Emotional Intelligence for Financial Planners

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INTRODUCTION

“I don't want to be at the mercy of my emotions. I want to use them, to enjoy them, and to dominate them” (Wilde 228). Oscar Wilde recognized the power of emotions in his classic *The Picture of Dorian Gray*. Emotional awareness is a key component of being a good Financial Planner. An experienced Financial Planner must be prepared to answer the following questions: What happens when a volatile situation occurs? How does the financial professional manage emotional outbursts and stay in control? How can the financial professional enhance the process to create greater opportunity for a more positive outcome?

Financial issues are a main source of emotional stress. “Money evokes emotions such as stress, fantasy, irrationality, and fear” (Danford 25). This financial stress is also one of the main drivers of the emotional outbursts experienced in Financial Planning. Financial Planners may have heard the adage of taking the emotion out of the investing process. Much research has been produced regarding the recognition and acknowledgement of an individual’s emotional connection to his or her money or financial well-being (Britt, Huston and Durband; Colfax, Rivera and Perez).

Being able to recognize and manage these emotions, from one’s own viewpoint, and that of the other participants, is part of the discipline of Emotional Intelligence. Emotional Intelligence is the ability to recognize, assess, and control one’s own emotions and that of others (Mayer, Caruso, & Salovey; Mayer & Salovey). “Emotions can influence financial decisions in surprisingly predictable ways” (Sullivan 4). Numerous studies have demonstrated how an individual with high emotional intelligence can enhance and increase the potential for positive outcomes (Cherniss).

EMOTIONAL INTELLIGENCE DEFINED

Emotional Intelligence (EI) was first coined in a doctoral dissertation in 1983 (Payne, 1983/1986). Salovey and Mayer (1990) further developed the concept. Emotional Intelligence is the capacity to perceive emotions, assimilate emotion-related feelings, understand the information of those emotions, and manage them (Mayer et al. 267). The ability to recognize the meanings of emotions and relationships, in addition to reasoning and problem solving on the basis of these emotions is at the core of EI (267). A four-branch model was designed by Mayer, Caruso and Salovey (Figure 1).

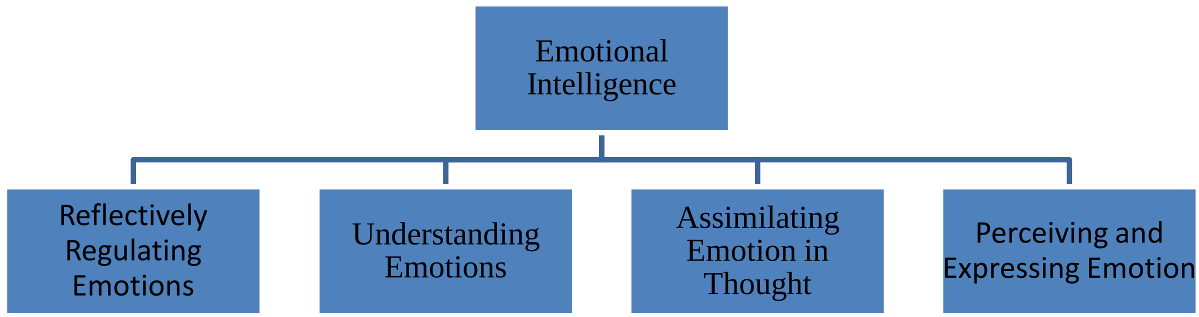

Figure 1. The Emotional Intelligence Four-Branch Model created by (Mayer et al. 267).

To understand EI, one must understand the components that form the basis of EI. Psychologists recognize the mind (or brain) as having three distinct divisions; cognition (thought), affect (which includes emotion), and motivation (Mayer and Salovey 4). The first area of the brain is cognition which refers to memory, reasoning, judgment, and abstract thought. Intelligence is measured here, reflecting the ability to combine and separate concepts, judge and reason, and the ability to engage in abstract thought (4).

