EPISODE 45

Preparing for a Changing World: Advice that Sticks with Dr. Moira Somers

[INTRODUCTION]

[0:00:05.8] Benjamin Felix: This is the Rational Reminder Podcast, a weekly reality check on sensible investing and financial decision making for Canadians. We are hosted by me, Benjamin Felix and Cameron Pass Mark. Our guest today was all about financial decision making. Really, right?

[0:00:21.3] Cameron Passmore: Yeah. Dr. Moira Somers. She was phenomenal. We reached her in Winnipeg and I came across her, I don't know, on a blog or a tweet or something a few months ago and reached out to her and she graciously came on.

[0:00:29.7] BF: You read her book.

[0:00:30.1] CP: I read her book twice. I think it's a phenomenal book. Certainly is targeted to our profession, but I think it's a good read for anyone, frankly, looking to get advice so she's has a PHD and as a clinical neuropsychologist and call yourself a wealth psychologist.

[0:00:45.9] BF: She's carved out this niche for herself where it sounds like from our conversation she's dealing a lot with wealthy families and families who've come in to sudden wealth and helping them deal with all of the non-financial aspects of those things happening.

[0:01:00.4] CP: And then helping them determine what type of advisor is best for them and what skills they have. That can best suit them as clients and then she also coaches the industry on how to be great advisors for clients.

[0:01:11.5] BF: Yeah, I could've kept talking to her for another hour.

[0:01:14.7] CP: She a fascinating,

[0:01:16.2] BF: Yup. Well there you go. Enjoy the episode.

[0:01:23.5] CP: This week we are joined by a guest that I've been looking forward to speaking with ever since I read her a terrific book called advice that sticks and I read it earlier this year.

Dr. Moira Somers, welcome to the Rational Reminder Podcast.

[0:01:35.8] Dr. Moira Somers: Thank you so much.

[0:01:36.9] CP: You are a wealth psychologist. Can you describe what you do and for who?

[0:01:42.3] MS: A lot of the work that I do, Cameron, is for financial advisors. I train them on how to work more effectively with clients around their financial decisions that they have to make.

Money is an extraordinarily complex domain, made more complex because of the degree of emotion that attends most people's financial conversations and decision making, and so I help advisors have more productive conversations with their clients. Then I also work with families directly helping them make decisions about how they want to have money show up in their family lives.

[0:02:26.1] BF: It's a fascinating field. How did you get get into it? How did you get interested in this, in the intersection of the quantitative aspect of money, I guess, and how that combines with the psychology, which is also so important.

[0:02:35.4] MS: I worked for years as a neuropsychologist and it was always striking to me how much peoples, how much that emotion around money affected their recovery when they got involved in accidents, when they were injured on a work site, or when they were hit with some pretty nasty neurological diseases, dementing processes or multiple sclerosis or Parkinson's disease.

And what struck me was that it wasn't just sort of their level of net worth that determined the outcome, in a lot of these cases, it was their level of centeredness and comfort in dealing with finances. So if, for example, before they were injured, they had known how to live below their means. They had known how to have productive and caring conversations about money. Those skills stood them in good stead after they were injured.

But if they went into the accident as a financial hot mass than it really compromised their recovery, it delayed their recovery in some ways, it totally inhibited it. And I just began to be more and more intrigued by that and got into the emerging new field of neuroeconomics and behavioral economics and it just kinda took off from there.

[0:04:01.6] CP: So interesting.

[0:04:02.3] BF: It is absolutely fascinating and we live this every day with people and so many people have such success in many cases because they do live below their means.

So you're, your book is a great resource for us as advisors and helping deliver value to clients. But I guess this is also a great tool for consumers to use their own self reflection. Would you agree with that?

[0:04:25.7] MS: You know, I haven't had a lot of feedback from consumers. I've had a lot of people say they were buying it for their advisors, however, which is, it's kind of funny. But I guess they recognized in the book that there were certain ways of behaving and interacting that was making the advising relationship kind of awkward or painful. And they, they recognized that there were some ways of getting better at that.

[0:04:49.2] BF: That makes a lot of sense. What do you think that, based on what you know about the psychology of money and and how people tend to behave around it, what do you think it takes for someone to be a truly successful, do it yourself, investor? So what does it take for someone to be successful without an advisor?

