Manulife Investment Management

The roller coaster of investing behaviour webinar

Catherine Milum:
Well, welcome everyone. I'm very happy to be hosting this event today.

If you've never met me, my name is Catherine Milum and I'm very proud to be the Head of Wealth Sales here at Manulife Investments.

What's great about today is we have advisors from across Canada attending the call and also across the United States, and that's through our partnership with John Hancock Investments.

So, welcome to all of you.

Just a bit of housekeeping, yes, we will be offering CE credits.

As you know, it usually takes about eight weeks, and we will notify you so that you're able to receive those CE credits.

And also, you'll notice at the bottom of your screen, there is a place that you can actually ask questions during the conversation that I'm going to be having with our guest speakers.

So, what I'm going to ask you to do is submit these questions through the Q&A window and I'll be kind of multi-tasking it, looking for your questions and peppering those in with some of the prepared questions I have today.

We may not get to all of them, okay? Because I have a lot of prepared questions.

So, if we don't, what we're going to do is we are going to follow up with those questions and send those out to all the participants.

So, why are we here today? <00:01:25> Well, overcoming investor challenges during the pandemic, I would say, has been tough at best.

We've watched our clients, we've watched people swing from panic to over-confidence to panic, and probably back and forth many, many times over a short period of time.

So what we wanted to do today was to help you understand why, and then we want to give you some recommendations that are based on behavioral economics, which is grounded in the science of decision-making.

We want you to be able to maintain the client relationships you have, hopefully build on them, and possibly even gain new client relationships as a result of what you're going to learn today.

So, in order to do this, we had to bring in the best of the best, there's no doubt.

Luckily, we have formed a great partnership with a firm called BEworks.

Many of you probably know David Lewis from a lot of the research we've been doing and also the advisor meetings.

What BE does is they harness the power of behavioral economics to solve problems.

I think we've got a pretty big problem with investor behavior, so that's what they're doing here today.

What's really great is we're really fortunate that we have the founders of the company here today, and as well as David Lewis, as I mentioned, their Chief Client Officer.

So if you don't know the founders, well, they're kind of famous people.

Kelly Peters, first of all, is the CEO and Co-Founder.

Dan Ariely is also the Co-Founder and Chief Behavioral Scientist.

I'm actually going to throw up a book.

Going to give you a little plug, Dan.

This is one of my favorite books.

Really easy to read and something I think most advisors, if not all advisors, should be reading to help you understand client behavior better.

As you could see, it's called Predictably Irrational.

You know, I was talking about Dan and Kelly and David earlier to a colleague of mine, and what I said was: they're actually three of the most fascinating people I've ever met.

They're interesting, they have high empathy, and they know their stuff.

They're the people that you want to have at the dinner party, right?

If there's an empty seat beside you, you want to have Kelly, Dan, or David to really participate in a great conversation.

So what I'm going to do now is, as I said, many of you know David, I'm going to pass the call over to David because he's going to talk about something they're working on with a research institute.

Then the flow is going to go over to Kelly, where she's going to talk a little bit about our partnership.

Then we're going to move back, we're going to bring you back, and we're going to start with the questions.

So, David, over to you.

David Lewis:
Thanks, Catherine.

Catherine, Dan, and Kelly are going to be presenting some very interesting research today and it comes out of a partnership with Manulife, but it was done through the BEworks Research Institute for Financial Decision-Making.

The focus there is on financial decision-making broadly: saving, investing, insurance, and borrowing decisions.

Much of the existing research that is out there on judgment and decision-making in a financial context is founded on traditional economic assumptions that we're all rational utility-maximizing decision-makers, so we're calculating and analytical and goal-oriented and consistent.

And the simple fact is that that doesn't accurately describe the way we make decisions, let alone financial decisions.

In a lot of today's discussion, you're going to see insights based on behavioral science, so different assumptions with respect to how people make decisions.

BEworks, by launching this research institute, is interested in enhancing our understanding of the impact of behavioral factors on financial decision-making.

That's going to be of interest to regulators for evidence-based policy, financial institutions for empirical research on technology and tools and tactics, but it's also going to be very useful for financial advisors to help them help their clients more and assist in making more optimal decisions.

That's everything from understanding perceptions of risk to understanding how people overcome the say/do gap: the difference in what people say they do versus what they actually do.

A lot of the research that you're going to hear about today is actually going to come out in a white paper to be released Monday, October 26th, that will have a lot more details.

I think Catherine and Dan and Kelly will give you some interesting information today, but you'll be able to delve a lot deeper on October 26th.

With that said, I'm going to pass it over to Kelly Peters.

Kelly Peters:

I'm so happy to be here, and I'm definitely happy to be here with my amazing partners, Dan Ariely and David Lewis.

We've had so much fun, and it's been absolutely incredible working with Catherine.

I've never seen anyone so passionate about the investors.

And you hear that often, right, from bankers, we're all proud of our clients and representing their best interests.

But the thing about Catherine is she also cares about the financial advisors in ways that I've never seen before, and she is very committed to excellence in professional development.

And so, I'm so proud of our partnership.

I get to work with Catherine regularly and not only is she fun, but she's insightful and inspiring.

