

10 Questions

Doug Lennick on Moral Intelligence and the Value of Behavioral Advice

by Carly Schulaka



WHO: Doug Lennick, CFP®

WHAT: CEO and co-founder of Think2Perform, author, speaker, and expert on the art and science of human behavior

WHAT'S ON HIS MIND: "Trustworthiness is more important than being trusted. Bernie Madoff was trusted, he just wasn't trustworthy. So for advisers who have mission statements saying 'we want to be trusted,' change the word to trustworthy and you'll be better off."



PODCAST: Listen to our podcast with Lennick at FPA.net.org/Journal/Home/PodcastPage.

If you've explored the world of behavioral finance, you've likely run into the work of Doug Lennick, CFP®. Perhaps you've read one of his books (*Moral Intelligence*, *Financial Intelligence*, or the most recently released *Moral Intelligence 2.0*), heard him speak at industry conferences, or attended a workshop or training program through his consulting company, the Lennick Aberman Group.

What you may not know is the Lennick Aberman Group is now Think2Perform. Same founders (Lennick and Rick Aberman, Ph.D.); refined vision—to enhance the world through improving the decision making and performance of organizations and individuals.

Although Lennick's expertise extends beyond the scope of financial planning professionals (his consulting firm also helps professional sports teams, manufacturing companies, and health care providers), planners have a special place in his heart. Before founding Think2Perform, Lennick was executive vice president of advice and retail distribution for American Express Financial Advisors (now Ameriprise Financial).

The *Journal* caught up with Lennick recently to ask him about how planners can better understand clients' seemingly irrational behavior, and how they can help all clients make better financial decisions.

1. You published a book with FPA Press called *Financial Intelligence: How to Make Smart Values-Based Decisions with Your Money and Your Life*. That book talks a lot about how human brains have been hard-wired since ancient times to think about things such as greed and risk-taking. How can people change their brains to deal with the complexities of modern life?

First, we need to understand why we're wired the way we are. We are wired to avoid danger so we can live another day, and that wiring is triggered by the emotions we experience.

When something happens outside of ourselves, it will stimulate us emotionally first. If we get scared, for example, or we get angry—something not very positive—it's going to activate the danger system. When we feel emotions like

excitement or exuberance, it's going to activate the opportunity system. There are chemical activities going on in the brain so that when one of those systems is activated, it disables the other.

So how can I change my brain? The way the brain actually works is that practice does *not* make perfect, practice makes permanent. Whatever people repeatedly think or do gets wired into the habit center of their brains. What we are allowed to do with our mind, which operates within the brain, is we can use our mind to decide what to think to change our physical brain. That's called neuroplasticity. When I do that, I'm molding my brain, I'm wiring my brain, I'm creating neurocircuits in my brain. One of the things that I want to wire into my brain is a habit of being very self-aware in the moment, not retrospectively.

I don't want to achieve self-awareness after I did something; I want to achieve self-awareness while I'm doing it. We can wire our brains to make that a habit by just hitting the pause button and paying attention to our reality multiple times, every day—remember, practice makes permanent.

What am I thinking right now? Emotionally, how am I feeling right now? What am I doing right now? Just practice that. If you practice that one exercise multiple times a day, you will make self-awareness in the moment a habit. It will profoundly change your life, and it is how one can adjust their brain to deal with the complexities of modern life.

2. *Why is there frequently a disconnect between people's goals and the reality of how they behave? Why do we seem so conflicted?*

It's largely because our stimuli influence our reality, and they influence us emotionally first. Often, when our danger system or our opportunity

system is turned on due to this chemical activity disabling the other system, we will make a decision without using all of our cognitive capabilities. That will create a disconnect between the goal, which requires some commitment over time, generally, and my instantaneous response to external stimuli.

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3. *We often think of people behaving irrationally out of fear or anxiety, but irrational behavior can also stem from being excited or exuberant, so how can financial planners better recognize irrational behavior in their clients?*

Hersh Shefrin wrote the book *Beyond Greed and Fear*. Greed will stimulate irrational behavior, and fear will stimulate irrational behavior. How you recognize that in others is to ultimately have empathy, and empathy is understanding somebody else.

