

# Psychology of Wealth

Understanding Behavioral Biases to Help Clients  
Make Better Financial Decisions



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- ▶ Neetu Khiantani is a Senior Vice President and Wealth Advisor in the Houston office of Hancock Whitney, covering the state of Texas including Houston, Dallas, Austin, San Antonio and Beaumont offices. She works closely with some of the firm's most affluent families to help articulate their intent for wealth while advising on strategies to accomplish these goals.
- ▶ Neetu is a specialist on goals-based planning and builds tailored wealth plans designed to protect, preserve, grow and transfer assets. She coordinates customized strategies for retirement, tax mitigation and philanthropic planning. With an affinity for connecting with people and a talent for blending the art and science of planning, Neetu serves as a trusted counselor to help families reflect on and prioritize the purpose for their wealth.
- ▶ Drawing on more than 20 years of experience, Neetu has an impressive skill set that includes trust administration, fiduciary practices and customized wealth planning. Most recently, she was a Executive Director and Wealth Strategist with JP Morgan Private Bank Wealth delivering comprehensive financial plans to high-net-worth clients and families of significant wealth. Neetu began her career with Ernst & Young in New York, and has held positions with Northern Trust and Merrill Lynch Wealth Management. She previously served as a diversity leader and has been instrumental in highlighting the need for inclusion.
- ▶ Neetu is a graduate of Rutgers University, where she earned a B.S. in Accounting. A CPA, she also holds the CERTIFIED FINANCIAL PLANNER<sup>™</sup> designation.
- ▶ Born in Hong Kong and raised in Mumbai, India, Neetu moved to the United States for college. She relocated to Texas from the Northeast in 2013, and is proud to reside in Houston with her husband and two children.

# Michael Mechler, CFP<sup>®</sup>, CBEC

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Michael Mechler is the Manager of Financial Planning at Hancock Whitney Bank and responsible for the oversight and management of financial planning across the organization. At Hancock Whitney, Michael is responsible for the overall strategy and initiatives for Financial Planning. He is also responsible for the strategic development and implementation of the planning experience across all of Wealth Management. He and his team work to provide Hancock Whitney advisors with the resources, training, and support to assist the firm's clients develop strategies to grow, protect, and preserve their wealth.

Michael has been in the banking industry for 17 years, all as part of the Hancock Whitney team.

Michael has a Bachelor's Degree in Finance from Louisiana State University, and a Master's in Business Administration from the University of New Orleans. Michael is a Certified Financial Planner<sup>™</sup> and Certified Business Exit Consultant. Michael lives in Mandeville, LA with his wife Mallory Mechler. They have two daughters Marissa and Makayla.

# Money Facts

- ▶ Money is very personal and can create anxiety
- ▶ How many thoughts does the mind think each day?
- ▶ How many thoughts do we have an hour?
- ▶ More than three in four Americans (77%) report feeling anxious about their financial situation, according to a recent survey by Capital One and Decision Lab.\*
  - 58% feel that finances control their lives\*
  - 52% have difficulty controlling their money-related worries\*
- ▶ Americans are most worried about their financial future:
  - Not having enough money to retire (68%)\*
  - Keeping up with cost of living (56%) \*
  - Managing debt levels (45%)\*

\*Alexandria White, “77% of Americans are anxious about their financial situation – here’s how to take control”, <https://www.cnbc.com/select/how-to-take-control-of-your-finances/> , Updated 11/9/2023

# Decision Making

- ▶ Understanding the decision making process:
  - Seek pleasure.
  - Avoid pain.
- ▶ What drives clients to take action?
  - Cost of not taking action exceeds the cost of implementation.
- ▶ Questions to assist clients in taking action:
  - Emotionally driven connecting questions:
    - Paint me a picture?
    - Help me understand?
    - What happens if?
  - Normalizing and minimalizing the cost of taking action:
    - Which makes a lot of sense because....
    - Many of my clients in this situation....
    - I know this can be overwhelming so lets start with the first 2 steps today.

# Money Facts

- ▶ How do you understand what concerns your clients have?



