A Guide to Understanding Your Financial Personality

Factors to Reveal Your Inherent Behaviors & Their Impact on Your Financial Plan

Gratus
INVESTED IN YOU

Prepared by Gratus Capital, LLC
A Wealth Management Firm
Individual Personalities & Their Impact on Financial Plans

Several different factors determine your personal financial personality – including your appetite for risk, your ability to think and plan long term, and your preferred degree of ownership or involvement.

Understanding your perspectives and biases is important not only in evaluating the different areas of your financial plan, but also in selecting the right wealth management partner. Are you missing key opportunities? Are you losing sleep over decisions you should offload? You may be surprised!

Whether you’re still accumulating savings or are retired and living off your assets, financial psychology plays an important role in building a financially sustainable and fulfilling financial plan. However, the key question is, are your thoughts and behaviors regarding money causing you undue stress or exposing you to unnecessary financial risks? Today, we’ll explore these considerations by addressing many of the personality issues that impact individual investors’ investment management and retirement plans.

To create the contents of this guide, we interviewed Gratus Capital Director of Financial Planning, Kevin Woods, CFP®.

To help you understand how your personality plays a role in the success of your financial plan, Woods suggests that you contemplate the following five factors:
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1 – Inherent Tendencies & Biases Regarding Money

According to Woods, your upbringing plays a tremendous role in your decision-making regarding your finances. Growing up was your “normal,” meaning most of us simply accepted what our parents said or did to be the right way.

Many adults formed unconscious beliefs about money during their childhood and still live with these same beliefs today.

Now, Fast Forward

Today, you might realize that your financial lessons from childhood may not hold up. However, even if you recognize this, these lessons are still deeply ingrained in who you are and how you think about money.

Therefore, you first have to acknowledge what was taught to you as a child. A simple way to approach this acknowledgement exercise is to journal about the statements made to you and the behaviors that you saw regarding money as a child.

“Oftentimes, our thoughts and long-standing biases from our upbringing regarding money can cause unnecessary conflict within our lives,” said Woods. “What tends to happen is that our thoughts and behaviors spill over onto the people that we love. Therefore, if you have ongoing conflict over money in your relationship, there is a real chance that it’s based upon outdated or extreme biases that you were raised to believe.” Kevin Woods, CFP®

Clashing Over Finances Psychology of money website Money Habitudes reports the following:

Approximately 31% of all couples, even the happiest ones, clash over their finances at least once a month.

The most common points of disagreement:

- Major purchases (34%)
- Decisions about finance and children (24% of respondents with kids)
- A partner’s spending habits (23%)
- Important investment decisions (14%)***
The phrase “Don’t ever talk to people about money” sometimes leads to an adult who resists asking financial questions and getting professional advice. However, asking questions and getting advice are both very responsible things to do.

If you fall into this category, then your financial plan may be unbalanced simply because it only includes one perspective – yours. Also, this type of parental advice increases your chances of struggling to communicate with your significant other about your finances, since it’s an inherent part of your personality not to talk about money.

However, by acknowledging what you’ve been taught and viewing this information with a different lens, you can then begin to move forward with a more comprehensive and diversified approach to your savings and investment strategy. We can’t take advantage of what we don’t know.

The phrase: “Don’t spend any money,” said over and over again can cause a child to grow into an adult who only saves and never spends money on expenses associated with life experiences and building memories. This extreme bias often compounds in retirement. An extreme non-spender may find it difficult to pay for things in retirement, since they are no longer working and accumulating money. This can lead to a very unhappy retirement.

By openly reflecting on thoughts about money and related behaviors, an investor can begin to isolate thoughts that have been devaluing their financial plan. While it’s important to reflect on your past years, it’s equally important to look forward.

“It’s never too late to change your money habits,” said Woods.
2 – Discover Your Financial Personality Profile

By understanding your “money” personality, we believe that you’ll be more likely to make better financial and life-planning decisions.

“One of the key steps that we use at Gratus Capital when first working with a new client is for them to complete a Moneymax® Financial Personality Profile,” said Woods. “Moneymax was developed by Dr. Kathleen Gurney, an expert in the psychology of financial behavior. Its key feature is an online questionnaire that helps individual investors identify and understand their money personalities.”

After completing the brief questionnaire, you receive a report that identifies:

- How money affects you and how you affect money.
- Your attitude toward wealth and tolerance for risk.

You’ll also receive a “Money Action Plan” that offers an overview of your profile group (Gurney places participants into one of nine personality categories) as well as targeted suggestions for improving money management skills and achieving financial goals.

Interesting Behavioral Stats

According to a TD Bank Love & Money Study:

> Women find talking about money more important to a happy relationship than men do: 75 percent of female respondents feel that it’s “very important,” compared to 67 percent of male respondents.

> Four out of five respondents state they make big financial decisions with their significant other, but men are almost twice as likely as women to say that they are the decision maker (26 percent of men vs. 14 percent of women).

> 83 percent of Millennials believe their significant other overspends in some way, compared with only 63 percent of all respondents. ****
“We ask clients to share the completed questionnaire with us,” said Woods. “It helps us to better understand a client’s thoughts and overall approach to financial matters, e.g.,

- Does money make you nervous?
- Do you avoid financial conversations?
- Do you worry about losing money?

Overall, the questionnaire feedback provides a solid viewpoint of a client’s risk threshold. Knowing a client’s risk tolerance for investing is a critical element in creating a long-term financial plan that will help them feel confident and happy.”