I'm thrilled to be able to publicly talk about our partnership, and kind of where we're really starting our journey is this issue of just conveying how important it is to recognize that financial advice is not just about the right products and the right plans and, you know, doing this optimized allocation for clients.

It's about giving them advice in a way that helps them follow it.

So it's not about the calculations, it's not about the algorithms.

The really hard part in all of this is getting people to listen to your advice.

I think Catherine and I would say we're very much at the beginning of a complicated journey, but I've been going through our white paper and the data, and we've got some really interesting findings that I'm excited we're kind of premiering these findings before the white paper, and that's what we're going to cover today.

So, with that, over to Catherine.

Catherine Milum:

<00:08:39> Okay, that's great.

<00:08:40> Well, listen, we were going to save the Q&A to the end, but I have a comment from Alexander that I wanted to share with both of you, because it's pretty cool.

<00:08:51> "It's insane we can listen and learn from such amazing people for free.

<00:08:55> Thank you for this opportunity.

<00:08:57> First time I'm watching Dr. Ariely live and I'm humbled.

<00:09:02> All the best to both of you." <00:09:03> Okay, all right. If that doesn't get you fired up.

Dan Ariely:

<00:09:07> I would have been more impressed if this comment came after we talked, not before.

Catherine Milum:

<00:09:12> Yeah, well, that's to put the pressure on, Dan.

<00:09:14> That's to put the pressure on.

<00:09:16> All right.

<00:09:17> Our first question is for both of you, so for Kelly and yourself, Dan.

<00:09:23> Maybe to get it started is, why is it so important for financial advisors to care about behavioral science? <00:09:31> Why should they care? <00:09:33> Kelly, maybe you can answer that first.

Kelly Peters:

<00:09:36> Well, I think the short answer is there's so many counterintuitive insights that we have to take into consideration.

<00:09:45> These are things that are really hard to see.

<00:09:47> We see the world the way we want to see the world.

<00:09:51> It takes a kind of outside opinion to help us have a more objective view.

<00:09:55> And behavioral science is that objective view for advisors.

<00:10:00> It's an objective view for helping them understand the biases that are shaping investor behavior and it's helping provide different ways to communicate to their clients.

<00:10:11> So this is where it becomes very revolutionary, is there's things that work that you wouldn't expect to work.

Dan Ariely:

<00:10:19> So, if I would take the same question, okay...

<00:10:23> First of all, I guess I need to answer something else before I do that, because I see the Q&A and Maria is asking: why is Dan's beard half-shaved?

<00:10:34> It's not half-shaved. I only have half a beard.

<00:10:34> I was badly burned many years ago and most of my body is covered with scars, including this side of my face.

<00:10:45> Because of the scars, there's just no hair, so it looks sort of symmetrical.

<00:10:49> It's nice that you ask, because I know that unless people – I clear it up, up front, people keep on wondering what's the point of this half beard.

<00:10:57> There's no point.

<00:10:58> We can continue.

<00:10:59> Okay, so the question was, why should financial advisors care about social science?

<00:11:06> I think there's kind of two reasons, two main reasons.

<00:11:12> The first one is that we all need to understand ourselves.

<00:11:17> If you think about the role of a financial advisor, is you go, you meet with people, you try to figure out how to talk, how to persuade, how to get people to take action.

<00:11:26> You're a learning machine.

<00:11:28> Now, if you're perfectly rational and you're learning perfectly, no problem.

<00:11:32> But if you have some biases, if there are some things you're not learning or not able to learn or not even able to test because you don't know even to test it, that would be really important to know, right? Honing your craft.

<00:11:46> We'll tell you some mistakes that financial advisors seem to be doing when we look statistically about lots of things.

<00:11:53> The second thing is that you have people on the other side of your persuasive attempt, like trying to communicate with people, explain things to them.

<00:12:03> If you think about, for example, one thing outside of the financial domain, think about trust.

<00:12:09> At the end of the day, you can explain whatever you can explain.

<00:12:12> Somebody will need a lot of trust in you, right? <00:12:17> Not only would they need trust for the day when they sign the papers and send you money, they will need trust in your advice later on.

<00:12:27> How many of you had clients give you a certain risk attitude? <00:12:31> "Oh, I'm willing for the market to go up 20% and I will not sell anything." <00:12:35> And then go down 20% and they will not sell anything.

<00:12:38> And then the market goes down by 5% and they call stressed and they say, "Sell everything." <00:12:43> Maybe it's not 20 and 5 but, you know, I'm sure you had that experience.

<00:12:50> That's a question of memory.

<00:12:52> Do they remember what they said? <00:12:53> And trust in you.

<00:12:55> The process you got them through the first time is the relevant process.

<00:12:59> Now, all of you are probably puzzled, how could it be if they told me they are going to take a 20% loss, then they call me, they tell me that they're not? <00:13:06> Well, maybe they don't remember what they said and maybe they don't trust the process that you said before.

<00:13:13> Because even if you told them, “Hey, you told me that up to 20% you’re willing to lose.” <00:13:18> And maybe they don’t trust that system anymore. So it’s trust in you, it’s trust in the system.

<00:13:24> So, I think those are the basic reasons.

<00:13:26> You have to understand yourself if you want to get better, you have to understand what you could do better.

<00:13:31> For example, how would you build trust? <00:13:33> Then you have to understand the other side, because eventually you’re in the business of getting to change people’s behavior.

