

A Two-Axis Model of Financial Advising

by James Grubman PhD and Keith Whitaker PhD

Financial advising professions have dramatically increased their attention to emotional and family dynamics of clients over the past fifteen years. Writers in the field have advocated development of greater communication skills and counseling strategies as part of the planning process (Kahler, [2005], Kinder and Galvan [2007] Diliberto and Anthony [2003]), as well as increased collaboration between advisors and therapists (Taylor et al., [2005]). Many studies demonstrate that clients want and need their financial advisors to have empathic communication skills (Anderson and Sharpe [2007], Sharpe et al. [2007], State Street Global Advisors [2007], van Zutphen, [2007]), yet many financial advisors and therapists remain either unconvinced or wary about the handling of emotional issues within financial advising (Nixon [2002], Gullotti, [2003]).

CFP Topics – 2006 Addendum

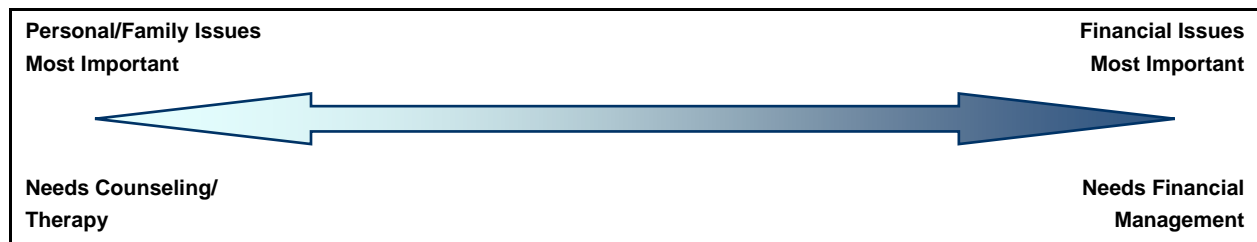
1. Client and planner attitudes, values, biases and behavioral characteristics and the impact on financial planning
 - A. Cultural
 - B. Family (e.g., biological; nontraditional)
 - C. Emotional
 - D. Life cycle and age
 - E. Client's level of knowledge, experience, and expertise
 - F. Risk tolerance
 - G. Values-driven planning
2. Principles of communication and counseling
 - A. Types of structured communication
 - 1) Interviewing
 - 2) Counseling
 - 3) Advising
 - B. Essentials in financial counseling
 - 1) Establishing structure
 - 2) Creating rapport
 - 3) Recognizing resistance
 - C. Characteristics of effective counselors
 - 1) Unconditional positive regard
 - 2) Accurate empathy
 - 3) Genuineness and self-awareness
 - D. Nonverbal behavior
 - 1) Body positions, movement, and gestures
 - 2) Facial expressions and eye contact
 - 3) Voice tone and pitch
 - 4) Interpreting the meaning of nonverbal behavior
 - E. Attending and listening skills
 - 1) Physical attending
 - 2) Active listening
 - 3) Responding during active listening; leading responses
 - F. Effective use of questions
 - 1) Appropriate types of questions
 - 2) Ineffective and counterproductive questioning techniques

An important leadership statement was made in 2006 when the Certified Financial Planner Board of Standards issued its topics for review and evaluation. An addendum was added which, for the first time, added client relationship skills and basic knowledge of money psychology as important competencies for financial planners (**Sidebar: CFP Topics – 2006 Addendum**). Although these areas are not yet required as core competencies for assessment, that day is coming. Other signs that psychology and finance are dating if not yet wed include the emergence of a few academic courses in psychology within financial educational programs¹ and the widening use of behavioral finance principles during the normal course of financial planners' client work (Pompian and Longo [2005], Shefrin [2002]).

THE NATURE OF THE TWO-AXIS MODEL

Many financial advisors have traditionally thought of clients' financial and psychological issues as polarized along a single continuum. Money matters are seen as either rational and financial or irrational and emotional (**Figure 1**).