[0:05:06.8] MS: Oh boy. I think that they have to have a really disciplined process for however it is that they're going to be making decisions and then later on evaluating the effectiveness of their decisions. I think a lot of the times it becomes way too much like gambling, just chasing the latest hot tip, remembering successes and trying almost in a superstitious way to recreate them chasing losses.

We know that there are all kinds of cognitive biases at operation in all of us that can make do it yourself investing very tricky. And so I think that whether or not they have an advisor whose, you know, if they choose to not have an advisor directing their investment decisions, they at least need to have somebody who can, that they can toss ideas around with, somebody who thinks differently with from them. Somebody who won't just engage in a kind of confirmation of existing biases or shared biases. But somebody who will make them look long and hard about how they want to go about doing this.

[0:06:18.4] BF: That gives really interesting perspective on the value of having an advisor that can give that perspective. When people do make the decision to seek financial advice, do you think it's generally to fulfill a technical need, like the, the desire to have the perfect asset allocation or do you think it's more to fill an emotional need?

[0:06:38.6] MS: The data shows that most people reach out for financial advice at at least they make that initial call when they are in the middle of a big life transition or when they've just gone through it.

So for example, they may be contacting a planner for the first time because they just got their first full time job and they want to figure out what to do with these earnings while they're also paying down some student debt or perhaps they're reaching out because they just got married or they're about to get married.

I'm having a lot of people reach out to me. It's an interesting phenomenon and I'm wondering if you're seeing this. People reaching out because they're about to remarry or repartner, they recognize that financial stress or financial discord may have played a negative role in their previous relationship and they want to do it better this time around. I'm quite struck by people's clarity of thought around needing both the technical advice and some support for dealing with those relational aspects or emotional aspects of things.

[0:07:49.5] BF: That is, that's so interesting. That's not something that I've seen, but what I have seen, which is much less healthy than what you just described is people on a second relationship who choose to keep their finances extremely separate.
[0:07:58.2] MS: Yeah. I would love just to have a cool second conversation about what are the options for people who, you know, really truly do want to show up wholeheartedly and sharing their lives with somebody new but who just don't want to get burned again.

And, you know, I'm struggling with, you know, how, how we help people rebuild trust before they get married. You know, if it isn't really rebuilt yet, then perhaps you shouldn't be getting married. But on the other hand you don't have to do it the way you did before that, that didn't work so well for you. So I'm really keen to find out about different models of commingling finances, uh, particularly if there's been stress in the past around that.

[0:08:46.7] BF: Is that something that you've done a lot of thinking about it?

[0:08:49.3] MS: It is, mostly because it just keeps being presented to me. You know, last week I had, just last week I had an a new couple come to my office with this very dilemma, pretty different earning capacities, pretty different salary levels, vastly different debt levels.

And you know, just the issue of when you marry somebody, do you marry their debt? When you marry somebody, do you, should you just jump in and try and rescue them with the debt? Is that the loving thing to do if you have the capacity to do that? Or is that a little bit like jumping in a lake to, to save a drowning person, thereby putting yourself at risk?

What's the right kind of financial life preserver to throw somebody? Should you just wait until that is cleared up before you get married? You know, there, there's just a lot of different, a lot of different issues that are considerations that go into this issue. And I think especially now as we get into a pretty big phase of wealth transfer, you know, as we go from the baby boomers to their children or from the baby boomers his parents down to the boomers and as we head into the phenomenon of great divorce, we really do have to try and figure out some, some new models of doing this.

[0:10:09.4] BF: So what did you tell the couple?

[0:10:11.1] MS: Well, in that particular case, what was clear was that the debt was putting unbearable strain on the relationship and that, you know, no matter what happened, it was going to involve some sacrifice and, and what was going to feel like a setback in terms of lifestyle for the person who was really indebted.

But I strongly advised that party to sell some assets including ones, including a home in order to clear off the debt. Essentially because the debt made the net worth less than zero anyway. So realizing the equity in the home in order to pay off the debt and then together they could work to settle, you know, to set themselves up for shared, you know, a shared home in the future that they both got to contribute to. But otherwise otherwise the, the writing was on the wall that the relationship was just not going to be able to make it.