The second area of the brain is the affective area of the mind represented by emotions including the actual emotions (anger, happiness, fear, etc.), moods, evaluations, and other states of feeling, including physical states such as being tired or energetic (4). Both heredity and learned behavior play a role in establishment and development of the individual components of cognitive and affective spheres of the brain (4).

The third area of the brain is motivation. Mayer et al. described motivation as the biological urges or learned goal-seeking behaviors (4). Motivation is considered to be a secondary factor in comparison with the other components of cognition and affect with regard to EI (4).

Realizing all three components may be a part of genetics in addition to learned behavior provides for a myriad of different attitudes and intelligence. The ability to understand a concept or learn something new may be easier for one individual than for another. In the same manner, one individual may consistently be in an upbeat mood, full of energy, whereas another person may show negative emotions in addition to lacking in motivation on a consistent basis.

Being able to recognize these in oneself and in others, and the ability to manage or improve these components in both one's own makeup and that of others is representative of EI. Tests are available to actually determine the level of EI an individual possesses. In the 1980s, Dr. Reuven Bar-On produced an assessment tool known as Emotional Quotient Inventory (EQ-i) to provide a quantitative measure of EI (Colfax, Rivera and Perez 90). This provided a better understanding of the components making up EI measuring fifteen elements on an individual basis, grouped into five major composites. Since then, the assessment tool has been updated to EQ-i^2, building on the basis of EQ-I (Ferraro).

WHY EMOTIONAL INTELLIGENCE IS IMPORTANT

Academic studies provide empirical evidence that improvements in EI are highly correlated with increased performance in both learning and in the workplace. Studies in both Affective Neuroscience and Biobehavioral Science demonstrate "some of the most impressive evidence for brain plasticity is emotional learning" (Davidson, Jackson, and Kalin 890). In effect, with proper training one can rewire and reshape the emotional circuitry of one's brain to maximize emotional performance.

Daniel Goleman found the competencies that separate a star performer from an average one falls into one of three domains; technical skills (computer programming), purely cognitive abilities (analytical reasoning), and abilities in the Emotional Intelligence range (customer service or conflict management). He notes that the EI based competencies combine both emotional and cognitive skills, and so are separate from a pure cognitive ability such as IQ and from technical skills, which have no emotional component. In comparison of the three domains, Goleman surmised that for all types of jobs, emotional competencies "were twice as prevalent among distinguishing competencies" as technical skills and cognitive abilities combined (Goleman 9). He states that for individuals in leadership positions, 85% of their competencies are in the EI domain. (Goleman 9).

Goleman also believes that IQ is a more powerful predictor than EI in career success in large populations over the course of a career because IQ sorts out individuals before they start their career, determining which field or profession they will enter. Goleman claims in studies of career success in determining which individuals excel and which plateau or fail, EI should provide a better predictor of success (Goleman 9).

The United States Air Force used the EQ-i test by Bar-on to select recruiters and increased their ability to predict successful recruiters by nearly three-fold, with an immediate savings of $3 million annually (Cherniss 1). Cherniss offered nineteen unique examples in business (with the Air Force being one example) demonstrating the significant effect EI had within an organization (1).

AMERICAN EXPRESS RECOGNIZES EMOTIONAL INTELLIGENCE

American Express recognized the importance of Emotional Intelligence in the mid-nineties, starting their first training program in 1994 and has since become a standard part of their training program (1).

American Express initially did an evaluative study using 33 advisors who went through training with an additional group of advisors used as a control group. Both groups took the Seligman Attributional Styles Questionnaire (SASQ) both before and after the training. The SASQ is a test to measure optimism and coping skills. The test resulted with the trained group increasing 13.5% on the SASQ while the control group increased .09%. Additionally the trained group showed a greater increase in total sales revenue, 10% greater than the control group and 16% greater than the company as a whole. In sales of life insurance, the trained group increased sales revenue 20% more than the control group and company as a whole (4).

A second American Express study used regional management groups with one group working under EI trained managers and a second control group working under management not trained in Emotional Intelligence. Advisors working with trained management grew business at a rate of 18.1% in 15 months while the control group grew business at a rate of 16.2% (5).

