

Book Review

Client Psychology

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For practitioners and researchers in the field of financial therapy, the interweaving of emotion and money has been at the center of our attention since the field's inception (Grable, McGill, & Britt, 2010). The field of financial planning, a field in its 50th year (Brandon & Welch, 2009) is making active steps to include this same realization in the Center for Financial Planning's edited book, *Client Psychology*. The work, edited by Dr. Charles Chaffin, the director of academic programs and initiatives for the CFP® Board, brings together important chapters that begin to prepare financial planners for integrating client psychology into their practices.

The book, made up of 18 chapters, takes an initial focus on behavioral finance for chapters two through twelve. The remaining six chapters cover are titled: Marriage and Family Therapy, Financial Therapy, and Client Psychology; Client Diversity: Understanding and Leveraging Difference to Enhance Financial Planning Practice; Client Psychology: The Older Client; Financial Psychology; Money Disorders and Other Problematic Financial Behaviors; Situation Awareness in Financial Planning: Research and Application. The firm foundation of this work in behavioral finance is not surprising given the field of financial planning's roots in consumer economics and finance (Brandon & Welch, 2009). Additionally, with the notoriety of this field, namely Nobel laureates Richard Thaler (2017) and Daniel Kahneman (2002), this core focus of the book provides a sense of gravitas that many financial planners will consider when deciding whether the work is worthy to be implemented in their practices.

For the field of financial therapy, practitioners, and researchers, the integration of emotion, cognition, relationships, and personal finance is central to our origin story (Grable, McGill, & Britt, 2010). For many financial planners this work serves as a thorough

introduction to what many financial therapists have sought to understand and implement in their work with clients. As an evolving and growing field, we can take comfort in knowing that the Center for Financial Planning, CFP® Board, and hopefully much of the field of financial planning is beginning to incorporate client psychology into their body of knowledge. We can take comfort in knowing that we'll have more allied professionals and researchers aware of the impact that emotion and money have on each other. This work represents a significant collection of relevant topics for the financial professional desiring to learn more about how their clients think. Not only could an experienced financial professional find a new topic to learn about, a new financial professional could begin the grasp the depth of skill needed when working with clients to help them seek optimal use of their financial resources. For the mental health professional, this collect shows the various ways that financial planning has adapted and learned from their field to better work with clients. It also could serve as an initial introductory work for the mental health professional who is desiring to enter into the financial world, as many of the theories and techniques would be familiar.

Summary of Chapters

Chaffin and Fox (2018) open the book with an introductory chapter that has a case study that serves as a continuous thread throughout the book. The clients in the case study, Ben and Colleen, represent a blended family with kids from multiple marriages, business ownership with succession planning implications, and differing views of money management. The case study serves to highlight the emotional complexity of working with clients through the financial planning process. In this chapter, the authors also introduce the definition of client psychology as “the biases, behaviors, and perceptions that impact client decision-making and financial well-being” (Chaffin & Fox, 2018, pp. 4). They continue with their call for a broad approach to researching, addressing, and answering the implications of client psychology, describing how many separate fields can and do contribute to their definition of client psychology. These fields include behavioral finance, education, financial therapy, cognitive psychology, clinical psychology, and human sciences, in addition to the field of financial planning (Chaffin & Fox, 2018).

Chatterjee and Goetz (2018) begin the multi-chapter discussion of behavior finance by discussing the definition of behavioral finance and some initial applications for understanding client behavior. They offer the following definition for behavioral finance: “an interdisciplinary area that utilizes components of economics, finance, and psychology to examine the implications and outcomes of financial decisions made by individual investors and traders in the market” (Chatterjee & Goetz, 2018, p. 12). From here they lay the groundwork for understanding much of behavioral finance when they discuss mental shortcuts known as heuristics, and how they can be useful in understanding financial decision making.

