

# Power Tools

## for Handling Behavioral Finance Issues

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**W**e are entering an era that could be one of the greatest periods of change in our lifetime, which is saying something for those of us who have witnessed moon landings and the birth of computers. Three super trends (STs)—globalization, technology accelerators, and the global age wave—along with dozens of smaller megatrends are converging to create disruptive change not seen in our lifetimes, perhaps not even in history.<sup>1</sup>

The coming decades are ripe with promise for improving the well-being of people and the planet. However, we recognize that such a fast-changing environment also is rife with uncertainty and risk, which will create many anxieties in a world already reeling from economic and political change. This new world requires an advanced set of “power tools,” that is, skill sets for financial advisers to handle complex behavioral finance issues on the part of clients, coworkers, and themselves.

Additionally, we believe that as much as 75 percent of the ST-related change in the next eight to 10 years will be positive. The other 25 percent may be not-so-positive

or downright scary. We can confidently predict that the 24/7 media will magnify the 25 percent and create the illusion of black swans<sup>2</sup> when most will really just be black ducks—events that turn out to be of little consequence to investment markets, the economy, and our clients. Clients can easily lose their bearings in such a media environment and will need a steady, well-informed adviser to steward them.

Skills training for navigating interpersonal relationships should be on par with training in technical aspects of financial planning. To that end, five mission-critical skill sets or power tools have been identified for preparing for and performing effectively in a super trend environment. These cognitive, emotional, and interpersonal skills are described here, highlighting the critical role of each and providing a set of specific practices for learning and deepening one's skills.

### Possibility Mindset

Confronted with dramatic new information (such as discontinuous change associated with super trends), planners, clients, and employees can become overwhelmed and close their minds to exploration and learning. Adopting a possibility mindset opens the mind and broadens the view.

People with a possibility mindset believe that positive outcomes are achievable, tune their radar to detect and highlight positive possibilities, potentials, and opportunities in new information and circumstances, and mobilize proven strengths, resources, and successes, as well as the potential in people and organizations. They don't dwell on mistakes, unskillful acts, and unfavorable outcomes. While they accurately detect downsides, their mindset allows them to lead with the positives to create upward spirals of effective thinking, productive conversation, and collaborative teamwork.

**Benefits of a possibility mindset in a super trend world include:**

- counterbalancing our hard-wired negativity bias—the brain's

### Super Trends (STs) Defined

**Globalization:** The world is increasingly flat, curved, and spiked all at the same time. Competition can come from any direction while consumer markets are exploding around the world.

**Technology accelerators:** Massive change is under way in technology that affects jobs, health care, energy, and virtually every profession and business.

**Global age wave:** Major demographic shifts in the United States and overseas are slowly changing the economic landscape. What will the boomers want, and how will they invest as they get closer to retirement?

tendency to scan for, detect, and over-focus on negative information. This bias promotes fight, flight, or freeze behavior and impairs mental functions needed to respond to supertrend developments.

- helping us remain steady and calm when clients react from their “reptilian brain” (Siegel 2010), lashing out at planners (fight behavior), making impulsive investment decisions (often flight behavior), or becoming paralyzed and indecisive (the “freeze” option).

**Some practices for adopting and strengthening a possibility mindset are:**

1. Observe others who demonstrate such a mindset, paying careful attention to how they act. Practice adopting (or adapting) their mindset.
2. Intentionally scan for positives and possibilities in everyday situations, such as routine interactions with staff members, clients, retail store personnel, and—the supreme test—telephone calls to toll-free customer service centers.
3. Look for positive qualities in each person, including those with whom you have had unpleasant interactions.

These practices and others in this article may seem unfamiliar and difficult. Successfully learning them requires repetition so they become habitual.

### Realistic Optimism

Once our minds are open to positive super trend possibilities, we adopt a realistically optimistic process for charting the course

to actualize those possibilities.<sup>3</sup>

A planner practicing realistic optimism collects and assimilates all relevant information, identifies and weighs its implications, and rather than planning for the lowest-risk, most-likely, or most-favorable outcome, selects and plans for the best plausible outcome—the outcome that has both a significant probability of occurring and a significant payoff.

Many planners use realistic optimism in their current planning and portfolio construction. Perhaps all planners need to adopt this process when embracing and responding to super trends. Difficult, threatening times (think 2008–2009) tend to stimulate our amygdala (part of our reptilian brain) and suppress our center for realistic optimism (our prefrontal cortex), making it even more crucial and yet more difficult to become a realistic optimist.<sup>4</sup> Realistic optimism is contagious; planners should take action to spread this positive condition.

