Money Talks
Meaningful discussions with clients can change financial behaviors for the better.

Every financial advisor knows how difficult it can be to motivate actual behavior change. As convincing as logic may be, no chart or graph stands a chance against the persuasive power of emotion. This is especially true when dealing with conflicting financial habits and priorities within couples, and other interpersonal dynamics that can arise between family members and business partners. Crossing the line from fiduciary to counselor is a daunting step that many advisors avoid. This is unfortunate, because empathy and a basic understanding of financial psychology can be an incredible differentiator in their practices.

As a scholar at the crossroads between psychology and financial management, I have long been fascinated by how smart, talented people can unwittingly sabotage their own financial goals. I’ve gathered some of the most compelling themes from the academic work on this topic in my new book, LOADED: Money, Psychology, and How to Get Ahead Without Leaving Your Values Behind (Wiley, April 2019). The goal of this work was to offer people a set of tools for understanding and correcting some of their own financial

Sarah Newcomb is the author of LOADED: Money, Psychology, and How to Get Ahead Without Leaving Your Values Behind.
problems. For advisors, the book offers a crash course in key concepts of financial psychology and a language for generating deeper and more meaningful discussions with clients about their financial motivations and behaviors.

I recently had the pleasure of talking with two of my personal heroes in the field of financial psychology. James Grubman, Ph.D., is the owner of FamilyWealth Consulting and author of *Strangers in Paradise: How Families Adapt to Wealth Across Generations* and co-author of *Cross Cultures: How Global Families Negotiate Change Across Generations*. Hal Hershfield, Ph.D., is an assistant professor of marketing at the Anderson School of Management at UCLA. He has performed pioneering research into how a person’s relationship with their “future self” affects financial decisions in the present. The three of us talked in February about how to apply the findings of academic research in this space to the practice of financial advising. Our conversation has been edited for clarity and length.

**Sarah Newcomb:** To start us off, imagine you could wave a magic wand and change one thing about how people think about money. What would it be?

**Hal Hershfield:** I’d love to change the way people treat debt. The unfortunate thing that’s happened over the last 30 to 40 years is the idea that if you want something, you can get it now and pay the consequences later. Those consequences have gotten much worse for people over the years, as they get more and more in debt. There are financial products that allow us to borrow more money than we have or ever will have. The answer might be less about money and more about getting people to change the way they think about having things—which then later cause them to have problems with money.

**Newcomb:** Hal, most of your research is in the cognitive area of psychology. Jim, you deal more in the social and personal area. How would you answer that question?

**James Grubman:** I would give everybody more willpower. I say that because some of the most interesting research that’s come out in the last five years is the whole issue around...
willpower depletion and decision fatigue. Willpower and the energy to make good decisions are the guardians that stand between our thinking and our emotions. When we make emotional decisions, things generally do not go as well as when we’re able to think more clearly and are able to use our best cognitive skills.

The research says that, when people feel their decision-making energy draining away, they start to make easy, quick decisions rather than thoughtful decisions. This is where things start to go off the rails. So, I would give everybody more energy, more willpower, and the capacity to listen more to their head than their heart when it comes to money.

**Newcomb:** I know there’s been some really interesting research in terms of things like affirmations, which sound so... foolish, squishy.

**Grubman:** I love that part in your book where you talk about the value of affirmations.

**Newcomb:** What is really encouraging to me is that the research shows that the research shows that when people just affirm their core values and think about what matters to them, it can boost motivation and self-control.

What’s counterintuitive is that when we are trying to recoup our willpower, what we do is we get hard on ourselves; we try harder. But if we think about it in terms of motivation and self-control, trying harder is going to have the exact opposite effect, because by being hard on yourself you are draining your resources more rather than building yourself up.

What we need in those moments is a way to refresh ourselves. We tend to do that by making purchases, where what we need to do is use things like affirmations and ways to feel whole and complete again without impulse-spending.

That’s something a lot of people don’t think about. They just think, “Well, I’ve got to try harder.” That is a very noble thought, but it’s going to have the opposite effect.

**Hershfield:** There’s some recent research by colleagues of mine, Marisa Sharif and Suzanne Shu, who have been looking at giving people what they call a reserve, it’s like a self-control reserve—if you mess up, you’ve given yourself a buffer. You can say, “Yes, I screwed up, but you know what, I’m going to kick that one out of my buffer zone and get back on track.”

