Episode 10: Behavior Finance and Psychology - Setting the Stage for Your Retirement Income Plan

Bob French 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style. And sign up to take the industry's first financial personality tool for retirement planning. Because sometimes, within normal limits, just goes too far. Our hosts, Wade and Alex.

Wade Pfau 00:48
Hi, everyone, welcome to another exciting episode of retire with style. I'm Wade foul. And I'm joined today by Alex, Murguia. And Alex, today we're going to be changing course a little bit to talk about some other important issues related to implementing your retirement strategies. So could you maybe level set a little bit and, and explain in context of what we have been discussing, and how that now transitions into what we will be discussing for the next couple episodes in this new story arc?

Alex Murguia 01:19
Yeah, and we're using the word art because prior to this call, Wade, and I were discussing some anime shows, and we were demon slayers, specifically, and they just finished their entertainment district arc. We're gonna start there, the one and following queue, we decided to have the same methodology. You know, as we launched the podcast, we the main thrust was, how you have a retirement income style? And how the styles lead to a strategy and the retirement income strategy and how the stret and how your starting point, you know, for deciding these strategies is that that RISA profile. Now, now that you have this in hand, the next sort of arc that we really want to cover is implementation. And, you know, with the same theme of there's many ways to implement a financial plan, a retirement income plan, and which is the which is the way that best fits your style, in terms of how you want to implement and once you've determined that, what are some potential strengths and headwinds that you can play on and play off? With regards to implementation, we think that's quite important, because, you know, everyone can have a plan, right. But if you don't implement, you have nothing but a nice spreadsheet, you know, for that matters.

Wade Pfau 02:41
So this is an episode where I think we will rely on you a little bit more, because when I went through economics, it was in the transition from the world of always assuming every person was rational, and was maximizing their utility subject to their budget constraint. And it was a time that it was just starting to bring in these ideas that no, maybe not everyone is purely rational, or at least, they may be

constrained in their decision making. And so there may be these behavioral factors that impact their decisions. And I know that you're going through a psychology PhD program, it was, well, I think you've never even heard of the term behavioral finance. But really all along, you were focusing your least, you didn't assume everyone was this Spock, from the planet Vulcan, who was optimizing their decision based on all available information and making perfectly rational choices.

Alex Murguia 03:34
No, that's, that's correct. I mean, my program at GW, and there were a sort of cognitive behavioral approach with regards to clinical psychology. And interestingly enough, I mean, you're right, I never heard the term behavioral finance at all. It was something that was new to me as I got into the industry. In fact, I feel like a little bit like Al Pacino and Godfather three, when I thought I got out of psychology, and all of a sudden, I'm pulled back in, right, which, incidentally, that's not my favorite Godfather movie at all, but the quote still stands. And it was just one of these things I've never heard of, I thought, you know, when I started listening to these, these sort of constructs, I thought it was really more like social psychology or even even a little bit of industrial organizational psychology, these terms that were beginning to be positive, you know, within the, at least within the Investment Management financial planning landscape. And, you know, I don't know why this is but it it seems that finance departments and psych departments kind of just had these different tracks. And they just never pollinate. cross pollinated their, their respective research agendas. For whatever reason, right. People are people but yeah, these are things that was new to me, you know, in turn wasn't just the terms, the things that they were explaining, like I said, had access to me of like social psych and an IO Psych. But yeah, there's, it's interesting in terms of how these things came up. And I don't know, again, even when you say psychology, there's many schools, within psychology, there's psychodynamic, which is more the sometimes a cigar is not just a cigar and hole kind of vibe, where there's the underlying, open pole. And then there's the behaviorist. And even from there, you had sort of splinters from there. And, you know, there's, there's sort of relational dynamics, you know, approaches as well. But I never viewed it as people being completely rational. You know, from my vantage point, I, you know, I'm a strong antecedent behavior, consequence, kind of person, and maladaptive connections were made along the way, you know, for a whole host of reasons. That being said, you know, as we get into this implementation piece, you know, you really see, you know, this, this idea around psychological factors and behavioral finance factors coming into play. And so as we set the stage for next Ark, what we really want to just lay the groundwork is, you know, what are the seven sort of psychological behavioral finance constructs that we want to examine, and examine them in the sense of how they may affect, you know, retirement income outlook, and how you decide to implement a financial plan? And once you have that in place, make sense? Wade?