**Benefits of realistic optimism in a super trend world include:**

- providing a reliable process for examining and weighing new developments and deriving an appropriate strategy (for example, for modifying client portfolios in line with developments in globalization and other super trend areas).
- dissuading planners from “going south” in their perspectives, predictions, and plans to “combat” the implications of super trends.

**Some practices for adopting and strengthening realistic optimism are:**

1. Recall realistic optimists you have

met or heard about. How did they convey their perspectives and their processes for dealing with circumstances? What were the quality and results of their strategies? Adopt their approach when thinking about super trends.

2. Think about times when you demonstrated realistic optimism. How did you think about the situation, what did you do, and what happened? How can you apply the lessons to the super trend world? If you come up empty, ask yourself, “How would a realistic optimist proceed here?”
3. Understand clearly which super trend factors and forces you can control, influence, and/or leverage and those you cannot. Focus on the former as leverage points, and monitor the latter.

### Positive Conversational Skills

Consider the following act of stewardship: You conduct productive conversations with clients and colleagues who may feel threatened by the potential downsides of super trends. By refraining from dismissing their concerns and offering bland reassurances (“You’re going to be just fine.”), you set the stage for using positive conversational skills. These skills equip planners to engage in super trend conversations, elicit everyone’s perspective, and focus on participants’ strengths, resources, wisdom, and successes, as well as on super trend opportunities.

**Positive conversational skills include:**

- acknowledging others’ concerns, fears, and anxieties without prematurely citing factual grounds for optimism.
- asking positive questions and guiding conversations to identify and mobilize positive forces (such as strengths, resources, lessons learned, and wisdom gained from mastering previous challenges) to

craft workable action strategies and plans (see the sidebar on page 30 for contrasts between positive questions and other types).

**Benefits of positive conversational skills in a super trend world include:**

- maintaining everyone’s realistic optimism in the face of media saturation about super trend “calamities” and black swan sightings.
- generating high engagement in devising constructive actions to prepare for and respond to super trend realities and stay the course.
- increasing the loyalty, commitment, and partnering mentality of clients and colleagues.

**Some practices for adopting and strengthening positive conversational skills are:**

1. Eavesdrop on conversations, including your own; identify questions as positive, neutral, or negative (see examples in the sidebar), and observe the consequences of each type. Practice reframing negative or neutral questions to become positive ones, and observe what happens.
2. Turn a conversation that’s headed for the ditch to one that is positive, constructive, and productive. One way to do this is by using “switcher questions” (Adams 2009), such as, “How else might we think about this?” “What outcome would serve us best?” and “If we called upon our wisdom and creativity, how might we approach this super trend information?”
3. Record client and staff meeting conversations. Replay the recording and identify instances where you used (and didn’t use) positive conversational skills and consider the respective consequences.

### Emotional Self-Management

Like anyone else, planners may become emotionally triggered by extreme

market events and by others’ reactions, and may respond in ways that harm relationships with colleagues or clients. Emotional self-management (ESM) skills allow planners to show up as their best selves and bring calm, order, balance, and reason to the ST conversation. Viktor Frankl, M.D., author of *Man’s Search for Meaning*, captured the essence of emotional self-management: “Between stimulus and response there is a space. In that space is our power to choose our response. In our response lies our growth and our freedom.”<sup>5</sup>

**Emotional self-management has two principal domains (Bradberry and Greaves 2009):**

- ESM related to one’s inner experience includes awareness of one’s moment-to-moment emotions and the events that trigger them (such as market gyrations, clients’ responses to ST information, and one’s own thoughts); and managing these emotions appropriately and effectively, neither denying them, suppressing them, nor giving them unfettered expression.
- ESM in the interpersonal realm includes detecting others’ emotions in response to ST information and remaining steady in the presence of these emotions, neither avoiding nor ignoring them nor attempting to combat them with facts.

**Benefits of emotional self-management in a super trend world include:**

- greater efficiency dealing with clients around super trend issues, because planners using ESM skillfully spend less time and energy being emotionally hijacked and expend less cognitive bandwidth on dealing with their emotions.
- greater effectiveness dealing with clients around super trend issues, because ESM calms the reptilian brain, freeing planners to focus on learning about super trend implications, identifying and exploring options, and

educating clients and staff.

**Some practices for developing and strengthening emotional self-management are:**

1. Engage in a regular practice to cultivate mindfulness—an open, non-judgmental awareness of one’s inner and outer experience, including one’s emotional reactivity. Meditation, journaling, and yoga are three good practices, among many others.
2. Tune into your self-talk, the inner conversation that serves as the soundtrack of our moment-to-moment lives. Become familiar with the stories you tell yourself as a way of making sense of events, new information, and others’ behavior. Challenge self-talk that triggers stressful emotions.
3. Apply the positive conversational skills to yourself.
4. Observe others who keep their cool in hot circumstances. Note what they do and how they

respond. Seek their counsel and learn their secrets.