This comes back to what you were saying before, if you are hard on yourself, it’s going to be harder to kick that willpower back into gear. So, it’s allowing yourself the possibility to have some screw-ups.

**Grubman:** That fits with psychological research around something called Acceptance and Commitment Therapy in which, instead of people beating themselves up when they make a mistake or go off the diet or whatever, they take a low-key, accepting approach where they talk to themselves positively—again, those affirmations. They say, “Look, it’s OK, I’ve been doing really well, it doesn’t mean everything is gone.” From psychological research, we know reinforcing
Role of Advisors

Newcomb: How does an advisor who is sitting down with a couple discussing numbers, being purely logical, bring up these softer concepts? Jim, I want to ask you this because you’ve had hands-on experience with it. It’s really not even about investing but about the day-to-day little choices that we make that ultimately will affect how much we have to invest. How do financial planners make these kinds of things relevant to their clients?

Grubman: It’s a great question. In fact, you bring up a point that’s very relevant for many advisors: the fact that willpower depletion can be a consequence of the differences between couples in their approach to money. A source of stress for many couples is a constant background level of conflict and fighting, where one person in a couple is a saver and the other person is a spender. We need to include that as a factor that drains individuals when they are in a relationship where they’re having to constantly monitor what the other person is doing.

Newcomb: I can see that being really scary territory for a financial advisor to enter.

Grubman: You’re absolutely right. Yet, what we know about where financial advising is moving as an industry is that advisors need to be building rudimentary skills, at least, to be able to address the most basic of couples’ issues.

Newcomb: I talk about it in the book as well. The example that I always think of is Dame a Four Circle of Hall, where you have the hoarders on one side, rolling stones, asking the wasters, “Why do you waste?” And the wasters are saying, “Why do you hoard?” And really what’s happening when you have a spender and a saver is, you have different motivations around money, different messages that those people believe about what money is, and what needs it’s serving in their lives. Someone who is a spender would be tending to associate money with things like freedom and opportunity and fun, and someone who is a saver is associating money with security and peace of mind and stability.

But how do you help couples start to recognize and talk about those kinds of things so that they can be having better conversations rather than just arguing?

Grubman: There are a couple things advisors can do. One is to realize that this is part of your job, that you cannot completely avoid dealing with some of the strains that couples go through when they’re looking to you for financial help. The investment-performance aspect of advising is getting commoditized. What will differentiate successful advisors is the ability to handle not necessarily the most complex couples’ issues but to have the skills to be able to take care of the basic, daily hassles and strains that couples go through.

The second thing that advisors can do is break the logjam of “he said/she said” by using some good client-profiling software and assessments. There are a variety of assessment procedures out there that look at money personality. Having some data based on reasonably standardized client-profiling assessments can be helpful for advisors. An advisor can elevate the conversation to look objectively at where each person stands along the spectrum of money personalities. Then, the advisor can present that to the couple. They can see, “Oh, you know, I really do fit this profile, and what my partner’s been saying has more accuracy to it than I’ve wanted to admit.”

Hershfield: My take on personality profiling and individual differences is that there is signal in the noise, but one has to interpret the results with nuance and care, especially when it comes to financial decisions.

One of the things that we do know is context matters. People can say that they are very risk-seeking in one domain, but when X, Y, and Z happen, they might actually be quite risk-averse.

Jim, the value in what you’re talking about is, like you said, to get some sort of objective data on paper to show people and say, “Let’s take a step back here. Let’s look at this from a third-person perspective.” You don’t want both parties staying within their own heads there.

Your point about differentiation is really astute. Financial advisors need to be thinking about these issues in a much deeper way. One of the important things that financial advisors can do in these situations is to help clients come up with if-then implementation plans. You say, “Let’s identify what the triggers are for the intra-couple conflicts, and let’s identify what the triggers are for intra-individual conflict. If you can see these triggers coming, if you can see what the situations are that give rise to conflict, then we can think about what you do in that situation.”

This isn’t always easy to do, because you can notice the trigger and still say, “Screw it. I’m going on a shopping spree.”

Newcomb: But at least you’ve outlined a plan ahead of time. You’re not trying to make a new strategy in the heat of the moment of temptation.