Figure 1. Financial Issues and Personal/Family Issues conceptualized along one axis.



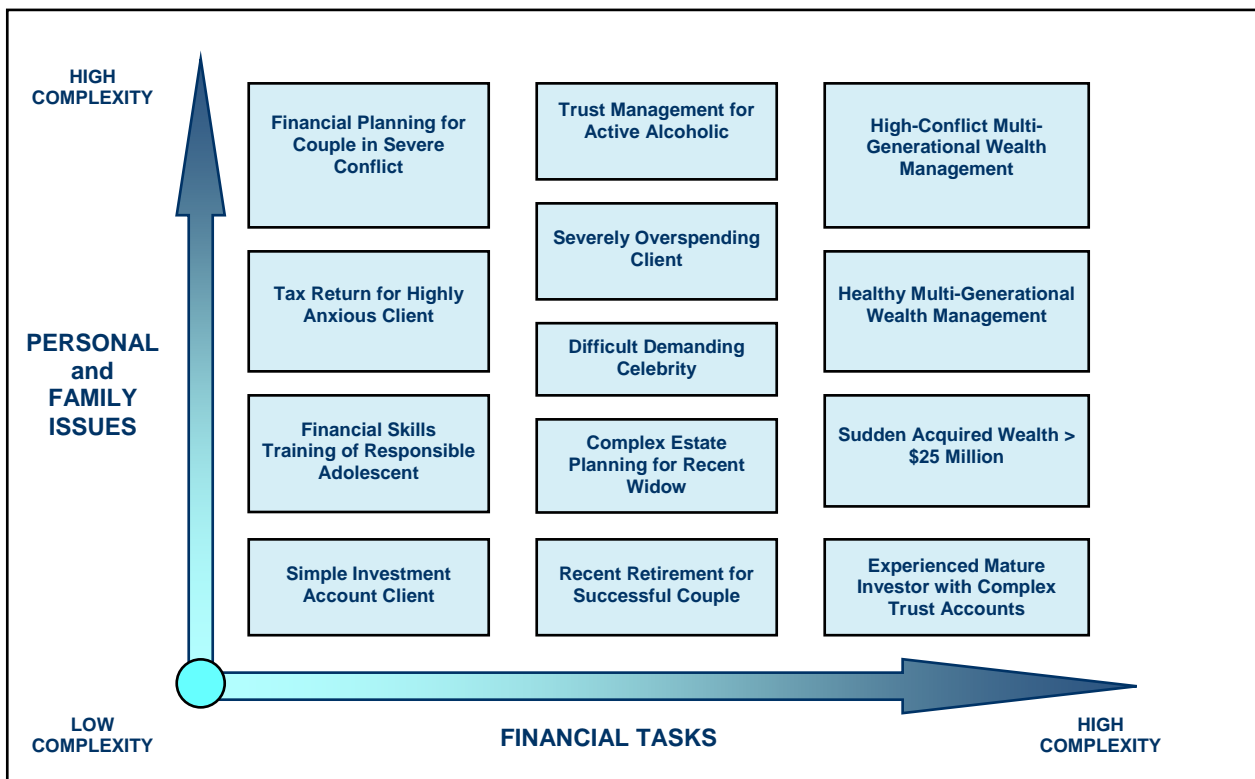
When clients appear workable, cheerful, and interested, most advisors are happy and feel relieved. When an emotional issue about money (or most anything else) surfaces in the financial relationship, many advisors feel uncertain about how or whether to handle the matter. Some might try to use common sense or rudimentary

psychological principles to soothe the problem. The more common approach may be to avoid recognizing or addressing the issues, hoping they will go away or at least not intrude. Indeed, many advisors seem to rate their clients along a range from “easy” to “difficult” largely based on how much personal or family dynamics intrude on the relationship.

Yet financial advising is, in many ways, analogous to medical care, where competent problem-solving must occur within the complexities of the patient’s personality and stresses. Just as physicians must work with patients who range from calm to distressed, advisors must be able to work with clients experiencing a wide range of human reactions and problems.

