



## *Wealth Planning: Taking a Step Forward*

*By Emily West, CFP®*

Like many others across the country, I recently sent my kids back to school. Truth be told, I'm a bit jealous. I loved school and often find ways to still be a student: picking up new hobbies, reading, listening to and watching content on a wide range of subjects. Many of my colleagues are much the same, often trading books and sharing recommendations around the office.

In professional speak, we might call this “being lifelong learners” or “having a growth mentality”. Despite how one may feel in their school-age years,

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we seem to understand these to be virtues as adults. We recognize so much of what is “known” is

actually changing and right alongside us. This is true in wealth management just as much as it is in any industry.

### **An Evolving Field**

Not so long ago, wealth management services were dominated by investment management and trust administration; “financial planning” was not yet seen as an established specialty. Today, most firms have integrated financial planning into their services - a shift which required a new or additional skill set than might have existed previously.

Today, the cutting edge of the financial planning field is arguably rooted in behavioral finance and psychology. In recent years, some of this subject matter has even been added to the Certified Financial Planner™ (CFP®) exam. It was in light of this that I recently found myself working through Kansas State University's certificate program in Financial Therapy.

### **An Emerging Discipline**

Like “financial planning” before it, “financial therapy” represents a new interpretation of the skills required to best serve client needs in wealth management. Sometimes described as the intersection of financial advice and traditional therapy, “financial therapy” seeks to understand the root causes of financial behaviors and better equip financial advisors with therapeutically informed concepts.

The “why” behind financial therapy and related concepts is well stated in the introduction to one of the texts utilized in the coursework:

“Money is inescapably interwoven into the fabric of a client's relationships, dreams, fears, loves, hates, successes, failures and struggles. It is one of the few elements of life that has an effect on every aspect of existence... Financial planners intuitively know this. A growing number of them also understand that providing exterior information about how money works (saving, investing, spending, and managing) is not enough to help clients succeed financially. In fact, ‘financial success’ is a term that by itself has been traditionally limited to the exterior. A more integrated concept that forward-thinking financial planners are adopting is the notion of an individual having a relationship with money... They realize that all the financial knowledge in the world will not benefit clients if they are unable or unwilling psychologically to act on that knowledge.”<sup>1</sup>

Meanwhile, research has also shown money is a unique stressor for individuals and couples and that financial health is directly linked to both physical and mental health. A study conducted by the American Psychological Association found 73% of respondents cited money as the number one source of stress in

<sup>1</sup>Klontz, B., Kahler, R., & Klontz, T. (2008) Facilitating financial health. Erlanger, KY: National Underwriter Company. p. 2



their lives.<sup>2</sup> Studies have also demonstrated financial stress is correlated with low self-esteem, depression, anxiety, marital instability, intra-family tension, headaches, insomnia, and reduced life expectancy.<sup>3</sup>

Any experienced wealth management professional has likely seen elements of this in their practice. We see first-hand the impediment to a client reaching their goals is often the client's own behavior. We observe partners and families struggling to communicate about finances in ways that increase stress and strain relationships. As advisors, we sense many of our client's financial challenges are psychologically rooted and bear witness to the impact of those challenges, but often lack the vocabulary to identify it, let alone the skills to help clients address it.

### More to Learn

The wealth management industry is only just beginning to digest the work being done, which includes:

- Money Scripts: an evidence based self-assessment tool that identifies common, foundational beliefs about money
- Financial Socialization: the lessons and values we are overtly taught in our early lives, as well as what we internalize from observation
- Genograms: a visual family tree that includes signifiers for traits and relationships, used to identify patterns with a family
- Behavioral Finance: concepts ranging from the commonly recognized like "loss aversion" and "endowment bias" to lesser known ideas like "anchoring and availability", and many others

- Financial flashpoints and financial trauma: life events that shape our ideas and attitudes around money, particularly when experienced early in life
- Money disorders: self-destructive financial beliefs and behaviors like compulsive gambling, compulsive buying and hoarding
- Systems theory and couple dynamics: concepts that view relationships and groups as complex systems in which each participant is continually acting and being acted upon by other participants
- Traditional therapy techniques, communication strategies and resistance to change
- Ethical considerations: the boundaries and constraints of an emerging field of study

As a young field of study, much of the Financial Therapy curriculum exists in the form of academic research papers and textbooks;

we don't yet know what form it will ultimately take or how it will be utilized. While these ideas may stretch and challenge us, they also offer the opportunity for us to think in new ways and learn together.

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We look forward to sharing more of this material and helping our clients achieve greater peace of mind.

<sup>2</sup> American Psychological Association Online "As tax deadline approaches Americans say money is number one cause of stress." (March 31, 2004)

<sup>3</sup> Davis, C. G., & Mantler, J. (2004). The consequences of financial stress for individuals, families and society. Centre for Research on Stress, Coping and Well-being. Carleton University, Ottawa.