

# Beyond Risk Tolerance: The Science of Personalized Advice

Evidence-based frameworks from psychology and behavioral finance to transform client analysis and personalize financial advice

Thomas Oberlechner, PhD



# Today's Vision

Combine human psychology with advanced technology

A new perspective on financial & wealth clients



# About Me

## Dr. Thomas Oberlechner

Founder of BehaviorQuant

- University professor (Psychology)
- Research at Harvard and MIT
- Worked with top Wall Street investment firms
- Silicon Valley experience building investor technology





Today's Overarching  
Theme

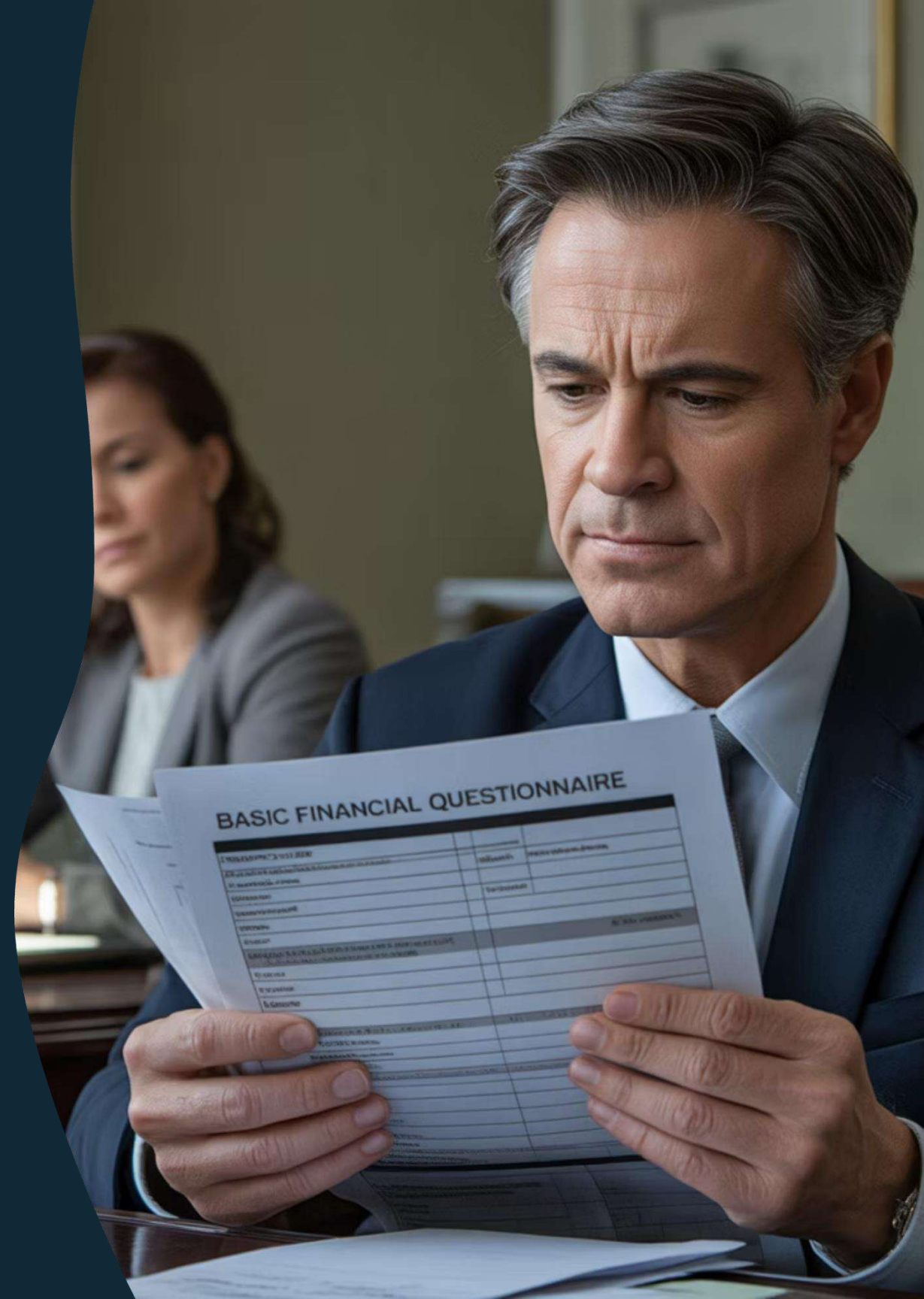
# Empathy

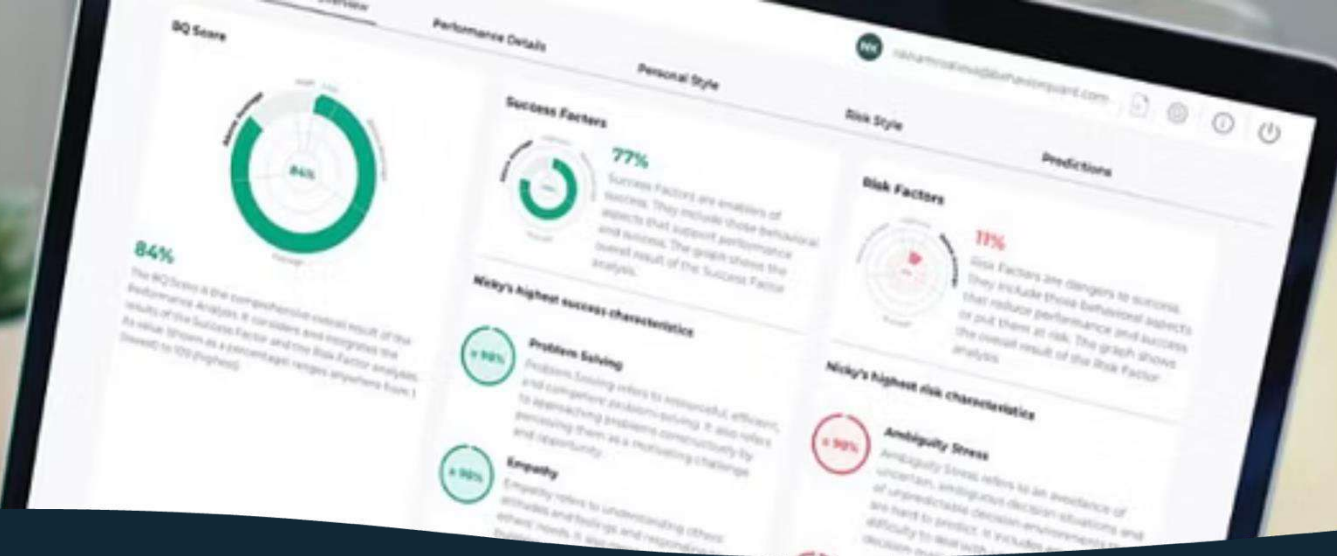
Science and tech to help you see things from your client's  
perspective



# The Challenge

"Many advisors still rely on gut feeling or traditional risk questionnaires — but is that enough in today's fast-changing world?"