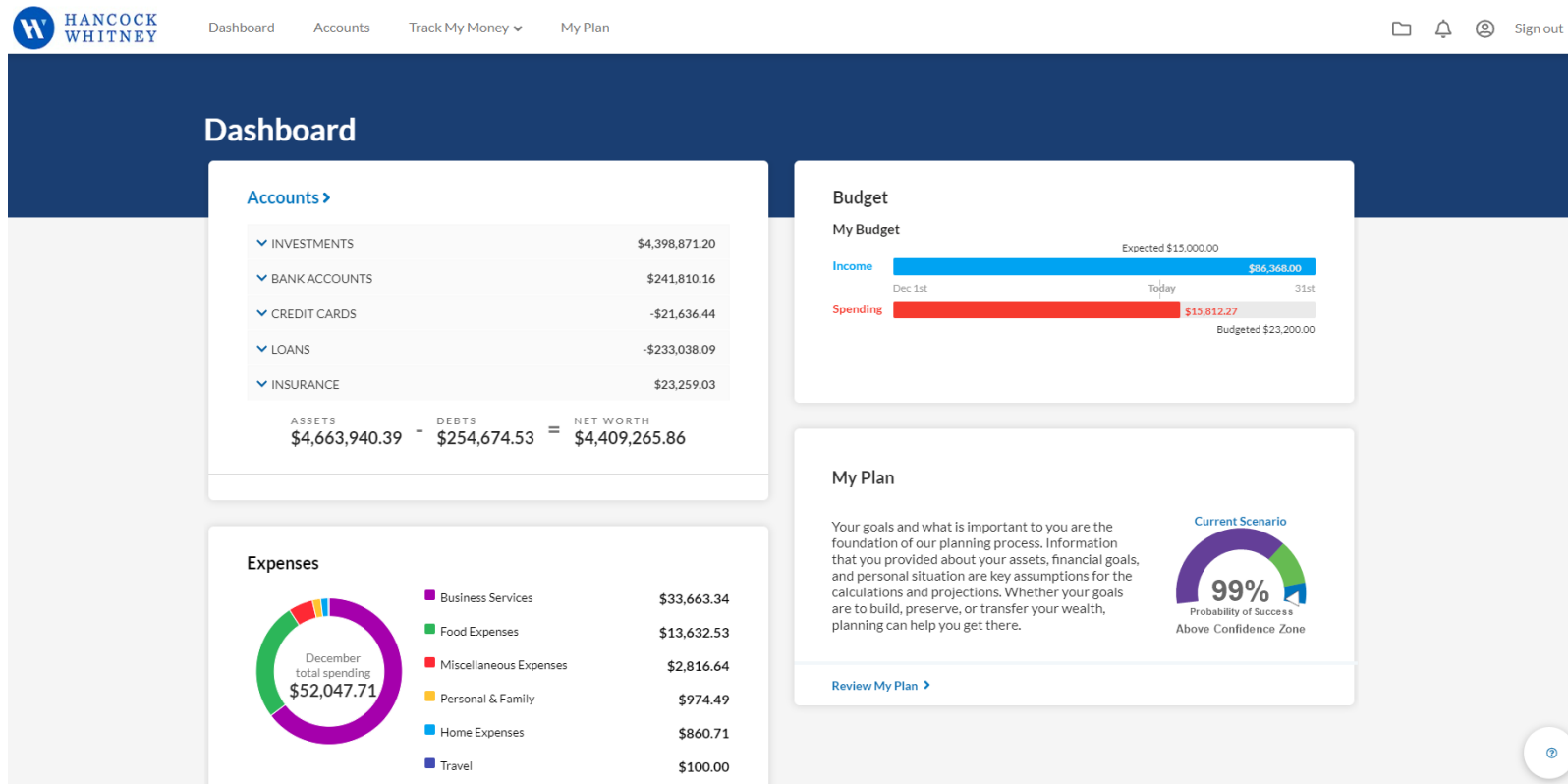
## Identify Retirement Concerns

When you think about retirement, what worries or concerns you? Click the icon under your name for each concern that is relevant to you, and the

Concern	Sue	Bill	Degree
<b>Money</b>			
Not having a paycheck anymore			
Running out of money			
Suffering investment losses			
Leaving money to others			Medium ▾
Spending too much			
<b>Health</b>			
Cost of health care or long-term care			Medium ▾
Current or future health issues			
Sue dying early			
Bill dying early			
Living too long			
Getting Alzheimer's (or other illness)			High ▾
Going into a nursing home			

# Money Facts

- ▶ How do we provide clients the tools and resources to control their daily financial lives to relieve anxiety, stress, and improve well being.





