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Grasping Client Personalities When Volatility Hits

Behavioral coach cites four investor personality types

By: Daisy Maxey
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Whether the highly anticipated interest-rate hike arrives this year or next, it's not too late for financial advisers to begin preparing clients for the likely aftermath: market volatility.

Stock and bond markets could suffer a shock when the Fed finally de-ices short-term interest rates, and how investors will react depends partly on their risk tolerance and how well they're prepared.

For advisers, it's crucial they understand what motivates each client, and how each one is likely to behave so they can take steps now to ready them for the market's gyrations, says Hugh Massie, president and founder of DNA Behavior International in Atlanta, a behavioral intelligence firm.

If advisers are successful, they'll likely stave off panicked portfolio shifts that could derail financial plans.

There are four primary investor personalities, although some investors have a mixture of traits from different personality types, Mr. Massie says:

4 Different Communication DNA Styles
Communication keys for behaviorally smart conversations

Communication Style	Strengths	Struggles	What They Want
Goal-Setting (allow them to discuss it)	Speaks directly and candidly	Could be too forceful, abrupt, interrupting	Provide options, get to bottom line, present opportunities
Lifestyle (allow them to see it)	Open and engaging	May be too transparent and uninhibited	Openly express views, verbalize, provide broad facts
Information (allow them to read it)	Provides specifics and details	May be too serious, modest, not interactive	Provide facts, provide specifics, demonstrate transparency
Stability (allow them to feel it)	Shows empathy and warmth	May compromise too much and be too diplomatic	Keep it relaxed, speak softly, share your feelings

Source: DNA Behavior

1. The Goal-Setting Investor:

These clients always keep an eye on their goals—funding for college, vacations, a dream home or retirement—and consider how they can achieve them. They prefer to maintain a high-level conversation with their adviser about their investment options, and don't want to be handed off to an underling.

"They're going to speak very directly and candidly, and will want to be spoken to in that way," Mr. Massie says.

Such investors will express more optimism about the future than others, and may see a market decline as an opportunity. But they're also prone to taking more risks than others.

Adviser's Approach:

Advisers may have to rein in these clients to ensure they don't jump into the market when it's too expensive. Encourage them to set some assets aside so they can take advantage of market opportunities.

"For them to realize that tomorrow, when stocks are down, there might be a bigger opportunity, you've got to have that conversation around growth, and getting to their longer-term goal," Mr. Massie says.

When the market plunges, such investors aren't likely to need as much hand-holding as others, but advisers should remind them of the strategy they have in place to achieve their goals.

2. The Lifestyle Investor:

The primary concern for these clients: Maintaining their lifestyle. Their social image is very important to them; they like to entertain and connect with others via social-media networks and in person.

But they can fall victim to the herd mentality, buying or selling when others are doing the same, and doing so emotionally. Some may also spend too much, jeopardizing their wealth and long-term financial plans.

Adviser's Approach:

Advisers must set very clear boundaries, including a decision-making framework, to ensure lifestyle investors make thoughtful—rather than instinctive—choices. Their investment strategy should be clearly detailed in a policy statement, including a pledge that the client won't make investment decisions without first consulting his adviser.

Such investors need to see and understand how their investment strategy will protect their lifestyle. Before a downturn, it may be helpful to use graphics to illustrate that.

If such a client is in a good-quality portfolio before a downturn, his adviser should then remind them that the strategy will protect their lifestyle.

Advisers should meet with them in person, and, as with all clients, remain calm and optimistic no matter how much market volatility ensues. Such a client is most likely to become anxious and fearful if he or she senses that the adviser is concerned.

Hugh Massie Photo: DNA Behavior International

3. The Information Investor:

These clients make decisions based on detailed information; they may want to study the pattern of market movements and see where they are in relation to that pattern, for example.

"They're your engineer," Mr. Massie says.

While they share some traits with goal-setting investors, they don't like surprises and seek to minimize risk. As a result, they may prefer products that offer some level of capital guarantee, and advisers should emphasize that quality in investments.

"They will take risk, but it needs to be calculated," he says.

Adviser's Approach:

During a market downturn, detail-oriented investors will look to their advisers to emphasize how their investment strategy will minimize the risks. Advisers should be prepared.

Clients who focus on detail will also expect their advisers to show them technically where the market is relative to other markets, how it's fared in similar environments, etc. Advisers can often communicate with such clients via email, as they tend to be do-it-yourself investors.

But they may also be inflexible, sticking with a set strategy even when it means missing an opportunity when the market calms. Advisers must give them the information that will underscore those opportunities.

4. The Stability Investor:

These clients tend to focus on their family and community—and they're the most risk averse of any investor. While it's understood that losses are twice as powerful psychologically as gains, for these investors losses might be 10 times as powerful, Mr. Massie says.

Advisers should bring these investors into their office and explain investing generally as well as their investment approach—keeping the discussion simple and uncomplicated. While it's easy to build trust with such clients, it's also easily lost if an adviser doesn't act quickly and isn't warm and approachable

Like the detail-oriented investor, these conservative investors look for protection, but they want to eliminate risks where possible rather than just minimize them.

"It's not realistic, but that's what it is; they can get very emotional," Mr. Massie says.

Life insurance is one tool that can help preserve capital, and should be discussed.

Adviser's Approach:

When a downturn hits, an adviser should meet with or call this type of client right away, and make it clear that there's nothing to be afraid of.

"If the adviser doesn't ring them pretty quickly in a warm and confident way, they're going to get really scared," says Mr. Massie.

Advisers should emphasize that their investments offer some protection and that their portfolio "isn't going to be blown up," he adds.

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