The program starts with training in self-awareness, repeating self-awareness exercises throughout the training program. Next, the participants complete an exercise in “self-talk,” focusing on their inner dialogue and learning how to reframe their verbalizations to create positive, constructive self-talk. Another segment of the program deals with the role of emotions in behavior as participants learn about emotional response patterns (2).

The program then shifts from the participant to a focus on working with others. Relationships are explored with an emphasis on understanding and reflecting on the other individual’s feelings. Interpersonal boundaries are also discussed during training. One goal of the interpersonal training is to be more sensitive to cues that warn planners when they violate a client’s interpersonal boundary (3).

The program concludes with self-assessment and stress-management techniques such controlled breathing and progressive muscle-relaxation (4).

EMPATHY AND THE FINANCIAL PLANNER

Empathy is the ability to reflect on one’s situation and feelings, and to show that you care. Goleman stated, “If your emotional abilities aren't in hand, if you don't have self-awareness, if you are not able to manage your distressing emotions, if you can't have empathy and have effective relationships, then no matter how smart you are, you are not going to get very far.” The effective financial planner has the ability to demonstrate empathy through empathetic communication (Fishman 26). “Empathic mirroring is the ability to take in what other people are saying and feeling and then communicate that you have internalized their thoughts and feelings” (26).

An example is when a manager says to a subordinate “I can see you are angry.” Empathetic mirroring acknowledges the right to feel how the subordinate feels, although it does not communicate approval of the action (McCabe 23).

EMOTIONAL INTELLIGENCE AND THE FINANCIAL PLANNER

The planner should also be aware of the Emotional Intelligence of the client. A study done in Sweden suggested that an individual with lower Emotional Intelligence places a higher value on money that a person with higher Emotional Intelligence; whereas a person with the higher EI will reflect a balance of values regarding family, work, and money. The study claims that an individual who has a higher EI and less money-oriented is better adjusted socially and more stable emotionally, focused on achievement, and better able to withstand failure and deal efficiently with demanding challenges (Engelberg 2040).

Approximately 25% of the time a Financial Planner is dealing with non-planning issues such as "human drama and frailties" (Dubofsky 48). Although EI has been correlated to increasing the business of financial planning, the emphasis for effective financial planning should be on how to increase positive relationships (Darwish 38). Both Dubofsky and Darwish provide information that supports the need for EI training in the Financial Planning field.

A client that shares his or her personal financial information, goals and dreams, may be confiding in their Financial Planner more than they would his or her doctor, priest, or therapist. Any number of financial items may trigger an emotional response from the client. The issues of providing for survivors on one's death, the subject of divorce, or sheltering or hiding assets from a family member, the possibility of outliving one's assets, or concern about an investment loss, all of these may trigger a display of emotional volatility.

Seventy-four percent of planners have experienced a meeting in which a client became emotionally distraught (Dubofsky 53). Dubofsky determined that 40% of respondents had no training or coursework of any kind in regard to non-financial coaching or counseling (55). Forty-eight percent of respondents had mediated (informally) marital discord with another 44% mediating parent-child issues (54). Additionally, 34% of the planners in the survey were asked by a client if they should seek a divorce (54).

When a client is emotionally distraught or exhibiting distress, the planner must not only acknowledge the emotion, but also explore further to see if there is an underlying emotion or stimulus that is creating the discomfort in the client. A planner who is lacking in Emotional Intelligence may find him or herself becoming distraught and angry. This planner may also "jump to conclusions" before obtaining information from the client to provide an objective analysis. An Emotionally Intelligent planner will recognize the situation and not react, but respond accordingly. This includes a focus on maintaining a calm demeanor, using controlled breathing, and realizing the emotion they are being confronted with is not a personal reflection and is in fact a key to provide substantial information for the planner to assist the client with the turmoil the client is presently experiencing. The emotionally intelligent planner will then explore further with targeted questions and empathetic listening skills, mirroring back to the client what is being heard to verify they understand the situation completely and correctly.