Wade Pfau 06:34
Yeah, yeah. So the first of these and right with that cross pollination between psychology and economics, I was in grad school, and Daniel Kahneman won his Nobel Prize, if I'm recalling right, I think that was in 2002, saying, got to join up the celebrations around that. But I was so in that deep with the social security reform research that didn't necessarily always pay very close attention to what was going on there. But Daniel Kahneman, the Nobel prize he won was really based in part on this idea of prospect theory and loss aversion. And how people treat gains differently from losses. And so if you can just give us a little more description in terms of these retirement income beliefs, and how they

ultimately can impact how people implement their strategy, what might loss aversion due to someone that that move them away from perhaps the most rational decision making?

Alex Murguia 07:31
Well, ultimately, the big idea here, and it's by big idea, and not doing it justice, the foundational idea that really leads to, you know, a whole school of thought was that, you know, losses are more psychologically impactful than gains. That's a simple kind of statement, but that is infinitely more impactful than, than the number of words I used to convey that thought. I mean, individuals evaluate gains and losses relative to a reference point. And incidentally, not coming from economics Wade, this is referred to as Prospect Theory, because that was a naming convention used because they were they were juxtaposing it with winning lottery events. And, you know, the prospect of winning, you know, they gave it that reference point. And for the longest time, I had trouble just asking anyone, like, why is it called Prospect Theory? it's just loss aversion. I think I couldn't for the life of me figure that out. But ultimately, it's this idea that there's asymmetrical dispersions, between how you view loss and how you view gain. It's not, it's not even, you know, per your spot comment, it's not an even kind of dispersion, where you view a loss, you know, imminently stronger, you know, has its significant more impactful roughly two and a half times relative to a game. And that that sort of nuance really begins to quirkier your implementation, you know, towards you know, being more loss averse. Now, this is different than the previous podcast, where we discuss loss aversion relative to how you want to pick a strategy, etc. It's more just one of those things that, you know, it is this foundational concept. So we want to just examine, you know, how that may affect how you implement the plan, without any preconceived notions behind that. Now, you're talking about Kahneman, you know, his partner diverse scheme. And again, it's talking about this for a few minutes in between for the podcast does not do this justice in the slightest, you know, but one of the things that, that they did is, you know, they were able to really take a step back and identify decision making processes. You know, individuals have two approaches to their decision making. You know, that that both thinking fast and slow one is predicated on this quick, simple heuristic approach via mental shortcuts simply because from an evolutionary standpoint, you weren't afforded the opportunity to really sit down and write down the past pros and cons of every decision you make. I mean, there's, I know off the top of my head, there's, you know, hundreds of 1000s of decisions you probably make per day. And you don't have that, that ability to really think things through, I think the 2 and 20 Rule really applies to your brain and caloric expenditures, right, the brain is like 2% of your body weight and takes up 20% of the energy. So you really don't have that ability to sit down and think about it. So adaptively, you had to have these mental shortcuts. Now, these mental shortcuts, that's the quick mind. They're they're very adaptive for making decisions, but they're, they kind of really handicap you, when it comes to making good investment, financial decisions, you know, and so thinking fast is that quick shortcut versus, you know, that push and pull between the deeply analytical one. Now what happens is, because of this, you're prone to biases. And this is where the behavioral finance literature is just ripe with biases. I mean, they're kind of tailor made for, for memes. I mean, or, you know, people love to put posters about, look at the 103 biases that you have, or the 105 biases or whatnot. But the reality is, there's many well known biases that can affect you, such as hindsight bias. Sorry, Wade, you were saying so

