Client psychology:
Financial Decision-Making and Financial Therapy

Kristy Archuleta, Ph.D., LMFT
HanNa Lim, Ph.D.
Kansas State University
Academic Disciplines of Client Psychology

- Behavioral Finance
- Education
- Financial Planning
- Human Sciences
- Clinical Psychology
- Cognitive Psychology
- Financial Therapy
Decision-Making Under Risk

• Is risk aversion level consistent
  – across one’s life stages?
  – across various dimensions?
  – across different situations?
  – between spouses/partners?
Prospect Theory

• What is loss aversion?
  – Risk averse when winning
    & Risk taking when losing (Kahneman & Tversky, 1979)
Prospect Theory

• How loss aversion is related with financial decision making?
  – Investment
    • Selling the winning stocks too soon and holding the losing stocks too long (Odean, 1998)
  – Life insurance
    • Term-life insurance ↓, Whole-life insurance ↑ (Hwang, 2017)
What Helps?

• More experience
  – Think like a trader
    (Kahneman, 2011)

• Make choices transparent
  – Broad framing &
    Long-term views (Lim, 2018)

• Emotion and cognition
  – No time pressure
    (Shiv & Fedorikhin, 1999)
Marital Bargaining Theory

• What if each spouse/partner has different risk attitude?
  – Household head
  – Average
  – Weight
Marital Bargaining Theory

• How marital bargaining power is related with financial decision making?
  – Investment
    • Husband’s bargaining power ↑ - Risky assets ↑
      (Friedberg & Webb, 2006)
  – Life insurance
    • Wife’s bargaining power ↑ - Husband’s life insurance ↑
      (Aura, 2008)
The Blind Men & The Elephant

It’s a Fan!

It’s a Spear!

It’s a Wall!

It’s a Snake!

It’s a Tree!

It’s a Rope!
Anxiety & Financial Planning

- Stress can be experienced psychologically & physiologically.
- High levels of financial anxiety may signal underlying psychological stress (Grable et al., 2017).
- Low anxiety may signal a need to “nudge” clients.
Financial Therapy

- Integrates cognitive, emotional, relational, and financial aspects of one’s overall well-being.

- A financial therapist helps clients to think, feel, and behave differently with money to improve overall well-being.
Family Systems Theory
Family Systems Theory Techniques

• Build Strong Client-Planner Alliance
  – Build relationships with all family members

• Assessment
  – Money Scripts, Financial Wellness, Financial Anxiety & Shared Goals & Values, etc.

• Goal Development
Family Systems Theory Techniques

• **Process versus Content Questions** (Nichols, 2008; Archuleta & Archuleta & Ross; Archuleta & Burr, 2015)
  – Ask everyone involved questions
  – What is the function of the problem?
  – What is getting in the way of their financial decision-making?

• **Financial or Money Genogram** (Mumford & Weeks, 2003; Archuleta & Ross; Archuleta & Burr, 2015)
  – Process questions can be asked as part of genogram
  – What does financial decision-making look like in your household?
  – How did your family of origin make financial decisions?
Family Systems Theory Techniques

• Find Common Ground
  – Use “I feel” statements
  – How are your values similar?
Checklist: What Do You Do?

1. Encourage clients consider their overall financial situation & well-being.
2. Encourage clients to make long-term commitments to investment policies.
3. Encourage clients not to monitor results too frequently.
4. Discuss the possibility of future regret with your clients.
5. Ask yourself if a course of action is out of character for your client.
6. Verify that clients have a realistic view of the odds.
7. Encourage clients to adopt different risk attitudes for small/large decisions.
8. Attempt to structure clients’ portfolio to the shape that they like best.
9. Make clients aware of the uncertainty involved in investment decisions.
10. Identify the aversion of your clients to the different aspects of risk, and incorporate their risk aversions when structuring an investment program.

(adapted from Kahneman & Riepe, 1998)
Checklist: What Do You Do?

1. Encourage clients consider their overall financial situation & well-being.
2. Encourage clients to make long-term commitments to investment policies.
3. Encourage clients not to monitor results too frequently.
4. Discuss the possibility of future regret with your clients.
5. **Ask yourself if a course of action is out of character for your client.**
6. Verify that clients have a realistic view of the odds.
7. Encourage clients to adopt different risk attitudes for small/large decisions.
8. Attempt to structure clients’ portfolio to the shape that they like best.
9. Make clients aware of the uncertainty involved in investment decisions.
10. Identify the aversion of your clients to the different aspects of risk, and incorporate their risk aversions when structuring an investment program.

(adapted from Kahneman & Riepe, 1998)
Checklist: What Do You Do?

1. Encourage clients consider their overall financial situation & well-being.
2. Encourage clients to make long-term commitments to investment policies.
3. Encourage clients not to monitor results too frequently.
4. Discuss the possibility of future regret with your clients.
5. Ask yourself if a course of action is out of character for your client.
6. Verify that clients have a realistic view of the odds.
7. Encourage clients to adopt different risk attitudes for small/large decisions.
8. **Attempt to structure clients’ portfolio to the shape that they like best.**
9. Make clients aware of the uncertainty involved in investment decisions.
10. Identify the aversion of your clients to the different aspects of risk, and incorporate their risk aversions when structuring an investment program.

(adapted from Kahneman & Riepe, 1998)
Dank je wel!

ipfp.ksu.edu
Shared Goals & Values Scale

1. We have similar financial goals.
2. Our hopes and aspirations as individuals and together for our children, for our life in general, and for our old age are quite compatible.
3. We have similar values about the importance and meaning about money in our lives.
4. We have similar values about “autonomy” and “independence.”

1 = Strongly Disagree; 7 = Strongly Agree
Financial Anxiety Scale
(Archuleta et al., 2013)

1. I feel anxious about my financial situation.
2. I have difficulty sleeping because of my financial situation.
3. I have difficulty concentrating on my school/work because of my financial situation.
4. I am irritable because of my financial situation.
5. I have difficulty controlling worrying about my financial situation.
6. My muscles feel tense because of worries about my financial situation.
7. I feel fatigued because I worry about my financial situation.

Scale: 1 (Never) – 7 (Always)

Cronbach’s alpha = .94
Common Factors for Client Change
(Miller et al., 1997)

- Extratherapeutic Change (40%)
- Relationship Factors (30%)
- Hope and Expectancy (15%)
- Therapeutic practices and modalities (15%)

- Is advice giving what we should be doing for our clients?
Financial Therapy

- Theory-based practices applied to financial therapy.
- General counseling skills and techniques.
- Basic financial knowledge and skills.
- Ethics and standards in financial therapy.
- Money and relationships: Working with complex systems in financial therapy.
- Understanding diversity and culture in financial therapy.
- Mental health diagnoses and financial therapy.
- Evaluation of research in financial therapy.