<00:13:40> That’s why it’s shocking to me that you are not all experts already.

Catherine Milum:

<00:13:47> Again, that’s why you and Kelly and David are here.

<00:13:50> So, you talked about something right at the beginning, Dan, and that was about biases, right.

<00:13:58> We talk so generally about biases, but what are some of the key biases that you see that are affecting investors?

Dan Ariely:

<00:14:09> Kelly, you want to take it first, or should I?

Kelly Peters:

<00:14:11> Let me talk about a couple of the ones that we looked at in this study and then, of course, Dan, I think you might know one or two more.

<00:14:23> I think one of the ones that is very disconcerting is this issue of over-confidence.

<00:14:32> One of the things that’s particularly useful about this bias is it’s kind of easy for us to measure.

<00:14:39> We’re able to give people just objective quizzes of their knowledge of the markets, and just basic elements of how markets function and then some elements of financial literacy, just to see how they can make… their performance on these simple questions.

<00:14:57> They’re not even that hard.

<00:14:59> And then the other thing that we’re able to do is ask people how they feel about their financial literacy and their investment knowledge.

<00:15:08> So, these are very straight-forward questions.

<00:15:10> We're able to ask people: do this objective evaluation of your skills and knowledge, tell us how you feel, and voila, now we have the ability to create a two-by-two matrix.

<00:15:21> How strong is their objective knowledge and how strong and secure are they in that knowledge? <00:15:28> It turns out that there's a lot of people who fit into this really awful corner, which is people who are over-confident in their ability.

<00:15:36> They feel very comfortable with what they know. And yet, they do horribly when they're evaluated on their objective knowledge.

<00:15:44> That's the group that tends to respond the least to financial advice.

<00:15:50> So this issue of over-confidence and understanding who is the client that's sitting in front of you is incredibly important for helping shape that advice in a way that they will adhere to it.

Dan Ariely:

<00:16:07> If I would add to that.

<00:16:11> This isn't data from the US, but we did a lot of secret shopping with financial advisors.

<00:16:20> One of the things that we found that they did not have an appreciation for is for getting people to act quickly.

<00:16:29> In our sample, most financial advisors would meet clients multiple times and they would wait until they got the right answer.

<00:16:36> Give me all your documents, I'll calculate things and let's wait until I can give you the perfect answer of what should be your portfolio.

<00:16:45> When, in fact, they would've done much better if they could get people to do something after the first meeting.

<00:16:52> Because by delaying, by creating lots and lots of meetings, they think they're building confidence, but what they're doing is they're repeating a pattern of not making a decision.

<00:17:03> Whereas if after the first meeting with the client, you said to them, "Okay, for sure you need to open your kid's college savings account, let's do that now", you will get your foot in the door – we'll talk about this later – and you would get people to take an action with you.

<00:17:18> Delaying it for longer is not helpful.

<00:17:21> So that would be number one.

<00:17:23> People don't have sufficient appreciation for how important it is to take action and quickly.

<00:17:30> The second thing – and this connects to Kelly's notion about over-confidence – is that financial advisors seem to be displaying competence, throwing out numbers, trying to say, "look at me" – I'll do the macho approach.

<00:17:50> "Look at me, what complicated things I can do."

<00:17:54> Where what they don't understand is complexity frightens people.

<00:17:59> There's a study that shows that people, for example, prefer to invest in companies that they understand their business model.

<00:18:08> You know, me understanding Apple's business model had nothing to do with Apple's profitability, but people feel more comfortable with it.

<00:18:17> When you explain things to people in a sophisticated way that says "you clearly don't understand it," more people become hesitant in investing.

<00:18:28> So people have the theory that this would be an effective way to build trust.

<00:18:33> In fact, it's a great way to frighten people about what's going on.

<00:18:41> Then, if I have to think about another one that investors all have, that's called the anchoring effect.

<00:18:54> We all feel a little bit too committed to the price of the stock we bought something at.

<00:19:00> By the way, the same thing is true for houses.

<00:19:02> Like if you bought a house at $500,000 and now the best offer you get is $490,000, you would not feel good about it.

<00:19:11> Maybe you will keep the house for another six months hoping that you will sell it and in the meanwhile, of course, you pay utility and taxes and all kinds of other things.

<00:19:19> We get anchored to a buying price, which is true for housing and it's true for stocks, and it's true for clients, it's true for advisors.

<00:19:32> There are many more, but we'll stop here for now.

Catherine Milum:

<00:19:37> There are very many more.

<00:19:39> Many, many more.

<00:19:40> Okay, we're going to shift gears a little bit and I'm going to go into the Q&A while Kelly is responding to this.

<00:19:48> We're working on a study right now and we're actually going to be publishing – just for everybody out there – we'll be publishing a white paper on the value of advice sometime at the end of October.

<00:20:04> But I thought, Kelly, maybe this would be a good time to give us a little sneak preview of what that study is all about.

Kelly Peters:

<00:20:11> Yeah, I'd love to.

<00:20:12> The study has been very interesting.

<00:20:14> We're trying to figure out how to strengthen conversations that advisors have with their clients.

<00:20:22> It's really important we pick up on something that Dan said.

