

Laura's Case: The Psychology of Money, the Psychologist and the Financial Planner

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What emotional issues or personality traits are coloring a client's financial situation? Financial advisors often run up against client behaviors that obstruct the client's financial success. The authors of this article—a financial planner and a psychologist—give an overview of a process they used to assess and advise one of the planner's clients. They also discuss the benefits of consulting with a psychological therapist or counselor.

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"Fear." That was Laura's free-association response to the word "money." What did it mean? How would I incorporate what I knew was an emotional issue with the major financial issues that required sensitivity? How would I involve Dr. Gottfurcht, who lives in California, thousands of miles from my practice—how would I involve him in a case that obviously needed a different type of counseling than I could provide?

But I am getting ahead of my story. This article combines my experiences with a particular client and insights from Dr. James W. Gottfurcht regarding the case.

Laura, age 42, has been a client for at least 15 years. She has been divorced from her first marriage for many years and plans to remarry—this time to Chuck.

Laura was originally referred to me by an attorney who had helped her liquidate a failing business, leaving her \$20,000. She wanted to invest the balance for her only child's education. Her son has since graduated and is mostly on his own.

I did not hear from Laura for another five years after that. Then she called to ask me to help her reorganize her debt (for another failing business). Evidently her father had given her \$200,000, which equaled her debt. She wanted to know if she would be better served to pay off the debt. I counseled her that she should use the money to buy certificates of deposit (CDs) to collateralize the debt, as her corporation (along with another shareholder who had no resources of her own) owed the debt. I also indicated that she needed to re-evaluate this business and its future.

But before we could get all of the debt consolidated and arranged, Laura called to tell me her father had died unexpectedly. She was about to receive \$600,000 from her father's estate, and her mother's estate was worth \$6 million. That happened ten years ago.

In the meantime, Laura and her business partner struggled with their business difficulties, but seemed to be slowly deciding to give it up. Laura was managing to curtail the downside of the business while realizing it had very little upside. Then she met Chuck. She had known him through her business contacts, but became romantically involved about a year ago. Chuck was in the process of divorcing his third wife.

At the same time, Laura's mother's health had declined and her mother's attorneys were doing some estate planning. They told Laura that she would be receiving another \$5 million distribution. When Laura let me know she was going to receive more money, that she and Chuck were to be married and he had quit his job, I suggested that she have prenuptial agreements signed (this has been done) and that it was time for me to meet Chuck. I indicated to her that what was happening to them was not unlike two recent couples in our community who had won millions of dollars in a lottery—a life-altering experience! She concurred with me, and they both agreed to work with a psychologist to help them understand their psychological money skills, including their strengths, weaknesses and differences. This seemed even more important when I learned that Chuck was coming to the marriage with \$40,000 debt on his credit

cards.

Psychological money skills are learned behaviors that are psychological in nature and are associated with financial success factors such as realistic expectations and receptiveness to change. To be financially successful, for example, people need to have relatively realistic expectations and maintain some degree of receptiveness to change.

My concerns as a financial advisor were how to

1. Counsel this romantically based, non-traditional relationship.
2. Answer their questions about buying and sharing a new home.
3. Assist them in developing a lifestyle within their means.
4. Help them manage his debt without a stable employment future. They both wish to write a book and do consulting work.

The Psychology of Money Profile

Dr. James Gottfurcht, a Los Angeles-based consultant, speaker and clinical psychologist, developed the Psychology of Money Profile in 1982 to help assess clients' strengths and weaknesses on ten core psychological money skills associated with financial success and peace of mind. The profile has 40 multiple-choice questions and a number of personal background information items. It takes about 20 minutes to complete and can be done at the client's home, office or any place of choosing.

Some of the types of clients who seem to benefit the most from completing the profile are those with

1. Suddenly acquired, unearned wealth. These clients tend to be vulnerable to psychological blind spots and irrational financial behavior because they have not earned the money themselves. They may not possess the psychological or financial skills necessary for managing and maintaining the money. Examples include major windfalls such as an inheritance, trust fund, divorce settlement, a large gift or the lottery.
2. High levels of financial stress. These clients tend to feel nervous, anxious, worried or fearful about some aspect of their money. Such feelings usually come from some type of negative or irrational thinking that can sabotage financial success.
3. Marital and family issues. These clients have conflict or stress with one or more family members. Money becomes a source of tension or pain and hurts relationships. Family members can learn more about why they are in conflict and what steps to take to reduce their difficulties.
4. Financial blocks or obstacles. These clients have barriers or repeating experiences of failing to accomplish their financial goals. Something seems to occur that prevents or sabotages them from succeeding.
5. Overly conservative or overly aggressive risk-taking. These clients are grouped together because they behave irrationally with risk-taking. Overly conservative clients err by not engaging in rational risk-taking with their portfolios or careers. Such clients may have missed much of the record bull market in stocks since 1982. Overly aggressive risk-taking clients, in contrast, err by taking risks that are unnecessarily dangerous or irrational.
6. Desire to accelerate their financial success or to learn more about themselves. These clients are motivated to pursue financial success or personal growth. By completing the profile, they gain insight and understanding about their strengths and weaknesses, and learn how to overcome irrational behavior.