# The BehaviorQuant Solution



## Psychology-Based

Leverages research from behavioral finance and psychology



## Personalized

Tailors advice to each client's unique psychological profile



## Data-Driven

Uses scientific methods to measure client traits and preferences

# Agenda

1

## Advanced Risk Profiling

Beyond basic questionnaires

2

## Personality Traits

Understand the client's core

3

## Decision-Making Style

Tailor advice to how clients think

4

## Mitigating Biases

See the whole client

5

## Personalizing Portfolio Theory

Bridge finance and behavior



her **risk capacity**, which

to take financial risks  
es the level of risk she  
vestments. To  
consider not only her



cope to take risk in new  
financial losses. It  
financial status, income  
d investment size.  
levant information is



## Portfolio Fit Expl

This table shows the p  
risk capacity (orange).  
balancing personal ris

Changes in Irene's ris

RESULT	R
Tolerance	
Portfolio Fit	
Capacity	

# Advanced Risk Profiling

Moving beyond simplistic questionnaires



# The Problem with Traditional Risk Profiling

- Too Simplistic**

One-dimensional "risk number" approach misses crucial nuances
- Self-Reporting Errors**

Clients often misjudge their risk comfort until faced with tangible scenarios
- Missing Inconsistencies**

Fail to catch differences between stated preferences and actual decision-making



# Advanced Methodology



## Psychometric Scales

Validated by research



## Scenario Exercises

Simulates real decisions

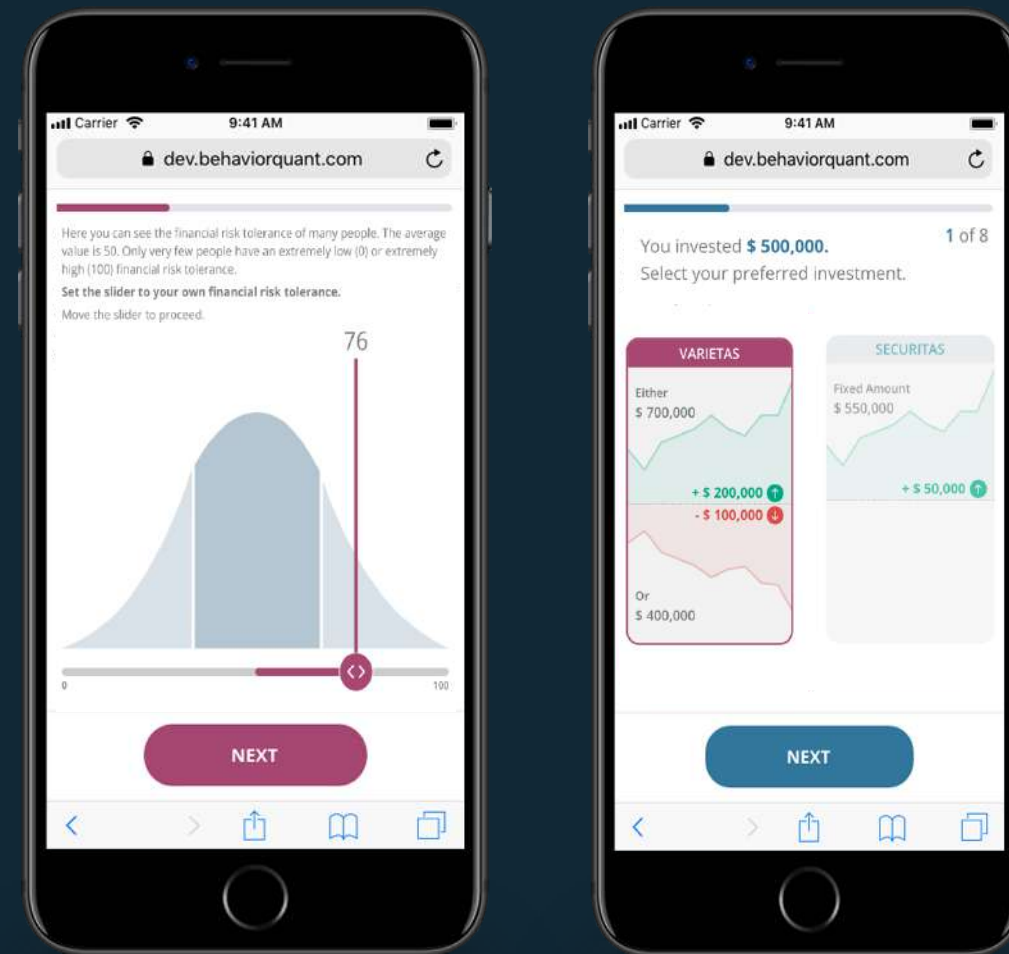


## Cross-Verification

What clients say vs. how they act



# Measuring Risk



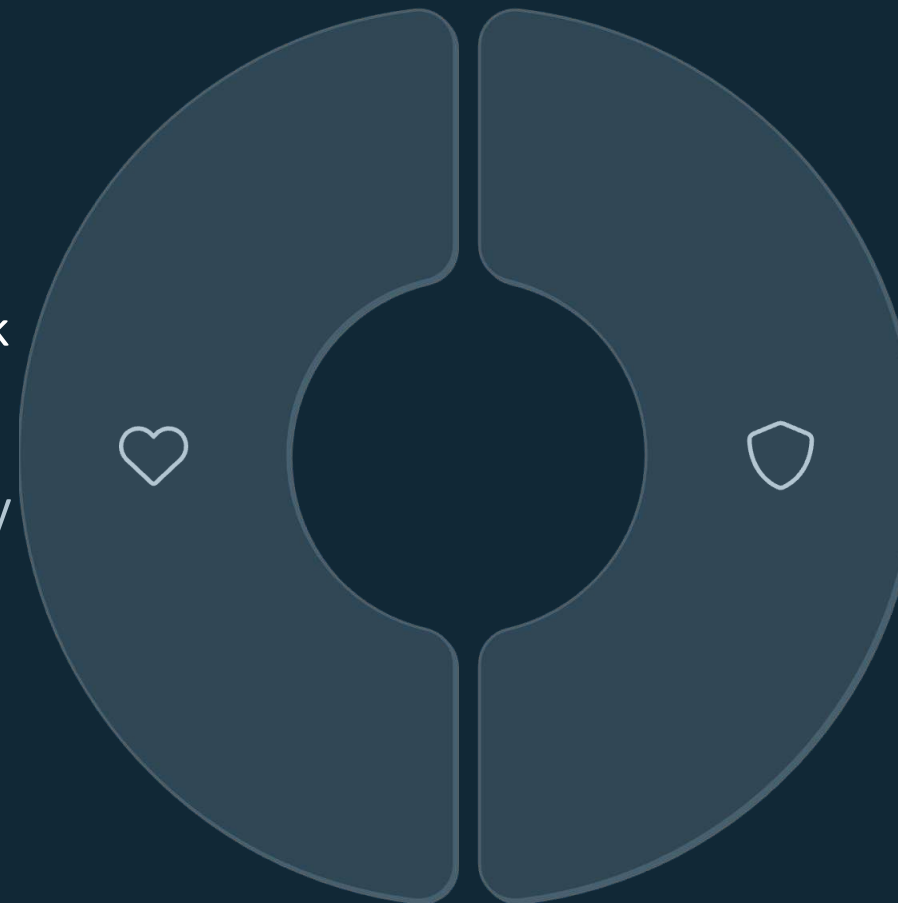


# Components of Risk

## Risk Tolerance

Psychological willingness to take risk

- Personality-based & situational
- Emotional comfort with uncertainty
- Psychometric scales, outcome scenarios



## Risk Capacity

Financial ability to take risk

- Income stability
- Time horizon
- Financial flexibility



# Case Study: John

## Initial Impression

Advisor labeled John "aggressive" based on confident talk about volatile stocks

1

## Hidden Truth

2008 market crash had scarred John more than he let on

3

## BQ Assessment

Revealed high risk tolerance but low risk capacity (near retirement with little cushion)

