaming, a coach can augment the very left-brained services of investment advisory with the client-centered approach of a coach. Sclafani (personal communication, May 20, 2010) has a different idea: teach financial advisers coaching skills. He believes that the power of masterful coaching skills will play a larger part in restoring trust, and his firm has designed a coaching skills certification series aligned with International Coach Federation ethics and standards to meet this growing need among financial professionals.

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BUSINESSES LEVERAGE BEHAVIORAL ECONOMICS

Increasingly, businesses are turning to softer skills like coaching and behavioral economics to capitalize on the idea that people don't always act in their economic self-interest. Barclays, UBS and Fidelity are financial institutions that are thinking differently about how clients buy their services and helping customers become more conscious of influences on their decision-making around money. They are using behavioral economics to identify and avoid known behaviors that cause people to make financial decisions undermining their own best interests and goals. Sanserino (2009, p. 1) says economists typically assume the consumer sorts through all the possible options and picks the one that is best for them. That

ignores the complexity of human behavior. He tells us that it's no longer enough to "target the empirical, left side of the (consumer's) brain, when the quirkier, right side is just as influential in the decision making process." These institutions embrace the view that people act in ways running counter to the rational thinking anticipated by traditional economics. Their marketing and sales strategies focus on the experience they create around money and about strategies that create value for their constituents.

Emotions have always been as much the currency of exchange, satisfaction and loyalty as dollars.

The value-creation monopoly

Products or services like stocks, bonds and mutual funds are considered fungible commodities and have easy substitutes. While marketing strategies aim to wrap these products with enhancements like rewards, unique technologies or enhancing the service-profit value chain (later enhanced to human sigma which "manages the moments when employees interact with customers"), the content of the customer exchange is still at issue. It would present a leadership risk to populate these marketing approaches with behavioral economics or have coaching for the delivery of guidance because that is not the traditional approach to financial service. It would require a courageous leader to speak to a financial offering that is not so much about the financial product or plan; rather, autonomy and independence in a client experience would be offered that transcends the product itself. Financial coaching is a high value offering that satisfies and engages a customer because they are buying peace of mind, at least as much as the product. Once achieved, this unique value proposition creates a barrier to entry that cannot be easily duplicated by competitors. Financial service providers can capture customer share of mind that results from the ineffable exchange of a highly personalized and unique client experience as they are guided down a unique path.

When it comes to marketing, it's easier to "think feelings" and opt for a rational description of what the product can do. Yet, this keeps a financial offering in the undifferentiated, commodity space. Products are static in terms of features, but emotions are dynamic. Financial offerings are relegated to a very crowded and homogeneous marketplace if we can't differentiate value by resonating with the emotional predisposition of our customers. Statman (2010) tells us money managers, financial advisors and investment marketing people must understand the investor's drive for utilitarian, expressive and emotional needs and then satisfy them through the offering. The ability to tap into this value-based exchange creates what Dan Sullivan (2007) calls the "value-creation monopoly." Through this experiential exchange, salespeople, financial advisors and financial marketers create an experience that has value beyond the price a measurable cost-benefit analysis might reveal. Making it a priceless experience in this way builds loyalty, grows market share, and increases productivity and shareholder value. We need to get smart about how to create value that captures share of mind in today's risk-averse marketplace.

STEWARDSHIP AND PARTNERSHIP – A CONCLUSION

Why venture into the leaky, renegade world of emotion or try to understand biology when the goal is to increase sales, retain employees or build up the bottom line? Because the heart of business is a human endeavor where individuals meet, talk, work and otherwise try to help and benefit one another. Emotions have always been as much the currency of exchange, satisfaction and loyalty as dollars. Messy, elusive, irrational and difficult to quantify, the emotional component of the value equation has been ignored, often for these very reasons (Heil, Parker, & Stephens, 1999). According to an article in *The Journal of Advertising Research* (Morris, Woo, Geason, & Kim, 2002), emotions are twice as important as facts in the way buying decisions are made. Social and emotional factors influence our decision making and contribute to our success.

Hank Paulson, Secretary of the Treasury in 2009, spoke eloquently and with sophistication as he explained the severity of the financial markets debacle and the course of action he proposed. The American public conceded, even if they did not understand, the full implication of his recommendation. Wall Street has always defined risk in terms of standard deviations: the average investor sees risk as merely having enough to reach their goals. Today, on the balance sheet of financial firms, what they would term an "asset" is a liability to their clients (e.g., a mortgage is a liability to a client, but an income-producing asset for the institution). As each takes the other side of the transaction, this exchange, based on trust, defines a partnership of sorts. Institutions have the objective knowledge and know the language of money. Transferring this mastery of managing and mitigating risk to the individual calls upon the financial services industry to becomes stewards to the investing public. Coaching clients as an accountability partner means success is not merely about quantifiable returns—it's also about building loyalty, trust and allegiance. Emotional dividends are priceless and are redefining the value proposition in financial services after the meltdown of 2009.

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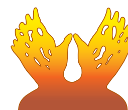

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