For CERTIFIED FINANCIAL PLANNER™ practitioners, Principle 3 in the Code of Ethics states that a practitioner must maintain the knowledge and skills necessary to provide professional services competently. Competence also includes the wisdom to recognize the limitations of that knowledge and referring to another professional when necessary. As practitioners dealing with emotional issues, Financial Planners are not psychology experts nor should Financial Planners refer every client to such. Emotional recognition of the client plays a crucial role in understanding the client's motivation and feelings about his or her finances. One interpretation of Principle 3 is the practitioner should consider increasing their EI to be competent in dealing with clients.

METHODS FOR INCREASING EMOTIONAL INTELLIGENCE

Bradberry and Greaves state that one's professional success will improve if one can improve his or her emotional intelligence (20-21). "EQ is so critical to success that it accounts for 58 percent of performance in all types of jobs. It is the single biggest predictor of performance in the workplace and the strongest driver of leadership and personal excellence" (Bradberry and Greaves 20-21). People with higher EQs make more money too (21).

In 2008, Finley created five techniques to increase your emotional intelligence (20-21). Finley presented the following items for improvement:

1. Emotional self-awareness
2. Emotional management
3. Self-motivation
4. Highly empathetic
5. Relationships under management

The best method is to approach this one step at a time. Many EQ assessments exist on the Internet. A free assessment is provided by Institute for Health and Human Potential (IHHP) at http://www.ihhp.com/?page=freeEQquiz. You can answer a few basic questions, select submit, and then a response appears (see Figure 2).

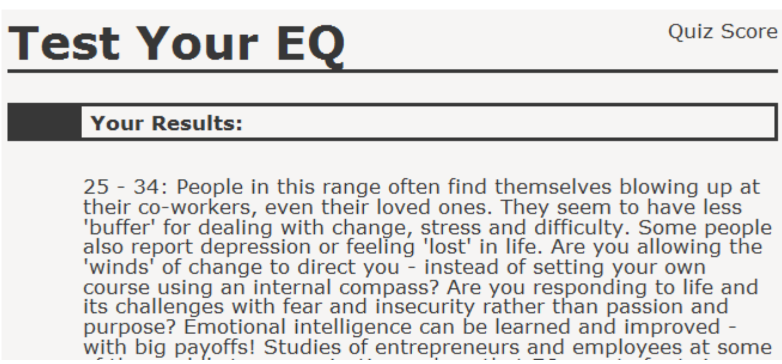

Figure 2. Sample EQ results from IHHP Free Quiz

The next step is to select one skill at a time to work on. Evaluate what areas you may be weakest in. Perhaps start there. Most importantly seek a mentor to help you with this process.

Breaking down Finley's techniques for Emotional Intelligence provides basic instructions that an individual may take advantage of to increase one's EI (20-21). Emotional self-awareness is the ability to be in touch with one's emotions. An emotionally aware individual is aware of his or her emotional state at any given time and understands when his or her feelings change and the impetus behind it.

Even if one has a command of self-awareness, he or she must also be able to self-monitor his or her emotions. This ability of emotional management allows one to manage expressive control appropriate to the situation (Gangestad 530). Self-awareness and emotional management both tend to vary widely based on an individual's emotional makeup and the environment he or she was raised in. An example of emotional management is one individual reacting automatically to a situation, whereas a second person may not react but respond to the situation by choosing the appropriate response. The first individual has no control of the situation because of an automatic reaction whereas the second individual chooses the most appropriate response, and in effect, controls their response to the situation.

CONCLUSION

EI skills are vitally important to a financial planner. More recognition needs to be given to the importance of EI and the impact it has on the outcome of a financial planning session

Financial planning demands the professional be credible and empathetic toward the client. These traits can be conveyed by an individual with a high degree of Emotional Intelligence. For a financial planner then it is imperative to understand the role of EI in his or her practice and what one can do to increase his or her Emotional Intelligence.

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