USING FINANCIAL COACHING TO FACILITATE OPTIMAL CLIENT AND PLANNER BEHAVIOUR

INTRODUCTION

Ontological coaching focuses on our way of being. Way of being refers to how we observe the world through our language, emotions, and body. We do not see things exactly the way they are - we see them according to how we are. Therefore, if clients and/or financial planner shift their way of being (perceptions and attitudes), they also shift how they observe the world. This will impact on how they view the financial circumstances, chances, opportunities, and risks. This will, in turn, change how they view investments if we refer to behaviour tax as an example. This type of learning is known as second order learning where learning happens internally (Sieler, 2007)..

When the focus is on tools and techniques, then simply changing communication and behaviour is considered significant, this type of learning is also referred to as first order learning. In first order learning, change only happens by adopting new processes, strategies, and procedures. An example would be only to adapt the outcome-based investment approach and focusing on philosophy and OBI score and not changing the conversation. As a result, the behaviour will not necessarily change.

1. BUILDING BLOCKS OF ONTOLOGICAL COACHING

Financial advisors and clients perform conversations as humans and simultaneously exist in all three domains of language, emotions, and body. When they converse with each other (which includes indirect interactions such as telephone, fax and email). They are always listening (depending on their interpretations, and asking questions) and they are speaking (more specifically, using the basic language acts). Whether they are aware of this or not, various emotions and background moods become obvious. The way they have learned to hold their body postures reflects their embodied moods and orientation to life, and how they will speak and listen (Sieler, 2007). The content of the conversation can change their way of observing positively or negatively. When financial planners develop the ability to be more open to continuously observe their own and their clients' conversations to enable themselves to learning and embracing change, they will be able to engage in much deeper, richer, and more productive conversations to support clients optimally.

It is useful for financial planners to have basic understanding of the distinctions that support listening, speaking, emotions/moods, and body, to be able to skilfully observe and support themselves and their clients in investing and evaluating their investments.

2. FOUNDATION OF ONTOLOGICAL COACHING

It is beneficial for a financial planner to be aware of his/her prejudice that may distort, delete, and generalise what they are hearing and observing during the listening process. This has a strong relation to the past experiences of the financial planners or the way they grew up, their cultural narratives, social practices, and emotional contexts. When listening to the client as a financial planner, it is important to not only hear the language, pitch, and tone of what is shared, they also need to observe the emotions/moods, and the body posture of the person who is speaking. While observing all these components, the financial planner has to be mindfully present and observing/listening to the person speaking.

2.1 Language

While observing the language that the client speaks, the financial planner should be aware of six different speech acts. These speech acts are fundamental language patterns that all humans use, regardless of the situation. Each act plays a significant role in creating the concept of the things and events that are real and possible in the speaker's mind. Therefore, understanding them and how they function, provides a powerful map for financial planners in order to distinguish, comprehend, and explore what they are hearing. The six speech acts are briefly described below:

- ASSERTIONS

Assertions are related to facts, as it is a statement of what is factual and what is not. They also include what might be factual, such as predictions and forecasts. These are statements that are made, where an individual wants to create a shared understanding of reality, and consequently it acts as a basis for coordinating action.

- DECLARATIONS

Declarations are the statements through which the speaker announces that something exists that did not exist before and they have the authority to do so. Declarations are used to bring about change or commit oneself to others.

- ASSESMENTS

Assessments are the judgments that one makes about something in the interest of acting.

- PROMISES

Promises entail that an individual commits to a request, indicating what he/she will fulfil some specific demand.

- REQUESTS

Requests are the actions that an individual takes to ask for the assistance of somebody or a group of people to assist in addressing an underlying concern.

- OFFERS

Offers involve an individual that observes something that might be a concern, breakdown, or something missing for someone else. The individual puts him-/herself forward as a possibility to address the need. Offers are a fundamental way to take care of each other, build relationships, and develop identity.

2.2 MOODS

When listening, an individual also observes the emotion and mood being shared during the conversation. These distinctions enable an individual to assess how the current moods affect the financial planners and their clients, and how this influences the way financial planners and their clients perceive the circumstances and act on it by using the Basic Moods Model as adapted by Alan Sieler and Newfield Australia (Sieler, 2007).

According to the Basic Moods Model, an individual assesses the world through a three-by-two matrix and based on the assessment, certain moods and a certain way of being are generated, and can be shifted and changed through the correct questions and coaching sessions.

Assessment: When making an assessment, an individual is either accepting or not of the three basic fundamental assessments namely, Facticity, Possibility, and Uncertainty.

1. Facticity: Is defined from an ontological perspective, as what is assessed not to be open to change. Does an individual assess that something can change or not? Does an individual accept his/her assessment or not? ‘God grant me the serenity to accept the things I cannot change, the courage to change the things I can, and the wisdom to know the difference’ Reinhold Niebuhr.
2. Possibility: In contrast to facticity, possibility is an assessment that is open to change. Possibility creates energy for change as a more useful mood as the way of being unfolds.
3. Uncertainty: The instance where an individual is unable to accurately predict the future and the way things will unfold. Does an individual accept uncertainty or not?

The following framework which is based on the Basic Moods Model can be used to distinguish between the moods that will be observed based on the assessments made:

Assessment	Facticity	Possibility	Uncertainty
Not Accepting	Resentment to Grieving	Resignation	Anxiety
Accepting	Sadness to Accepting	Ambition	Wonder

Figure 1: Fundamental Assessments

2.3 Body

Coming towards a conclusion, an individual will explore how his/her response to the world, have a place in his/her own body and mind. By doing this, an individual feels, links, and understands the way in which he/she responds to certain stimuli through body and mind and finally takes action.

