10 Questions

Kol Birke on Risk Perception, Human Behavior, and Client Emotions

by Lance Ritchlin

WHO: Kol Birke, CFP®

WHAT: FPA Retreat 2014 speaker, vice president at Commonwealth, and financial behavioral specialist

WHAT'S ON HIS MIND: "What I've learned that's just amazing is that when advisers become 1 percent better at coaching their clients, those clients in turn become 10 percent, or 20 percent, or 30 percent better at listening and then acting in their own best interest."

Kol Birke, CFP®, will speak on "The Efficient Frontier of Client Relationships" at FPA Retreat 2014, May 3–5, in Miami, Florida. Birke has been with Commonwealth since 1999. As vice president of business systems strategy, he helps advance Commonwealth's award-winning technology and explores his passions about making tools easy to use, efficient, and powerfully effective. In addition, as a financial behavior specialist, he focuses on helping advisers align their clients' behavior with their goals.

As well as holding the CFP certification, Birke is a Certified Usability Analyst and holds FINRA Series 7, 24, and 66 securities registrations.

Birke received his bachelor's degree in economics from Brandeis University and his master's of applied positive psychology degree from the University of Pennsylvania.

The *Journal* recently asked about his insights regarding client behavior, as well as the focus of his upcoming presentation at FPA Retreat 2014.

1. *Now that markets have recovered following a massive recession, what are the main emotional challenges financial planners face with their clients?*

I would say in terms of the biggest emotional challenges on the client side, it's really overconfidence that clients are comfortable and happy. There's something called risk perception that not a lot of people know about. That's like when you're driving your car, normally things are going well, so you're not really paying too, too much attention; oftentimes forgetting even the last couple of minutes of driving.

But if you almost get into an accident, for the next couple of minutes, your hands are at ten and two; you're very vigilant because your risk perception is higher. So on the client side, clients are lacking any perception that risk exists right now. On the adviser side, if that's an important part of the question, advisers are really often missing out on this golden opportunity to educate and prepare their clients for the bad times, because their clients really can't learn rational lessons while they're panicking. And so now is the time to start coaching.

2. *Psychology and technology seem to be worlds apart, yet you cover both of those at Commonwealth. Is there a link that advisers should know about?*

Sure. What I would say is that more and more, the output from advisers' technology is a crucial part of the story that they're telling clients, whether that's about the clients' current investment risk, or about how on track those clients are for goals, and those simple framing changes—simply changing little bits about how that output looks to the client—have massive effects on those clients' behavior.

So there's an adviser, Jonathan Guyton, out of Minnesota, and he has this great technique where he puts the client's necessary living expenses for retirement into one account or one bucket, and he puts their slush fund into another bucket. Imagine a client with just over a million dollars. If they're about to think about refinishing their kitchen for $15,000, if they're comparing it to the million dollars they have, they think, "Oh, I've got plenty of money."

If instead, Jonathan has coached them to see that they need $950,000 for living expenses, and they've got $50,000 in their slush fund, now all of a sudden, taking $15,000 out of that $50,000 feels a lot different, and clients are much less apt to do it.

3. *You've studied the evolution of technology products over time. What trends do you see, and which trend excites you most?*

I'm most excited about the pieces of technology that automate the routine parts of planner jobs, and even more than automating those routine parts, they actually alert the adviser. And so now, not only can technology help to rebalance, but it can actually warn you that you need to rebalance.

More importantly, goal software can every single night be looking at whether the client is on track to meet those goals, and actually proactively alert the adviser or the client if they're not on track. By having the software do this, not only does it ease the adviser's role, but it allows the adviser to focus much more on the aspects of their job that really pay higher dividends, that is, the behavioral management side of their work.

Not to self-promote; Commonwealth is building out a lot of this software, and I'm seeing folks like InStream. InStream is a goal-based financial planning tool that proactively alerts advisers before the adviser even knows something's going on in the client situation.

4. *If you could mandate one class or one course of study for every financial planner—maybe something not covered in their normal regimen—what would you insist that they learn?*

I would actually suggest marriage counseling. I say this a little bit tongue-in-cheek, that I don't think planners need to be therapists, but I do think there are a ton of simple lessons that planners … that we can learn from the fields of counseling and coaching, in terms of helping our clients change their behavior and act in their own best interest. One of the most helpful things I've done, I took a six-month long class on doing couples therapy, and you learn lesson after lesson on helping to reduce clients' reactivity to stressful events, help each other work as a team. And if it's tough enough to help one human act in their own best interest, it's often exponentially harder when there are two of them.