# How can we as advisors help our clients?

## ▶ What is Behavioral Science?

- Behavioral Science is the study of how people think, interact and make decisions in different situations.

## ▶ Understanding human biases and leveraging how humans think, and then customizing a financial plan around it.

## ▶ Top biases:

- Mental Accounting
- Loss Aversion
- Present Bias
- Social Proof

# 1<sup>st</sup> Bias - Mental Accounting

- ▶ Mental accounting is the process by which we value money differently depending on the source and use of that money.
  - We categorize our money and make mental accounts based on various factors like source of income, specific goals or emotional attachments.
  - Understand how clients bucket wealth based on needs and goals.

# Mental Accounting

- ▶ How can we explore client goals, and understand their purpose for savings and investments?


🕒 **Create your Goals.**


Select your Goals by dragging them into the box below and dropping them into the appropriate section as a Need, Want or Wish. Reorder your goal's importance level by dragging and dropping them in the desired order of importance (we've already added the Basic Living Expense Goal for you). Then click each Goal to enter the information that makes it unique to you.


⚙️ **Options**


Start with popular Goals  
Auto Goals


Change Goal Entry Method  
Switch


  
Travel


  
Car


  
Leave Request


  
Celebration


  
Private School


  
College


  
Provide Care


  
Major Purchase


  
Wedding


  
Start Business

  
New Home

  
Other


  
Gift or Donation

  
Home Improvement

  
Insurance Policy Premium


Timeline Hide Detail

### Needs



**Retirement - Basic Living Expense**


Sue (2026)	65
Bill (2024)	63
Both Retired (2026-2053)	\$240,000
Sue Alone Retired (2054-2055)	\$216,000



**Health Care**

Sue Employed / Bill Retired Before Medicare (2024-2025)	\$14,955
Both Medicare (2026-2053)	\$9,462
Sue Alone Medicare (2054-2055)	\$5,979


