
USING BEHAVIORAL FINANCE TO NAVIGATE MARKET VOLATILITY

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This article is relevant to financial professionals who are considering using behavioral finance with their clients.

There's a lot of fuss around "[behavioral finance](#)" in our industry. For good reason.

According to one study,¹ the three main benefits of incorporating behavioral finance into a financial advisor's practice are:

1. Keeping clients invested during market [volatility](#), which helps them stick with their long-term plan
2. Strengthening trust and relationships with clients, which can increase retention
3. Helping manage client expectations through effective communication

This all sounds great on paper—but real-life application has shown mixed results.

An internal panel² found that while advisors acknowledge the importance and benefits of risk assessment, many struggle to clearly communicate the impacts, and see the need for better documentation of this process. Only a few of the advisors are actively applying behavioral finance concepts into their practices.

We're striving to change that.

WisdomTree collaborated with Digital Nudging Tech LLC—founded by Shlomo Benartzi, Professor Emeritus of the UCLA Anderson School of Management, and a leading behavioral economist—to bring financial advisors a sophisticated, proprietary tool that helps them understand their clients' needs and preferences.

The [Behavioral Finance Assessment Tool](#), available on [wisdomTree.com](#), walks advisors and their clients through a series of research-driven questions and scenarios. This 10-minute exercise produces a behavioral finance profile that can be matched against the client's current portfolio and retirement goals.

The Tool analyzes many behavioral and financial characteristics, such as how clients experience the feelings of loss, their sensitivity to risk versus reward and the portfolio's potential. The Tool's output also showcases the likelihood of the client reaching their retirement goal.

And that's not all...

WisdomTree also provides advisors with access to Model Portfolio recommendations. These recommendations provide a better match for their client's behavioral finance profile and could potentially provide a smoother retirement journey, while still achieving their financial goals.

What makes this Tool different?

Unlike traditional assessments where clients evaluate their feelings *subjectively*, our Tool uses research-driven comparisons and questions that dive deeper, seeking to identify crucial financial and behavioral factors.

This truly innovative Tool offers your clients the potential benefits of being:

- **Personalized**—Two clients with similar economic factors can have very different needs for portfolio construction, based on their behavioral differences.
- **Research-driven**—Help clients understand how they feel about financial losses *before* they occur.
- **Holistic**—It factors in not only loss aversion, but also loss frequency, present bias and other behavioral insights.

Whether you use it for prospecting or client retention, WisdomTree's easy-to-use Behavioral Finance Assessment Tool will help you better connect with clients and choose a personalized portfolio that truly fits their profile.

This matters in today's markets.

Professor Shlomo Benartzi found that people aren't just loss-averse—they are also extremely sensitive to *short-term losses*, known as *myopic loss aversion*.³ If someone is myopic, they are overly focused on recent events and are generally nearsighted when it comes to their investment performance.

I understand it's impossible to avoid the headlines of geopolitical turmoil. But from a purely investment perspective, myopic investors are the clients at highest risk. They are the most likely to panic sell during a downturn, which is what has led, over time, to even bigger losses.

This is exactly why behavioral finance can help navigate market volatility.

Want to connect on a more personal level with your clients? Want to offer personalized portfolio suggestions that fit their true financial profiles? We invite financial advisors to give our [Behavioral Finance Assessment Tool](#) a try today.

¹ www.statista.com/statistics/1249682/main-benefits-of-behavioral-finance-worldwide/

² *WisdomTree's Behavioral Finance Research Panel October 2020*

³ www.wisdomtree.com/blog/2020-05-22/how-to-minimize-your-clients-panic-during-the-market-sell-off

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DEFINITIONS

Behavioral finance: An academic branch of finance devoted to studying the behavior of individuals as it relates to their financial decisions.

volatility: A measure of the dispersion of actual returns around a particular average level.