

Mediating Divorce Financial Misbehaviour



Insights into Client Financial Behaviour During Divorce

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A client's financial behaviours, experiences, and preconceived beliefs about money can have a large impact on the service that you provide. It is important to not only understand the behaviours of divorcing clients, but to also manage these behaviours to help them arrive at an equitable settlement.

A BEHAVIOURAL TWIST ON FINANCIAL MISBEHAVIOUR

I first learned about behavioural economics and behavioural finance when I listened to an interview with Nobel Laureate Daniel Kahneman, author of *Thinking Fast and Slow*. His work demonstrates how people often behave in ways classical economists say is not in their best interest.

A few of the common financial behaviours that CDFIA® professionals will run into include:

Confirmation Bias

People tend to listen only to the information that confirms their preconceptions. Often clients have talked with friends and family, and are looking for us to confirm what they believe.

Conservatism Bias

Where people believe prior evidence more than new evidence or information that has emerged. Some clients believe that if they couldn't make ends meet before, they will not be able to now—despite your report showing otherwise.

Curse of Knowledge

When people who are well-informed cannot understand the common man. With the growing body of knowledge available, this is one bias that we may battle often.

Hyperbolic Discounting

The tendency for people to want an immediate payoff rather than a larger gain later. Often people want to see dollars now and will figure out the future later. This can be problematic when one party wants the divorce yesterday.

Mental Accounting

This is simply when a person relies on doing math in their heads rather than with a calculator. One spouse may calculate income and expenses in their head, believing they have enough to survive.

Omission Bias

The tendency to prefer inaction to action. Some parties are not motivated to divorce or are afraid of accepting terms that they may regret later. This can prevent them from offering the information needed to prepare financial evaluations.

Overconfidence

Some clients are too confident about their abilities, and this causes them to take greater risks in their daily lives. This can hurt asset values if there are significant market swings or over-concentrations in certain investments.

Zero-Risk Bias

Sociologists have found that people love certainty—even if it is counterproductive. One spouse may tend to value assets with immediate guarantees versus those with future growth.

THE LANGUAGE OF MONEY

Financial behaviour can also be seen through what is known as money language. Often, spouses are not grounded in the same core beliefs about money or their financial status. This can be linked to the money language they experienced as a child or their reaction to what they were taught.

What was each spouse's childhood family money language? "My parents didn't talk money." "My parents always argued about money." "I wore hand-me-downs. It was good enough for me and is good enough for my kids."

There is also the language of the culture in which we were raised. What was the money language of the culture your client grew up in? "I wore hand-me-downs, and all the other kids wore the latest fashion. I was laughed at as the poor kid."

Often stalemates come from speaking in different native money languages and living in different financial cultures.

Some cultures are known for spending, while others are known for saving. This can create a lot of back-and-forth disagreement on what is a fair settlement.

HOW CAN YOU USE BEHAVIOURAL FINANCE?

The CDFA professional needs to use non-financial intelligence to identify and overcome these money language differences. Early in the process you will be well served to ask some nonfinancial questions that will help you begin to understand your client. Ask questions like:

- Where do you see yourself in 5, 10, 15 years? Why is that important?
- What are your priorities? Why are they important to you?
- Why do you want to keep the house? Why is that important?

Values-based financial planner and author, Bill Bachrach has found it effective to continue to ask the "Why is that important?" question repeatedly, until the interviewee has no more answers. Bill finds that this helps to get to the core of someone's values. In the case of keeping the family home, you may find a tangle of emotion and memories tied to this want.

TIP: Companies like Financial DNA take a very sophisticated approach to help identify money personalities. Start with a 10-minute, 46-question commitment which reliably reveals the core of a person's financial personality. Their platform yields personality traits and insights, teaching us how to adapt our style and approach to communicate with a person on their financial level.

Often our own biases and natural behaviour may be at odds with others. Having insight into the personality styles of both spouses can help you adjust your financial language and delivery. Moreover, I hope that you begin to see financial biases and money languages for what they are, and strengthen your toolset to effectively work with various styles and personalities.



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James is President of Envision Wealth Planning located in Chicago, IL. He helps people align their financial choices with their values, goals, and passions. As a CDFA® professional, James helps divorcing couples gain financial clarity to make financially and behaviourally smart decisions. To learn more, visit www.envisionwealth.us.