Capitalizing on Behavioral Finance: How BeFi20 Enhances Your Advisor Workflow



Our financial systems are human inventions. While a testament to our incredible ingenuity, they are also susceptible to our collective nature. Human psychology can significantly impact markets. Widespread investor panic can send stocks tanking, and bank runs are driven by a contagion of fear.

It’s not all bad news. Psychology can play a positive role in financial events, too. A generally positive outlook can drive the stock market upward. And at the individual level, psychological hacks can spur more effective saving and planning for the future.

The interest in this interplay between mind and market birthed the field of behavioral economics in the 1970s. The exploration of how these themes play out on a personal level is known as behavioral finance.

What Is Behavioral Finance (or BeFi)?

Behavioral finance (BeFi) is based on the idea that humans are not always logical in the decisions they make about money.

Traditional approaches to finance rely on modeling and charts that assume people will act rationally. However, plenty of evidence points to the contrary. In the past few years alone, we’ve seen the crash of the crypto market, the run on Silicon Valley Bank, and the Gamestop stock boom and bust — all of which were driven in part by illogical human behavior.

BeFi seeks to rethink the way we approach financial planning and modeling. Since we can count on humans to behave illogically, how can we use that to help people create better financial plans?

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Why Do Advisors Need BeFi?

When investors behave irrationally, it can cost them. DALBAR's 2023 report on investor behavior found that, while an S&P equity index lost 18.11% in 2022, equity *investors* lost 21.17% — that's 3.06% more.

So while the markets overall struggled, investors saw worse returns when compared with the S&P equity index benchmark. Why? Often, discrepancies like this can be traced back to behavior. Some investors sold stocks in 2022 because they needed access to cash, but others simply did so because they were panicked about the economy's overall health.

As an advisor, if you can coach your clients through those perilous macro times and persuade them to stay the course, you may be able to help them achieve greater long-term success.

BeFi tools and techniques can help you get to the heart of the psychological responses contributing to counter-productive investor behavior.

And it's this type of guidance and level-headed support that investors expect from advisors. Technology has made it easier for retail investors to put their own money in the market. Consumers who choose to work with an advisor are looking for that "advisor alpha" — your expertise and counsel that helps them make better decisions than they might on their own.

Vanguard's Advisor Alpha framework says advisors can potentially add 3% in net returns through a combination of portfolio construction, wealth management, and behavioral coaching.

How Do You Incorporate BeFi Into Your Workflow?

Incorporating BeFi into your client management practices isn't a one-and-done effort. A person's behaviors and psychological tendencies will remain a factor in their financial decisions throughout their lifetime. Whether you're meeting with a prospect or sitting down with a long-standing client, your can enhance your conversation with BeFi tools and tactics.

When it comes to building a BeFi-focused financial advisory practice, you'll likely benefit from a combination of the right mindset and proper BeFi-enabled tools.

Taking advantage of continuing education can help you become a more thoughtful practitioner of BeFi-enhanced financial advisory. The Orion Advisor Academy is a free learning platform that can help you grow your business and meet CE requirements. With a curriculum built on research by Orion's Chief Behavioral Finance Officer, Dr. Daniel Crosby, the experience helps you infuse your daily work with BeFi best practices.

In terms of tools, the Orion Advisor Tech platform incorporates BeFi into features and functions across our solutions. With Orion's focus on fueling the Fiduciary Flywheel, advisors can turn to BeFi-enabled tech throughout the client relationship.

Orion BeFi20 is one of those tools. This shareable assessment generates a money persona for each of your clients — a picture of how they think and feel about money. These attitudinal and behavioral insights can deepen your investing conversations across the board.

How Orion BeFi20 Works Across the Fiduciary Flywheel

Orion BeFi20 is designed to work with your clients all along the fiduciary flywheel. It can add context and value to any advisor-client conversation —

whether you're sitting down for the first time or you've been working together for years.

Here's how you can leverage BeFi20 at any of the four stages of the Fiduciary Flywheel.

Prospecting with Orion BeFi20

As we've already discussed, one benefit investors can gain from working with an advisor is "advisor alpha."

You're best positioned to provide that additional alpha when you really understand your client. BeFi20 can offer you a deeper understanding of an investor's behavior and mindset.

Sometimes, investors say they feel one way but act very differently. Orion BeFi20 helps you understand a prospect's real feelings about money:

- Do they see money as a means to an end, or do they feel it's tied to a person's character or worth?
- Are they eager to give to friends and worthy causes, or do they feel money is something one should earn for oneself?
- Do they view money as a tool to buy peace of mind, or do they use money to fuel excitement and fund experiences?
- Are they tight-lipped about finances, or are they an open book with their friends and family?

Having insights into these questions can help you connect more deeply with prospects during your initial meetings. It allows you to listen actively and create a stronger emotional bond when you can show you understand what that investor *really* thinks and feels.

Orion BeFi20 is part of the Redtail Campaigns experience, which makes it easy to share the assessment with prospects.

Planning with Orion BeFi20

This nuanced understanding of a prospect's thoughts and feelings about money can help you enhance the planning process once they do become a client.

The insights you gained from BeFi20 empower you to create tailored client

recommendations. McKinsey has found that 71% of consumers expect companies to deliver personalized interactions; you can better offer personalization that resonates when you understand a client's thoughts, needs, and attitudes.

Investing with Orion BeFi20

Orion BeFi20 can also enhance the investment stage of the Fiduciary Flywheel. Attitudinal insights can help you hone in on models and strategies that provide the proper insulation against downside risk while appealing to a client's desired goals.

BeFi20 can also become part of your iterative investing process with clients. As their life circumstances change, have them revisit the BeFi20 assessment; doing so can help you visualize how life events alter their attitudes and behaviors.

For example, when your client becomes a first-time parent, does that change how they feel about money? And how does that shift in mindset impact their goals and plans?

Achieving with Orion BeFi20

Orion BeFi20, and behavioral finance techniques more broadly, can support both advisors and clients in achieving their goals.

Orion BeFi20 can help your clients see things about themselves they might not otherwise identify. It's hard to act in alignment with your ideals when you don't know what those ideals are. BeFi20 brings clarity to clients, helping them see what they want so that you can co-create a plan to support the journey to those goals.

BeFi20 also helps them navigate significant changes in clients' lives with greater ease. For example, when your client moves in with their fiancé, the couple can take the BeFi20 assessment together. As they compare results, they'll develop greater knowledge of where they're naturally in sync and where they may have to work to create harmony.

Finally, Orion BeFi20 can help advisors achieve the firm growth they desire. As a shareable assessment, you can incorporate BeFi20 into your referral process. When a client shares BeFi20 with a friend or loved one, it creates a seamless segue for you to have a prospect conversation with this new individual.

Want to see how Orion BeFi20 can support you and your clients across the Fiduciary Flywheel? Read more here, or catch our BeFi20 webinar.

Today's investors expect more than a transaction; they want a relationship. Show how your firm merges EQ and IQ with Orion's latest BeFi tool — BeFi20.

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