2

## Better Outcome

Growth-oriented portfolio with added safety nets to match true profile

4

# End-to-End Risk Profiling

## Separate Scores

Distinct tolerance and capacity metrics

## Mismatch Alerts

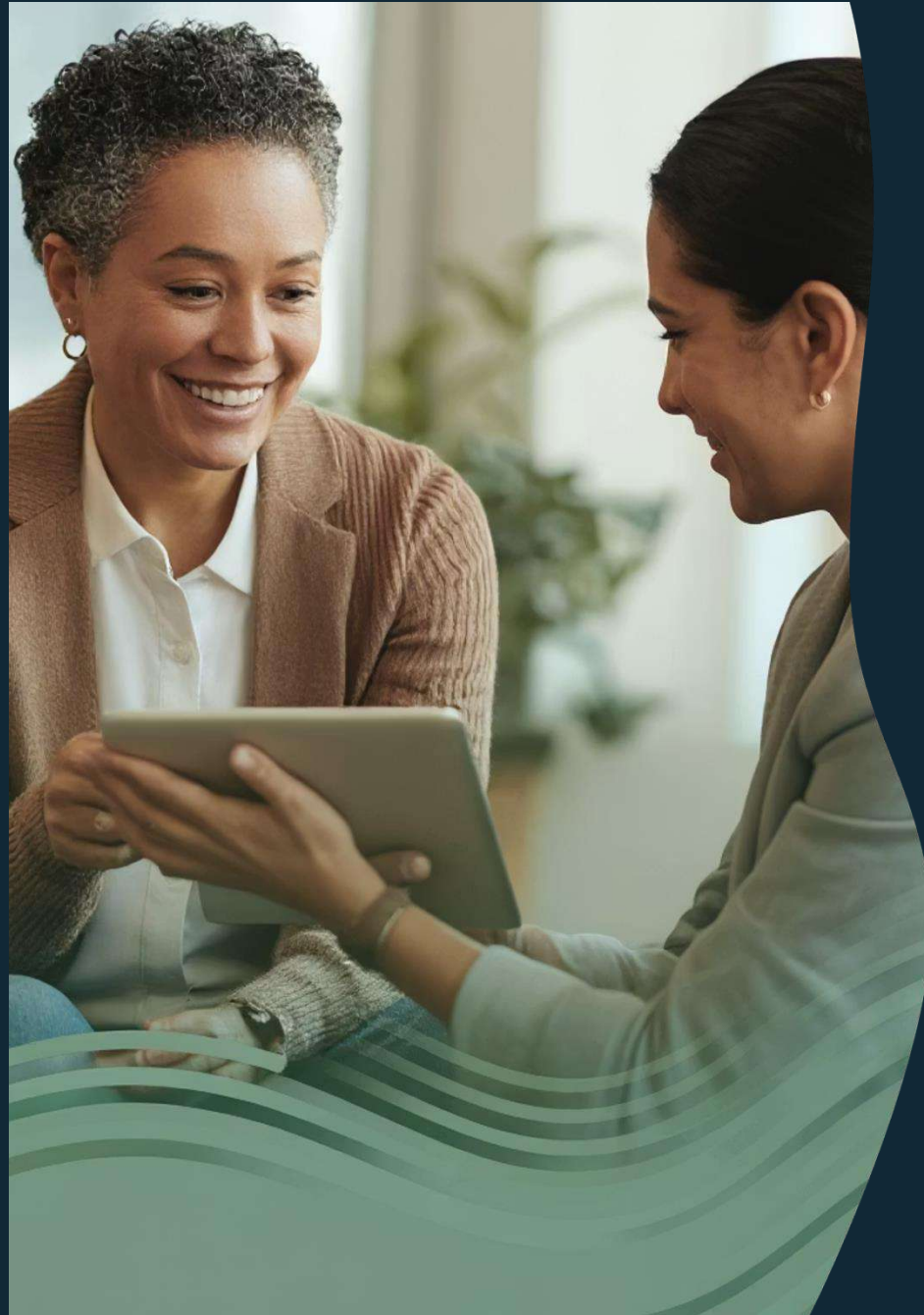
Flags when willingness exceeds ability

## Portfolio Links

Links profile directly to investment recommendations



# Benefits for Advisors and Clients



## For Advisors

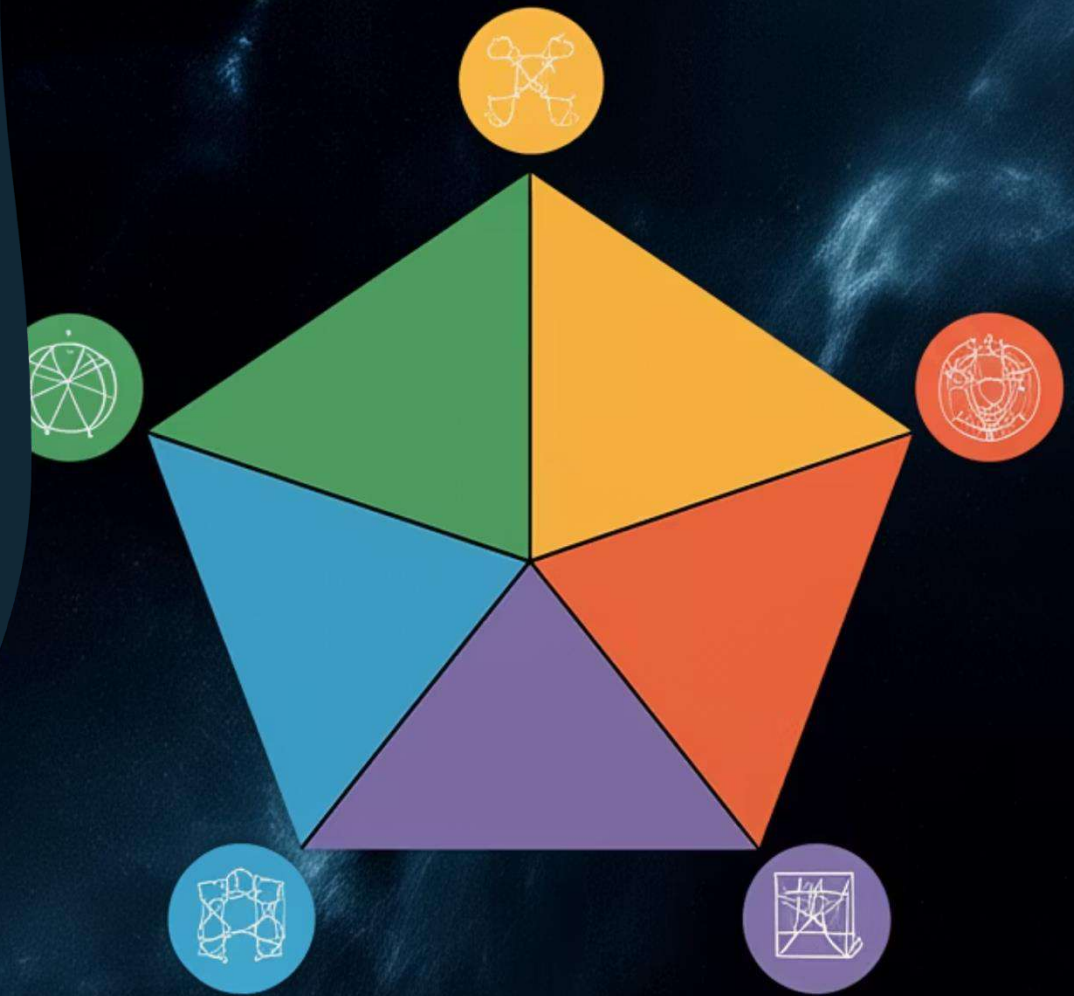
- More accurate client assessment
- Better-suited investment recommendations
- Fewer nasty surprises