[0:11:10.7] CP: Wow. So I have a question for you about choosing an advisor and you wrote in the book that all decisions have an emotional component to them. So I'm curious how consumers can learn to choose an advisor that is best for them versus one that feels right for them. How can a consumer makes that choice?

[0:11:30.4] MS: It is tricky because we know that it has to be more than just making you feel good. So checking out credentials is one thing. And, and checking out that there haven't been ethical complaints lodged, you know, doing, doing your sort of due diligence in that regard and shopping around a little bit.

I think there's nothing wrong with kicking the tires and having, um, asking for a meeting with four or five different advisory firms and seeing what they bring you, seeing what they would have to do. With any luck, this is going to be a very long term relationship. And so it's important to get it right.

What I tell people is that you have to imagine going through some of the hardest times in your life, in the future, as well as imagining going through some of the best times in your life because that person is going to be invited into those alongside you. So if the guy or the woman makes you grit your teeth now when you're in a fairly, you know, in a state of relative calm or equanimity, imagine having to deal with that person if you are just bereaved or imagine having to talk to that person if you, if you had an adult child who was really struggling and was causing considerable strain on your personal finances.

There has to be a degree of sort of safety and comfort with that individual or else they'll become, you will become one of the 70% of people that ends up firing advisors during these times of big life transitions.

[0:13:01.1] CP: Wow. Can you talk a little bit more about that statistic that you just cited?

[0:13:06.6] MS: Yeah, it's, it's pretty robust. In fact, in some areas it's even higher. We know that widows, for example, fire the advisor that worked with them as a couple 70 to 80% of the time within about a three year period of being widowed. And some of that, you know, may just be that he or she has moved to a new community, and can't transfer the adviser to that new jurisdiction.

But often it's because there was inadequate attention paid to the relationship while the departing spouse was still alive and the widow or widower just never really felt comfortable with that person. And so comfort is important, but it's, you know, we also need to look for somebody in an advisor who is willing to challenge us. So we don't just want a lap dog, you know, we don't just want somebody who will do our bidding.

If two brains are to be better than one or three brains or to be better than two, then we need that person to ask some hard questions sometimes and to tell hard truths to us or to check what may be an impulsive style or to prod us if we tend to be a little pokey, in terms of getting decisions done.

We want them to be like Mary Poppins. They need to be practically perfect in every way and in not just giving, telling us what we want to hear. But certainly we need them to feel like they could be of a trusted thinking partner for us.

[0:14:39.7] BF: I've got a question that that kind of leads from that where a surface is like Wealthsimple, their, their new generation service that they've launched, which is supposed to be more of a wealth management type for their, their online clients that have over half a million dollars.

But you don't get, you don't get face to face meetings. And you don't get the same, I don't think extent of relationship that you would have when you have those face to face type interactions. How important do you think that type of face to face human interaction is in the, in the financial advisor relationship?

[0:15:10.3] MS: I think time will tell. I think the data needs to come in on that. My sense is that the best, the best results will come from somebody that you formed a longterm relationship with.

Somebody who can help you make trade offs based on a keen appreciation of your values, of your history, of your aspirations.

And certainly a lot is lost in the telephone contact or the Skype calls. I think face to face does matter to a lot of people, but I could just be projecting my own bias on to that. And so I'm willing to wait some time to look at the data.

[0:15:54.6] BF: It's interesting. Our sample is obviously biased as well, but one of the things that we see is even with clients who are very, very tech savvy, given the choice, they will always, or at least almost always choose a face to face meeting as opposed to a video call.

[0:16:08.4] MS: Well, what's telling for me is how often parents will bring in their adult children or their, their young adult children and want to sort of place the child's hand and they had of the advisor and say, "I want you to work with Cameron. You can trust him. I want you to form a relationship with him. I want you to get to know him. He's been nothing but good to our family and I want to know that you're in good hands and I want you to know that you're in good hands."

And the fact that that happens so often tells me that the, we have this intuition that having a relationship that's built up over time that doesn't just come about in a crisis or during a major life transition is something that helps prevent regrettable decisions and helps us access our best thinking. But it has to come from somebody who knows us or as willing to get to know us really well.