“Every investor thinks differently about money. The key is to understand yourself better, so that you and your advisor are better able to develop an investment strategy that matches your unique money personality,” said Woods.
3– Appetite for Risk

An investor’s tolerance for risk sometimes can be difficult to measure, particularly from the investor’s point-of-view,” said Woods. “The term ‘risk’ is an often intangible concept. The less an investor knows about the financial marketplace, the more challenging it is for him or her to measure their risk tolerance.”

We use several tools at Gratus Capital to help create tangible concepts that investors can understand; one is our Client Risk Profile. Our strong attempt to apply tangible examples helps determine an investor’s level of risk in investing.

Some questions found within our Client Risk Profile include:

**Question:**
The value of securities fluctuates over short-term periods as market conditions change. Your short-term need for cash may necessitate investing in products that are not generally susceptible to fluctuations in value. Indicate when you expect to liquidate 10% or more of your invested assets to cover expenses such as college, retirement, or a substantial purchase.

- [ ] Less than 1 year
- [ ] Between 1 - 3 years
- [ ] Between 3 - 5 years
- [ ] Between 5 - 10 years
- [ ] More than 10 years

**Risk is an Inherent Blind Spot for Business Owners**

“Entrepreneurs are more likely to control their future and how they run their business and will often take risks with their business because they’re motivated by growth opportunities.

However, this can lead to **unnecessarily** high levels of risk as a business owner’s income grows.

Additionally, business owners tend to take on concentrated risk, putting all their eggs in one basket. This creates a weakness in their financial plan, given the lack of diversification,” said Woods.
3– Appetite for Risk (Cont’d.)

**Question:**
What is the approximate loss in any one year period that you would be willing to accept before deciding to change your investments?

<table>
<thead>
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<th>One-year loss you would be willing to accept.</th>
<th>One-year return in an exceptional year</th>
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<tr>
<td>☐ Less than 8%</td>
<td>☐ 8% to 9%</td>
<td>☐ Less than 8%</td>
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<td>☐ 11% to 15%</td>
<td>☐ 11% to 12%</td>
<td>☐ 11% to 15%</td>
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<td>☐ 18% to 25%</td>
<td>☐ 18% to 25%</td>
<td>☐ 18% to 25%</td>
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<td>☐ 28% to 32%</td>
<td>☐ 28% to 32%</td>
<td>☐ 28% to 32%</td>
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<tr>
<td>☐ 34% &amp; Higher</td>
<td>☐ 34% &amp; Higher</td>
<td>☐ 34% &amp; Higher</td>
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**Question:**
A typical down market lasts approximately three years. If you rolled over $1,000,000 from a former employer’s retirement plan into a new retirement plan, how much money could you stand to lose in a three-year period before you would want to change your investment mix?

☐ Up to $50,000  
☐ Up to $100,000  
☐ Up to $200,000  
☐ Up to $350,000  
☐ Up to $500,000  

The full Client Risk Profile includes 11 in-depth questions. These three examples are the starting point to help investors determine their risk tolerance. To learn more about our risk profile, reach out to us.

The calculator portal CalcXML provides an interesting and quick snapshot calculator for determining **What is my risk tolerance?**

When thinking about your financial personality, one key piece to consider when using any financial calculator is how your personal money biases may skew your answers. The most diversified way to overcome this issue is to obtain a second opinion regarding your assumptions.
4 – Behaviors That Drive Financial Choices

Naomi Rovnick is the acting digital and communities editor for Financial Times personal finance. She recently wrote an insightful article on the various financial personality types. In her entertaining Financial Times article, *Six Financial Personality Types – Which One Are You?*, Naomi Rovnick interviewed several psychologists who broadly agreed on financial personality types, including:

1. **Anxious Investor**
   Loves risk and believes they have the edge over others.

2. **Hoarder**
   Money represents security. Some hoarders even stockpile cash.

3. **Social Value Spender**
   Makes purchases to boost self-esteem.

4. **Cash Splasher**
   Spends money visibly on others to look good.

5. **Fitbit Financier**
   Extreme tracker of finances and spending, typically because they’ve lost control somewhere else in their life.

6. **Ostrich**
   A person who would rather bury their head in the sand than organize finances.

Her message is lighthearted. However, it can also help shed some light on why you act the way you do in regard to money. Even if you believe that you don’t fit any of the above personality types, you may know someone who does. By arming yourself with additional introspective information, you’ll likely make more balanced financial decisions.
In Closing

At Gratus Capital, we spend a great deal of time understanding a client’s attitude and motivation regarding their finances. Overall, our goal is to understand an individual investor’s decision-making so that we can isolate unknown risks they may be taking.

Some investors unknowingly are risk takers or are highly risk averse. Both personalities often create an imbalance within financial plans that can lead to unnecessary investment losses. If you have questions regarding your financial plan or another financial concern, please do not hesitate to contact us. To learn more about our comprehensive financial advisory and wealth management services, please visit our website.
Kevin Woods has been providing comprehensive financial planning and portfolio management services to families for over twenty-one years. He intentionally limits the number of clients he manages in order to maintain a high service relationship. His focus is helping families make good financial decisions that support their lifestyle needs, charitable giving, and legacy intentions. His expertise with portfolio management focuses on managing downside risk as much as growing wealth for future income. Kevin counsels clients in managing cash flows, tax planning, reviewing wills and estate planning objectives, planning for retirement, and providing insurance needs analysis.

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Disclosure

This Guide is intended to provide generalized financial information; it does not give personalized tax, investment, legal, or other professional advice. Before taking any action, you should always seek the assistance of a professional who knows your particular situation for advice on taxes, your investments, the law, or any other matters that affect you or your business.

Sources

www.ft.com/content/