More advisors use ‘behavioral finance’ techniques: Brinker Capital

By Editor Test *Thu, Jun 13, 2013*

How do your clients respond to a loss? How do you help them 'stay the course' during volatile markets? These and other questions were the focus of the latest edition of the Brinker Barometer, a regular survey of advisors at insurance companies, b/ds and in sole practice.

Behavioral finance—the fancy name for client irrationality—was the focus of Brinker Capital’s regular proprietary survey of financial advisor sentiment this spring. The survey showed that many advisors are consciously and formally incorporating elements of behavioral finance into their relations with clients.

For instance, the April 2013 edition of the Brinker Barometer, showed that 27% of the 289 advisors surveyed said they develop a written “Investment Policy Statement” for every client, and that 45% use one with some clients. The rest do not use such a tool.

Such tools are designed to help clients stick to an agreed-upon investment plan when market volatility spikes or when an upsetting newspaper article appears (such as the recent *New York Times* article warning that $1 million is not enough savings to retire on).

Of the advisors at insurance companies, independent broker-dealers and in one-person offices whom Brinker surveyed, 77% said they have discussed behavioral finance issues with their clients. “Loss aversion” is “the single most important behavioral finance tenet they integrate into their client work,” they said.

Brinker found no consensus among advisors regarding their clients’ responses to a financial setback:

- 47% of advisors said that when a client is upset with a poorly performing investment, their next investing decision is likely to be “charged with emotion.”
- 31% said the next decision would be “a wiser one since they’ve learned from the bad experience.”
- 22% believed that “poor investment performance has little to no effect on the next investment decision.”

Advisors were almost unanimous (94%) in saying that they speak with their clients about the concept of “purchasing power” in retirement—i.e., what the income from their investments might buy in retirement. Only 38% believed that the Consumer Price Index (CPI) was a satisfactory gauge of future spending power. A majority thought that using the CPI “plus three or four percent” was more effective.

Asked what asset classes they intend to allocate *more* to in 2013:

- 48% of respondents said “absolute return” (vs. 46% in Q4 ’12)
- 45% said “equities” (vs. 54% in Q4 ‘12)

Asked what asset classes they intend to allocate *less* to this year:

- 58% said “fixed income” (vs. 51%)

Asked what asset classes they intend to allocate “about the same” to this year:

- 60% said “private equity” (vs. 65%)
- 49% answered “international” (vs. 57%)
- 44% noted “emerging markets” (vs. 48% who said they’d allocated more to that asset in Q4 ’12)