In essence, *all* financial client relationships *always* contain two elements: the Client and the Finances. These two elements may be conceptualized along two intersecting axes. One axis defines the complexity of the financial tasks to be performed, while the other axis defines the complexity of the psychological and family dynamics present. **Figure 2** shows these two axes and some representative client situations.

Figure 2. Client examples in the Two-Axis Model



Toward the lower left, clients present financial problems with tasks requiring reasonably straightforward analysis, a more basic level of expertise, and emotional issues requiring nothing more than basic empathy, relationship skills, and perhaps some humor.

Moving diagonally upward and toward the right, examples increase in level of complexity of the financial tasks to be performed as well as increasing in psychological complexity. Relationship conflicts, grief, substance abuse, anxiety, and/or anger are more strongly present.

With a little thought, financial advisors can begin to place typical client situations somewhere within the field defined by the two axes. It is often easier to figure out where to place client situations along the Financial Axis since the parameters are more familiar. It is harder and may require some training to place client situations along the Personal and Family Dynamics axis, using an understanding of basic psychology more known to therapists than financial planners.

The Personal and Family Dynamics Axis is not necessarily an axis of mental pathology, just of psychological complexity. Untrained in the mental health field, financial advisors may confuse the presence of strong emotions with the presence of psychological disorder. Although some aspects certainly reflect disorders and problems, many of the milder levels simply reflect normal human reactions to money, relationships, and stress.

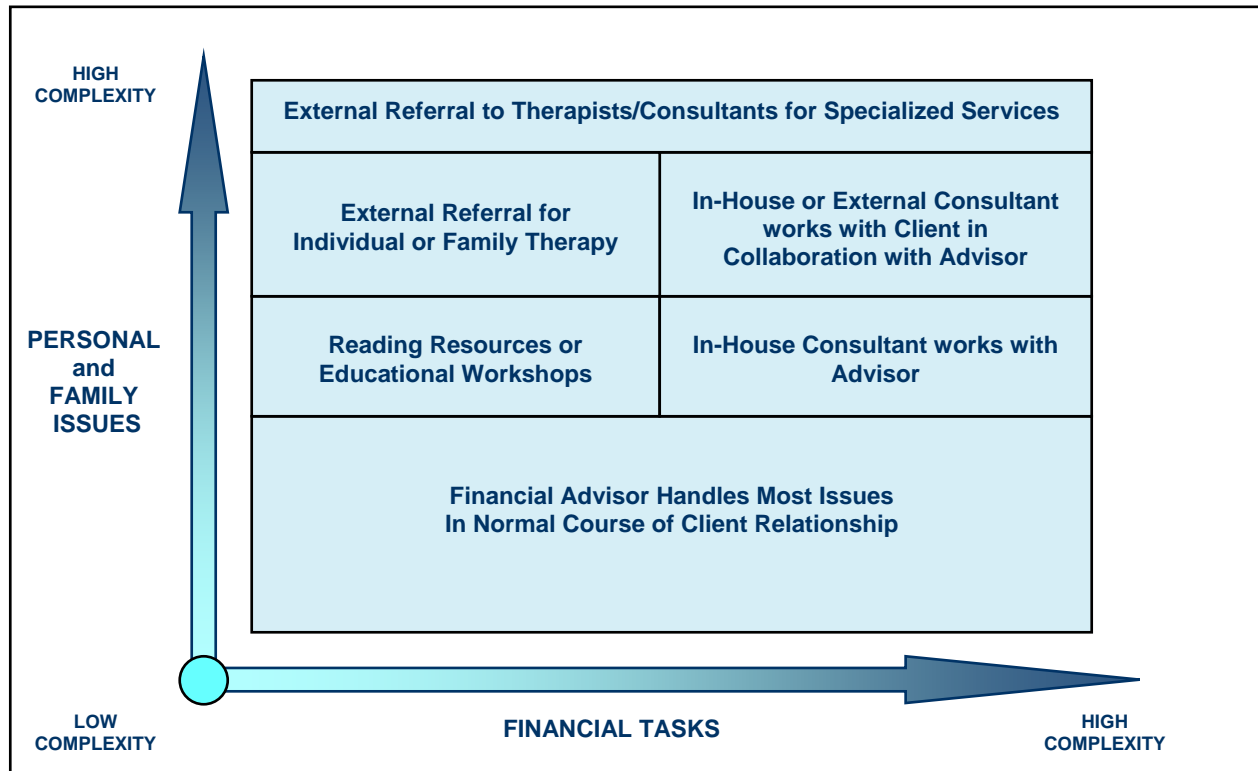
A client may be demonstrating at a given moment a high level of emotionality ranging from tears to anxiety to anger. Yet, just because a client is emotional does not mean the problem is difficult or severe. After all, human emotions are a normal part of most problem-solving and, when handled empathically, may be unlocked in the course of financial management. Clients' display of emotion can even signal that things are going well. Progress rather than disaster may be occurring, as in a widow's tears shed when she feels safe and understood by the advisor she must now count on. Managed competently within the advising relationship, problems can be prevented from escalating into a serious set of issues.