If you have a client you want to understand better or who fits one of the above six types, you have a candidate for taking a money psychology profile. Here are some questions to ask your clients to determine if they are interested in taking the profile:

1. Would you like to learn more about how your thoughts, feelings and attitudes contribute to or interfere with your financial success?
2. Would you like to learn about your strengths and weaknesses on ten essential money skills associated with financial success and peace of mind?

3. Would you like to learn how to understand and overcome your irrational financial behavior?
4. Would you like to learn how realistic your financial expectations are or how to make them more realistic?
5. Would you like to understand better your comfort or tolerance level with risk?
6. Would you like to learn more about how your relationship with your spouse may be influencing how you handle money and how to improve your financial teamwork?

If your client answers yes to one or more of these questions, he or she will perceive gaining some value-added information from the profile. The more yes answers your client gives to these questions, the more motivated he or she will be to take the profile.

There are three categories of scores clients can receive on each of the ten psychological money skills. A high score means that a client has Prosperity Thinking on that skill. Prosperity Thinking is when his or her thoughts, feelings and attitudes are aligned with realistic levels of abundance, confidence or gain. Prosperity Thinking is linked to financial success, rational behavior and peace of mind. A low score means a client has Poverty Thinking, which is when his or her thoughts, feelings and attitudes are aligned with scarcity, fear or loss. Poverty Thinking is associated with financial disappointment, irrational behavior and stress. A midrange score is when a client has a combination of Prosperity Thinking and Poverty Thinking and relates to a mixed level of financial success, rational behavior and peace of mind.

Starting the Process

At my first meeting with Chuck, I found him be a very intelligent 58-year-old man who had given much thought to his circumstances. He articulated his thoughts openly and was seemingly honest with me. He had given thought to the fact that he is dependent upon the income that he will receive from his future wife's inheritance. He indicated that as long as they do not invade the principal of her inheritance, he could accept her income—as if she had earned her income at a job not unlike any other couple.

He also admitted that his first three marriages were not very responsible with regard to their money management concerns. He did not elaborate except to say he has always accepted that his debts were his responsibility. When asked how these debts were accumulated, he indicated that he had never denied his children their needs or wants, and always felt he could repay the debts after his children were on their own. His children are now on their own. He also was very clear that although the current budget projections include the payment of his debts, his intent is to repay Laura as soon as possible, including any debt she has paid on his behalf. The debt is acknowledged in the prenuptial agreement.

In the process of explaining the use of the money profile and working with Dr. Gottfurcht, I gave them Dr. Gottfurcht's word association quiz, asking them to free-associate to the word "money" five times. Chuck's responses were security, fun, help, equity and charity. Laura's responses were fear, fun, cars, green and food. When I asked her why she responded with the word "fear," she was uncertain. Chuck seemed to help her articulate her answer to be "her fear that the money could interfere with their relationship." (I wondered later if her fear may have something to do with the grieving process at the loss of her father or because of the failed businesses.) We did not discuss Chuck's responses much, except that he noted that they paralleled Maslow's hierarchy of needs theory.

After the interview, I realized that he seemed to be a real optimist who tended to let things take care of themselves, never mind the debt accumulations. His risk in this relationship is giving up his job and career path at his age.

I sent this couple home to complete their profiles. Later, we all met with Dr. Gottfurcht via telephone conference call; what follows is Dr. Gottfurcht's summary of the most significant concerns in his assessment.

Assessing Laura and Chuck

Laura and Chuck were stimulated by hearing definitions of the ten core money skills, by learning their strengths and weaknesses, and by receiving exercises designed to overcome their Poverty Thinking. Also, they appreciated learning they had been experiencing the concept of wealth with some negativity rather than more positively as they had wanted.