5. *What are some of the tips you give advisers who encounter couples with differing risk tolerances?*

Well, as with other subjects, I really like to give couples the tools to let them solve their own struggles when possible. And so in this case, I tend to share with the couples that I work with that basically, they've got three options. And they can mix and match, but they can compromise—you know, go to a middle ground for risk tolerance that works halfway between, maybe. Oftentimes, the problem there is that neither spouse is happy with that, and they keep forgetting that they decided on this, and they keep coming back and saying it's not working for them. So that one often doesn't work well.

They can split apart or segment the money, so that one spouse's retirement plan is invested very aggressively and the other spouse's retirement plan is invested very conservatively. And that's actually something that works really well for a lot of clients.

And last, and maybe most powerful but often a little bit more work, is aligning the risk strategy to the specific goal, and so forcing the clients to dig into what's important to them in any given goal. Where can they stand to take on a little risk versus where can't they, and then matching the risk strategy to the particular goal.

6. *You have a master's degree in applied positive psychology. Tell us a little bit about that field and how it aids your work.*

Positive psychology is defined as the scientific study of optimal human function. Now more simply, it's really about studying the positive outliers in any domain, to see what's working well and to see what we might be able to apply to everybody else. And the research from it really yields the techniques that I then bring to Commonwealth advisers.

For instance, while oftentimes we have to help our clients work on weaknesses, those clients are statistically more likely to succeed when we help them use their strengths to overcome those weaknesses. And let me just really clarify because this is often mistaken in the media—positive psychology is really not about positive thinking. For instance, there's certainly places where small doses of fear or anger or sadness or regret can play a really helpful, critical role in motivating a client to action. And so positive psychology is just looking at what works.

7. *What's the most startling thing you've learned about human behavior as it relates to personal finance?*

Well, this is a bit of a general answer. What I've learned that's just amazing is that when advisers become 1 percent better at coaching their clients, those clients in turn become 10 percent, or 20 percent, or 30 percent better at listening and then acting in their own best interest. Given that the vast majority of financial advisers focus on finding the next investment strategy or reading about new tax law changes—which certainly can be valuable—just small advances in an adviser's emotional intelligence end up paying incredibly high dividends for their clients.

8. *Is there a limit to the amount of psychological help an adviser should give his or her clients?*

Definitely there is a limit. Just as most advisers wouldn't actually draft a client's will without the proper training, it really makes sense to know where your limits are. And once you get toward the edge of those limits or even approaching them, have some really good therapists or life coaches who you trust and you can refer out to clients.

The best advisers I know in this domain have a few trusted relationships, and they tell a client, "Listen, you hired me to achieve a successful retirement. These behaviors are getting in the way of that, and there are some people who are professionals at helping to work on that. Here are the names of a few of them."

> "Positive psychology is really not about positive thinking … positive psychology is just looking at what works."

With that said, in most cases, there are some simple behavioral concepts and techniques advisers can learn to help their clients get over most of life's hurdles. But once you get to the edge of those techniques, that's when I would turn it over.

One of the simplest ones for advisers is that there are some really clear decision-making mistakes that our brains make, and just by framing decisions in a slightly different way, you can help clients to make the decision that's in their best interest. And we're going to be covering those in the presentation at FPA Retreat.

9. *You do a lot of videos online for financial planners. What guidance would you give advisers on using the video medium effectively?*

First, and most critically, I would say know whether or not you present well on video, and that video is not the only medium, and there's lots of other great mediums, whether it's short blog entries, long-form articles, audio, or anything else; video is not a necessity.

Second, if you are going to do video, I would focus on two things. One, be really authentic, share your own experiences; and second, keep it short. Focus on a single target, a single point. And if you have more than one point to make, you're talking about one thing in one video, just do a second video for that second point. Clients, especially these days, are really much more likely to watch a 45- or 60-second video than an eight-minute video. And so if you have more than one thing to say, just split it up into multiple videos.

10. *What will be the focus of your presentation at FPA Retreat 2014?*

Ultimately, it's what I try to focus every presentation on, which is making financial planning as effective and impactful as possible. To me, our profession has the opportunity to really help people—help our clients live the lives they want to live, and a life that, with your help, they can afford and protect. But they're only able to do that if they take your advice. And so my presentation is really focused on research-validated methods for getting clients to do what their irrational instincts would otherwise have them not do. ■

Lance Ritchlin is editor-in-chief of the Journal. *Contact him at LRitchlin@OneFPA.org.*