Inspection of Figure Two reveals that the presence of conflict, substance abuse, personality disorder, and/or family dysfunction is more important than simply whether the client is acting emotionally. Pathological conditions such as substance abuse or personality disorders certainly can impact the course of financial planning, but they are rarer than most psych-averse advisors expect. They are akin to poorly-designed trusts or a single low-basis stock concentration on the Financial Axis: matters that add to the complexity of the situation but do not thereby make the situation "pathological." Much of what happens in the financial advisor's office is simply within the range of the normal human condition. Handling these issues capably requires communication and relationship skills which increasingly are considered core competencies of financial advisors (Budge [2008]).

IMPLICATIONS FOR A SPECTRUM OF SERVICES

The Two-Axis Model not only explains the nature of client situations within financial advising, it points to an understanding of the spectrum of services necessary to appropriately address the needs of each client. This range of actions matches the level and locus of service to what the client needs. It also places the use of skilled counselors, consultants, and specialized programs at the correct level *in collaboration with the central role of the financial advisor at the core of the relationship* (Figure 3).

Figure 3. Spectrum of Services and Advisors



ELEMENTS OF THE TWO-AXIS MODEL

The Role and Responsibilities of the Financial Advisor: We believe a reasonably skilful advisor - adequately empathic and trained in communication skills – can listen for and handle many of the natural issues that arise in the course of financial management. The scope of the advisor’s work in counseling clients can be quite large if his/her skills are good. If one compares Figure Two with Figure Three, one can see that some of the matters the financial advisor might handle on his or her own might include such things as complex estate planning for a recent widow, financial skills training for an adolescent, and easing stress for the newly-retired couple.

Why do we emphasize the central role of the financial advisor?

- Relationship and communication skills should be within the normal skill set of financial advisors. Avoiding these issues is abdicating an appropriate role of the advisor.
- Clients often prefer to stick with a trusted advisor rather than to be told they need to take their problems elsewhere, no matter how kindly the referral is done.
- Referrals often fail due to the stigma of mental health counseling for many people, the sense of rejection experienced by the client from the advisor, and pragmatic issues such as extra cost or effort to see yet another professional.
- It is easy to say, “refer the client out to a good local therapist” whenever issues may arise. Unfortunately, a reality is that financially-adept therapists are rare due to several factors. Many therapists have their own issues with money, they are unaware of the literature and knowledge base in the psychology of money or wealth, and they appear too “touchy-feely” compared to financial advisors. Advisors are largely on their own in helping clients with many normal money-related stresses.
- We find financial advisors who are able to handle client’s personal issues well - within their level of competence - experience a significant increase in job satisfaction and personal fulfillment. Financial advising is a helping profession. When advisors see they can truly help clients with common human problems, they feel proud and capable.
- Being able to match resources accurately to what the client needs is efficient, providing an integration of services along both axes of complexity.