Analysis of Laura's profile provided the major finding that her low score on Realistic Expectations combined with her background information created an important vulnerability to sabotaging herself financially. More specifically:

1. She was one of the very few people out of thousands who have taken the profile whose score indicates that she has presently attained very much wealth but desires to have only average wealth in the future. This suggests that she feels a conscious or unconscious stress from having so much money and she could feel more comfortable by having much less.
2. "Fear" was one of her free-association responses to the word "money." Obviously, people do not like to possess large quantities of something they fear.
3. She said that one of the main messages her parents gave her was "I see money as destructive to relationships." Since she's just become engaged to someone and plans to marry, at some level she views the money as destructive to this relationship. This creates more pressure to reduce the money.
4. Her Poverty Thinking score on Realistic Expectations reveals unrealistic expectations and how poorly she's done with meeting her career and financial goals. This score also exposes her further to sabotaging the money.
5. Her Poverty Thinking score on Receptiveness to Change shows resistance to change, which means she is less motivated to change her behavior, which could lead her to sabotage herself with money.
6. Her history of failing with two businesses and being unsuccessful with money on her own also reinforces her pattern of financial sabotage.
7. Her indirect communication—as evidenced from her answer that she would try to ignore dealing with someone who really aggravated her at work, and hoped it wouldn't happen again—shows denial and a passive, indirect approach to confronting negatives. She is vulnerable to play this out with her fiancé and planner.
8. The fact that Chuck's history with money is filled with disappointment and debt suggests he may be in a natural position to play into Laura's financial sabotage. Their marriage, for example, could offer him a way to live off her income without having to learn how to manage money for himself.

Laura's communications via e-mail following this meeting expressed glowing feelings of worth for the experience. Some of her comments were: "It was important to both of us to see the idea of wealth in a more 'positive' light. We see how our previous perspectives were indeed 'Poverty Thinking.' We both have had unrealistic expectations in the past, and have engaged in idealism, denial and avoidance. We think that even though we both have a tendency toward such behaviors, we have helped each other be more realistic, but we hope you will be able to help by telling us if you see us falling off the wagon together."

Laura's request of asking me to tell her if she and Chuck "fall off the wagon" shows awareness of how her Poverty Thinking with regard to Realistic Expectations can undermine her financial success.

After this meeting, I thought my task was completed and I could resume being simply a financial planner. A few weeks later, in my absence, my staff informed me that Laura had called to request instructions on how to change the title of her taxable Schwab account to include Chuck's name. I said to my staff, "You're kidding!" They had sent the applications with instructions. I knew I must call Laura to ask why she desired this action, but before I could, I received an e-mail from her asking for my opinion on the change of her account to joint ownership with Chuck so he could write checks on the account. I e-mailed her back saying that I did not think it was a good idea for now, because of the legal entanglement it could cause. Instead I suggested they start a joint bank account, and she could deposit funds to it as needed. In sending this e-mail message to her, I received another e-mail back from her telling me to disregard her previous message as she had realized that her request had defied her prenuptial agreement. Although I breathed a sigh of relief, I realized that with their scores on the money profile, I probably would always need to monitor her tendency toward financial sabotage.

Consulting with a Psychologist

The basic question of how planners can know when they will benefit from consulting with a psychologist is answered in many ways. The psychologist can...

1. Provide insight into what in us versus what in the client is causing discomfort when we experience an

upsetting experience with a client we otherwise like

2. Teach us about the subtleties of verbal and nonverbal communication so we can improve our interpersonal skills
3. Identify areas and even moments of Poverty Thinking in ourselves and our clients, and help us overcome them
4. Increase our ability to recognize irrational financial behavior and convert it into rational financial action
5. Help us identify and resolve issues with our partners or staff
6. Increase our ability to be proactive by showing us how to anticipate and prevent potential problems
7. Help us set firmer and more effective boundaries with clients, partners and staff so we take charge of our practices and our money

When helping clients with the psychological aspects of their money issues, we must remember to remain sensitive and alert to the idea that some of them may need professional help from psychologists or other therapists. There are several signals clients may send to tell us they need more assistance than we are trained to give:

1. Directly asking for such a referral
2. Becoming overly emotional, needy or dependent on the planner
3. Repeating their self-defeating or sabotaging financial behavior
4. Blaming the planner for their own problems, issues or mistakes
5. Engaging in any behavior that makes the planner feel threatened, unsafe or highly uncomfortable

Furthermore, it is important to recognize that when you reach your limits, seek the professional help you need or that your client needs. If you're working with a high-maintenance or difficult client, remind yourself in advance that a leopard can't change its spots. If you want to keep the client, your best hope lies in changing one or more of your own behaviors to become more compatible. If you feel the client is too toxic or you do not want to change your own behavior, then it probably will be necessary to terminate the relationship.

Today's competitive marketplace of financial services includes a proliferation of discount brokers, free research on the Internet and online trading. One way to hold or increase your market share is to offer value-added services that provide your clients with unique knowledge and guidance to increase their financial success. We hope we have stimulated your interest in this area by discussing how this particular profile and overall paradigm can propel you and your clients to your next monetary milestone.