Practical Perspectives that Make a Difference

by Maggie Baker, Ph.D.

Know the best tools for staying tuned in to your clients' changing circumstances.

AS A PSYCHOLOGIST AND financial therapist, I work with the constant ebb and flow of people's lives. As financial planners and advisors, so do you. Plus, you have to react to risk and volatility in your clients' lives as well as in the financial markets. I'm sure that many financial advisors would love to have less change. The stability of low risk and low volatility would make decision making simpler. But change is inevitable—and not necessarily in anyone's total control. I offer some ideas that can help you, as a financial planner or advisor, to better anticipate your clients' reactions to major life changes.

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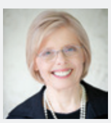
The areas that most likely affect your clients' money situations are health problems, divorce, death and retirement. What causes stress for people is any change that disrupts the structure and rhythm of their daily lives, even good change. Take, for example, Joe. At age 53, he was fit and engaged in an absorbing professional and family life. Biking one day, Joe fell off his bike and sustained a severe concussion and hurt his back.

Stunned, he was reduced to no activity and severe pain that lasted for several months. He and his family were overwhelmed. His financial advisor was thrown into a state of uncertainty because no one knew how long Joe would be incapacitated. Unlike most families these days, his wife was a stay-at-home mom and didn't take care of the finances. Joe consulted his financial advisor, who, after listening to his story, encouraged him to engage with his wife to estimate his current and future medical costs, and to estimate how long he would be out of work.

Another common major financial change happens when clients divorce. Depending on the contentiousness of the divorce, the age and number of children and the couple's assets, a divorce can be a nightmare for even the most skilled advisor. If the divorce is complicated, the process can get drawn out. And couples may perceive their advisor is taking sides even when she/he has proclaimed neutrality.

Take the example of Kevin and Dawn. Kevin earned a good living teaching at a prestigious university. He and Dawn lived with their two children in an affluent area near the university. Dawn insisted they have the best of everything. Kevin worried about their growing debt, but he was scared to disappoint his wife and children. He avoided dealing with his finances and began to fudge the truth



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to his financial advisor. When Dawn realized how stuck and irresponsible Kevin had become, she filed for divorce.

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Although death might seem to be the most difficult of changes for an advisor to handle, retirement often presents even greater challenges because of the number of factors, some known and some unknown, that can affect retirement. An example: Sue and Don both had good-paying careers. They had been vigilant about their spending habits and systematic about saving for retirement. They were a financial advisor's dream! As Sue and Don neared age 60, their college-age son contracted dystonia, a serious neurological disorder. At the same time, Sue's parents, now in their 80s, confessed that they had been gambling away much of their retirement savings and would need help. Sue and Don had planned to retire from their demanding careers at 62, given the stress their work created. All the work they had done with their advisor had been geared to a specific retirement age. This dream was now no longer possible, given the added expenses of their son's illness and Sue's parents' needs. All the planning in the world could not have foreseen the events that befell Sue and Don.

When bad things happen to good people it is only human to both sympathize with their misfortune and feel the urge to avoid confrontation of it. The push and pull of these feelings can often delay a call to your client because you may have to deliver bad or at least disappointing news to them. Of course, those very stressful times are exactly when your clients need the most support and empathy, not just sympathy. Being empathetic, clear and direct about the financial consequences of a change in your client's circumstance may not be what they want to hear in the moment. In the long run, however, telling them the truth will build trust, the *sine qua non* (the indispensable mark) of a well-functioning client relationship.

As a psychologist and financial therapist, I can offer another important piece of guidance: Get to know a self-administered stress test called the Holmes and Rahe Life Change Scale Stress Test. This simple-to-administer paper and pencil scale (also available online) lists 41 life events and you are asked, "What events have happened to you in the past 12 months?" The assigned values of each life stress event (Life Change Unit or LCU) checked off are added up. The test's creators, Holmes and Rahe, found that individuals scoring below 150 were much less stressed and had a 35 percent chance of an illness or accident within the following two years; a total of 150-300 predicted a 51 percent chance and over 300 between an 80 and 90 percent chance of an illness or accident within the following two years.

This easy scale can give you an indication of what kind of stress level your clients are living with. If they are in the 300 LCU group, you can expect a high probability that they will suffer illness or accident within the following two years if they do nothing to reduce the stress. On the other hand, if their score is very low, they are living with stress levels they can manage well. A low score reduces some important risk factors that create instability and volatility.

Another benefit of giving your clients the Holmes and Rahe Life Change Scale Stress Test is that it will convey your concern with your client's lives and show that you are engaged with them and looking out for their best interests.

To illustrate the usefulness of the Holmes and Rahe Stress Scale, consider Hal, aged 48. How did he get a total of 374 points putting him at serious risk of poor health and vulnerable to an accident? Let's start with his leaving his wife and three children to live with another woman. Efforts at reconciling with his wife boomeranged him back to his lover. His finances were strained because his new business wasn't growing fast enough. He was chronically concerned about his children's welfare, but unhappy when he returned home to them. To top Hal's story off, he had gotten very good at having an upbeat air about him so no one would ever guess how stressed he really was.

Knowing the results of the Holmes and Rahe Stress Scale will help his financial advisor get a snapshot of Hal's distress level. His advisor can show that he understands how much stress Hal is under and offer suggestions, including the common sense reminder that checking in with his doctor might be warranted. The overall effect of better understanding your client's life stressors will strengthen your relationship with them and build trust.

Another effective tool you can offer clients under change and stress is perspective. It is easy for clients to get lost in the immediacy of difficulty. As the advisor, you can maintain perspective and more easily see eventual outcomes your clients may know are possible but cannot relate to in their immediate confusion and panic. For example, Susan, the main breadwinner in her household, just got laid off. She and her stay-at-home husband (looking after two small children) panicked. When would she find another job? Fortunately, she got a good severance package and they had a three-month emergency fund. In helping them see that their situation was short term and holding their hand through this rough patch, their trust in their advisor will increase.

There may be times when you feel overwhelmed by the responsibility you carry for your client's welfare. When this occurs, you may find yourself going to the extreme of either becoming too involved in your client's difficulties or too detached. If this happens, it is wise to seek the wisdom of a more seasoned advisor, a mentor or even a therapist (www.financialtherapyassociation.org) if all else fails.

A critical goal for all financial advisors is to understand your client well enough to mutually engage with them and map out an effective strategy to deal with changed circumstances, be it a change in health, marital status, death or retirement. Accurately communicating the strategy can calm clients down. One thing you really don't want is for an anxious client to act based on fear.

Decisions made in anxiety states are usually foolish. Understanding their changed situation, being straight with them about the reality and giving them thoughtful advice, will in and of itself lower their anxiety. The best financial advisors aren't only technical wizards. They are also people who deal with upsetting circumstances and emotions that are always a part of the change process. Likewise, advisors can have too much change in their lives which can affect the advice they give to clients.