**Empathy and Compassion**

Empathy and compassion are critical skill sets that build on interpersonal ESM skills. They are especially helpful to planners who regard clients’ emotions as getting in the way of the “real work” of financial planning.

Empathy entails accurately perceiving others’ emotional reactions, internally experiencing something akin to their emotions (albeit a less intense version), and as appropriate, conveying one’s understanding, non-verbally and/or verbally.

Compassion is a deep wish that others not suffer, along with the wish to take action to alleviate this pain. It is closely related to empathy, and we pair them as one power tool.

**Benefits of empathy and compassion in a super trend world include:**

- Helping clients to process initial super trend shock and related emotions.

- Reducing clients’ stress and increasing their readiness and ability to understand super trends’ implications.
- Deepening the client-planner connection and relationship because the planner has helped their client weather an emotional storm and collaborated in devising the ST approach that best fits them.

**Some practices for developing and strengthening empathy and compassion are:**

1. Practice perspective-taking by noticing and wondering about, rather than ignoring, being inattentive to, or judging clients’ behavior. Noticing involves paying attention to non-verbal behavior such as facial cues, posture, tone of voice, and silence. Noticing sets the stage for asking oneself questions beginning with “I wonder.” An example is, “I wonder what’s contributing to her sudden insistence on going to cash and her refusal to learn more

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## Comparison of Positive, Neutral, and Negative Questions

**Topic:** Client's immediate reaction to super trend information

**Positive:** "What are some ways in which these super trends can have positive consequences for your family, for the economy, for the world, etc.?"

**Neutral:** "What are your thoughts about these super trends?"

**Negative:** "What concerns you most about these super trends?"

**Topic:** Planning for a major change

**Positive:** "Tell me about a time when you successfully developed and implemented a plan to adapt to a major change."

**Some positive follow-ups:** "How did you think about it?" "What options did you consider?" "What resources (including people) did you call upon?" "How did it turn out?" "How can we apply this experience to formulate our approach to supertrends?"

**Neutral:** "How do you typically prepare for a major change once you become aware of it?"

**Negative:** "Tell me about a major change that you didn't handle well."

about super trends?"

- Practice noticing and wondering about in situations in which you are not a participant. Examples include coffee shops, cocktail parties, networking events, and airports, as well as television shows and

movies. Adopt the same curiosity mindset as in the previous practice.

- An excellent, albeit paradoxical, way to develop greater compassion is by practicing compassion for oneself (Neff 2011). Self-compassion is not the same as self-pity or absolving oneself of responsibility. When experiencing loss, disappointment, or failure, many of us attempt to short-circuit the resulting pain by telling ourselves to get over it. It's healthier to allow ourselves to experience the pain without adding self-blame or blaming others, and to treat ourselves with the same compassion we willingly extend to others. Once we become more compassionate with ourselves, it becomes easier to witness others' adversities and extend compassion to them.

### Summary

By mastering the five power tools, planners can prepare to deal effectively with the massive changes that lie ahead. We recommend that you develop plans to periodically sharpen your and your staff's skills in each power tool area through continuing education, running super trend scenarios for life, and other means that fit your time and learning style. Embrace the opportunities in the emerging super trend world. Now is the moment to begin. ■

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### Endnotes

- More information on super trends can be found in various magazines and books. Magazines include *Technology Review* (MIT), *The Futurist*, *INC Magazine*, *Fast Company*, and *Wired*. Books include *The Power Years or The Age Wave* by Ken Dychtwald; *The World Is Flat and Hot, Flat and Crowded* by Thomas Friedman; *The World Is Curved* by David Smick; *When Markets Collide* by Mohamed El-Erian; or *Technological Revolutions and Financial Capital: the Dynamics of Bubbles and Golden Ages* by Carlota Perez.
- Major unforeseen economic or financial events that seem to occur more frequently than normal probabilities would suggest, popularized in the book *The Black Swan* by Nassim Taleb.
- See groundbreaking research on realistic optimism by Sandra Schneider, including her 2001 article in *American Psychologist*, "In Search of Realistic Optimism. Meaning, Knowledge, and Warm Fuzziness."
- See Jason Zweig's *Your Money and Your Brain* (2008) and Rick Hanson's *Buddha's Brain* (2009) for accounts of how our brains react faster to emotional stimuli than logical facts, and how we can be vulnerable to "emotional hijacking" by the amygdala.
- See [www.get.gg/frankl.htm](http://www.get.gg/frankl.htm) for other quotes by Viktor Frankl. His best-known book is *Man's Search for Meaning* (1959).

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