Seeing irrational behavior after the behavior is easy in many cases. The hard part is being able to see that [the irrational behavior] *could* happen, and that requires being empathetic enough to understand the emotional state of the client. There are various ways I can do it. Absent any other good skill, I could simply ask people how they're feeling. If someone is really excited and they say, 'The market is reaching exciting highs and I think it's probably going to go over 20,000,' they're likely in the emotional state that increases the probability of

an irrational decision. Or, if they say something like, 'Things are terrible and they're gonna get worse, the nation is going to fall over the fiscal cliff, our money is going to become worthless,' now they're expressing emotions that they are devastated and are just beside themselves. These are two different extremes, but I know the client is in an emotional state, and I want to be aware of that.

If I can't get [the client's emotional state] from conversation, in some cases I will be able to tell through eye contact. There's a lot of research being done and tools being developed to read people's eyes. A lot of this work is happening in counterterrorism, so when you go through the airport in the future there's likely to be an eye scan that will read your emotional state.

4. *How can planners help their clients make better financial decisions?*

Well, there are many strategies, but one is just to help the client deal with the truth of uncertainty. Too many financial professionals try to predict the future. It's a fool's game. I can't predict when you're going to die. I can't predict if you'll become disabled. I can't predict if you're going to need some kind of care after you retire. But I can guess. And the thing is, when I guess right it will actually fuel my confirmation bias and make me believe that I actually have this great skill to predict, but there's just nobody who can do that consistently well over time. By the way, I don't suggest to advisers that they shouldn't make educated guesses—but even an educated guess remains a guess.

So, the best thing advisers can do for clients is prepare them financially for virtually anything that can happen. To do that, we encourage advisers to employ a strategy we call the smart money philosophy, which basically says if you follow the philosophy, whenever

you need money, there's going to be a smart place to get it.

We have to deal with the uncertainty of the length of life, and we have to deal with the uncertainty of our health status, and we still have to deal with the uncertainties of the market.

The best strategy is to prepare. We need people to genuinely see themselves not as money managers, but as financial advisers. You're not here to manage the money, you're here to provide financial advice, and you're here to help people prepare for the truth. The truth is uncertainty, and the sooner you buy into the fact that that's why you're here, the sooner you will be able to employ a strategy that prepares people for uncertainty. You'll be doing your clients a great service, and you'll feel a lot better about how you make your living.

5. *Our brains are wired to instantaneously detect patterns, yet most financial phenomena are not governed by predictable patterns. What problems might this create, and what role can planners play in alleviating those problems?*

People think they can make sense out of what is really random. And this can affect trading behavior. Research shows that as you trade more, your performance drops because every time you trade, you have to be right on both sides of the trade. I'm not suggesting necessarily buy and hold, I'm saying buy and be smart. When you need money, take it out of a place that's smart. But that creates a problem for some people, and advisers can play a role of helping people understand that they're better off preparing themselves for whatever can happen so that whenever they need money, they have a smart place to get it from and they don't have to tinker with everything all of the time, trying to pretend that there's a pattern where there may not be one.

6. *You conduct many behavioral advice workshops across the country. Do you follow up with participants regarding the effectiveness of those workshops? What are you hearing?*

Yes, we do. We survey our advisers, so we have data that compares control groups to trained groups, so these are like-advisers, similar in every way except that some go through the training and some don't, and we've been able to demonstrate that an adviser who's trained to bring the behavioral understanding into their practice will outperform other advisers in terms of several metrics. One is client retention and two is client acquisition. Three would be new business from existing clients. Four would be new business from new clients. Five would be advice-based fees or planning-based fees, depending on the terms that someone uses.

What we've heard from those who respond [to follow-up surveys], is 90 percent actually do report that their GDC [gross dealer concessions] is up, and more than 60 percent of those report that their GDC is up more than 10 percent. Over 9 percent have seen GDC growth over 30 percent. About two-thirds also have increased their advice fees, and about three-quarters of them increased new client acquisition. So we absolutely know it works.

7. *Your most recent book is Moral Intelligence 2.0: Enhancing Business Performance and Leadership Success in Turbulent Times. What is moral intelligence and how important is it to the success of any individual planner?*

Moral intelligence is really the mental capacity to determine how to apply universal moral principles to my own values, my own actions, and my own goals. Those principles, which happen to be integrity, responsibility, compassion, and forgiveness, are not the domain of

any particular religious group or ethnic group, and they have nothing to do with gender or location on the globe.

We have helped coordinate research on these principles. One of the studies conducted [by the Consortium for Research on Emotional Intelligence in Organizations] looked at the competencies of an adviser that make the adviser financially successful. This was really asking, 'How are the clients doing?' It turns out, by a factor of more than two to one, the moral principle of integrity is No. 1. This is the willingness to stand up for what's right, to tell the truth, to actually be willing to lose a client rather than let the client do foolish things. A lot of advisers, unfortunately, don't have that level of integrity. They acquiesce. Well, you have to have the integrity to stand up and say, 'Hey, the market is at 6,500; I know you're scared, I know you're afraid it could drop to 3,000, I know you want to get out, but you don't have to get out, because if you need to put your hands on some money today, we're prepared for that. Today is a bad day for you to get out. Don't get out.'