### Wants



**Travel/Discretionary**

When both are retired  
Recurring every year for a total of 15 times

\$30,000




**Major Home Renovations**

In 2024

\$1,500,000

### Wishes




**Charitable Donations**

In 2024  
Recurring every year for a total of 10 times

\$50,000

11

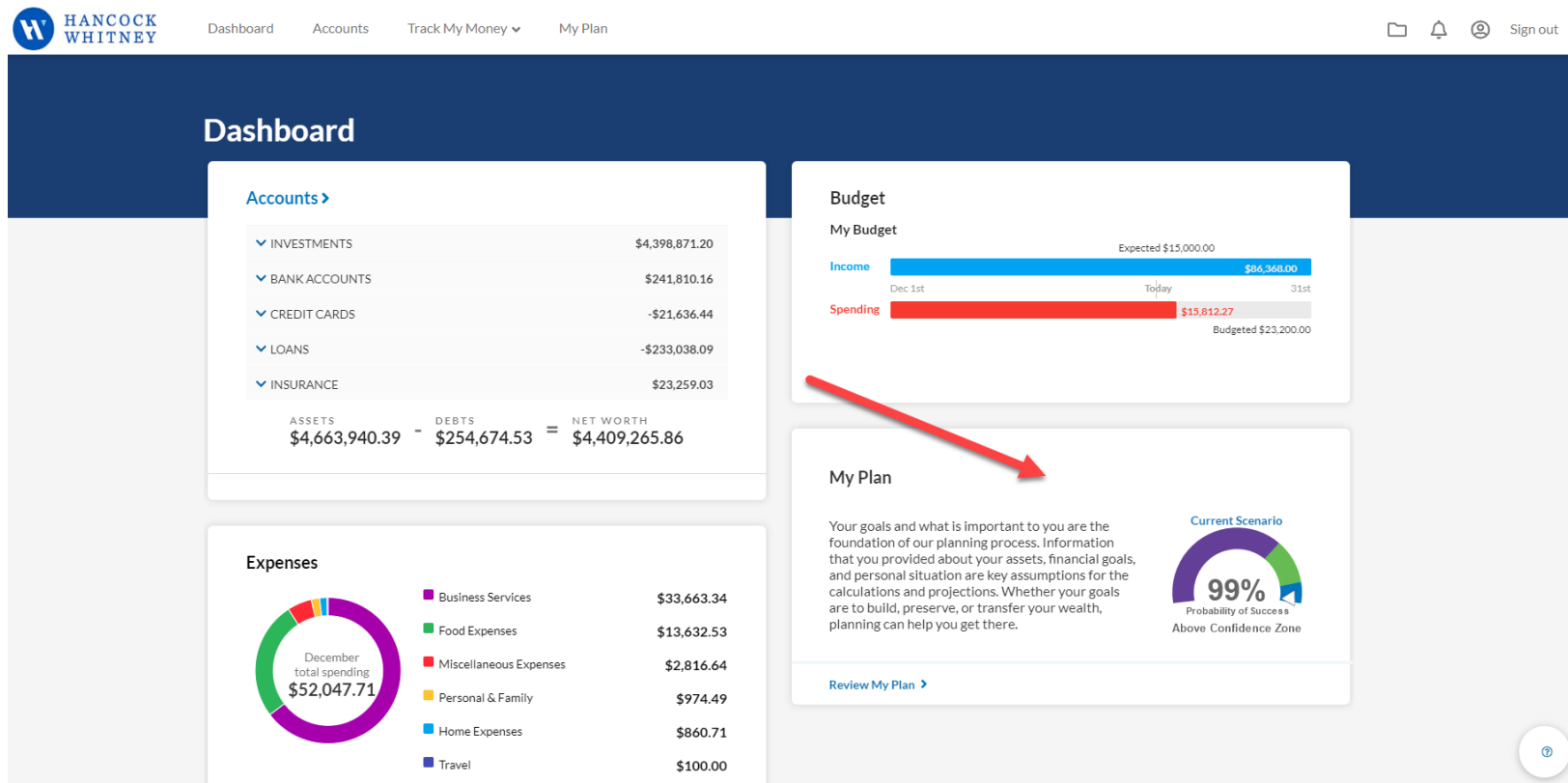


## 2<sup>nd</sup> Bias- Loss Aversion

- ▶ Have we ever thought about why we get so many calls when the market is falling versus when it is rising?
- ▶ We are motivated more as humans to avoid loss than to pursue gains.
  - We feel the pain of losses more strongly than we do the same magnitude of pleasure.
- ▶ Understanding clients different pools of money can help our clients evaluate the appropriate level of risk based on the intention of those funds.
- ▶ Client example:

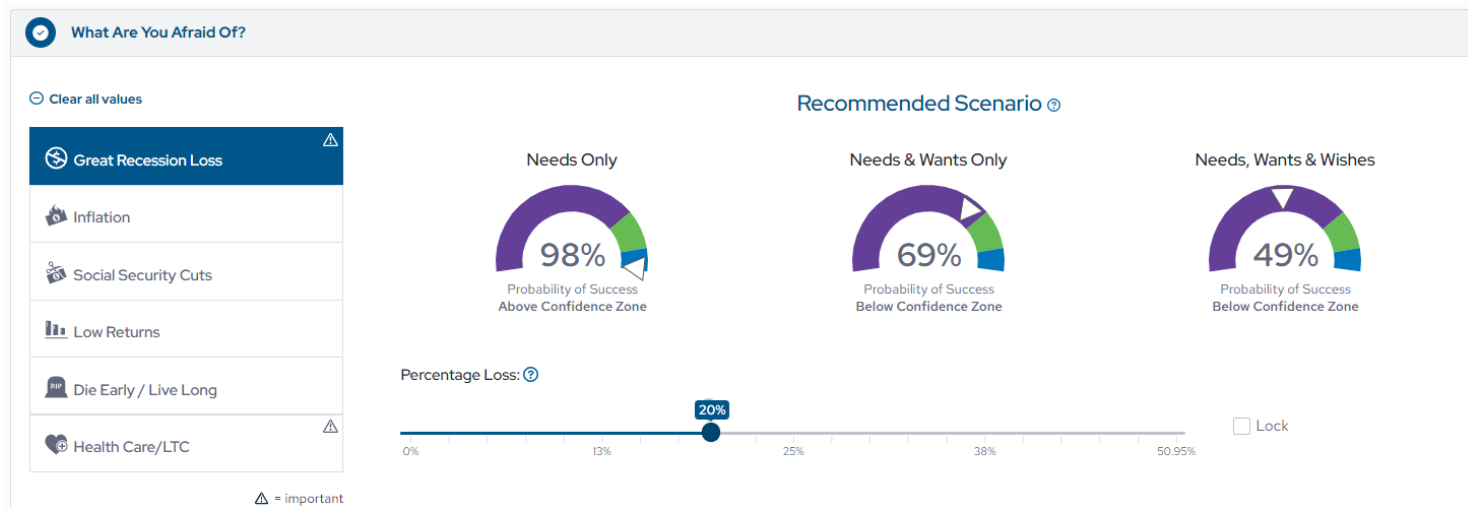
# Loss Aversion

- ▶ How to provide clients an understanding of the impacts that market fluctuations may have on their ability to achieve long term goals?



# Loss Aversion

- ▶ How to address client concerns of loss, and determine if these concerns would have an impact?

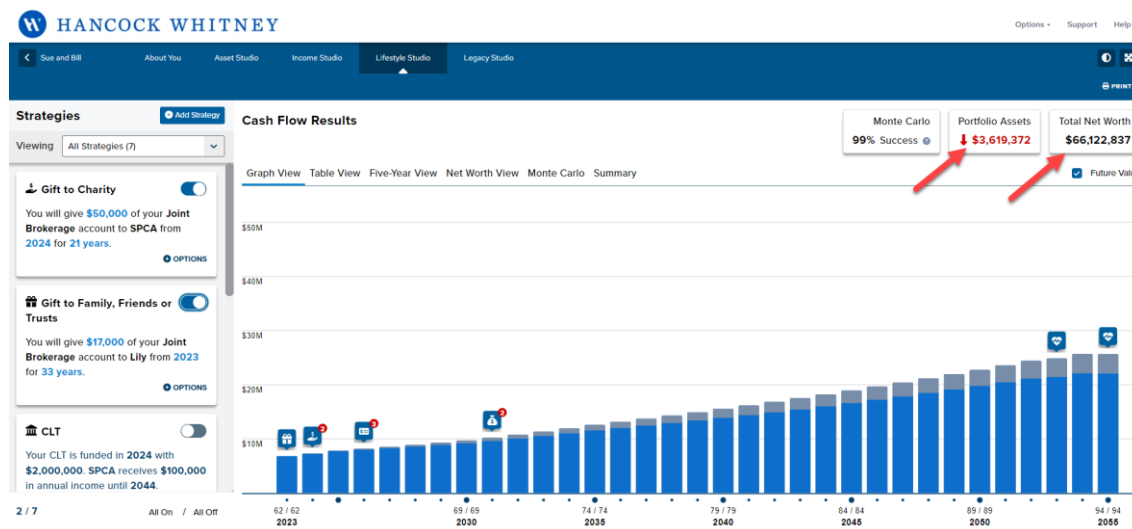


# 3<sup>rd</sup> Bias - Present Bias

- ▶ Present bias is the principle that explains why now matters more than later.
- ▶ The emotions of the present greatly outweigh the potential benefits of the future.
- ▶ We consider our future selves to be completely different people.
  - That is why its so easy for us to hit the snooze on the alarm and go back to sleep (which feels so good at that moment) rather than going for the run which helps lose weight in the future.

# Present Bias

- ▶ How can we make it easy for clients to understand what their assets may grow to in the future, and visualize the impacts of their financial choices?





# 4<sup>th</sup> bias Social Proof

- ▶ Social proof is the tendency follow the crowd or the latest trend rather than making considered choices.
- ▶ With social media this bias impacts our clients even more.
- ▶ Client Example:
- ▶ This is also very relevant as we do planning for the next generation.