<00:20:26> He said that when we're presenting all of these numbers and all of this data to our clients, that it's scary.

<00:20:33> As Halloween comes to mind, the scariest costume for many of our clients is actually to just throw a ton of data at them. It's extremely overwhelming.

<00:20:46> There's this term about flexing, right?

<00:20:50> You have this temptation to want to flex your knowledge and flex your authority to your client.

<00:20:57> You think that that's what's going to help them follow your advice.

<00:21:01> It's like, I know this stuff.

<00:21:03> It's like, I'm an expert, this isn't fake facts, this is the real information that I've got to give you.

<00:21:09> The more you're tempted to just dial up that kind of authority, actually, the worst it shows in our data in terms of the impact.

<00:21:21> Not only in their likelihood to follow that advice, but there's a whole bunch of other measures that we looked at in our study.

<00:21:29> So it's things like how they trust you, how they value your advice, their intention to consult the advisor again, the perceived benefits of getting advice.

<00:21:41> All of those measures actually go down by trying to exert this authority.

<00:21:46> It's interesting, another dimension that we studied was what if that information – like, we're presenting it as if, well, this is what expert investors do.

<00:21:58> Like, expert investors, this is how they allocate their portfolio.

<00:22:03> Expert investor this, expert investor that, so this is what you should do.

<00:22:08> Well, you would think that maybe that would work, right? Because people – you think that, well, our intuition is like, well, people want to do what expert investors do.

<00:22:15> I'm not one.

<00:22:17> If this is what the experts are doing, I should follow along.

<00:22:20> It turns out that, again, not only do they not follow the recommendation that you might have about an ideal optimization in the portfolio, but all of those personal factors about the trust in the advice, the adherence, all of those things go down.

<00:22:40> So what did we learn that works? <00:22:42> We found some stuff that works and this is what we're so excited about because, again, like I said, Catherine's about how do we help raise the bar to having quality conversations and improving communications with our clients.

<00:22:54> So here are some things, then, that work.

<00:22:57> It's not more explanation, which we thought that maybe by doing a better job of, okay, we're just going to explain more.

<00:23:07> We're just going to talk more, give better examples.

<00:23:10> No, that's not it.

<00:23:13> It's actually being really simple and really directive about what people should do.

<00:23:20> Repeating that guidance.

<00:23:23> Do these three things.

<00:23:24> Or as Dan would say, do this thing now, let's start with that foot in the door.

<00:23:28> Let's do this thing now.

<00:23:29> We're going to do this thing and you repeat it.

<00:23:32> It's shocking how simple it is.

<00:23:35> This kind of repeat the action that you want them to pursue three times in a very simple and directive way was the most effective thing that we had.

<00:23:45> But here's the irony, and this is what I want to tie it back to.

<00:23:48> So, your intuition is like, oh, I should flex my authority, I should flex what these expert investors are doing.

<00:23:55> But it turns out that actually being simply directive increases their likelihood to comply with the advice, but it also, by being simple, increases their trust in your expertise and your knowledge, their likelihood to follow your advice or likelihood to consult you again and the overall benefits of actually working with a financial advisor.

<00:24:21> By being simple, you're seen as being smarter.

<00:24:25> That's some of the stuff that we've found and can't wait to give you the data for you to learn more about.

Catherine Milum:

<00:24:31> Yeah, thanks for that, Kelly.

<00:24:33> It's interesting because that's what I've learned working with you, is that it is the simple stuff.

<00:24:40> It's the things that sometimes we take for granted, right? And so we try to make things sometimes more complicated.

<00:24:47> I'm going to answer a quick question in terms of continuing education to better serve clients.

<00:24:55> This is a great field to sharpen the saw.

<00:24:57> "If an advisor wants to pursue this, what would you recommend?"
<00:25:02> I'm going to give you my first recommendation.

<00:25:05> We're actually developing a course, as we speak, with the help of Kelly, Dan, and David Lewis, and a team of other people both from Manulife and from BEworks.

<00:25:19> We hope to have that available for advisors by the end of the year, if not, in early January.

<00:25:25> It will be a seven-hour course that we'll be giving you a diploma for.

<00:25:32> You're going to be working hard.

<00:25:36> And then, to the anonymous advisor that asked the question, then maybe you can call me, and we can recommend another course for you once you do that, but we're pretty excited about this course.

<00:25:50> Okay, Kelly, just again going back to the study of advice.

<00:25:55> I've obviously seen a little bit about it, but is it true that some clients don't follow advice, the advice from their financial advisor? <00:26:07> And can you explain why, because that doesn't seem to make a lot of sense to me.

Kelly Peters:

<00:26:12> Absolutely.

<00:26:13> Well, in our study, it was with 3,000 North Americans and our population was split between Canada and the United States.

<00:26:22> Some of the things that you wanted us to do, Catherine, was make sure that we had a nice nationally representative study across the provinces.

<00:26:31> We were able to build out our sample for that.

<00:26:37> We absolutely found that there were circumstances in which people wouldn't follow the advice.

<00:26:44> One of the things that was very interesting for us was we did a study of different biases amongst the population.

<00:26:52> One of them I talked about, which is this issue of over-confidence, and it turns out that is definitely a primary driver in people not adhering to the advice.

<00:27:03> I think there were a couple of other things, though, that were surprising for us.