- Foundation for nuanced conversations

## For Clients

- Protection from overestimating risk appetite
- Confidence in thorough, scientific approach
- Better portfolio alignment
- Stay the course during volatility

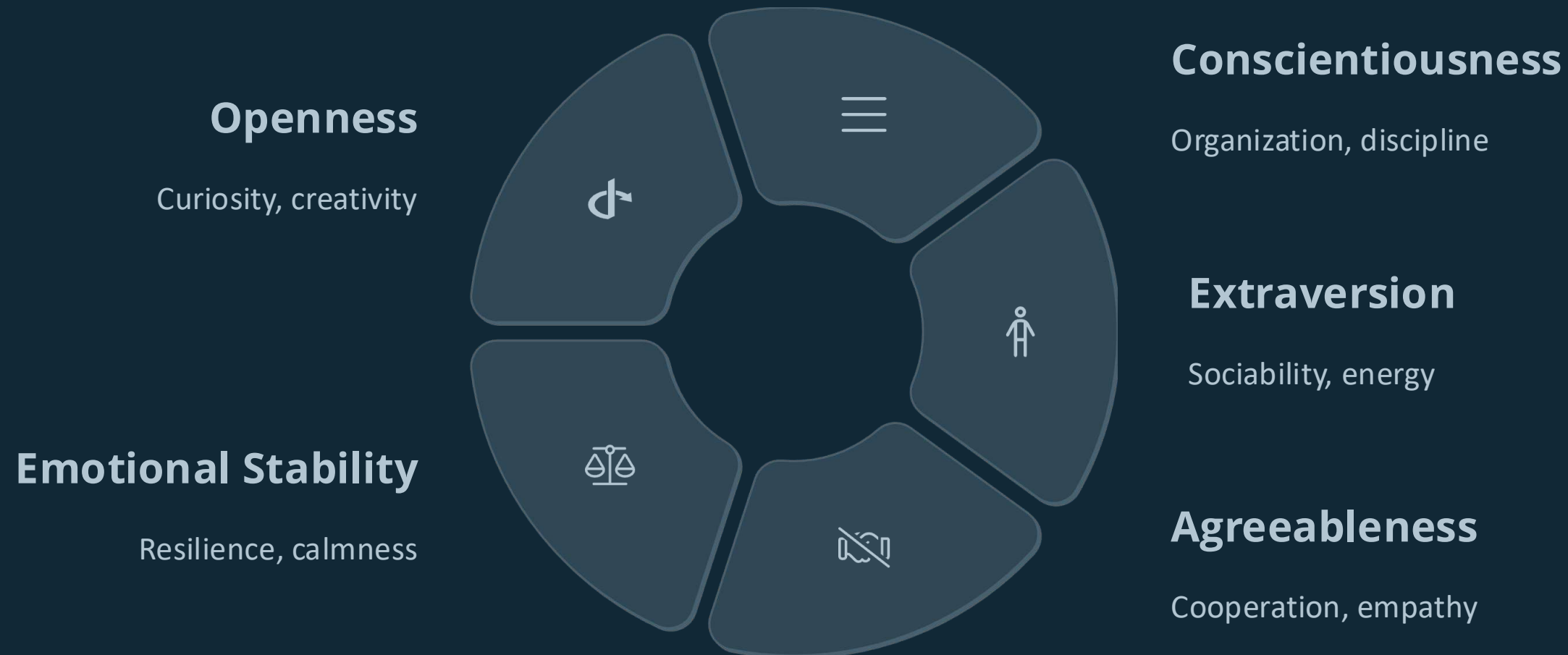
# Personality Traits

Understanding the client's core



**Big Five  
Personality Traits**

# Psychology's Gold Standard





# Why Personality Matters in Financial Advice

"If you understand a client's personality, you can better anticipate that client's financial decisions and needs."