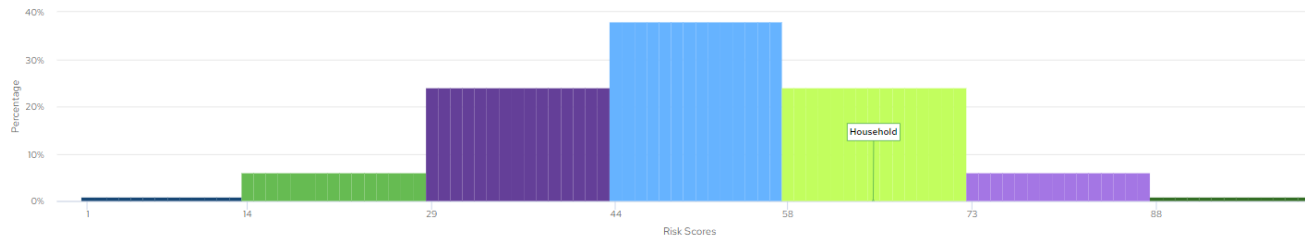
# Social Proof

- ▶ How does your client's level of risk tolerance compare to others with similar age and demographics?
- ▶ Does this help them overcome or leverage social proof to make reasonable decisions?

Return ↕

## Risk Score Chart for Ages Between 50 to 64

Your Risk Tolerance is Higher Than Average when compared to others in your age group












Return ↕

# Software Demo:

- ▶ How do we utilize technology to connect with clients to overcome common biases, and assist them in making better financial decisions?

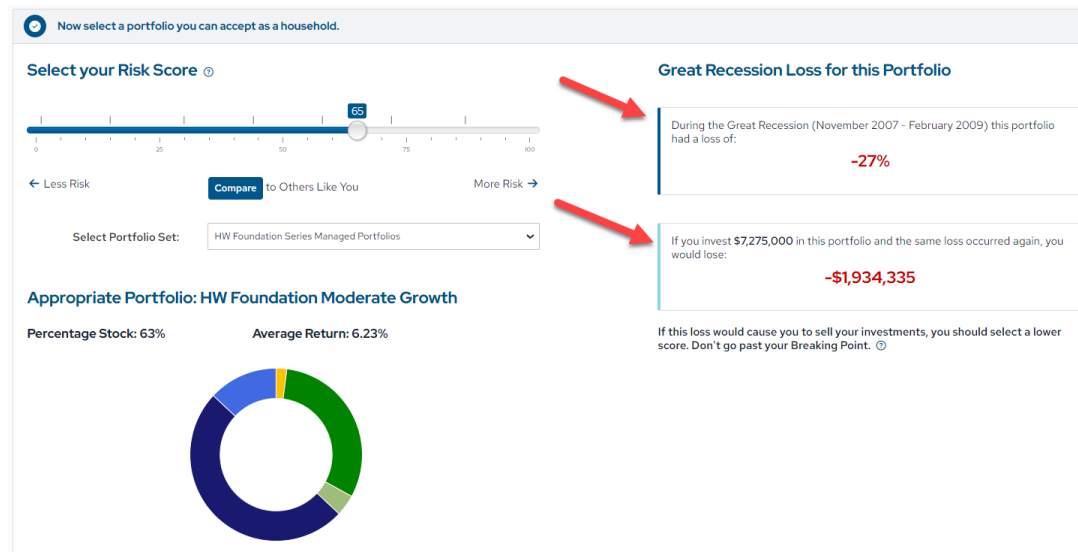
# Mental Accounting

## ▶ Assigning particular assets to goals?

Description	Owner	Current Value	Annual Additions	Assign - How To Use	Actions
<b>Manual</b>					
Bill's IRA	Bill	\$1,000,000		Fund All Goals	 
Checking Accounts	Joint Community Property	\$75,000		Aspirational Bucket	 
Grandparents Trust	Grandparents Trust	\$1,000,000		Fund All Goals	 
House Account	Joint Community Property	\$200,000		Major Home Renovations	 
Joint Brokerage	Joint Survivorship	\$2,000,000		Fund All Goals	 
Sue's 401(k)	Sue	\$3,000,000	\$40,000	Fund All Goals	 
Total All Assets		\$7,275,000	\$40,000		