Wade Pfau 11:17

Well and is maybe that maybe this is a pop science type view of it. But I've seen, like the explanations around when you say, people aren't necessarily what these biases we develop are these heuristics we use to guide our behavior, there may be some evolutionary behind evolution explains like, if you see a snake you run or your biases lead you to a quick reaction, thinking fast, you have to make an immediate judgment. And when it comes to a long term investor, that's where these biases that we have to help us escape danger, may not help us with a long term financial plan, because then it's if we see a stock market downturn, the natural reaction is to run and panic and sell your thoughts. And that's just a basic example of the type of bias that isn't necessarily from an evolutionary perspective, we're not designed to be long term successful investors, and we have to find ways to counteract that. And that's where this list of biases that we have just speaks to ways that maybe we're thinking in ways that don't help us with long term financial planning.

Alex Murguia 12:27
Yeah, if you really think about it, I mean, we've been around for hundreds of 1000s of years, humans and we've been adaptive, we've been adapting to our environment, stock market has been around for a couple 100 years. It's gonna take a while, you just knickers and take your time, it's gonna be a while for us to be this purely rational player with regards to stock market investing, but I go beyond stock market investing, I mean, general financial decisions. And you know, some of the some of the ones the well known ones, like I said, there's, I don't know, it's almost like a hobby to kind of try to identify how many particular curiosities you may have with regards to your thinking. But some of the most common ones are like hindsight bias, right? I should have known that. The sort of armchair quarterback recency bias, where you take what's happening right now. And you extrapolate that into the future. That's the this time it's different look, you know, survivorship bias, you tend to remember the losers, I mean, sorry, the other way around, you tend to remember the winners, and minimize the losers. This is the, hey, don't smoke, it's not healthy for you, oh, boy, my uncle lived till he was ninety. And he smoked three packs a day. You know, it's that kind of vibe. You have gamblers fallacy you haven't domino effect. So there's all of these, we don't want to get into it too much simply because there's plenty of podcasts that can do a much better job that we can at this. And at this point, it's, it's kind of common, you know what these are, but what we're getting at more importantly, is okay, you have loss aversion, and you have that thinking fast, thinking slow, and from thinking fast. There's these mental heuristics that pop up, which are adaptive, but can be quite maladaptive when it comes to your personal financial decisions, especially in retirement. And so we're considering these because again, this is about how you decide to implement advice. And if you're a do it yourselfer, then the degree of which you're susceptible to these biases matters a great deal. Now, to be clear about this. Everyone has these biases. It's just on a relative basis, how are you relative to others, but make no mistake about it everyone is, you know, falls victim to them. And just by knowing them, it's not something you can necessarily avoid. Oh, I know about hindsight bias. So I'm okay. No, no, that's that's not the case. Another piece within the literature that you see that we wanted to examine, is this concept of inertia. I mean, there's some folks I will say inertia is actually the the granddaddy of them all, you know, as opposed to loss aversion. I'm not I'm not necessarily we're not necessarily into which is the most salient mod or anything like that. But it's an interesting concept, simply because I think I fall victim to inertia quite a bit. On many of my things I don't know about you Wade, I had

Wade Pfau 15:15

an element of procrastination or it's just you keep doing what you've been doing. And though, you know, you may need to do something, you know, you may need to rewrite your will or whatever the case may be. But it's just to overcome the hurdle of taking action is complex, and it requires sometimes some sort of external push, it's not always something that can be internally driven because inertia, you just, you know, you need to do something, but to actually do it is a whole another issue.

