

# 2017 ANNUAL CONVENTION

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DIPLOMAT RESORT & SPA  
HOLLYWOOD, FLORIDA

## MANAGING EMOTIONS IN INVESTMENT DECISIONS

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# 2017 ANNUAL CONVENTION

## VIDEO CLIP



## Agenda

**1**

**BEHAVIORAL  
FINANCE &  
THE VALUE OF  
DIVERSIFICATION**

**2**

**THE BIG 3  
EMOTIONS +  
THEIR INFLUENCE  
ON INVESTING**

**3**

**OVERCOMING  
EMOTIONAL  
OBSTACLES  
TO INVESTING**

# 1 Behavioral finance + the value of diversification

## What is behavioral finance?

- The study of why emotion causes investors to act in unpredictable, irrational ways
- Emerged in the past decade to help explain how different investing personalities are affected by emotion

Making money is not  
the **ONLY** goal of investing.

All financial decisions  
are attempts to reach  
**emotional** goals.

## Emotional diversification

Emotional needs

**control**

**LIQUIDITY,  
ACCESS,  
THE ABILITY  
TO ACT**

**safety**

**CAPITAL  
PRESERVATION,  
PROTECTION  
FROM FEAR**

**happiness**

**CAPITAL GROWTH,  
LIFESTYLE,  
FEELING GOOD**

**predictability**

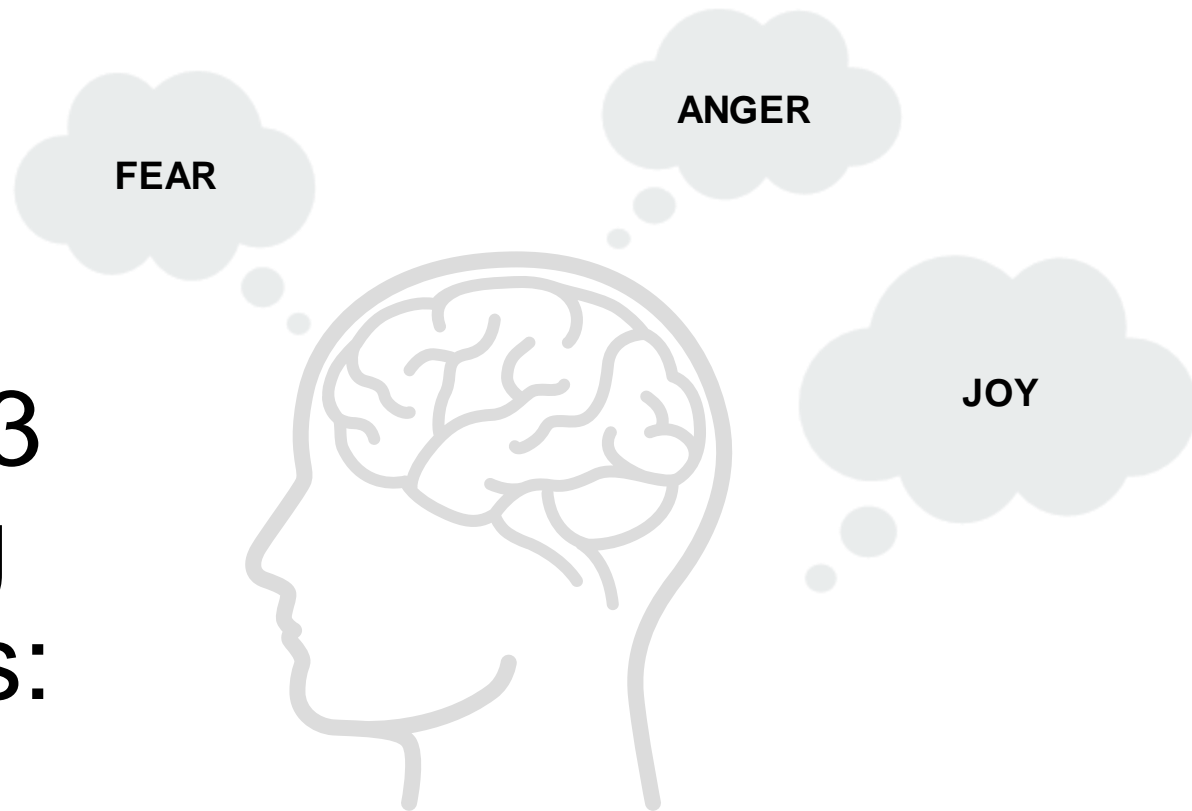
**INCOME,  
CONSISTENCY,  
PLANNING**

# 2 The big 3 emotions + their influence on investing





The big 3  
investing  
emotions:



## 3 INVESTING EMOTIONS

### 1 FEAR



- The dominant investing emotion
- Tends to inhibit action
- An anticipatory emotion
- Not feeling in control

## 3 INVESTING EMOTIONS

### 1 FEAR



#### OVERCOMING FEAR

- Maintain a long-term perspective
- Re-establish a sense of control
- Develop three types of trust

## 3 INVESTING EMOTIONS

### 1 FEAR



#### 3 TYPES OF TRUST

expertise (credentials)

ethical conduct (transparency)

interpersonal (promise + deliver)

## 3 INVESTING EMOTIONS

### 2 ANGER



→ Secondary emotion: A coping device for fear

→ Leads investors to act

→ Entitlement minus reality

→ After 2008, a new elevated baseline for anger

## 3 INVESTING EMOTIONS

### 2 ANGER



#### COMBATting ANGER

- Let the client verbalize the emotion
- Don't debate or defend
- Bridge the expectation gap
- Get to the pain underneath
- Promise and deliver

## 3 INVESTING EMOTIONS

### 3 JOY



- The sign of a bubble
- Based in fantasy, not facts
- Can be more destructive than fear

## 3 INVESTING EMOTIONS

### 3 JOY



#### CHANNELING JOY

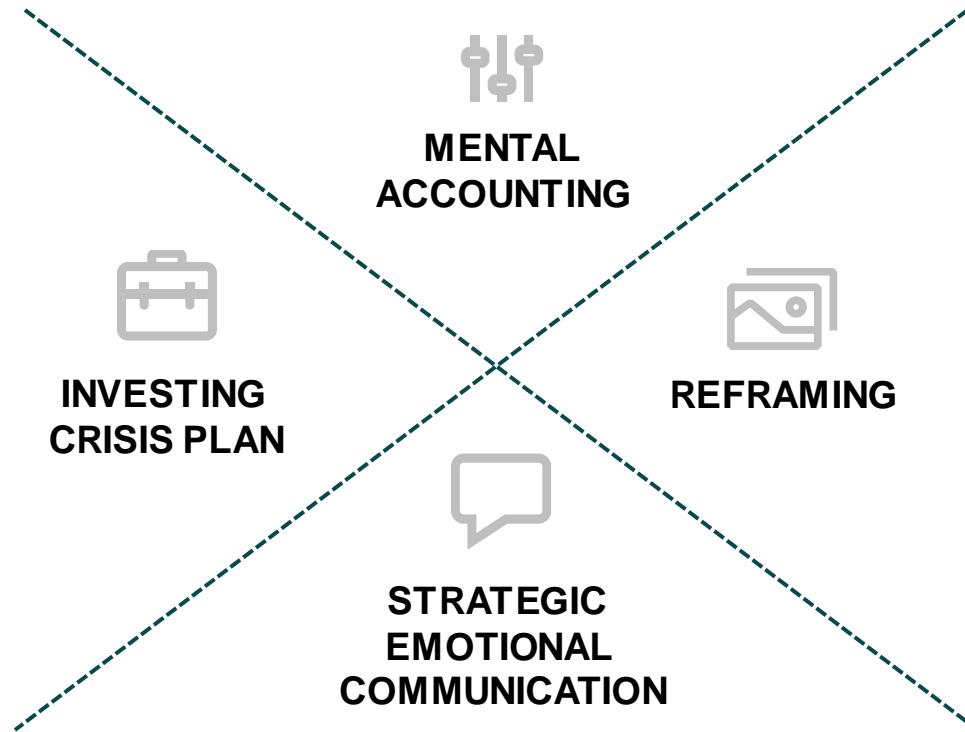
- Be curious, not confrontational
- Bring clients back down to earth
- Use numbers and facts



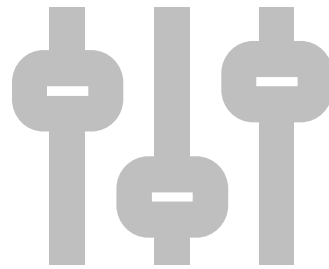
# 3 Overcoming emotional obstacles to investing

# 2017 ANNUAL CONVENTION

Tools:



Tool



# **MENTAL ACCOUNTING**

## Overcoming emotional obstacles



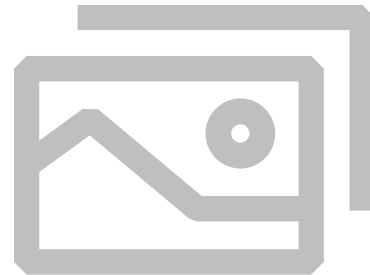
### **MENTAL ACCOUNTING**

goals-based  
investing

### **DESIGNATING DIFFERENT PURPOSES FOR DIFFERENT ASSET CLASSES**

- Simplifies
- Allows for tracking
- Frees people up

Tool



## **REFRAMING**

## Overcoming emotional obstacles



### REFRAMING

reframe from  
short term  
to long term

### UNPRODUCTIVE FRAME

- Short term
- Present
- Focus on money
- Emotional

### PRODUCTIVE FRAME

- Long term
- Future
- Focus on goals
- Rational

# Overcoming emotional obstacles



## REFRAMING

reframe from  
short term  
to long term

### 4-STEP PROCESS

**1** transition

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**2** target

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**3** visualize

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**4** emotionally tag

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## Overcoming emotional obstacles



### REFRAMING

reframe from  
short term  
to long term

### 4-STEP PROCESS

## 1 transition

### SAMPLE SCRIPT:

“Would it be alright if we talk for a moment not about what’s going on today, but about what will be happening 15 years from now?”



getting  
buy-in



## Overcoming emotional obstacles



### REFRAMING

reframe from  
short term  
to long term

### 4-STEP PROCESS

## 2 target

### SAMPLE SCRIPT:

“What are some things you want to always make sure you provide for your family?”

“What are some things you want to make sure never happen?”

“Where do you want to live in retirement?”



creates a  
common  
language

## Overcoming emotional obstacles



### REFRAMING

reframe from  
short term  
to long term

### 4-STEP PROCESS

## 3 visualize

### SAMPLE SCRIPT:

“It’s 20 years from now and it’s a beautiful Saturday morning. How would you want to spend that day?”



engages  
visual  
cortex

## Overcoming emotional obstacles



### REFRAMING

reframe from  
short term  
to long term

### 4-STEP PROCESS

## 4 emotionally tag

### SAMPLE SCRIPT:

“What’s it going to be like for you when you accomplish this?”

“Why is that so important to you?”



engages  
limbic  
system

Tool



**STRATEGIC  
EMOTIONAL  
COMMUNICATION**

## Overcoming emotional obstacles



### STRATEGIC EMOTIONAL COMMUNICATION

form of listening  
+ responding

### IDEAS

#### PHASE 1: EMOTIONS

- Inquire
- Describe
- Empathize

#### PHASE 2: SOLUTIONS

- Add another perspective
- Suggest a solution

## Overcoming emotional obstacles



### STRATEGIC EMOTIONAL COMMUNICATION

form of listening  
+ responding

### EXAMPLE: ANGRY CLIENT

- 65-year-old female client
- She insisted on aggressive risk in portfolio.
- She lost a lot of money in 2008 and missed run up in 2010.

”

client:

“You told me that I could expect 8% annual growth, right? And look at where I am today. You got your fees, but what did I get? Tell me... why should I even listen to you anymore?”

## Overcoming emotional obstacles



### STRATEGIC EMOTIONAL COMMUNICATION

form of listening  
+ responding

#### RESPONSES FOR ANGRY CLIENT

“Because I have a lot experience with markets like this, I know it seems bad, but we can recover from this.”

“Well, with all due respect, if you actually had listened to me you wouldn’t be in this situation.”

“Now, hold on, I think there may have been some miscommunication. I never said you should expect 8% returns.”

✓ “Wow. I can hear in your voice just how upset you are. I guess I hadn’t realized just how tough this has been on you and your husband.”

Tool



**INVESTING**  
**CRISIS PLAN**



## Overcoming emotional obstacles



### **INVESTING CRISIS PLAN**

preparing to  
remain in  
control

### **ELEMENTS OF AN EFFECTIVE CRISIS PLAN:**

- A guiding principle
- Definitive actions
- Capitalization on opportunities
- Self-management techniques
- Formalization and commitment

## Summary

- Emotions constantly subvert investor behavior and investor performance.
- The right plan for the investor is the one that meets financial goals AND emotional goals.
- Diversification is a crucial component to healthy investing.

The banner features a yellow background with teal and orange geometric shapes. On the left, there is a silhouette of five business professionals in a meeting. On the right, there is a map of Florida with city names like Ft. Lauderdale, Hollywood, and Miami Beach. The text "2017 ANNUAL CONVENTION" is centered in teal and white.

**2017**  
**ANNUAL**  
**CONVENTION**

# Questions?