Big Five traits and decision-making style help predict investment choices and portfolio outcomes  
(Jiang et al., 2024)



# Beyond the Big 5: The Bandwidth-Fidelity Tradeoff



## Bandwidth

Broad personality traits provide coverage, but client nuances can be lost



## Fidelity

Detailed facets for higher accuracy in key client aspects

# Personality in Action

## Alice: High Conscientiousness

- Organized and detail-oriented
- Reads every detail of financial plans
- Craves structure and thoroughness



## Bob: High Extraversion

- Outgoing and excitement-seeking
- Prefers big-picture overviews
- Loses interest in details





# Case Study



## Discovery

Advisor learns long-term client has very low Emotional Stability



## Insight

Explains why client panicked during past market dips



## Adaptation

Advisor proactively reaches out during next downturn with extra reassurance



## Result

Client stays calm and keeps investments on track



# How BQ Measures Personality

## Comprehensive Questionnaire

Scientifically validated questions measure all five personality traits

## Detailed Trait Scores

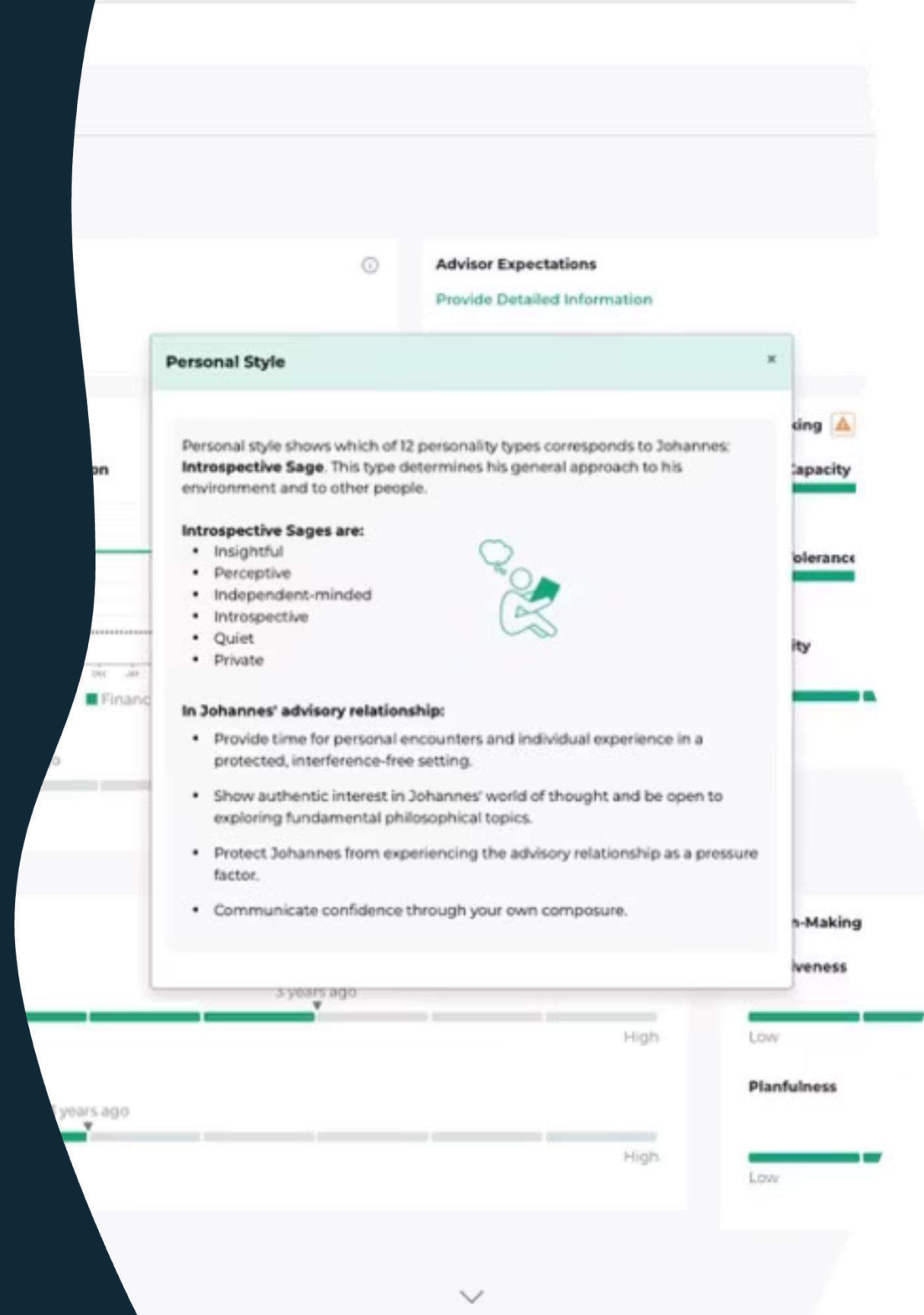
Goes beyond simple labels to quantify each dimension

## Memorable Personality Types

Distills combinations into relatable labels like "Prudent Guardian" or "Efficient Manager"

## Actionable Insights

Highlights behavioral patterns that matter for financial decisions



# Personality Insights: Benefits

## For Advisors

Truly personalize communication & advice

Example: Checklist for conscientious clients

## For Clients

Feel genuinely understood

Trust boosted when advisor "gets" them

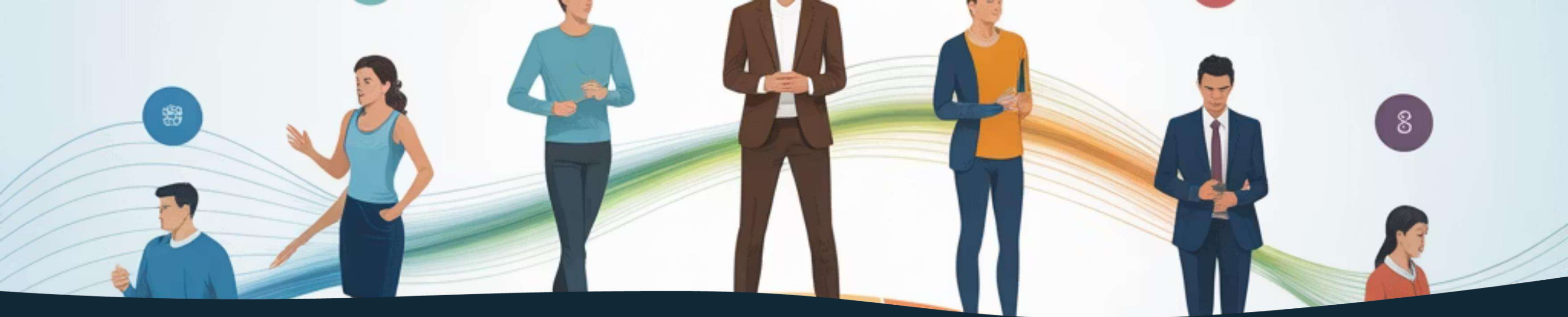
Clients value trust more than performance (CFA Institute, 2022)



