There’s a growing demand for psychology in financial planning.

How top firms use it in their practices

KEY POINTS

- There’s a growing emphasis on psychology in financial planning as advisors explore ways to strengthen client relationships.
- Top firms on CNBC’s annual FA 100 list use behavioral finance to manage clients’ investing, estate planning and other needs.

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There’s a growing emphasis on psychology in financial planning — merging traditional advice with elements of behavioral finance — as advisors explore ways to strengthen client relationships. But it’s always been important, according to firms on

CNBC's annual FA 100 list. Many advisors say there's a demand for psychology in financial planning expertise, according to the Certified Financial Planner Board's 2021 Practice Analysis Study, prompting the Board to add the topic to its curriculum. The Financial Planning Association has also explored this area, embarking on an in-depth study on advisors and their clients, which reaffirmed the value of these skills. "The objective of understanding the psychology of financial planning is not to turn financial planners into therapists," said CFP Board CEO Kevin Keller. "But to help professionals strengthen their listening and communication skills."

Portfolio construction

Some companies have integrated financial psychology when building portfolios. Jeff Rupp, managing partner of View Capital Advisors in Dallas, a firm ranked 98th on CNBC's FA 100 list, said financial psychology is woven into the company's asset selection. One of the company's research analysts has a background in behavioral finance, and the firm often applies those concepts to its investment decision-making process, Rupp said. "We look at what's behind the recommendation," he said, explaining team members may respond differently to asset suggestions based on their risk profile. "We look at how the investment team reacts."

Investment counselors

Asset managers may also use financial psychology when guiding clients through investment decisions, particularly when the stock market dips. "A lot of people say 'I can handle a 10% or 20% correction' until it happens," said Michael Cornfeld, owner of Heritage Investors Management in Bethesda, Maryland, ranking ninth on CNBC's FA 100 list. **A lot of people say 'I can handle a 10% or 20% correction' until it happens. Michael Cornfeld**

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"And then, unfortunately, they can't handle the pain," he said, explaining how some clients want to dial down portfolio risk after jolts of market volatility. Managing assets is like a cross-country road trip with clients in the back seat, Cornfeld said, and they expect to find harsh conditions, like snow, ice, flooding and flat tires. In those scenarios, he may drive faster, adding to their stock market positions. But in the meantime, Cornfeld aims to keep clients in the car, regardless of the conditions, such as the news or cocktail party gossip, describing his role as "investment counselor."

Estate planning

Another scenario where financial psychology plays a role is when a client won't address a sensitive subject, such as their own mortality, said Rupp. "What will happen is they kind of just drag their feet," he said. "They really don't have a desire to get engaged on the subject matter." But if a client won't budge, an advisor may try to "work around the edges" to protect them with some basic estate planning, such as wills and powers of attorney, he said. Whether a firm has recently integrated financial psychology into its practice or it's been a long-term strategy, experts believe it's a trend that's likely to continue. "The most effective financial planners build and maintain trusted relationships where each client feels understood, supported and motivated to act on the planner's recommendations," said Keller. And as more education, certification and other learning opportunities arise, advisors may be well-equipped to tackle clients' evolving needs. **PUBLISHED MON, OCT 18 20218:30 AM EDTUPDATED TUE, OCT 19 20219:41 AM EDT** **Kate Dore, CFP®@KATEDORE**