Chatterjee and Goetz continue the discussion by examining “the rational and irrational decisions made by people based on the concept of bounded rationality” (Chatterjee & Goetz, 2018, p. 19). Bounded rationality is the concept that humans make decisions within their own information-processing and information-recalling abilities, as described by the authors. They further discuss sunk cost fallacy and flat rate bias as two different

heuristics that negatively impact client in financial decision making. Then Letkiewicz (2018) dives deeper into how clients make decisions, explaining the System 1 and System 2 framework for reasoning as the basis for understanding many heuristics. From here the author discusses several biases affecting client decision making, including representativeness, availability, anchoring, and adjustment. Letkiewicz (2018) summarizes his discussion of heuristics by describing two methods for bias reduction: modifying the decision-maker by shifting from System 1 to System 2; and modifying the environment so that System 1 thinking will yield good outcomes.

The next chapter begins an in-depth discussion of decision-making under risk. Lim (2018) summarizes the expected utility theory as the cornerstone for understanding client decision-making, and lack of rational decisions. However, as Lim points out, the standard economic model does not fully explain client decision-making (Lim, 2018). Instead, prospect theory helps us understand some of the “interesting phenomena that the standard economic model fails to answer” (Lim, 2018, p. 51).

Zhang and Sussman discuss mental accounting, effectively completing our discussion of behavioral finance oriented topics. The authors define mental accounting as “the way that people group expenses into categories, assign funds to these categories, determine budgets, and perform elements of cost-benefit analyses” (Zhang & Sussman, 2018 p. 65). The authors take a deep dive discussion into mental accounting and its impact on budgeting and investing, including implications for practitioners, potential benefits, and potential errors of utilizing mental accounting.

The next chapter discusses intentional choice architecture, its two principles, and how being an intentional choice architect can help facilitate client decision-making. Liersch describes an intentional choice architect as one who “design environments for decision-makers” (Liersch, 2018, p. 97). The author uses two principles of choice architecture (humans have limitations, and humans use reference points to make decisions) to describe how professionals can work with clients to help them reach the best, or optimal outcomes for financial decision-making. Specifically, the author highlights intentional architecture’s potential usage in retirement savings and retirement plan participation.

Olsen, Perry, and Jin (2018) continue the discussion of the System 1 and System 2 framework of decision-making in the next chapter. The authors detail the emotional impact on cognitive processing within the context of this decision-making framework. As the authors describe, “intense emotions can dynamically change the way that people make decisions” (Olsen, Perry & Jin, 2018, p. 122). In contrast to many professionals’ desires to remove emotions from decision-making, the authors claim a key takeaway to be that “there are benefits to be enjoyed by *embracing* one’s emotional reactions” (Olsen, Perry & Jin, 2018, p. 124). The real challenge, as described by the authors, is knowing how to embrace these emotions when working with clients.

The next chapter, authored by Asebedo (2018), describes personality and the five models of personality, with implications for research and practice. Through each of the five personality traits, the author also lists ways in which professionals can work with clients demonstrating these personality traits. The author summarizes the importance of

personality traits in that they “can help them [financial planners] predict possible challenges their clients might face when implementing recommendations” (Asebedo, 2018, p. 149).

Lurtz and Heckman (2018) introduce the only chapter dedicated to risk. The authors discuss risk literacy, more specifically, which is defined as “the ability to interpret and act” on risk information (Lurtz & Heckman, 2018, p. 156). Their conclusion is that professionals have a “responsibility to be sure they are communicating at a level that is appropriate based on the client’s risk literacy” (Lurtz & Heckman, 2018, p. 160). The authors go on to discuss various methods of ensuring this appropriate level of communication, including evaluating risk questionnaires, and implementing graphical information.

The next chapter deviates slightly from a discussion of professional skills in working with clients to discuss how we design and use automated decision rules in assisting clients to make optimal financial decisions. Primarily, McCarley (2018) discusses the possible role that robo-advisors and other automated decision aids have in assisting clients. The author discusses in depth the issue that clients have with regarding trusting automated, or mechanical decision aids. McCarley (2018) describes three traits to help build trust between clients and these mechanical aids: transparency, interface, and reputation.