# Decision-Making Style

Not all investors make decisions the same way





# The Decision-Making Spectrum



## Fast vs. Slow

Quick, decisive action vs. careful deliberation



## Intuitive vs. Analytical

Gut feelings and stories vs. data and logic



## Confident vs. Cautious

Self-assured vs. seeking reassurance

# Aligning Advice with Decision-Making Style

## Client X – Driven by Emotion



### Goes with their gut

- Feelings and intuition
- Stories and analogies
- Personal connection

## Client Y – Driven by Analysis



### Wants the numbers

- Data and research
- Charts and statistics
- Logical reasoning

# Aligning Advice with Decision-Making Style

Client X



## Story-Driven Confidence

- Stories, analogies, and real-world scenarios
- More likely to follow advice
- Use real-world examples & emotional context

Client Y



## Data-Driven Conviction

- Numbers, performance data, and visual stats
- Advice better when quantified and clear
- Provide detailed data and systematic analysis



# Case Study: The Couple

## Before

- Challenging Meetings
- Husband big-picture, intuitive
- Wife detail-focused

## After

- Visual summaries for husband
- Detailed documentation for wife
- Couple finally agreed





# Decision Style Insights: Benefits

## For Advisors

- Prevent miscommunication
- Boost client satisfaction
- Easier "yes" to recommendations

## For Clients

- Information in preferred format
- Better understanding and recall
- More confidence in decisions

"Wow, my advisor really speaks my language."



# Mitigating Biases

Seeing the whole client: Mitigating biases with objective profiling

# Mastering Bias for Advisory Success



## False Consensus Bias

"Everyone is like me" - Assuming clients share your preferences and risk tolerance



## Halo Effect

Letting one standout trait create a misleading impression of the whole person



# “Everyone is Like Me” Case Study

1

## Initial Assessment

Karen, cautious by nature, assumes her young entrepreneur client is conservative like herself

2

## Reality Check

Client later pushes for bold, aggressive investments, revealing a mismatch

3

## BQ Assessment

Questionnaire reveals client's true preferences

4

## Client Admission

Client had toned down answers initially, sensing Karen's conservative approach





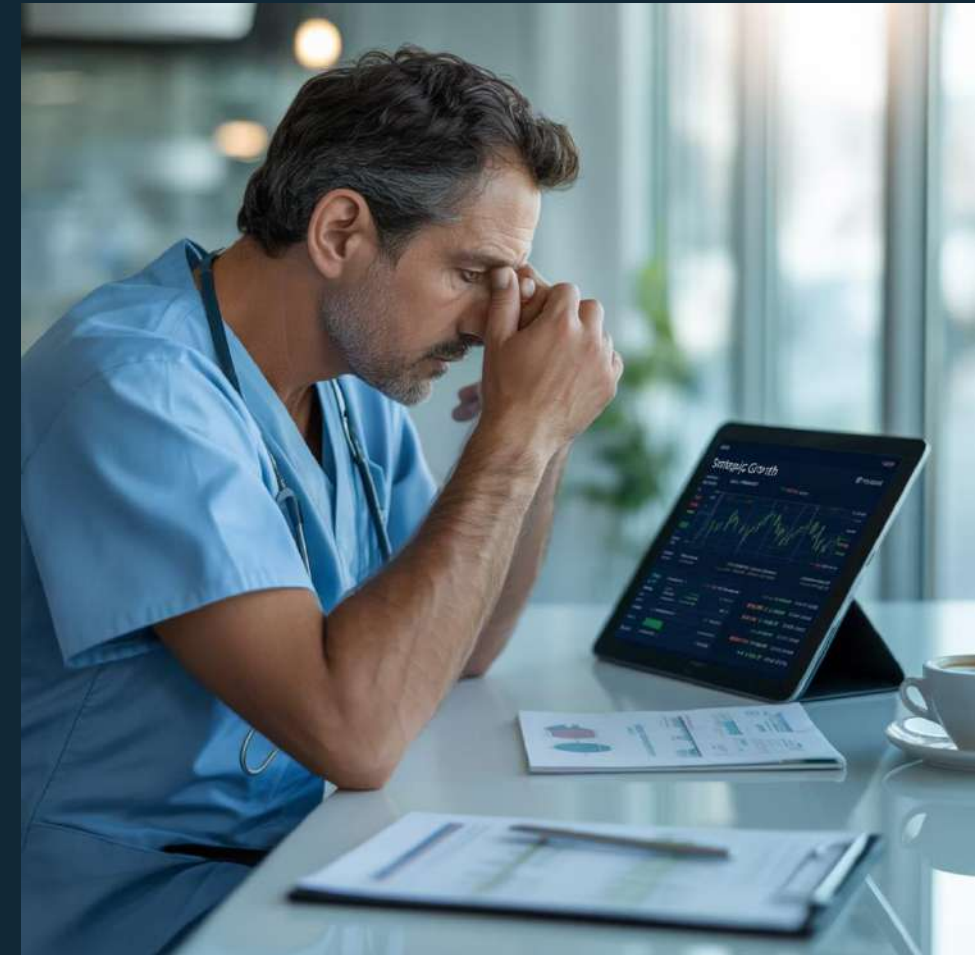
# The Halo Effect

## The Assumption

A brilliant surgeon is assumed to be a naturally savvy, calm investor

## The Reality

- Excellence in medicine doesn't guarantee financial know-how
- Multi-dimensional profile reveals low financial confidence
- Despite high intellect, high anxiety about losses
- Requires very different approach than initial assumption