Bob French 15:54
Want to be able to better help your clients by tailoring your advice to your clients retirement income style. Learn how to use the RISA in your practice by signing up for our free two day advisor Retirement Income Challenge, from 12 to two, on April 25th, and 26th. At risaprofile.com/style. Working with Wade, Alex and Michael Thinker, you'll learn how to talk to your clients about the RISA, how to interpret your clients research results, and how to target your advice to their styles, and help them reach the retirement that they deserve. Learn more, and sign up now at risaprofile.com/style. That's risaprofile.com/style. We'll see you there.

Alex Murguia 16:48
Yeah so here, what you're talking about is forget loss aversion. Forget all these biases, it's simply you got nothing to it, but to do it, you know, kind of thing. And, you know, how do you get this change? How do you change this baseline from the status quo, you know, and, you know, literature will show that for there to be a change, you really got to show this improvement, you know, not just, you know, a substitution, it has to be a clear cut improvement to make this change. And incidentally, this is something that fascinated me in my psychology days. I mean, one of the, one of the ways I made my bones was doing reads health, health, health implementation research, you know, during my psychology days, I was just fascinated by what gets people to move into action, relative to interventions. And, you know, I specifically studied sort of diabetes care, parents and children. And we were part of a community clinic where we were handing out free, free meds, free sort of intervention methods for for parents to apply to their children. And I was just fascinated by the lack of initiative that some parents showed versus the others. And it was just, you know, and this is for their children. And, and what you what I, where I came out of it, you know, just anecdotally was, you know, it's not that they don't care about the children, it's just that, you know, for their own sake, they wouldn't do this. It's one of these like, they couldn't get past this, push past indifference. It was just one of these things that I just became like, fascinated about and I looked at it within the within the realm of psychology, but you can see this and in many ways, in front in everyday financial decision making Wade said it, but it's true. I mean, we, you know, in our sister firm, McLean Asset Management, one of the things we do when folks come over is just look at beneficiary designations. Something as simple as beneficiary designations, I mean, getting that wrong. Economics put you in a world of pain, you know, potentially, and, and what happens is, you know, their life changes, they get divorced, etc, etc. But they don't do the simple stuff like that. And it's not they don't care it to me, I think inertia has a lot to do with this. And Wade, I'm sure in your writings, you know, many things that you're talking about that are best practices. It's not like solving for cold fusion, it's just filling out applications properly.

Wade Pfau 19:06
Yeah, filling out some paperwork or finding your password or finding when you're logged into your brokerage account, or your your IRA account, or I guess it'd be more relevant for beneficiary

designation, but finding this specific link where you can go and change your designations. It's, it's something that you could do in 15 minutes, if you put your mind to it, but inertia stops you. And the financial implications of that can be quite significant. If, as you're saying you have an outdated beneficiary designation, that no longer reflects your desires.

Alex Murguia 19:41
And no matter how many GEICO commercials you see, it just doesn't persuade you that 15 minutes could save you a lot on insurance or whatever, no matter no matter what, you know, you just don't do it. And we see this, why we're bringing this up and why we really want to study this and you know will be top of mind in our district. Question is, okay, what did we talk about previously we talked about retirement income beliefs and how that identify a starting point. So we want to study okay, now that you have this starting point, what's keeping you from implementing nothing breaks our hearts more, you know, Wade and I when you know a, you know, a client with with McClean Asset Management or Retirement Researcher, there's a plan in place, you know, here you go, this is this is what the plan is, and they want to implement and they want to do it themselves. And it's like, Okay, see you later, ask us if you have any questions. And a year later, they come back to us, even though we pick them along the way, a year later, they come back to us, and it's effectively, I haven't started, I need help. And it's not that these folks are incompetent, they're actually fairly high level professionals. It's just this this version, it's just hard to explain. It's this push to just keep going to just move forward. So you know, it's that difference between also knowing when you need to do something and then doing it. And I think there's a lot of dissonance that goes with that, you know, in terms of knowing you need to do something, it's always in the back of your head, and you can't quite just check that box off for whatever reason. And so that's something that we want to explore. The next one is, number four, is numeracy. Wade, take it away.