[The moral principle of] compassion is actively caring about clients' well-being, which almost every adviser does, but they need to also have behavioral integrity. Incidentally, behavioral integrity is more than not telling a lie. Not telling a lie is as easy as not speaking. If you don't speak, you will not have lied, but that doesn't mean you stood up for what's right. That doesn't mean you told the truth. That's not integrity.

Forgiveness is just letting go of mistakes and moving on. No one is going to be perfect, and we can't get stuck in the mistakes we've made.

Absent forgiveness, we won't be able to innovate. Absent compassion, we won't be able to attract and retain the best clients. Absent a sense of being responsible for what we're doing, the choices we make, the advice we give, we're not going to inspire our clients.

If we don't have integrity we will lose their trust. And trustworthiness is more important than being trusted. Bernie Madoff was trusted, he just wasn't trustworthy. So for advisers who have mission statements saying 'we want to be trusted,' change the word to trustworthy and you'll be better off.

8. *What advice do you have for planners who wish to assess and improve their moral intelligence?*

I would encourage them to read my book, but a less expensive alternative would be to go to the companion website for the book, www.MoralCompass.com, where you can go through a moral competency inventory, and you can actually assess yourself. You can do this with a group or as an individual; it's totally free. It's meant to be a developmental tool to give you an understanding of where you are relatively strong and relatively less strong, so you can then go about putting together a game plan to improve your competence.

The wonderful thing about emotional competence and moral competence is we can improve them, unlike our IQs. Our IQ is not going up, but our moral quotient and our emotional quotient can.

To improve your moral and emotional competencies, I'll share the four Rs [which are discussed in more detail in *Financial Intelligence* and *Moral Intelligence 2.0*].

The first R is recognize, and that's just recognize your experience. What am I thinking? How am I feeling emotionally right now? What am I doing, and what's happening with me physiologically? Also recognize somebody else—that's empathy. Pay attention to your clients' reality.

Next is reflect. Reflect on the big picture. Reflect on your values. People who reflect on their values before making a decision of any kind will

make better decisions.

Third is reframing, which means changing your thoughts, reframing your mindset. And the fourth R is to respond. So, anybody can improve their moral and emotional competence simultaneously by simply practicing the four Rs.

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9. *What area of research interests you right now?*

I continue to be interested in various dimensions of human behavior and that's one of the reasons why we continue to participate in [the Consortium for Research on Emotional Intelligence in Organizations]. I interact with some of the leading researchers on human behavior, and I continue to be fascinated by the question, 'Why do people do what they do?' and then more importantly, 'How can I be who I would ideally like to be more often?'

I'm also starting to explore the dimensions of negotiation. As Daniel Shapiro at Harvard pointed out, there are two tools necessary to negotiate effectively. One is reason, but the other is emotion. So the challenge becomes, how should you deal with emotions—yours and other people's—as you negotiate and help people make good decisions? One of the reasons this fascinates me, as [Shapiro] pointed out when I met him,

is that any time you're interacting with someone, you're negotiating. Negotiation skills are really important for advisers. An adviser needs to be a great negotiator to help clients make smart, values-based decisions with their money and their lives.

And, I am focusing a lot of my energy on integrating the concepts of health and wealth. I've developed a new model, which is kind of fun, it's going from misery to winning, so it's an M and it's a W. The interesting thing is, the health problems and the wealth problems in this country, and in large cases globally, are behavioral problems, so the solution is a behavioral solution. Think of behavioral advice services as the umbrella, and then think of behavioral financial advice and behavioral health advice.

10. *In your research on effective organizations and business leaders, what common traits have emerged among the most successful leaders?*

The most successful leaders genuinely have a good moral compass and they are emotionally competent. Everybody in the executive suite has a high IQ. Everybody in the executive suite has good technical competencies. The differentiator will always be moral and emotional, and those are the people who, under pressure, can make good decisions for the well-being of all the constituents, and they genuinely recognize the purpose of their business is no more to make money than the purpose of life is to breathe.

They genuinely recognize that their business is here to make a difference for those who buy their products and services. That's their responsibility to the world and they take that responsibility seriously. ■

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