[0:17:09.7] BF: So interesting because at Questrade, which is a do yourself online brokerage, they have got a commercial that's hitting on that exact interaction where the parents are passing their child to the advisor and the child, I don't remember the exact interaction, but the child is basically saying, well, times have changed. I'm doing it myself now. Yeah. So I guess what I'm saying is it will be interesting to see how, how that transition plays out over time.

[0:17:36.5] MS: Yeah. And what happens to that guy's widow? You know, or when that if that fellow is used to doing the bulk of the, the bulk of the investing, has he made sure bring along his partner every step of the way and what will happen if he's no longer able to do that? What if he becomes incapacitated? Who's there to help the spouse who hasn't been involved?

And so I think if you're bright enough and disciplined enough, yes, you absolutely can do a lot of this stuff on your own. But it's not just for the times when you're at your best that we have to, that we have to consider this. It's for times when we are at our vulnerable or at times when we are at our less than vital or when people around us need some support. We also have to think of it that way.

[0:18:30.7] CP: And when you've been in the business a long time, I've found that you can kind of swing that relationship weight around to get people to change how they behave. I'm curious what your thoughts are are around someone once they've decided that they need to change, but change might be difficult. How can an advisor who's new to the relationship and doesn't have that time in the boat with them, how can they be effective in changing the minds and behavior of a new client?

[0:18:56.4] MS: Well, I think they have to come in with a fair degree of humility that, that they are not the experts, they may be the financial experts, but they're not the experts on this person. And they need to take the time to get to know what matters to that person and to make sure that they have the skills to discern what that is and to discuss what those things are.

So in my book, I talk about the need to establish an agenda with the client at the outset of every meeting and that when you give advice that you specifically ask three questions before you send them out, expecting that they'll do what you've advised them to do.

And those three questions are, do you agree with this advice? If you were to follow it, how would it benefit you? What's your sense of what you'll get out of this if, if you decide to go ahead and implement it? And the third question is what might get in your way? Sometimes people are just too polite. You'll give them the advice and they'll smile and they'll nod at you the whole time. Internally they're going, "Nope, I am not going to do that. Or if I could have done that, I would have done that 10 years ago."

Maybe it's a piece of advice, like you need to get your will in place or you need to, you need to have some pretty frank discussions with your kids about why they're not getting equal inheritances. And if the advisor just sort of says, go do this without checking out whether they have the capacity to do that, whether they have the skills to do that, whether they have the motivation to do that, then the advisor is gonna be very disappointed.

There's evidence that at any given time, only 20% of us are ready, fully committed to implement advice that we're given. 20%. You know, and the rest of the time we might be halfhearted or we meet might be uncertain. We might be here because somebody else told us we ought to be here. There's lots of reasons why we may not be ready to implement. And so the advisor needs to develop skills in those particular areas. In addition to being a thinking partner, the advisor also needs to be good at being an adherence partner or an implementation partner. That's part of — it's not only the advisor's job, obviously it's the client's job too, but the advisor has a huge role to play in that.

[0:21:24.4] BF: How selective the you think that financial advisors should be? So we've been talking about about clients, we've talked a little bit about what a client should look for, but if we flip it around and think about a great financial advisor, how selective do you think that they should be in the clients that they work with?

[0:21:42.7] MS: I think one of the advantages of longevity in this profession is that you do get to get to become more and more selective. If advisors would do one of the things that they're not so good at, which is preparing for their own succession, one of the things that they might be doing more of, or better is recruiting an increasingly diverse team around them to help the people that they don't work so well with.

So maybe there are some advisors who just have a really hard time dealing with clients in distress, and so they constantly botch it with a widowed person or a divorcing person. And so it's good that they know that they are likely to blow those meetings and they can decide then are they going to just transfer that person, this longterm client, and they're going to say, go elsewhere? Or are they going to see if there's somebody else internally on their own team who can take over that valued client at a time when they may not be in touch with the qualities that that made them easier to deal with in the first place.

[0:22:52.6] BF: Yeah, that makes sense.

[0:22:54.4] MS: Yeah. Can you think of people that, you know, when, when you think about all of the advisers, you know, can you think of some of them who, who have really developed kind of a niche area and can afford to turn down people or fire people when they're no longer suitable for them?