Wade Pfau 21:20
Yeah. And before we started today, Alex thought this episode would be 10 minutes, and we're halfway through our list of 20. But a numeracy, it's

Alex Murguia 21:29
because I went into my diabetes research.

Wade Pfau 21:33
You're trying to extend her,

Alex Murguia 21:35
Trying to pad this baby

Wade Pfau 21:38
So this is about like, well, numerical concepts like probabilities in probabilistic thinking and recognizing the world as uncertain. Can you understand the likelihood of different outcomes? Do you understand concepts like compounding, interest, and so forth? It's not necessarily about financial literacy. But it's just more about putting together this basic ability to manage and recognize uncertainty and how different outcomes a very low probability event? Do you put sufficient weight in your thinking on that, or

are you putting too much weight on that and so forth? It's basic numeracy in that regard. This is it's kind of funny about something we did in our research studies was provide this numeracy questionnaire. And the biggest pushback we got from respondents was, if they had a low score on their numeracy, they may not be happy about that. So yeah, often more recent iterations, but

Alex Murguia 22:42
you want to ask him about math questions,

Wade Pfau 22:45
and then tell them they got the wrong answers.

Alex Murguia 22:50
It wasn't worth the calories. But no a distinction, though, I want to make a case here. And here in psychology I did. I did quite a bit of testing, intelligence testing and achievement testing, especially with children, and you're trying to develop, you know, you know, what are the strengths and weaknesses with regards to academic functioning, etc, etc. and numeracy, the way we treat it, you can think here is more of a competency test. Why is that because you can do financial literacy, but literacy starts asking you, hey, what's the what's the 401k? Distribution? You know, what's the 401k? Contribution, minimum, maximum, you know, those kinds of things? And those are, those are more jeopardy related questions that you can just look it up, frankly, if you were to ask professional advisors, are these financial literacy questions with regards to maximums and minimums and things like that? I don't know how they're gonna do. But you know, ultimately, what we're more interested in is, is our, you know, how are they as athletes, if you well, you know, do they have a good ability for numerical concepts, as opposed to financial literacy, which is asking more achievement oriented questions, which, like I said, you know, in this day and age, you can tap into your external mind and Google it up. So we thought that was that was quite more interesting. But Wade is 100% Correct. I mean, ask somebody about numeracy. And if they get one wrong, man, well, all of a sudden, we sort of, you know, set the test up in our favor.

Wade Pfau 24:25
And that leads to the next one, which is self awareness

Alex Murguia 24:29
Wade was that you kind of pushed me on your internal conversation. Come on, Alex, let's move it along, big guy.

Wade Pfau 24:38
It was a good segue because people don't like getting the numeracy questions wrong. But there's the term I learned from you, but it's a big term in the psychology world is this Dunning Kruger effect, which is about those who get more questions wrong tend to over they're overconfident about their abilities versus those who tend to get more questions write might be less confident they might have predicted that their score was lower than they actually got. And that's perceived numeracy. And again, it's like if you don't have numeracy you think you do but if you do have numeracy you think you don't. Yeah. That's what the self awareness is all about.