An advisor does not need to have master’s- or doctoral-level counseling skills in order to serve most clients well. Financial advisors can fulfill this role if they have learned basic aspects of the psychology of money and wealth, communication skills for working with individuals and couples, and self-management skills for handling the biases and sensitivities everyone brings to this work. The 2006 CFP Board addendum provides an excellent roadmap about training areas. A key competency is knowing not only when but how to make a referral to a mental health professional when personal or family issues are more complex than the advisor can handle. With backup by a local therapist for consultation and guidance, many financial advisors can improve their comfort, confidence, and competence in their advising role with clients.

Both authors have performed trainings of advisors within one large wealth management firm (Calibre, a division of Wachovia Wealth Management) and one author (JG) has provided training to many other wealth management and comprehensive financial planning firms. Remarkable improvements in advisors’ skills can occur with targeted training using a combination of didactic materials, roleplaying, and ongoing consultation and supervision to hone skills as experience deepens. The goal is to develop advisor’s skills toward a paraprofessional level, similar to what a good peer counselor in academic, mental health, or medical settings may learn. Many of the educational workshops and seminars offered at major conventions by the Financial Planning Association or National Association of Personal Financial Advisors help develop essential skills.

Resources Supplementing the Advisor Relationship: Educational resources are invaluable to supplement the advisor’s work with clients, yet these are often underutilized by financial professionals. Busy financial advisors often don’t have time to keep up on good educational resources for clients. Yet clients are often hungry for readings or quality local resources that are educational in nature rather than therapy-oriented. Clients today already seek information on their own through the Internet about raising financially responsible children, how to work out

disagreements over money, how to improve one's money personality, how to cope with sudden wealth, and how to change overspending habits. There are also an increasing number of educational seminars on topics such as teaching financial literacy to children and resolving couples' conflicts over money.

We encourage advisors to maintain a list of recommended readings, websites, and workshops about the topics of greatest interest to their clients. Some advisors keep a bookcase of favorite books and either offer these books to clients at cost or as a value-added service supported by the fee-based advisory charge. By using these educational resources in the client relationship, the financial planner/advisor brings trusted information from experts to clients needing more detailed information than the planner can offer. This can often handle personal or family issues so a therapy referral is either unnecessary or optional at the client's request. Educational resources can then be discussed within the advising relationship so the client gets the benefit of both information and personal attention.

Use of Therapists and Consultants: As the level of complexity increases along the Personal and Family Dynamics axis, the financial advisor needs to transition smoothly to engaging greater expertise from someone else. This is appropriate, responsible, and ethical. We endorse the recommendation that financial professionals should find and develop collaborative relationships with one or more local mental health professionals, just as they do with estate attorneys, tax attorneys, accountants, and specialist investment advisors.

There are three roles for a psychologically-trained therapist and/or consultant in collaboration with the financial advisor. One is the traditional role of providing individual, couples, or family therapy on referral. This may be the easiest to find, hard as it still may be. However, competency is needed to know when and how to make a successful referral in what is an anxiety-producing situation for many advisors. Many financial professionals fear a client's angry rejection of any hint a therapist may be recommended, followed by the slam of the office door as the client storms out, never to return. In reality, our experience is that distressed clients either already have a therapist, have considered the option themselves or upon the advice of a friend or family member, or are willing to take to heart an appropriate and well-meaning suggestion by a trusted advisor. We have coached advisors to deal with their nervousness, to know what to say when making a therapy referral, and to say it with skill after only one hour of discussion, teaching, and role-playing. This is a necessary competency for financial planners and advisors.