Research conducted by Harvard indicates that 95% of an individual’s actions happen subconsciously. An individual reacts according to his/her body and engrained patterns of emotions and language, which have been developed over multiple years in the form of habits. Some of these patterns are those which are inherited from parents and predecessors (for example, being inclined to be pessimistic). The society in which an individual grows up and lives, also shapes his/her mindset, concepts of morality, and understanding of acts that are to be considered normal or different. Imagine growing up in an entrepreneurial family and society where one project could bring in a lot of money and subsequent lavish lifestyle, followed by periods of intense struggle and neediness. This type of cyclic change can lead to a client being frugal and the fear of experiencing the same humiliation and struggle to make ends meet.

Utilising the ontological approach, financial planners can work with language, moods, and body to stimulate second-order learning, improve the quality of conversations, and support clients better to limit behaviour tax.

3. APPLYING THE ONTOLOGICAL FINANCIAL COACHING MODEL TO BREAKDOWNS

The 2019 Behaviour Tax Study, assesses that investor behaviour tax is caused by underlying reluctance to invest (trying to time the market), and suboptimal behaviour during the investment process (switching between funds) (Nixon, Barnard, Bornman & Louw, 2019). From an ontological view, to the assumption can be made that behaviour tax is a breakdown that is causing clients to suffer from a significant decrease in potential returns from their investments.

It is useful to observe the possible role of the financial planner and client’s way of looking at the grounds of investments in the breakdowns. To illustrate this, the ontological coaching model can be applied to analyse the breakdown on a meta-level:

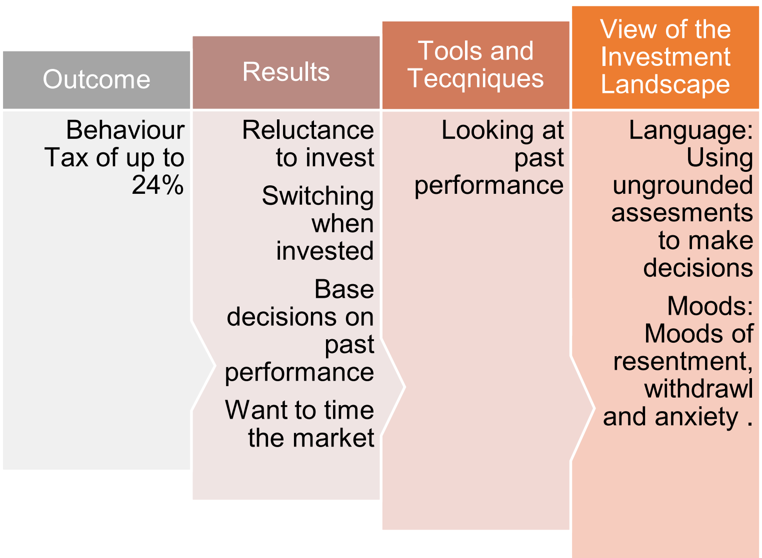

Figure 2: Breakdown of Ontological Coaching Method

From an ontological viewpoint, the diagram above shows that a large percentage of investment clients are experiencing behaviour tax losses of up to 24% over 10 years. This is primarily caused by actions of either being reluctant to invest (want to time the market or fear of investing), or suboptimal behaviour by switching from seemingly underperforming investments (driven by either greed or fear).

Subsequently, the question arises regarding what drives the behaviour that leads to certain results and outcomes. As mood is a predisposition for action, the question of which kind of mood generates which type of behaviour can be asked.

The behaviour can be predicted and mapped by analysing past performance data. ‘New business allocation is driven by a combination of factors, which includes the current allocation; a function of relative past returns; and secondary factors. These include how long the outperformance persisted and if any outperformance has been shared’ (Nixon et al., 2019). Funds can be analysed by using different metrics like volatility, the Sharpe ratio, and the Sortino ratio which should be combined with a cash flow profile and the client’s risk profile. This raises the question of how much influence these analyses have on whether the clients desired objectives will be met or not (Nixon et al., 2019).

Another matter that arises is the extent to which the above tools and techniques influence financial planners and clients to drive their decisions towards investing or switch between funds.

However, the fundamental factors that influence the behaviour and decisions of both financial planners and clients, from an ontological perspective, are their moods, languages, and mindsets. This also corresponds to the study by Greg B. Davies: ‘Humans are great. But they make systematic mistakes. Financial planners are skilled technicians, but they are also human…’ (Nixon et al., 2019).

The above poses the following a question from a financial coaching perspective:

In which way do moods and language influence behaviour?

For a better understanding of this question, the of behaviour biases, also known as the dual-process theory of thought, heuristics, and biases is analysed (availability heuristics, representative heuristics and anchoring and adjustments) (Nixon et al., 2019). Both clients and planners make assessments that are ungrounded. Therefore, both clients and advisers must ground their assessments before making any investment decisions.

Secondly, the study states the following: ‘As a result, these investors are more likely to make decisions that provide emotional comfort rather than focusing on achieving their investment goals, resulting in a behaviour tax’ (Nixon et al., 2019). From an ontological perspective, the client’s mood, and the extent to which it dominates his/her views and decision to either invest or switch, can be explored can be explored. The financial planner must explore his/her mood, as well as that of the client. The overarching mood can range from resentment to accepting, resignation to seeking possibility, and from anxiety to wonder. The moods will become the dominant factor that will influence decisions and consequently, the results.

Lastly, it can be concluded that, for improving the quality of the advisory process and the conversations, utilising grounded assessments and proper understanding of moods is particularly important.

4. Bibliography

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