Alex Murguia 25:17
Yeah, we asked, we did an eight question numeracy questionnaire and, and then we asked them, so how do you think you did? You know, how many do you think you got right or wrong? And we also asked how you think it did relative to everyone else, kind of thing. And that's we turn that as perceived numeracy. And our study actually replicated. I mean, to the tee, the Dunning Kruger effect, it replicated the original study, which is, as we said, the lowest quartile scoring folks thought they did the best, they overestimated themselves the most, the highest quartile score underestimated themselves the most, you know, part of that is because, you know, it's assumed, I mean, I can't say for certain, but the the highest quartile folks under estimate themselves, because they assume that they're kind of normal. You know, they don't they don't assume that they're above average, if you will, to some extent when it comes to this. Whereas the lower folks, you know, the perception was, they were, you know, math kings, effectively. But this is this becomes problematic. I think, actually, this is more problematic than numeracy, simply because if you're low on numeracy, but if you're high on self awareness of being low on numeracy, you can find help. You know, bottom line is you can find how, if you're low on numeracy, but you think you're a genius, then we have problems, right. And again, this goes back to implementation, you have a plan, then you need to implement. And self awareness is a big blind spot. And so know it, knowing what you don't know is, it's terrible, it leads to many things that are not good. And this comes across to us. I mean, it happens when a prospect meeting, and they view what an advisor does as somewhat easy. You know, it's just math that we can put together, you know, what, what's lacking is, you know, the experience, though, the wisdom that comes from experience kind of thing. And, you know, there's a sense of, hey, look, I can do this, what do I need you for? And sometimes the answer is, you don't but you know, in your case, unfortunately, you don't know what you don't know. And that's problematic. And you know, each of you are in your own profession. And I'm sure when you explain to somebody what you do, there's, you know, every so often somebody comes up and tells you how to do your job better than how you, you know better than tells you how to do do your job, and they think they can do better than you can. And you look at them, you just say okay, whatever. And you move on. A lot of that is these because these folks, you know, they could have a host of other issues. But largely, they just don't know what they don't know. Why do you come across this? Or does everyone bow down to the Wade Pfau?

Wade Pfau 27:58
It's yeah, it's really the more you know, the more you realize how little you know? Yeah. So if you don't know you think you think you know it? It's a natural human tendency.

Alex Murguia 28:09
Yeah, no, absolutely. Especially in our profession. Look, we took this all the way to, you know, we took it as far as we could from an educational standpoint. And all we realized at the end is there's a lot to learn. There's a lot more to learn the end of the day,

Wade Pfau 28:24
and so for this next one self efficacy, this is where my mind Dunning Kruger effect is or at least maybe don't have the Dunning Kruger effect. I realize if I try to explain self efficacy to a psychologist it's going to work as well as Alex trying to explain to me how different types of annuities works so Alex

Alex Murguia 28:42
Hey man, Wade that hurt. That hits deep Wade. whoever's listening the Wade's the killer whales killer, don't don't let Ithem fool you. Know, efficacy term. And again, these are these are foundational topics that we're discussing here very briefly. So, you know, apologies in advance, but that's espoused by Albert Bandura, who's one of the great's of psychology came at it from social psychology, social cognitive theory, and, and self efficacy is the conviction of how well one can successfully execute a specific course of action. All right, that's a big difference between being overconfidence as Wade likes to say I use this error error scenario when discussing longevity concern. Well, I always use this example. Yeah, I'm, I view myself as a confident person. You know, but the reality is, when it comes to fixing anything around the house, my self efficacy is at zero no matter how many YouTube videos I can watch, or this or that I have no, no delusions of grandeur when it comes to being able to fix anything around the house, I, you know, my self efficacy with that specific localized task is pretty much nil, you know, and so my self efficacy for that is zero, even though I can have, you know, a high overall general level of self confidence. So you can see how this could apply in retirement income, and you can be fairly confident, but how is your self efficacy with regards to being able to solve, let's say, your retirement income puzzle, you know, and so, what, what, what we really like to look at here, and what we'll look at and discuss specifically retirement income, self efficacy, you know, as much as they say, you know, you should pick a niche professionally, etc, etc. When we, when we look at these constructs, we'd like to be very localized. You know, we don't, you know, so our self efficacy is specific to retirement income. And that's something we want to explore here because we do think it does play a role in terms of implementing and how you choose to implement. There's a big difference how someone with low self efficacy feels about retirement income planning, and someone with high self efficacy feels about retirement income plan should should implement, you know, do you use somebody? Do you not use somebody, you know, how do you go about doing this? And you layer this in with numeracy, Dunning Kruger, self awareness with regards to numeracy, inertia, etc, etc, you can see how we can begin to get sort of this nice tapestry of signalling how best someone could could best implement their their retirement income plan. So that's, you know, we're going to look at that a lot. And that's something that I like, now, there is another style that I mean, another factor that somebody could be listening in and say, Hey, what about this psychological piece, and I want to talk about locus of control. We I feel very strongly locus of control is a big and I'm going to talk about that in a second is a big factor here. And locus of control is a construct, you know, espoused by Rotter in which it looks at, you know, where is the agency coming from for action, and what I mean by agency, that's just a fancy way of saying, you know, where, who's responsible for this outcome. And, you know, the agent of change, if you will, you know, and locus is a fancy way of saying location. And so with Rotter, he espouses internal agency and external agency. So internal locus of control versus external locus of control, and internal is I'm responsible for this outcome, external, this, somebody else was responsible for this outcome. Now, this concept has evolved, as well. And what happens is external agency is split into two, such as external chance, like just happen, you know, the, you know, misfortune kind of thing or fortune, or external powerful others. Wait is responsible for my retirement income, success? You know, that kind of thing. And I this is a very interesting concept that we really wanted to unravel here a little bit. Unfortunately, you know, we tried to create a localized Locus of Control scale, and we missed, it didn't really capture what we wanted to capture properly, the scale itself wasn't, wasn't properly done. So, you know, why am I saying this? Well, we just wanted to say this is something that we did look at, but we looked at it in effectively, but we do think it does play a role. More to follow, it just won't happen here. The last one