A few therapists provide a second service for planners: consultation to the advisor about client relationships and psychological aspects of money and wealth. With ongoing coaching and case consultation, advisors can improve their understanding of and capacity to help clients' personal issues at a more skilful level. Some advisors use psychological coaches for this role, some rely on consultation by the therapists they refer to, and a few larger firms retain the services of consultants for in-house consultation as needed by advisors. The burgeoning trend to co-locate therapists part-time in a financial firm benefits not only from ready availability of a trusted therapist for clients but easy access to hallway consultation for advisors themselves regarding puzzling, frustrating, or difficult client cases. This in-house consultation is invaluable to advisors as well as those front-line staff who may also be dealing with difficult clients. It also leverages the presence of the therapist efficiently. Every client the advisor contacts gets the benefit of increased expertise in the personal and family dynamics spectrum of the client relationship.

A third role represents true integration of services for the client's benefit. Financial firms with part-time or in-house mental health professionals may offer meetings where the advisor and the therapist are present together with the client to work on problems touching both the financial and the psychological in the Two Axis Model. A typical example is collaborating on changing overspending problems where one family member has addictive overspending and another family member has been enabling the problem. Changing entrenched patterns like this require a coordinated effort, sensitivity to strong emotional reactions, knowledge of addiction behaviors, and design of a practical yet firm financial plan that gradually moves the family toward more responsible behavior on everyone's part. Such an intervention requires both financial and psychological expertise in order to succeed. When clients see their advisors working collaboratively in a team approach, they often can make more progress than the tag-team approach where professionals work separately, sometimes at odds with each other.

Use of Specialists: Finally, the Two-Axis Model recognizes that accomplishing financial tasks can sometimes be trumped by truly serious and complex personal and family dynamics. At the highest level of complexity on the Personal and Family Dynamics axis, specialized services are required. Examples include professional substance abuse services for active alcohol and drug abusers, psychiatric and medication services for overspending clients with bipolar disorder, and experienced family dynamics consultants working with complex multigenerational families of wealth.

These situations are highly rare in most financial advisors' practice, though requests for family meeting services by affluent multigenerational families are increasing. When needed, specialized services are invaluable. It is the responsibility of the financial advisor to know when to recognize the need to employ such services and to know how to access them appropriately.

BENEFITS OF THE TWO-AXIS MODEL

Designing one's office practice consistent with the Two-Axis Model leads to many benefits:

- Clients get access to the broadest and most skilled spectrum of services for both financial and emotional needs.
- Individual and family dynamics are handled most efficiently using the right level of service for what is needed.
- Clients are supported in handling personal issues privately and independently, benefiting from good-quality reading and Internet resources for learning and growth.
- Advisors can help clients can develop and grow in positive ways without feeling a therapy referral is the only option when emotional issues arise. Healthy clients can be guided in achieving better integration with their values and their money.
- Clients get the benefit of having a central trusted individual to turn to for most advice or assistance, not having to develop new referral relationships unless appropriate or desired. When specialty help is needed, clients are able to choose to keep their advisor aware of and coordinated with other consultants.
- There is greater capacity by the advisor for developing long-term professional relationships with clients, their families, and their children. Continuation of the firm's advising relationship to the next generation may be enhanced.
- Use of external consultants occurs most efficiently, accessing consultation in a targeted manner integrated with the financial firm. There is less chance of consultants' work being at odds with the advisor's role or endless consultation without added value to the client or the firm.

SUMMARY

The Two Axis Model of Financial Advising provides a commonsense way to understand client situations along one range of complexity for financial matters and another range of complexity for personal and family dynamics. It predicts and prescribes a spectrum of interventions available to the financial advisor, while maintaining the advisor's central place within the client relationship. In doing so, it responds to advisor and client concerns about how to responsibly handle the personal and family issues that arise when trying to accomplish financial tasks. We encourage financial advisors to embrace their role at the center of the client relationship, while building in resources that help both the client and the advisor.

ENDNOTES

¹Undergraduate and/or graduate level courses covering both psychology and financial advising are currently known to exist at Bentley University, Texas Tech University, Kansas State University, and Saybrook University. There may be others elsewhere or in development.

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