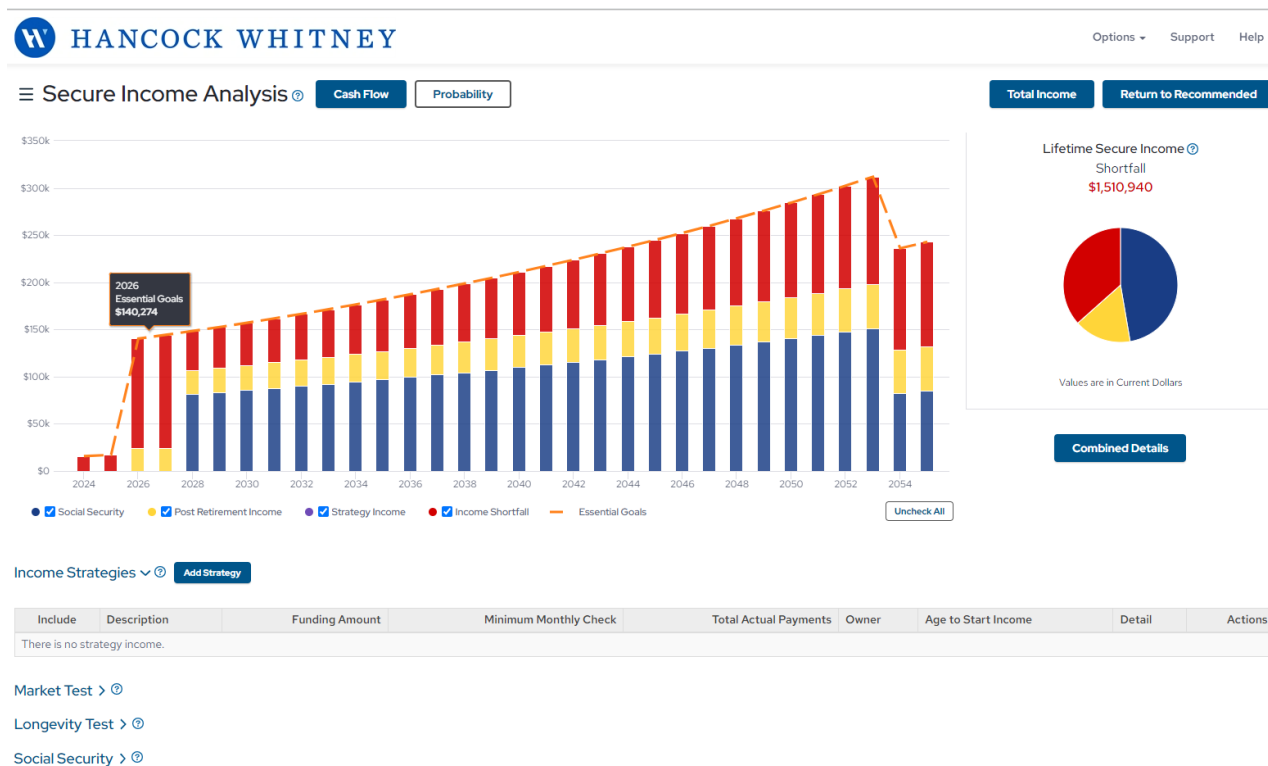
# Loss Aversion

- ▶ Ensure your clients are comfortable with their level of potential loss, and understand in a simple format what that loss means to them?