Grubman: You turn decision-making from a heat-of-the-moment or seat-of-the-pants process into an algorithm. An advisor can help distill the decision-making to some agreed-upon rules. You might ask the couple, “What would be an amount of money that you would allow each other to spend independently? Above what level do you both agree that, one, you will not make the decision in the present, and, two, we will discuss it together and make the decision about it together?”

You start to create a decision-making algorithm—not just for the individual, but for the couple—that can put things on a more solid footing.

Nudges Revisited

Newcomb: You both referred to the way that the industry is turning more toward robo-advisors and how
the type of thinking and of advising we've been discussing can help differentiate advisors in the field, something that machines can't do. I think it is true. It's a differentiating factor, but it brings up for me this issue that I have with the financial industry.

Everyone is looking for a silver bullet, especially when it comes to behavioral science and applying psychology to decision-making. People want that one thing that will work for everyone. But what you both have talked about is the fact that there are differences in personalities and that different approaches are going to work for different people. We're not asking the right question if we're asking, "What is the thing that will work for everyone?" Well, a robot could do that.

The more appropriate questions are, “What are the most important factors on which we differ? What are the key factors in decision-making where personality differences really matter?” Does the answer have to do with how people are thinking about time? Is it how far into the future they're thinking? Is it the messages that they believe about money? Instead of trying to find a silver bullet, we should be focused on figuring out the factors that should be considered in a client-profiling assessment.

Hershfield: It's a really interesting question. Time perspective is a really important aspect of individual psychology that we need to pay more attention to. What are the goals of a young couple right now? What are they focused on? Is it something like retirement? Well, that's the longest time perspective we could think of for young people. Or, are they more focused right now on something that's more emotionally evocative to them, such as saving up to buy their first house or saving for their kid's education?

So, recognizing time horizons can start to give more purchase to what issues evoke emotions for people. These are the things that are going to be easier for them to act on. It seems like those should be the levers. Then, with other financial issues — the goals that are harder to get one emotion's around, like a young person thinking about retirement — that's when we need to start using more automatic or nudge-style interventions.

Newcomb: That's another big topic that I think is important, the nudges-versus-knowledge debate. Anyone who's paying attention to behavioral finance has heard about nudges. But Eert Gigerenzer challenges a lot of that. He makes a compelling argument that if all we are doing is looking for opportunities to make unconscious nudges on people's behavior, then we are not teaching people to behave better. We're simply doing it for them.

When it comes to financial decisions, what we really need is conscious, smart heuristics, like these if-then strategies or affirmations that we mentioned earlier. There is a case to be made that if we're just nudging behavior, we're really setting ourselves up to be weak decision-makers. Is there maybe a golden ratio between the two? Are there times when a nudge is appropriate and times when it's better to actually impart knowledge and get people to think about the way they think?

Grubman: There's an interesting interface between nudging and the concept of creating opportunities for people. When you create the right opportunity for somebody to make a healthier decision or a decision they wouldn't normally make, they might actually do it given the more favorable circumstances. It's like showing them where the door is. They still need to go through the door, but sometimes because of personality and other aspects — perhaps their relationships — it's almost like they don't know the door is there. But by showing them that the door is actually there and more open than they thought, you can help people realize they are now in front of an opportunity. A subgroup of those people are going to take that opportunity — even if they normally might not have done so otherwise. It can be a very helpful thing for people.

Hershfield: It's such an important question to try to figure out when to implement more of these automatic interventions. It seems like the time to use them is when it's really hard to get people just to come to the table, period. In other words, you think about the retirement-saving interventions, and you get all these employees who aren't even saving at the match rate from their employer. That's a good time to say, "You're automatically enrolled in this." But after that, it seems like you want to get people to learn to take action for themselves. We need to think about ways to motivate people and make it a thoughtful decision on their part. The research says that saving at the match rate isn't enough to ensure a well-funded retirement.

Grubman: I'm thinking of some of those wonderful commercials in which Dan Gilbert gives people visual images around retirement savings. He translates for people something that seems abstract and mathematical into actionable, practical steps, and those commercials are effective in getting people to act. This almost takes us full circle back to willpower and decision-making. The decisions that you make on your own behalf can be smaller than you think and yet more powerful than you think.

People are put off because they think they need to make big, daunting decisions and deprive themselves in a big way — things that they don't necessarily want to do. When you help people with those nudges and those little opportunities to make small decisions that have a large payoff — things that don't take a lot of energy and yet are very helpful — you help people get over their own biases about what they need to do on their own behalf. That's a very useful thing the advising profession can do for the average client.