<00:27:08> People wouldn't follow the advice if they felt as if they had the ability to time the market and sort of control the overall outcomes.

<00:27:22> This is what we would call this illusion of control.

<00:27:26> We find this very surprising that individual investors who generally didn't have very high-level investment knowledge would still think that they would have this ability to "do a better job" than a financial advisor.

<00:27:42> So this is another bias that we need to make sure that we're watching out for.

<00:27:49> Then on the flip side, we have people who are excessively sensitive to the risk of losses.

<00:27:57> We are able to see this phenomenon of loss aversion show up in terms of how they're allocating their portfolio.

<00:28:06> In fact, they tend to significantly over-invest in low risk and low return products that are detrimental to the performance of their portfolio.

<00:28:18> This is done in a context where we're actually studying giving them the right advice.

<00:28:23> So they've got the right advice on the table, but this risk sensitivity, or the excessive risk sensitivity, leads them down the wrong path.

<00:28:33> I'd love to hand it over to Dan to share more with you.

Dan Ariely:

<00:28:39> Yeah.

<00:28:40> So, there are lots of things that are centrally crucial to learn, right.

<00:28:47> One of the questions kind of came back about trust.

<00:28:51> The question was, how do you create trust? <00:28:57> One of the interesting things about creating trust is you have to show that you have the client's interest at heart above your own.

<00:29:06> That's what creates trust.

<00:29:10> There's a joke that I hope you'll forgive me in advance, but it's not so funny, and it's little bit – anyway, the joke is that why do women like diamond rings? And the answer is because men hate buying them.

<00:29:27> And the notion is that if I came to my significant other and I said, "I love you so much, darling, you're the joy of my life, here's a new digital camera." <00:29:40> Who am I buying it for? <00:29:41> Really unclear.

But if I buy something that I clearly hate, now it's a true indication of love, there's no other reason for it.

Now, when financial advisors come to clients and say, "save more with me, save more with me, save more with me," who are they doing it for? The client or are they doing it for themselves? It's hard to tell.
Now, maybe they're doing it out of their pure altruism, but you can never know because the advice is good for them and for the client.

What would happen if you said to a client, "You know what, take $50,000 and put it on your mortgage"? It's not the financial efficient thing to do, but you would feel better.

It's not good for me, I'll have less money to manage, but just so you realize this is going to put you at ease.

That's a kind of thing where you would say, I'm putting your needs ahead of mine, I'm willing to get less commission, assets under management, and I care about you to a higher degree.

That's the kind of example of something that can create that situation.

I'll tell you something else, there's a – I'm moving to a slightly different topic.

If you think about money in general, saving is a very non-rewarding activity.

Buying a bicycle is. You know, just imagine you go, you give somebody $1,000, you get a bike, brakes, color, and you can use it.

Your neighbours can see it, your kids can do it, you can pet it from time to time, you can see it in your garage on your way home even if you don't use it that much.

You get lots of positive things.

How good does it feel to put another $1,000 into savings? What do you get from it? You don't get points.

Nobody says thank you.

It's a thankless task with no end, right?

At least with a marathon there's an end, you know, there's a certain number of kilometres I'll pass, it will be over.

Saving is never over, right.

Run forever and we are not going to say congratulations at any point.

I think one of the questions is: how do we change that system? How do we create a system where people do feel they've done something good? Do we give them points like we do to kids? Do we encourage discussion between parents and kids, spouses and significant others?

Just to emphasize this point, I'll tell you a story about the research we did.

In the U.S., we have this 401(k) plan, right?

You go to work, your boss, your company matches some percentage of your money that you put away into savings.

But guess what? <00:32:32> Imagine I go to work and I make $60,000 and I can put $10,000 of it in a 401(k).

If I put $10,000 of it in a 401(k), I bring less money home.

Instead of bringing $60,000, I bring $50,000.

On a daily basis, this is a punishing activity.

My wife will say less thank you, the kids will have less food on the table.

What did we do? <00:32:58> We asked people to call their significant other when they were filling that form at work.

Hi, honey. This is my first day at work." <00:33:05> We gave them a script.

"Just so you know, my workplace gives me a 401(k), I can put up to $10,000, how much do you want us to put together?"

Now think about what happens.

Now you're not only the provider, but you're thinking about the family's long-term future.

You get brownie points for even thinking about retirement.

So instead of thinking about how much money can I bring less home, you become a hero for saving.

Now, does the significant other remember this three months later? Probably not, but I don't care.

I want them to care only at the moment when they sign that paper, because I want to increase the number.

Those are the kind of things that I think we need to inject into the industry.

Understand the mindset of a person at the moment when they're about to make a decision.

How do we change it? For example, get them brownie points from their significant other and therefore, how do we change the incentive?

Catherine Milum:

Thank you.

Okay, Kelly, Dan, we're going to go a little off-script.

I have gone through some of the questions and they actually relate to quite a lot of the questions we had prepared.

I'd like to keep it really advisor-focused.

So, Robert asked: "How do we deal with obtaining trust with new clients through Zoom or other virtual apps?" Great question, right? And it was one of the prepared questions we had. Dan.

Dan Ariely:

First of all, we have to acknowledge that there's less to communicate.