[0:23:13.8] BF: I think it's something that, from my experience anyway, in the sample that I have available to available to me, the niche model is less common in Canada than it is in the US and I don't know if that's just because of the size of the market or what, but a lot of firms, from what I can gather in the US are extremely niche, whereas in Canada we just don't have the same, the same structure. But there are definitely firms that have been successful enough to, to choose their clients.

And I think probably one of the benefits of being an established firm as opposed to an upstart. When you're an upstart, you don't have a lot of choice, you need to put food on the table.

[0:23:53.6] MS: That's right. That's right. Yeah. You know, I just really like the idea of recruiting people to work alongside you who are not like you. So that, you know, if you know that you just love working with engineers and you've had 30 years of working with engineers who all have tended to be white men, then does that, what's that do for you when we start getting more and more women are more and more people of color into that profession? And how would you welcome those people into your practice and be able to serve them sensitively and skillfully?

Because there's more to a person's life than just, you know, what their profession is. And as, as we expand who goes into those professions, it can help us to have a more expanded kind of team to deal with them. You can also develop skills interpersonally or, uh, you know, to become better at having more inclusive conversations and inclusive practices yourself. Learning how not to commit micro aggressions. The things that, the, the assumptions we might have, the comments we might make that might inadvertently turn people off.

So there are ways of getting better, as I said at things. The problem with just sticking to one sort of clientele is that people are not static. They they change careers over time and as we've mentioned several times during this call already, they actually, they can change cognitively over time. They can, they obviously will change physically over time and they will have very different emotional experiences over time.

So it's a, it's a skilled advisor who can develop his or her own skills in adapting to those changes and being able to, to walk alongside people even as the clients undergo changes and even as the advisor undergoes her or his own life transitions.

[0:25:48.6] CP: I'm curious about as you as you're speaking, so take someone, for example, who comes into sudden wealth and perhaps at a relatively young age, what traits do you think an advisor should have - what's the best possible coaching they could do for someone in that situation?

[0:26:06.4] MS: I don't know about traits of an advisor, but I can talk about skills of the advisor. The advisor needs to learn how to work with somebody who may be in that kind of hyper excited state. Let's say, it's positive and a welcome sudden wealth experience. So maybe it's a young fellow who's just signed a contract with the NHL, or maybe it's somebody who just won a lottery and they bought the tickets, so they were kind of hoping it would happen.

What we want to do first and foremost is help people decide what absolutely needs to be done right now in the next 30 days to safeguard you and to get you in a position where you can take some time to breathe and come to terms with your new situation and what can be postponed a little while, what can be done within the next six months and what can be done within the next year.

And that just that simple little exercise of creating a space that's free of unnecessary decisions get helps people recover their cognitive and emotional bandwidth. Another really important thing to do in the very first few weeks post a windfall is to help people manage expectations of other people. I've done some work with for the NFL players association. I spoke at a conference for them when the players were in lockout several years ago. And what was clear was how these guys are just viewed as walking ATMs.

People look at them and they see dollar signs and they are, they're constantly having the touch put on them. The same can happen when people sign entertainment contracts, when there's been a public sale of a company that had been held privately up until that point. It can happen if there's been a big insurance settlement and inheritance and for every one of those sudden money events, there's a different set of emotional experiences that attend them and it's important that the advisors know how to ascertain what that is, what the experience is like for them, and that they can help safeguard them from making impulsive and regrettable decisions when they're in that hyper excited state.

[0:28:25.6] BF: That leads really nicely into one of the other questions that I wanted to ask you. It's about the - so we focus on, we focus on fees and investment returns and numbers like that. But I don't think that either we as advisors or do it yourself investors or the clients of financial advisers, I don't think we think about enough about lifestyle choices.

So I don't know if you have any, any obvious or or general changes that most people could make to improve their financial health and maybe their relationship with money.

[0:28:55.3] MS: Oh boy. There's a, I think I've got a laundry list of of stuff. And then if you ask me if I do them all, I will have to admit that I don't always.

You know the biggest thing that you need to do of course is to make sure that you are saving adequately and that you're bringing your spending in line so that you are taking care not only of your current self but also your future self. And people often just are insufficiently in touch with where their money is going and so it makes it hard for them to put aside the money that they need for their future selves.

