Positioning Yourself as a Behavioral Coach

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While there is plenty of economic upside to the specialization required of modern life, one downside is that hyper-specialization can lead to siloed thinking. For a psychologist like me, the "hammer" I have (an understanding of the power of behavior) can lead me to see behavioral "nails" everywhere, even in places where they may not truly exist. I've long been an advocate of financial advisors serving first and foremost as behavioral coaches to their clients and I have encouraged them to position themselves as such in their business development and marketing efforts.

A conversation between Carl Richards and Michael Kitces helped me refine my thinking however, about just how that conversation is best positioned. To put it directly, Kitces questions the notion that anyone seeks behavioral coaching from their advisor. To quote him directly:

"Furthermore, even if many people do undermine themselves by making poorly timed decisions, it's nearly impossible to "sell it" as a benefit of entering into an advisory relationship, since a client will first have to admit to themselves that they are so bad at making financial decisions that they have no other choice than to hand the task off to someone else! And denial about our own failings—even if it's true—can be quite powerful. Which is why, in general, trying to position yourself as someone who can help clients "control their emotions" or change their "bad" behaviors is challenging at best. Which is not to say that managing those clients' behaviors isn't beneficial… it simply means that people who are in most need of that help will likely have a hard time admitting it."

Kitces isn't questioning the value of behavioral advice, per se, he's simply stating no one is specifically looking for help "to be less irrational."

I think he's right and a 2014 Natixis survey backs Kitces' line of thinking. This survey found 83% of financial professionals listed behavioral coaching as a value add but just 6% of clients. Ouch. So, how do we begin to bridge the gap between what clients actively seek and what research shows is the biggest value added by a financial advisor. Here are some starting points.

Frame it positively

The study of psychology began with the study of brokenness, sadness, and neurosis before it more recently turned its attention to the study of leadership, excellence, and flourishing. Likewise, behavioral finance began its break with traditional finance by documenting the many ways in which we act in a matter inconsistent with the elegant-but-wrongheaded idea of Economic Man. As a result, behavioral finance has sometimes become synonymous with the study of irrationality and error, but such is not the case. Frame what you do in a positive manner aimed at helping your clients become their best selves and maximize outcomes, because no one is hiring an advisor to "stop being so irrational."

Get their help

The two-dimensional "clients are irrational and advisors are white knights" understanding of behavioral finance typifying some of the online conversations greatly underestimates the tendency of clients (and people generally) to be self-actualizing and growth-oriented when properly informed and placed in the proper context. Advisors are not doctors and clients are not patients. Instead, clients and advisors should work side-by-side to understand client behavioral patterns and to co-create a plan maximizing the odds of success. By treating clients as competent, capable, and self-aware, advisors create a partnership and set in motion a virtuous cycle. You know about markets. They know themselves. When you can combine those two areas of expertise in a spirit of mutual collaboration, you're on your way.

Share the research

The original Wall Street value proposition was, "You can't do this without us," as early investors were wholly reliant on a broker to transact business at all. Once time and technology disintermediated that early edge, finance turned to a message of, "Sure you can trade on your own, but we can help you beat the market." As evidence has continued to mount that only a small fraction of active managers beat passive, do-nothing investors, the message has begun to shift again to, "You can trade without us and you can even diversify without us, but you need a behavioral guide." This latest value proposition is, in my opinion, here to stay, because it is rooted in the immutable truths of human behavior. There is no technology forthcoming that will ever totally eradicate the scourge of investor misbehavior or take the place of a trusted advisor. So, we now know as an industry that behavioral coaching provides value well in excess of fees, but you can hardly blame our clients for not having caught up to the times. Indeed, most of them are still stuck in the message of yesterday—a message our industry created—misled by the idea that investment outperformance is the primary value provided by an advisor. If we are to close the gap outlined in the Natixis study, we must begin to tell a new story, rooted in the fact clients who work with advisors are better prepared for emergencies, happier about life generally, and financially better off than their DIY counterparts, for reasons owing almost entirely to the role of financial advisor as behavioral coach (I cover this research extensively in Ch. 2 of The Laws of Wealth).

Spoonful of sugar

As a parent, I'm accustomed to resorting to all manner of trickery to get my kids to eat their vegetables. From black bean brownies to ranch sauce for carrots, I'll do whatever it takes to get them to do what's good for them. Likewise, advisors would be wise to consider the vehicle they use to deliver behavioral advice, which will seldom be, "Get ready, because here comes some psychology." A deep conversation about personal beliefs and considerations of ESG metrics in a portfolio is a best behavioral practice. Goals-based investing and framing financial decisions relative to a personal "why" is a best behavioral practice. Multi- asset class investing, paired with a rigorous education as to its value is a best behavioral practice. Helping clients increase the salience of a future self and imagine a long-distant future is a best behavioral practice. And yet, none of these things are out of the ordinary for good advisors or feel especially like a therapeutic intervention. Kitces and Richards are right, no one is going to sign up for, "Get ready, because you're irrational and here comes the cure," but there are myriad ways in which powerful behavioral interventions can be embedded in the delivery of planning and advice that feel very natural and consistent.

In the end, I'm grateful to have this chance to consider the drawbacks to promoting oneself as a behavioral coach in a manner not too overtly "psychology-y." No one wants to feel like a patient, no one wants to feel poked and prodded, and no one wants to feel irrational or silly. Richard Thaler once wrote he hopes future generations will cease to study behavioral economics as a distinct course because it will have been so fully integrated into the study of what we now just call "economics." I feel the same way about behavioral coaching as part of an advisory practice. The sooner we can move away from it from being a distinct gimmick and toward it being an integrated best practice, the better off our clients will be.

Source: https://www.kitces.com/blog/podcast-topic/behavioral-finance/

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