

Financial DNA® White Paper Discover Investment Impact Risks

"How I got here is pretty simple in my case. Its not IQ, I'm sure you'll be glad to hear. The big thing is rationality....It gets into the habits and character and temperament, and behaving in a rational manner." - Warren Buffet

Have you ever wondered why you do not achieve the same investment returns as others? What is driving your decisions? Are you blaming the markets or others for your results?

A starting point is that you should be addressing your behavior and how it impacts your financial decisions. A statement I have been making to many people for the last 10 years is: "Investment markets cannot be controlled, but how you manage your reaction to them can be".

Generally, for most investors the reason that they obtain returns which are on average 6% lower than market returns is because of their behavior. Investors generally make poor investment decisions because of their reactions to events and also to their own life circumstances. This can be because they do not know who they are or how to manage their emotional impulses which are driven from how they are wired to behave. The message to be emphasized is that successful investing is about managing your behavior.

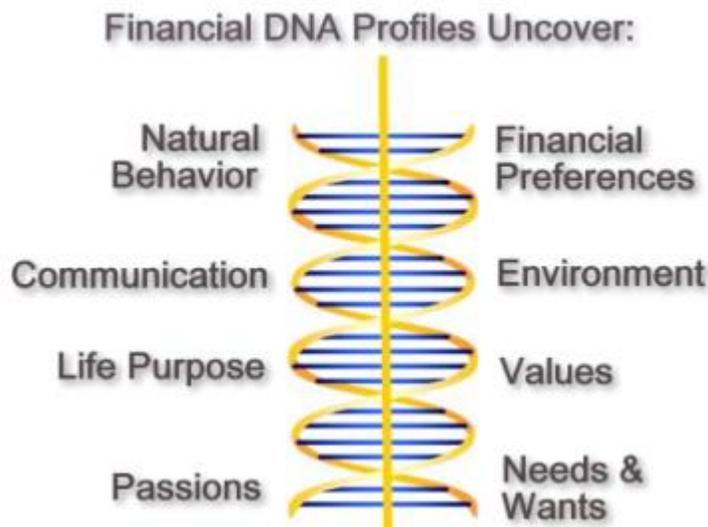
If you are an advisor, it is about predicting and managing your client's behavior and also managing your own behavior. So when you talk about managing investment risk, what you are really talking about is managing BOTH human behavior and the market risks. This is fundamental to the value proposition for obtaining advice from an advisor. Clearly, it is important that the advisor also has a high degree of financial emotional intelligence. This being the ability to control his/her emotional impulses and empathetically address his/her clients needs.

Traditionally, when risk is talked about in investing, everyone talks about market risks and to some degree investor risk tolerance. The reality is that there are so many more risks which need to be addressed which all have an impact on the investment decisions made. These additional risks are behavioral. To make the point, we have prepared the following table which highlights many of the "Investment Impact Risks" that can influence investment decisions and ultimately the investment returns a person achieves. This is what needs to be managed.

Financial DNA®
 Summary of Investment Impact Risks

Investor Behavior Risks	Advisor Behavior Risks	Market Risks
<ul style="list-style-type: none"> • Low Self Understanding • Emotional Decisions • Speculative Euphoria • Fear or Greed • Panicky Capitulation • Depression or Optimism • Money Memories • Financially Illiterate • Stupidity • Lack of Patience • Procrastination • Lack of Discipline • Poor Relationships • Lack of Clarity or Life Goals 	<ul style="list-style-type: none"> • Same list as investors, plus • Advice Bias • Poor Investment Analysis • Failure to Listen • Weak Implementation • Oversell Performance • Conflicts of Interest • Poor Communication • Lack of Investment Discipline • Poor Ethics and Values • Business and Life Instability 	<ul style="list-style-type: none"> • High Volatility • Low Liquidity • Unstable Interest Rates • Fluctuating Currency • Poor Economy • Regulatory Changes • Political instability

So, there is a very strong case for every person to have behavioral guidance from an advisor no matter how knowledgeable or experienced they are with investments. The behavioral guide or what we call a "wealth mentor" needs to have a true understanding of a person's Financial DNA which is their financial behavioral style. The Financial DNA is shaped from genetics, early life experiences and then overall life experiences, values and education. At a broad level, the behavioral information that needs to be discovered is in the following categories of information, as they all impact the investment decisions made in some way.



The reason we advocate that investors and advisors (the behavioral guide) complete behavioral profiles early in the advisory process is because they provide objective and measurable insights into the complete financial behavioral style on a holistic basis. With a good behavioral profile, not only is the risk tolerance discovered, but also completely who the person is at a much deeper level than what any normal person can reliably do on their own. You truly get below the surface. Remember, no matter how evolved you are personally, we all have blind spots and biases. Very often clients "eat" the behavior of the advisor. So, the advisory process becomes dangerous if the advisor is not aware of his or her blind spots. Which ever angle you come from they all lead to the point that investment risks are rooted in human behavior.

Start Discovering Your Investment Impact Risks

To learn more about who you are and the investment impact risks that may affect your financial decisions then we suggest you do the following:

- Complete the Financial DNA® Core Life Motivations profile to gain objective insights into your natural instinctive behaviors and how this will influence your financial decision-making.
- Complete the Financial Directions Profile to gain greater insights into your financial preferences and aptitudes.
- Review the Financial Behavior Analysis and Inside-Out Portfolio that we prepare based on your profiles to assess the degree to which you are making decisions in alignment with who you are and to help you identify potential blind-spots that are impacting your decisions.
- Show your financial advisor or one of our Certified Wealth Mentors your Financial DNA Profile reports. This will enable them to guide you through making financial decisions with far greater clarity. Also, ensure you show your spouse, family and other associates.

To review sample Financial DNA reports, [click here](#).

If you would like more assistance with understanding your financial behavioral style, please contact us at wealthmentoring@financialdna.com

For more insight into how to build your practice using a behavioral model, please read Hugh Massie's book "[Financial DNA: Discovering Your Unique Financial Personality for a Quality Life](#)".