



FINANCIAL PLANNING

"OUR BEHAVIOUR WHEN IT COMES TO MONEY DEPENDS LARGELY ON TWO INTERLINKED COMPONENTS: NATURE AND NURTURE."
- PAUL NIXON, HEAD OF BEHAVIOURAL FINANCE AT MOMENTUM INVESTMENTS

WHY YOUR CLIENT'S "MONEY FINGERPRINT" IS IMPORTANT

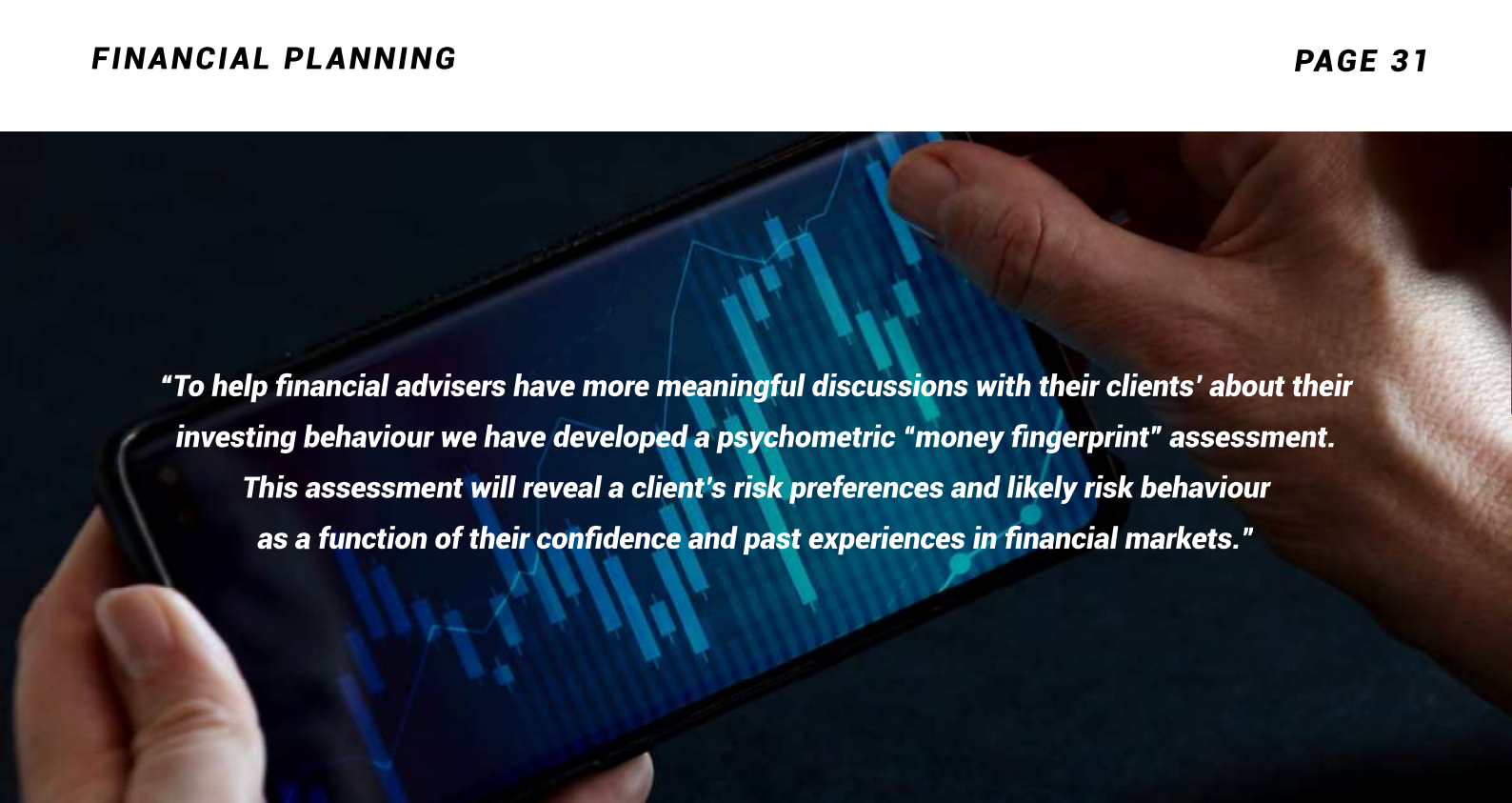


Paul Nixon, head of behavioural finance at Momentum Investments

The role of money in society has most certainly evolved. It is no longer merely a medium of exchange. Money has become an important source of wellbeing and happiness, and the lack thereof has become an important predictor of stress.

Our behaviour when it comes to money depends largely on two interlinked components: nature and nurture. The age-old debate in understanding human behaviour is no longer an issue – it's not nature versus nurture but both. We possess "factory settings" that are passed down through our genetic code (nature) represented by our personality or characteristic behaviours, but our values, attitudes and beliefs are more transient and tweaked by the people around us and societal factors (nurture). Blending these two helps us explain money behaviour.

For example, the personality trait of "broadmindedness" or "openness" refers to our inherent curiosity. Are you reading five books at any one time struggling to finish one? You may possess this personality trait which helps to explain the behaviour in this context, namely struggling to finish a task and being easily distracted. This trait also may contribute to a value system that life is about experiencing different things. This means saving may be quite difficult for a person like this. Your belief system (the way the world works) formulates a value system (you value experiences) that informs your attitude towards money (spend versus save). Spending money now on a mountaineering expedition is worth it because life is about experiences, right? This chain is linked to your money behaviours because you may be more present-oriented or living life in the moment – all stemming from your personality, values, beliefs, and attitudes.



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We can therefore think of our factory settings, or traits that are inherited genetically, as predisposing us to behaviours in different contexts over our life and childhood development (being quiet and more reserved at school or being more empathetic and social-relational or agreeable, for example). Our relationships and experiences, however, will assist in forming values, beliefs and ultimately attitudes about important things, such as money.

The same personality trait of broadmindedness can be moderated and manifest in a different attitude under different circumstances (environment). For example, growing up in a household where money is scarce may formulate the belief that money is the key to happiness. Think of being in a shopping mall and seeing other children on those rocking horses that require a token to ride.

Being told there is not enough money for this experience may be teaching something to a child who now associates money with enjoyment. The personality trait or factory setting can exacerbate this because the child could be naturally inclined to be more present-oriented, or a more traumatic experience may push development into a belief that money is so important it should be retained, or even hoarded, at all costs.

In this case money, or the lack thereof, contributes to excessive anxiety. During the COVID-19 period South African investors destroyed over R600 million in value by changing their investment strategy switching between funds in response to market events. They incurred a behaviour tax by switching funds, which is the difference in future performance between the funds switched from and the funds switch to.

At Momentum Investments we understand that investing, and indeed money behaviour, is incredibly personal. To help financial advisers have more meaningful discussions with their clients' about their investing behaviour we have developed a psychometric "money fingerprint" assessment. This assessment will reveal a client's risk preferences and likely risk behaviour as a function of their confidence and past experiences in financial markets. Importantly, the assessment will also enable financial advisers to assess their client's money attitudes and even personality that will encourage reflective conversations with clients. These conversations can help to develop for example stress inoculation plans to ultimately manage or even eliminate the investor behaviour tax for clients.

Investing is personal, and we believe that the financial adviser is an integral money coach in managing clients' money behaviours for a happier and more successful relationship with money, which ultimately forms a solid foundation for clients to achieve their investment goals. If you would like to find out more you can contact Paul Nixon at paul.nixon@momentum.co.za.