There's a beautiful study that came out not too long ago that shows when people shake hands, after a few minutes, almost everybody smells their hands.
It's not something that people are conscious of, but we get a vibe of a person by smelling them.

The research is fascinating about what people get.

But, clearly, over Zoom, you're not going to be able to shake hands with people and smell them.

So what can create trust? <00:35:14> I think that these days we need to focus extra on sharing.

One of the ways that gets people to reveal secrets is to tell them a secret yourself.

I mean, we all know that.

When you go to somebody and you see them face to face and you ask them, "Tell me, what's your financial situation?", there's lots of sensitive things.

How do you build extra trust in a world where you don't have that? You need to use words.

That's what we have.

Or you can be close to the screen so people can see your facial movements, don't be too far away.

But I think the real issue is to open up, right?

So if we think about this discussion we all have now, and I would want to tell you something that would increase your trust in me financially, I would say something like, "You know, when I was a kid my father lost everything.

Actually, it was worse than losing everything, he went bankrupt, they took away all our furniture and, since then, I got to understand what living with a reasonable amount of money is, but what it also means to really worry, and for a long time." Now, if I told you that, it builds a little bit about my professional story, but it also tells you that I've shared already.

I've changed the power balance a little bit.
Now you know about me a little bit more than I know about you and you would feel more comfortable.

You can probably gauge it now, right, if I was asking you, if I was in a one-on-one, "Catherine, what do you want to share next?"

There is this – reciprocity is a very basic human instinct, and if you start by doing that, you'll get more trust back.

That's what I would try to do.

Catherine Milum:

You know, you touched on something.

I mean, it's how friendships are formed, right?

You make yourself vulnerable, so thank you.

Kelly, there's a question here. It's a simple one.

"What about investor regret?" And I think maybe through some of the research you've done and also maybe bringing in biases, you'd be a great person to ask that.

What about investor regret? Thanks, Nick, for the question.

Kelly Peters:

There's regret for things that we did and then there's regret for things that we didn't do.

And those two are very, very different in our lives.

As much as we fear making a mistake, so we fear regret, we actually end up having greater fear for things and greater regret for things that we didn't do.

So it's a trade-off.

There's regret for mistakes we've made, but it's like those are easy to rationalize.

It's like, well, I did the best I could.

I was acting on the best information I had at the time.

We're going to explain away our behavior when we've made a mistake.

And it depends, like, what are the factors that contributed to that mistake? Was it legit? <00:38:35> Did we really kind of put in our best effort and, you know, it is what it is?

But when it comes to regret based on not doing something? That one's a little bit harder.

The excuses are – you have to dig a little bit harder to justify not acting on a tip, not following the advice.

Because, in that case, that error really sits on you differently than making a mistake that was legitimately you thought you were doing the best you could.

Dan, do you want to build on this hot topic of regret?

Dan Ariely:

Yeah.

One of the challenges in financial decisions is that we say we're making decisions that are adjusted to risks, but then we don't treat them this way.

Somebody can go back to their financial advisor and say, "I want zero risk."

And then their financial advisor gives them zero risk and we show it to them compared to the S&P 500 or something.

If the person tells you they want zero risk, maybe we should show them what a zero-risk strategy would be.

When it comes to risk, it's very hard to figure out what's the counterfactual.

What should they invest in? <00:39:58> What should I compare it to? But if an investment lost money, compared to what? <00:40:04> In general, I think one of the challenges that we have is to figure out the right benchmark for decisions, good and bad.

And, of course, the second is to talk about the strategy over a long time and not talk about the specific thing that happened now.

But regret, if you think about regret, regret is about thinking about an action compared to a different action, an action that didn't happen, an action we didn't take.

It's sadly not a very helpful feeling in the world of financial investment, so I would try to bypass it as much as possible as a strategy.

Regret is not going to lead to any good decisions in this kind of scenario.

Kelly Peters:

I think one of the things...

Dan Ariely:

Can I add, somebody also asked, how are market turbulences affecting investors' behavior? I think it's important to figure out that the thing that turbulences do, is they decrease trust and increase a lot of anxiety.

And my usual suggestion to people who are not playing in the market frequently is to try not to look, because there's nothing that looking is going to do that is going to be happy.

What happens is that – as we mentioned on loss aversion – people feel terrible when they lose money, and all you get is to get people who are more depressed.

What I did in the 2008 recession, is I just entered three times the wrong password into my trading account and I was locked out. I couldn't see it.

Really, a really good thing.

I know that financial advisors are often not officially experts in psychology, but in market turbulences, it's the time where I think you can create the most value for your clients just by getting them not to act on their panic.

So if you could get people on Prozac, get them to meditate, get them not to look, all of those things I think are really important when markets are moving very fast.

The worst you could do is get your clients to think about it more, focus on it more, and so on.

Catherine Milum:

Kelly, I got a question for you that kind of riffs off the same thing, and thank you, Vincent Lam, for asking the question.

I think I hear this a lot.

"I just had a conversation with a client who's convinced that the market is going down from here."

We've heard that before.

“They want to put all their money in money markets. No matter how hard I try to explain, it all falls on deaf ears.”

Yeah, one has a sense of control.

So, Kelly, what would you recommend an advisor do to give him a sense of control without making an irrational investment decision? <00:43:17> Great question, Vincent.