So job one I think is to have a period every once in a while. It doesn't have to be constant, but of of tracking finances and really getting clear about what's coming in and where it's all going to and asking the questions. Kind of like that house purging guru asked, you know about stuff in your house. Does it spark joy to ask the same of your spending? Is this really where I want my life energy in the form of money to be going?

And sometimes we find that when I have people do these exercises, we sometimes find hundreds of dollars per month. And one case it was actually thousands of dollars per month that was, that was going into unpaid or unused subscriptions for services, online services that they no longer used, bank fees that they were incurring for accounts that were essentially sitting dormant. Overdraft fees that were unnecessary because there was money sitting in other accounts.

It was just remarkable just how unconscious a couple could become. And the good news was that that the, the growing consciousness is something that often allows people to turn their ships around. So becoming conscious of where things are going and making sure that they're going in the direction you want is, is probably job one.

Automating things, so that you don't have to decide again and again and remember again and again what it is you want to be doing is probably the next most sensible thing. I think more and more advisors just do this automatically now. You know, there's a reason why 98% of mortgage payments are made on time every month, and that's because the bank doesn't leave it up to our motivation or our memory to get that mortgage payment from people. They make sure that it happens automatically on people's payday. They pay themselves, they make sure that that mortgage gets paid right away.

And I think that if we would treat our own retirement plans or our own education savings plans or vacation goals in the same way, if we would automate those contributions, if we would automate, the percentage of future pay increases that, that go into our savings, it just makes it that much easier to implement. Pre-commitment automation. Are big friends of ours, in the 21st century and we need to do better at really harnessing that.

[0:32:15.3] BF: Great answer to the question. I've got one last question. I know we're running at a time, we usually ask at the end of each episode how you define success in your own life, but I actually want to pivot from that because you said something during that answer that I found that beyond fascinating, you were referred to money as life energy or life energy in the form of money. Can, can you, can you just talk a little bit about that? What that means.

[0:32:39.6] MS: Well of us give up our time in order to get money and so that time and that energy and money form this kind of trifecta of what it is that we have to work with in our life, we've got a certain amount of cognitive and physical energy that, that we can devote to things that matter to us.

We have a certain amount of time and we have a certain amount of money. And learning what are the trade offs between those three points. So if I find that, maybe I could do my own oil change on my car, twice a year, but I really don't like to do that. I don't, I find that yucky and cold. I live in Winnipeg after all, I'm quite happy to exchange my time and give somebody else money and, and so I pull from one resource in order to give myself more of a resource that I value more in that moment.

And so in my work with people, I just am constantly asking them whether it's individuals or some of the wealthy families that I consult to, "What do you want to experience more of? What do you want to experience less of? What do you want your legacy to be? A where do you want to show up differently? What would you like to be freed from? What would you like to be freed for?"

All of those conversations involve that trifecta of time and energy and money. And I think one of the things that really great advisors do is help their clients make better trade offs among those, among those points, based on their knowledge of what, of what matters to the client.

Ao that if the client says, you know, "I'd really like to to live in a bigger house. So I'm thinking of moving to the suburbs, but I know that's going to mean two and a half hours of commuting a day and I just can't figure out what to do." A really good advisor can help, can sit down with them and help them walk through that decision and consider alternatives and that advisor is really to be counted as a great asset in that person's life, if she or he can do that for the client.

[0:35:02.4] BF: Makes a lot of sense. This has been fascinating and I could honestly keep asking you questions for another hour, but I think we're out of time for this one.
[0:35:09.5] MS: Well, thank you so much. I'd love to hear people's thoughts if they care to send them to you or to me about creative ways of dealing with that. Creating new families are creating new partnerships, financial partnerships, and what has worked for them and what hasn't. I think that would be a great next call if we were to do it.

[0:35:28.1] BF: I agree that that could be a full episode on in and of itself.

[0:35:32.6] CP: It would be and Dr. Somers, I loved your book. I enjoyed it. I've read it twice and this has been a real, a real pleasure to get a chance to chat with you. Thank you.

[0:35:40.8] MS: Well, thank you for the invitation. It was nice spending time with you.

[END]