# How Behavioral Technology Turns Bias into Better Judgment

## Impartial Data-Driven Analysis

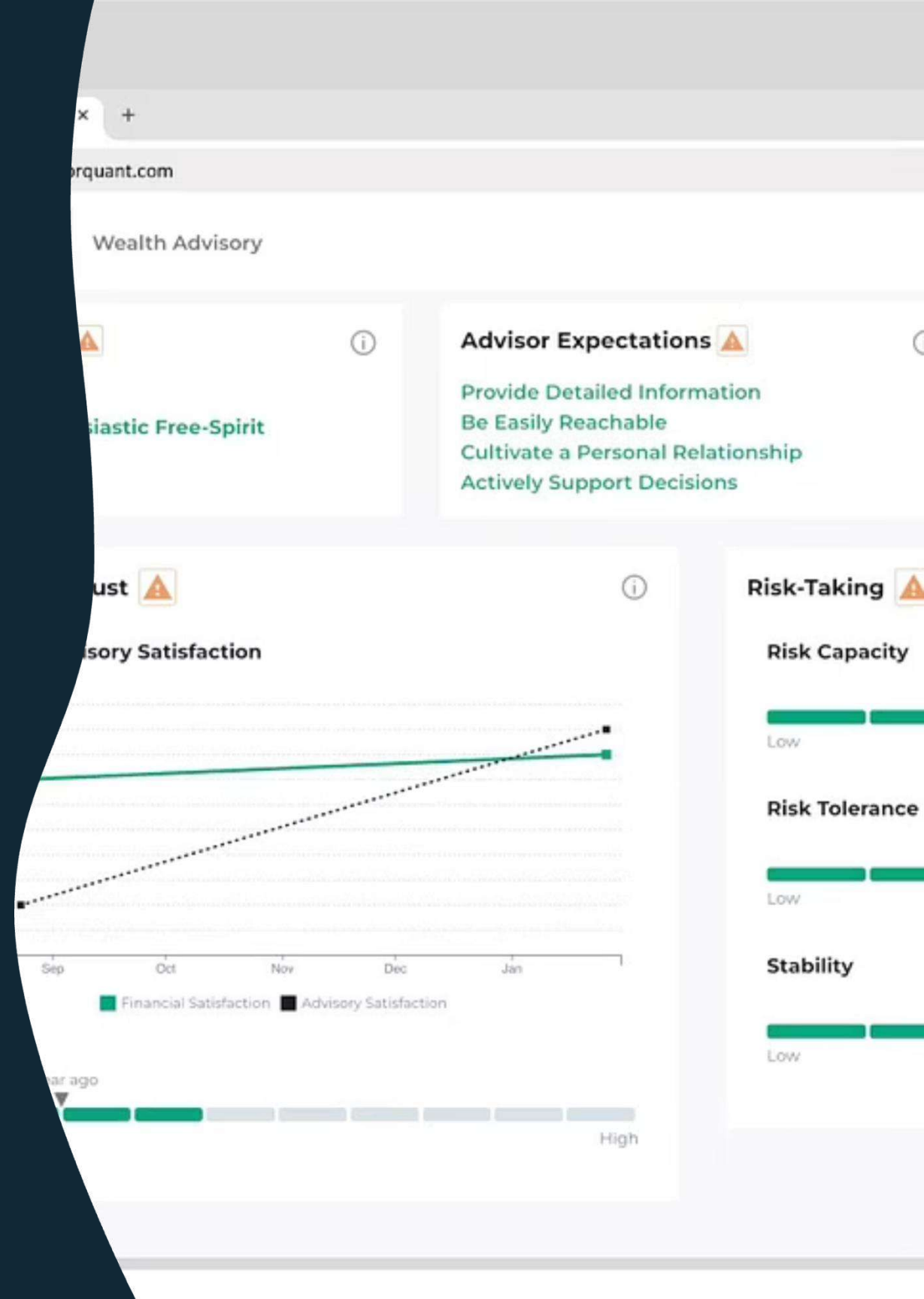
Comprehensive profile across key factors like risk tolerance, personality, and decision style

## Concrete Metrics

Anchors advice in facts, showing where a client stands relative to others

## Intuition Check

Highlights conflicts between advisor intuition and objective data



# Understanding Clients without Bias

## Benefits for Advisors

- More precise recommendations
- Fewer misjudgments
- Data-backed advice is more persuasive
- Safeguards practice
- Enables personalization at scale

## Benefits for Clients

- Advice tailored to real profile, not assumptions
- Feel truly heard & understood
- Gain self-awareness
- More likely to stay the course
- Higher confidence & trust in advisor relationship