Kelly Peters:

Yeah, I think that one of the things, first of all, is we should discourage this regular analysis of the markets on a day-to-day basis.

It’s not healthy and people forget what the long-term mean is.

So that’s the first thing that we need to encourage.

You can create kind of a metaphor for that.

One of the things that David Lewis likes to say is, “Tell people that they should look at their portfolio as often as they go to the dentist.” <00:43:51> That should provide a nice, clear heuristic on how often they should be looking at their portfolio.

That said, when we are in a period of market volatility, another thing that we should explore is asking them to write a letter from their future self.

How would their future self have wanted them to act under these different scenarios? Because ultimately the market will correct and improve.

So, have them write a letter from their future selves about the decision that they made and the fact that they weren't responding to a short-term phenomenon, or rather that they were able to show discipline and patience for the long-term.

Then, perhaps a third thing would be to introduce an opportunity for them to co-create in some of the choices, even if these are not significant changes that we’ll make, but let’s find smaller areas that might help address some of your concern and let’s work through and co-create in this modest modification.

Dan Ariely:

If I can add, the first thing I would do in a discussion like this is I would try to shake people’s beliefs that they are smarter than the market.

Somebody would say, "I think it will go down." <00:45:30> I say, “Okay, do you know something that other people don’t?” <00:45:35> I would explore that.

I would say, “What exactly do you know? What insider information do you have that other people don’t?” <00:45:42> I would say, “Let’s look at the last two years. When did you beat the market? <00:45:48> How many times were you better than this?” <00:45:50> So the first thing I would do is I would take this feeling of doom and say, “When were you correct before in those things?” <00:46:01> Very few people would be correct much more than half the time on binary gambles.

So that’s the first thing I would do.

Then the second thing I would do is I would say, “Okay, let’s think about a scenario in which the market is going down, the scenario is not.

Let’s think about what’s your financial situation in each of them.

And would you accept it?” <00:46:29> When we talk about regret, it’s creating regret, right?

You’re saying, here’s a future where you have a little bit of money, here’s a future where you have much more money.

Just remember this day.

If you make the decision to go down the little money approach, I’ll remind you.

Let’s write this down and I’ll remind you that you could have had much better.

So, I would question people’s knowledge.

I would help them to realize that they don’t have much knowledge, and then I would make the trade-off very clear.

Because when people say “sell,” they are thinking “I don't want to lose.”

They don’t think what they’re going to gain.

So I would sit with them and create these counterfactuals.

Catherine Milum:

There’s a question from Brett.

“Are there effective strategies for getting clients’ true risk tolerance...” – and he’s got that “true” risk tolerance – “...at the outset of a relationship, as opposed to finding out about it during a market pullback? Because the usual questionnaires are usually ineffective.”

And you know what, Kelly, this reminded me of the experiment that you went through with me as it related to the Starbucks coffee and the small, medium, large.

That’s the first thing I thought of when Brett asked this question.

Maybe could you answer that question for Brett and maybe the Starbucks might resonate with the audience as it did with me.

Kelly Peters:

Just in brief, we’ve got a paper about this as well, on investor risk appetite.

The intuition that we had was very simple.

We know the ways that we're obligated to do the "know your clients' investor risk appetite" are typically represented by giving them this kind of A, B, C, D model portfolio.

Here's a risk return from conservative to aggressive, where do you land? Well, that's more or less the pattern.

And what we know about anchoring – the concept that Dan had talked about earlier – is just the way we ask a question can actually influence how people answer it.

Frankly, it actually gets a little bit deeper than that. Sometimes it actually changes people's belief and perception of themselves.

It's like, we tend to look at this and be like, well, I'm not the super conservative guy.

It's like, well, I'm not the super aggressive guy. I'm somewhere in the middle.

I'm a B or a C, you know, kind of plus or minus.

And that's where they land.

So we thought, well, that's interesting, let's see what would happen if we actually changed the values and then presented the information to people.

I mean, this audience knows, right, that when we actually change the values, first of all people aren't really responding to that, they're just responding to kind of how that – at this most abstract level, they're responding to how it's framed.

What we did was we took away that aggressive option and we introduced an even more conservative option.

So it was kind of like A-, then A, then B, then C, and we put it back in front of people.

So it's like, if people really did that financial calculation you'd see that they'd go, oh, okay, well, I guess in this one I'm more of a – you know, I'm a C, I'm at that top end, C, D.

But no, they didn't do that, they stayed in the middle.

So you think, okay, well, maybe people like – they want more low risk options, right? And so, when we reintroduced the portfolio, this time putting a higher risk option on the table, eliminating the lower risk one, we saw the same thing.

We saw people kind of trudge over back to the middle even though now they've selected something of a higher value.

This shows that people's understanding of risk appetite is very conditioned by the context in which they're asked.

That's kind of a bummer.

Just a glimmer of hope, the good news is, when we move people out of percentages and abstractions and we do things like actual absolute dollar values and make that

conversion to, hey, this will put you up 10, and this will potentially put you down 15, and actually show those absolute values, people were able to – it helped modify and temper the effect of framing.

That's something that we saw.

So how you ask can actually shape the answer that you hear.

Catherine Milum:

Anything you want to add to that, Dan?