Newcomb: It's what Hal was talking about. What is motivating a person to save at a certain stage in life? Maybe it's retirement. Maybe it's saving up for a house or to take a trip around the world. We can think, "Well, that's not the right plan for them to have. They need to be saving for retirement; they need to think long term." But maybe just the act of building up the savings skill is what they need to know that they can and build that sense of self-efficacy, so then when they have a larger savings goal, they've saved before. They know they can do it.

The Habit of Saving

Grubman: What you're talking about is another area we can move into — the financial literacy issue. For too many people, the skill or the habit of saving is not learned early enough from parents or other role models. We in the advisory industry can help parents understand they should be much more explicit in teaching their children good
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financial skills. Advisors can add in these messages with their discussions with clients. It’s another area where advisors can be helpful.

Hershfield: Correct me if I’m wrong, but you’re not saying that we need to teach kids about compound interest and the difference between stocks and bonds. It’s really teaching them to have more of an automatic response to financial decisions, so that when they get some money coming in, they realize that some of it should go toward saving. Maybe some of it goes toward spending and maybe some of it goes toward giving.

One of my favorite anecdotes about teaching kids about money and saving is you give them three jars for their allowance. They have a jar for giving, a jar for spending, and a jar for saving. You just automate the idea that these three things are what they should be doing all the time.


Hershfield: Exactly. That’s such a valuable idea there, because going back to what you were saying, Sarah, about taking somebody and saying, “See, you can save. You saved for this trip. Now, you can save for a bigger purchase like a house.” Well, you’re just starting this at a much earlier age.

This relates to some really powerful work by Chris Bryan — and others — who look at taking actions and turning words from the verb form to the noun form. It’s not that you save for something, but you are a saver. You don’t vote for someone, but you are a voter. It really takes these types of behaviors and makes them part of identity.

Newcomb: That’s really interesting. In my experience, I was not naturally a saver. I am naturally a spender. I associate money with fun, and it has been really, really difficult for me to train myself to save. For me, what I needed to do was to experience the positive emotions in saving rather than focusing on the negative emotions of not spending.

Grubman: That’s right, of deprivation.

Newcomb: Yes. So, to me, it’s very much like fitness. When I learned to run, I used the “Couch to 5K” app where I ran for a minute and then walked for a minute and then ran for a minute and walked for a minute, and eventually I was running a 5K. I realized it’s very much the same thing when it comes to saving. With spenders, you don’t start by telling them they need to save $100 from their paycheck. You start by asking them to save maybe $5, save $10, or save up for something small. We want to get them to feel that delayed reward and realize that the reward really does trump the difficulties of not spending. It’s training the emotional experience, as well.

I love the point you made, Hal; it then becomes a part of your identity. At some point, I became a runner.
That’s when it was real. I go back to that. If I stop running and I start to realize, “Oh my gosh, I’m not running.” I can’t call myself a runner anymore; there’s a real loss there. I need to go back out and do it. If I stop saving, then I’m not a saver anymore.

**Herschfield:** Right, and to get concrete about it, one of the things that you’re talking about is making saving less abstract and more linked to actual things or experiences. This is a big issue with retirement, where people say, “Oh, I’m saving for retirement.” What are you saving for? “Well, I’m saving for retirement.” Well, what is that?

**Grubman:** The real question for people is, “What are you going to do in retirement?”

**Herschfield:** Exactly. People don’t always think about that, and it’s not all that motivating to just say, “I am saving to have a bigger pile of money.” I’m sure there are some people who are motivated by that, and that’s fine, but it’s more motivating for many people to have a specific goal in mind. It might be easier to keep contributing to your retirement if you can keep in mind what your goal is.

But then, of course, you have to be careful to build in a number of goals so that it’s not the case that, “OK, well, once I have now saved up my $5000 for whatever it might be, then I just stop.” I think then that’s where financial advisors can help by saying, “Let’s figure out a set of goals, successive or even concurrent, that can help you stay on track and continue to do even after you’ve realized one goal.”

**Grubman:** This is where different money personalities come into play. For some people, retirement will be more about the things they do, activities to be funded, like being able to travel. For others, retirement is about how they will feel, being able to be relaxed, to feel comfortable, and to feel secure. Their goal is an internal state of being.