Chaffin (2018b) takes us into a discussion of personal motivation, focusing on self-determination and self-efficacy. As Chaffin (2018b) describes it, “self-determination theory is a theory of motivation that focuses on our innate psychological needs, specifically our motivation without external influences” (p. 182). Within this theory, Chaffin (2018b) discusses three constructs a professional will want to consider when working with clients, especially in the early stages of a relationship: competence, relatedness, and autonomy. The author continues the discussion by defining self-efficacy, and listing the ways in which a financial planner would see self-efficacy impact client decision-making, namely in goal setting and accomplishment (Chaffin, 2018b).

The authors in the next chapter, Archuleta and Britt-Lutter (2018), summarize marriage and family therapy as a discipline that has the potential to impact client psychology and how financial professionals work with clients. They describe the underlying theory of marriage and family theory, family systems theory, as providing “a way to understand clients beyond an individualistic perspective” (Archuleta & Britt-Lutter, 2018, p. 193). Their discussion continues into the specific field of financial therapy, defining it and listing its core competencies. The authors also discuss the therapeutic alliance, specifically considerations for how financial planners can and should enter into this alliance (Archuleta & Britt-Lutter, p. 2018).

Roberson (2018) discusses diversity and how it impacts financial planners’ work with clients. The author admits that diversity “may seem like a challenge” in relationship building, but it should allow for deeper trust to be built between financial planners and clients if genuinely adopted (Roberson, 2018, p. 206). The author discusses diversity not only in lead generation, but in providing services to clients, and in maintaining the highest professional competency level (Roberson, 2018).

Sharpe (2018) examines the biological and cognitive aspects of aging and their impact on the client decision-making process, as it relates to financial professionals. The author

claims that “financial planners will need to be able to distinguish normal age-related cognitive changes from onset of debilitating decline in mental function” (Sharpe, 2018, p. 222). Additionally, cultural variations in the aging process is an important consideration for planners as they serve a more diverse client population than ever before (Sharpe, 2018). The author’s discussion continues by defining aging, specifically chronological age, biological age, social age and neurobiological age, consisting of psychological age and functional age. Sharpe continues the chapter by examining various age-related changes financial planners should be aware of, including language, attention, and memory, among others, and more importantly how to continue to serve clients going through these changes.

The next chapter seeks to define financial psychology and its work within client decision-making. The authors, Klontz, Zabek, & Horwitz (2018), describe financial psychology “using psychological research and theory to create microbased techniques to help shape idiosyncratic financial beliefs and behaviors to improve financial health” (Klontz, Zabek, & Horwitz, 2018, p. 254). The authors continue the chapter by describing the various subfields of psychology and how they can and do impact financial planners’ work with clients. Additionally, they discuss various techniques that have been or could be adopted by financial planners for work with clients, including cognitive behavioral, motivational interviewing, solution-focused, positive psychology, and experiential techniques (Klontz, Zabek, Horwitz, 2018).

The authors in the next chapter discuss money disorders and other problematic financial behaviors that financial planners could encounter. Horwitz, Klontz, & Lurtz (2018) state that “when clients engage in patterns of chronic self-destructive financial behaviors” they may be demonstrating symptoms of various money disorders (p. 271). The authors go on to discuss the background of money disorders, various money disorders, and how financial planners can assess and work with clients demonstrating symptoms.

The final chapter focuses on situational awareness in financial planning. The authors, Chaffin and Grable (2018), discuss the importance of situational awareness for financial planners in helping them to understand the various factors affecting client decision-making. Chaffin and Grable (2018) state that “the planner must possess the basic skills and professional characteristics to differentiate between and among variables that are most relevant” (290). They go on to describe situational awareness as a prerequisite stage required to any decision-making or recommendations are made. This stage consists of three main stages, including perception, comprehension, and prediction.

Conclusion

The editor, Dr. Charles Chaffin, concludes the book with the statement that financial planning is “a human endeavor” at its core (Chaffin, 2018c, p. 301). This is evident by the book’s focus on various aspects of client decision-making, and, more importantly, how financial planners can work with clients to more fully understand and help them understand their own decisions. This work represents a significant collection of relevant topics for the financial professional desiring to learn more about how their clients think. Not only could an experienced financial professional find a new topic to learn about, a new financial professional could begin the grasp the depth of skill needed when working with clients to help them seek optimal use of their financial resources. For the mental health professional,

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