Dan Ariely:

Yeah.

I'm hoping to start a real project on this, because I think this question is so right and so messed up if you think about it.

We ask people to fill this meaningless piece of paper and then we go ahead and optimize their life decisions based on that.

Some of the most important decisions people are making are basically made based on a piece of paper that we don't believe that the result is relevant.

Just imagine if we did the same thing in medicine.

Hey, fill some piece of paper, tell us what you feel, we'll treat you based on that, we'll operate based on that.

I mean, it's kind of crazy when you think about it this way.

To answer your question of what do I think it should be? <00:51:52> I think eventually people don't take risks in money.

Eventually people take risks in life outcomes.

People take risks in housing, and how can I live in retirement, and what kind of school can I send my kids to, and can I give money to charity, and can I travel? That's what people make decisions about.

They don't make decisions about how would I feel when the market goes down 20%. It's about the consequences of that money.

And what we don't do is we don't help them understand the consequences of this money.

Sometimes you say, oh, it's too complex.

If it's too complex, it's for sure too difficult for people to figure it out by themselves in their heads.

So I think we need to do a better job helping people.

I think we need to understand people. Like when, let's say I talk to you, I say, "What kind of house do you imagine that you want in retirement? <00:52:46> If you want a five-bedroom house, it's very different than if you want two.

Where do you plan to live and what kind of lifestyle do you want?" And if somebody loves expensive wine and the opera, they need to save more than somebody who likes fishing.

The reality is that we – and I'm talking about the industry in general – have not really thought carefully about what it is that we ask people and are we optimizing for their life outcomes.

And we're not. We're asking the questions that are easy to ask, not the questions that are important.

But I'm hopeful that we can do much better.

I think that if we did better and people answered the questions in a serious way, then when you came back to them when the market went up or went down, you wouldn't say, "What's your risk attitude now?", you would say, "Tell me what kind of decisions that you want me to make differently about your houses, your house, sending your kids to school and so on?"

So I think that if we thought about these important questions from scratch and did a good job, lots of problems would be solved, including trust would go up, because people would understand the consequence of what they're doing.

Actually I'm sorry, I'm going to say one more thing.

If you think about how much more value would you get your customers if you spent another half-an-hour on them a month, if you optimized your portfolio differently. You know, come up with a number.

How much would you help your clients if you spent another half-an-hour with them a month, talking about what they shouldn't be spending on? <00:54:19> I assure you, the percentage improvement is going to be much higher.

If you optimize your portfolio, maybe you'll get one-eighth of a percent better.

If you went over with them on their wasteful spending, you could probably save them a lot of their income.

I think we need to be better at helping people understand why it is that they're curbing their spending.

Saving is about spending less.

If I'm going to spend less, I want to understand why.

And if we had a risk attitude measure that also helped people understand what they're saving for, I want a house, I want to go fishing, whatever it is, I think motivation for saving would also increase.

Catherine Milum:

Dan, I wrote down what you said, "People don't take risk with money, they take risk with outcomes." I have never heard it quite so elegantly, so thank you.

Okay, we've got four minutes left and I'm going to leave the final words with you, Kelly.

We have a bunch of advisors on the call, and what would be your parting words today for all of them?

Kelly Peters:

Recognize that your clients are biased.

Recognize that you're biased too.

Give advice clearly.

Give directives about what to do.

And don't feel like you need to show off.

Dan, do you want to...?

Catherine Milum:

Dan, okay.

Dan Ariely:

I would repeat some of the general points we made here.

Saving is a long-distance sport with no end in sight.

We need to recognize that it's inherently unfulfilling to save.

Our job is to do two things.

The first thing is to make it more fulfilling.

We want the person to feel that they've done a good job, we want their family to feel that they've done a good job.

We need to work on that feeling.

And then the second thing is we need to understand how do we invest for people's true well-being.

True well-being includes, of course, financial outcomes, includes not getting stressed, trusting that things are going well, includes giving to charity.

It includes all kinds of things.

So, that, I think, is our mission.

Catherine Milum:

That's amazing.

I wanted to share with the audience something else that I think is pretty cool.

Dan is actually – right now he's in Israel, and the Government of Israel asked him to come over to help with COVID-19 and the lockdown.

So he's there on a secondment.

And I understand from our pre-call that he's going to be going home on Friday. So I started the call with saying these are the people you want to have dinner with, right? <00:57:41> They don't get their research from Google, they get it from science.

The empathy and the knowledge that you have brought to this call today has just been outstanding.

We're so fortunate at Manulife Investments that we get to work with a company and people of your calibre, and we're going to continue that.

A lot of questions on the financial advisor course.

We've been working hard.

I thought it was going to be ready at the end of the month, but it's not perfect yet.

We're going to get it to perfect by the end of the year, early January.

Don't worry, you're going to hear about it.

If you don't, shame on us.

Send me a note, Manulife Investments, and we'll get that out to you.

A lot of people are asking about is this call being recorded? <00:58:31> Yes, it is, everything has been recorded and we will be sending that out as well.

So, thanks to the audience.

Thank you all.

I put on a suit today, right, because of all of you, so I want to thank you especially for that.

Enjoy the rest of your day.

Take care.

Dan Ariely:

Bye-bye.

Kelly Peters:

Bye.

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