Advisors can get to know their clients and understand which of these is going to be more powerful and connect more with their client? Is it the activities that they’re going to do in retirement or the feelings that they’re going to have in retirement?

**Our Present and Future Self**

**Newcomb:** Hal, you did some work in using MRI machines where you looked at the way that people think about their present self and their future self. What did you find?

**Herschfield:** The basic finding of that work was that the brain codes for what’s me and what’s not me. Our thinking, which was rooted in prior literature and philosophy, was that it’s possible that people think of their future selves as if they’re
other people. So, we ran a study where people got scanned as they made a number of judgments. They made these judgments about themselves and other people now and themselves and other people in the future.

What we found is that the neural activation elicited by thinking about the future self was actually more similar to the neural activation elicited by thinking about other people than thinking about ourselves in the present.

**Newcomb:** So, there’s that psychological distance between our present and future self. I know a lot of your work also tries to shrink that psychological distance through various methods. The thing that I’m really curious about is back 10 years ago, when I was sitting in his class at Bentley University, Dr. Grubman asked us a question that was really pivotal for me, because the answer stuck with me forever. When people come into great wealth, some of them will keep it and pass it on to their children; they maintain that wealth over time. Others become poor again very quickly. This question was, what is the difference psychologically between these two groups of people?

**Grubman:** You mean that some people are able to think of money as assets versus money as income?

**Newcomb:** Yes, exactly.

**Grubman:** That’s a big differentiator. If you look at families going back generations, some only have experience with seeing money as income, something that comes in and has to get spent on expenses. Others are able to understand how to manage money as assets and things that are stores of value. Those who are able to make the transition between thinking of money as income to money as assets, they’re much more likely to be able to manage a large amount of money compared to those who see a large windfall as just a lot more income.

**Newcomb:** These are two of the most fascinating findings that I’ve come across. Here’s my question. Dr. Grubman made his observation through working with many, many people over time and seeing those who are able to transition to wealth and those who are not. It has yet to have been proved out in any rigorous study....

**Grubman:** I was going to have Hal do a grant and see if he could do that research.

**Newcomb:** My question is, with the MRI technique, if there is a cognitive difference between when we think about money as a stream of income versus a store of wealth that produces income. Is the MRI technology advanced enough to be able to pick up on that type of a different imprint?

**Hershfield:** It’s a fascinating question. Jim, I love the idea that you’re bringing it up there. I would think that in order to investigate that question, we’d have to get even more specific and say, “What do we mean by income versus what do we mean by asset?” Part of what you’re getting at is essentially how emotional, how arousing is it when we think about money itself versus do we think about it as something that we hold on to and it’s less arousing.

**Grubman:** There’s research in neuroeconomics, for example, about the different areas of the brain that process gains versus losses. Gains are typically processed through the frontal lobes, whereas the more basic limbic system tends to handle losses because they’re more emotional. One of the aspects about income is its vulnerability. It may very well be—and this would be a wonderful project—that understanding money as income is actually handled more through the limbic system because it is more vulnerable, it’s more fragile, it has more to do with potential losses pretty quickly versus having a sense of security. Being able to comprehend money as an asset might wind up being a bit more frontal-lobe-managed because of the different nature of our decision-making about money. It would be wonderful to see if the MRI demonstrated that.

**Hershfield:** What would be most intriguing to me—and I think this is where you’re going with this—is if those neural differences could then predict differences in behavior. That’s the gold standard, the pie in the sky.

**Grubman:** Absolutely. If somebody had a windfall of wealth and they continued to process it through the limbic system—for example, with a sense of thrill, of excitement, pleasure, those sorts of things—and it did not eventually shift to the frontal lobes, that might be a bad sign. Compare that to another individual who uses the frontal lobes to evaluate and make decisions about wealth management compared to the more primitive, basic, emotional system. The bottom line is, how do we as a profession help people make that transition?

**Hershfield:** Absolutely. It’s a great question.

**Newcomb:** We certainly don’t have all of the answers, but questions like these inch us closer to a real understanding of the interplay between our minds and our money. Advisors who develop a language of empathy and understanding with respect to the psychological factors involved in financial decisions can set themselves apart in a very meaningful way.

Sarah Newcomb is a behavioral economist with Morningstar.