# Loss Aversion

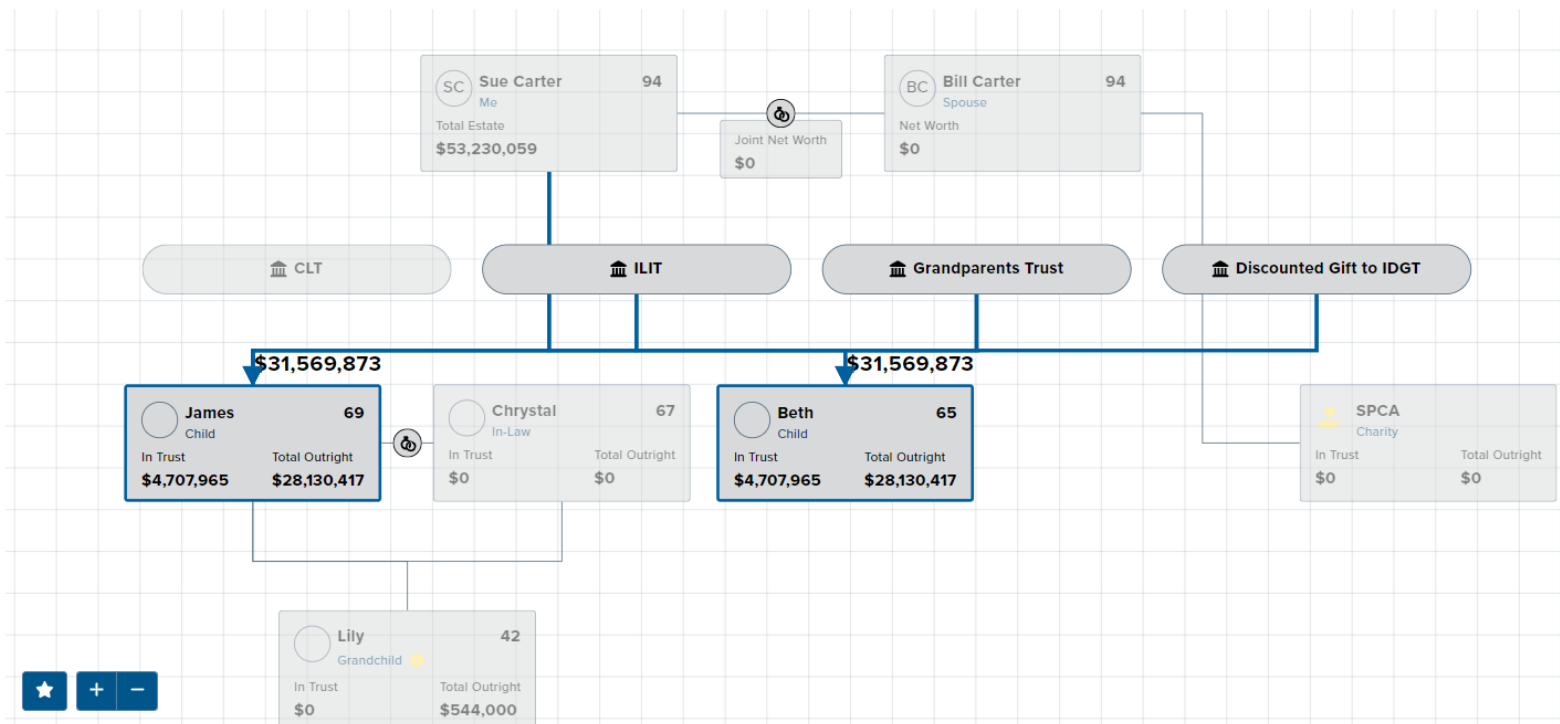
- ▶ Help clients feel confident in their financial future by understanding their secure income sources vs. essential needs.
- ▶ Do they need to have fear of market loss to ensure essentials are covered?



# Present Bias

- ▶ How can we help clients visualize what happens to their assets at life expectancy?

Sue dies second at age 94



# Present Bias

- ▶ How can we help clients understand the benefits that estate strategies may have on their tax liability, impact on family wealth, and the people that mean the most to them?

## At Sue's Death in 2055

A summary of how much money will be transferred to heirs, charities, and paid out in taxes and expenses at Sue's death.

Name	Lifetime Gifts	Outright	In Trust	Total
● James	\$0	\$28,130,417 ↑ \$1,601,716	\$4,707,965 ↑ \$1,516,734	\$32,838,382 ↑ \$3,118,450
● Beth	\$0	\$28,130,417 ↑ \$1,601,716	\$4,707,965 ↑ \$1,516,734	\$32,838,382 ↑ \$3,118,450
● Lily	\$544,000 ↑ \$544,000	\$0	\$0	\$544,000 ↑ \$544,000
● Taxes and Expenses				\$12,856,323 ↓ \$8,257,556

OPEN TRUST NEEDS \*



# How do these tools help clients make better financial decisions?

- ▶ Helps them overcome biases.
- ▶ Analyzes strategies and solutions that make the most sense for their customized situation.
- ▶ Allows clients to be collaborative and take ownership of their plan.
- ▶ Emotionally connects the client to the solutions.
- ▶ Demonstrates the cost of not taking action.
- ▶ Helps drive action towards implementation and better outcomes.

# Questions & Answers?



Your Dream. Our Mission.