# Personalizing Portfolio Theory

Bridging finance and human behavior



# Two Worlds to Bridge

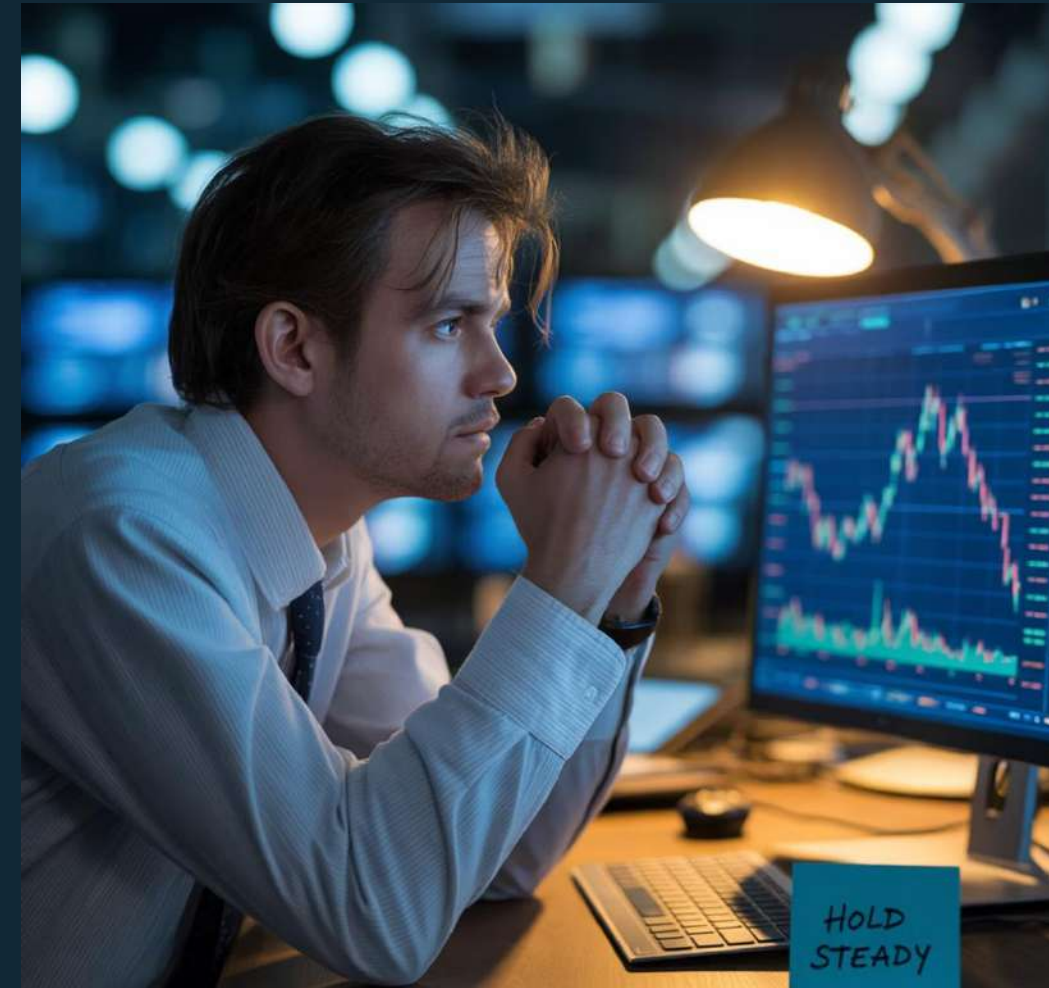
## Modern Portfolio Theory

- Diversification principles
- Efficient frontier concepts
- Risk-return tradeoffs
- Mathematical optimization



## Human Reality

- Emotional responses to risk
- Behavioral biases
- Individual comfort with volatility
- Decision-making under stress



# Traditional Approach vs. Behavioral Technology



## Advisor A: Traditional

Uses standard questionnaire, puts client in typical moderate portfolio, explains with statistics and standard deviation charts



## Advisor B: Using BQ Insights

Profiles client, reviews historical performance including worst-year scenarios, ensures emotional comfort with potential losses



# Integrating Finance & Psychology



## Finance & Portfolio Theory

- Model portfolios aligned with risk profiles
- Historical market data analysis
- Evidence-based investment strategies



## Human Psychology

- Client's unique emotional inputs
- Cognitive biases assessment
- Clear, client-friendly explanations

# Printable Annual Client Report

- Deepens Client Relationships
- Supports Transparent Communication
- Enhances Compliance & Documentation
- Enables Better Yearly Conversations
- Differentiates Your Advisory Service





# Benefits of Integrated Approach

## For Advisors

- Efficient, ready-to-use talking points
- Stronger, more convincing advice
- Shift from opinion to evidence-based recommendations
- Compliance with professional standards

*"Here's why this fits you – and what you can expect."*

## For Clients

- Rational strategy that fits comfort zone
- Better understanding of plan logic
- Greater ease with investment approach
- Less likely to panic during market dips

*"We planned for this."*

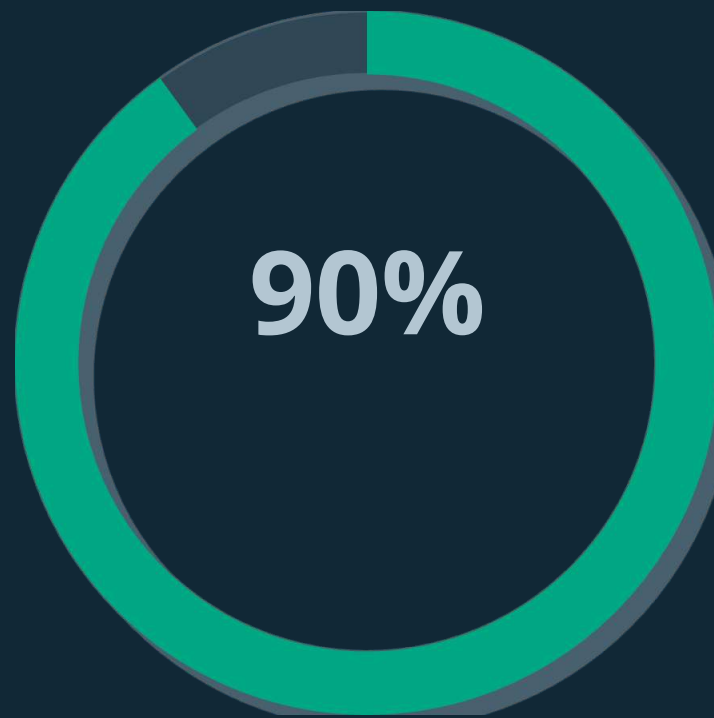
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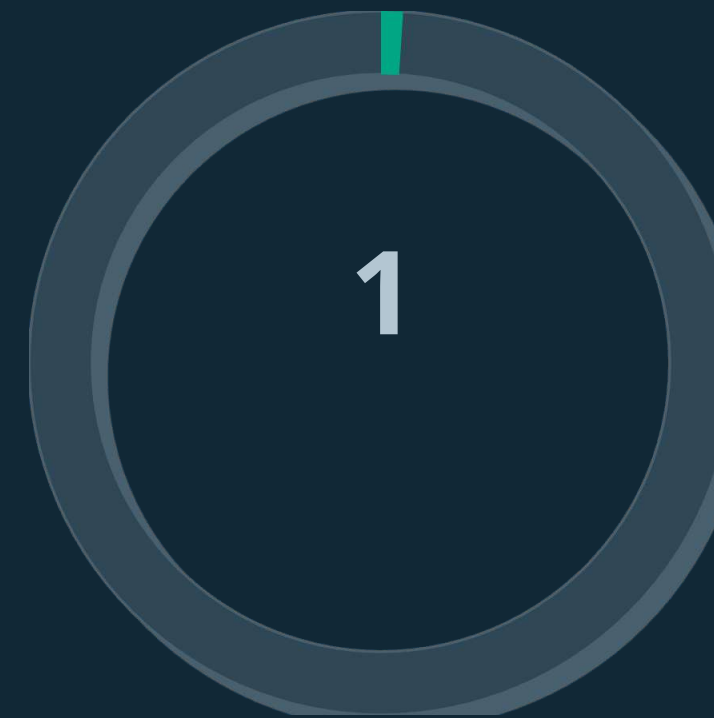


# The Client Experience Gap



## Too General

Percentage of wealth advisory clients who say the advice they receive felt **"too general"**



## Top Expectation

**"My advisor understands me as a person"** is the #1 client expectation

(Accenture, 2021)

# The Business Impact

**3x**



**Larger deposits**

From existing clients

**Stronger loyalty**

Higher satisfaction

**Higher acquisition**

More new clients

## Why?

Better client experience and higher client satisfaction.

(Charles Schwab, 2023)





# Ready to Benefit from Behavioral Insights?



Products ▼

Certificate

Benchmark

Insights

Company

Become the  
Advisor Your  
Clients Love

Start Free

Start Your Free  
Trial Today

