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Understanding Your Clients' Dual Personalities

Regardless of investment style, a person's "shadow" appears alongside economic uncertainty. High-stakes changes trigger emotional and psychological fears at a deep level.

Chris White | Sep 19, 2017

I've been a wealth advisor now for over 25 years, and if there's one thing I've observed, many times over, it's that investors have dual personalities.

To be sure, there's the "rational," even-keeled investor who, when markets are calm, comes to your office and over coffee and Danish seeks your advice, and talks quietly and deliberately with you about their investment options.

But there's also the panicked investor who texts you when the market drops or who calls you late at night, worried they're going to end up homeless, and fearing for the future of their portfolio with the next morning's light.

Truth be told, investors live in two different worlds—a low-stakes world where rationality and calm, deliberate planning prevail (what I call the "light" side), and a high-stakes world in which an investor's dark "shadow" side appears, driven by emotions ranging from fear, greed and ambition to stoicism, powerlessness and even vengefulness.

As I've written previously, investing is essentially an emotional activity shaped by unique aspects of an individual's personality. Every investor, in fact, is an "emotional system" characterized by motivations and emotions unique to that person.

One client of yours, for example, might enjoy risk-taking, sometimes far more than they should. Another may be so risk averse that they won't commit themselves to taking any risks. Thus, they forego reasonable opportunities to grow their portfolio. Other clients may be motivated by the desire for wealth preservation, or by the impulse to take care of others and contribute to worthy causes, even if it means foregoing profits in the process.

Regardless of a person's investment style, a person's shadow side appears when market conditions worsen, or economic uncertainty begins to prevail. That's because high-stakes changes in the stock market trigger people's emotional and psychological fears at a deep level.

The social psychologist Dr. David Kantor conducted extensive research on human emotions under both low-stakes and high-stakes circumstances. He discovered that the emergence of a person’s shadow self is typically triggered by several factors including a person’s fear of:

- Failure
- Radical change
- Poverty or loss of livelihood
- Being publicly humiliated
- Being discovered as inauthentic—a fraud

Clearly, you can recognize how marketplace volatility, financial uncertainties, or anticipated loss or erosion of one’s financial nest egg could trigger any of the above fears on an investor’s part. In my experience, the specific kind of emotion (fear) a person feels (and its degree) are determined by a person’s unique personality type, as is the intensity of loss or gain he or she feels based on the performance of the market.

Take a person’s experience of loss. Economists Daniel Kahneman and Amos Tversky conducted research that showed that, in general, people’s experience of loss is twice as intense (painful) as their experience of gain is pleasurable. Their research led to the notion of “loss aversion” as a motivator of human behavior.

I’ve observed that for some investors (I call them “Fixers”), the intensity of pain associated with loss is far greater than that of the general population's. Indeed, for Fixers loss is grievous and an anathema. That’s because Fixers like to be in control of their circumstances. And they ascribe great ability to themselves to control and influence the events in their lives. Consequently, when loss occurs they find it particularly offensive.

Other investors, while they hate losing, take things more in stride, at least initially. For these investors (I call them “Protectors”), loss is perhaps less painful than for

Fixers because they believe the power to affect events lies outside themselves—with others or with the marketplace. They've also anticipated the possibility of loss, a trait characteristic of Protectors. Their experience of pleasure from financial gains (when they occur) is also dampened by the anxiety they feel about dangers and threats that lurk in the environment around them.

That said, if conditions deteriorate too much, Protector investors begin to feel vulnerable, disempowered, and victimized by forces beyond their control. At this point, they may strike out at you and others to avenge their situation.

Still other investors (I call them "Survivors") are stoics. They expect life to be hard, and from an investor's standpoint expect losses to occur. So they labor to "salt away gains" and hedge their bets with investments. This in anticipation of losses occurring at some point in the future.

For Survivors, the experience of both loss and gain tends to be more low key than for either Fixers or Protectors. If the market goes up—great! But if it goes down it simply validates their belief that losses are to be expected. That said, if market conditions deteriorate too much, Survivors can become martyrs. They may fail to act to safeguard their assets, stick with a nonperforming stock even as its value plummets, and thus leave money on the table. They do this because of a combination of martyrdom, stoicism and inertia inherent in their personality. As an advisor, you may need to jolt them out of their inertia and encourage them to take steps to safeguard their financial well-being.

Yes, the story of investing is truly a tale of two worlds. In a low-stakes world, reason rules the day (or appears to do so, at least). But when circumstances become high stakes, an investor's most primitive emotions can kick in, causing them to act contrary to their best interests.

As advisors, we must recognize when our clients go into "the dark zone" and counsel them on how to weather turbulent economic conditions. If we're truly attuned to our clients, we'll be able to offer them hope and guidance even in rough economic times.

In so doing, we’ll help them keep their dark (shadow) sides in check, and help them protect their assets as well.

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