that we that we think is quite important is advisor usefulness, and I'll tee this up for Wade. You know, there's many studies that talk about the additive benefits of a financial professional, you know, they call it gamma, and so forth. Wade's colleague, David Blanchette, Kaplan Vanguard has done studies on this with regards to the value that an advisor adds over and above what you could you could you can do for yourself, unfortunately, I think, and this is very valid. These are very credible studies, I mean, the methodology and so forth. It sounds like there's nothing wrong with them. But I think what happens is when you present these to folks, like prospects, or whatever, I think it's easy for somebody, especially if you're somewhat cynical, and you kind of can see why someone is when they're entering these kind of relationships. They just view the studies as sales literature. They don't really buy it. I mean, they'll they'll they'll nod their head and say, Oh, wow, this is me. But I think in the back of their heads, just like whatever. And they kind of move on. And again, I can't stress it has nothing to do with the studies. I think the studies, again, are, are credible, and their sound, it's just consumers are somewhat jaded, so they don't view these things in the same light. Therefore, what we wanted to do is, Wade.

Wade Pfau 34:51
You poopood the studies here.

Alex Murguia 34:57
I think they're, I think they're actually valid and true is just they're not persuasive in terms of getting somebody. So that's not the angle we want to play from.

Wade Pfau 35:07
Yeah. And just like a little bit more context, like David Blanchett, the Morningstar gamma concept that was, well, let's look at a bunch of different financial decisions. Let's look at someone who create makes some more naive type of decision around it, how does their retirement play out? Versus if you make the better, more like efficient type decisions? How does the retirement play out and then showing that good decision making could improve risk adjusted retirement income by say, 30%, I think that's one of their headline numbers. And then the implication is, well, if you don't have a financial advisor, you're making the naive decisions. If you do have the financial advisor, you're making the good decisions, and so naturally, right, whether you're maybe a do it yourself, investor who says no, I can make those good decisions, I don't need the financial advisor. And so maybe I don't put a whole lot of weight on that type of result, or the the assumption behind that result, which is financial advisor are the ones making those better outcomes happen. The other sort of approach you see is like the Vanguard alpha, I think Financial Engines has also done a study along these lines. There is a more famous study in this area, I won't even mention it by name, because it has a very bad methodology. But the the Vanguard's and the Financial Engines and so forth, they're all pretty reasonable. And they look at within their clientele, looking at financial outcomes, portfolio performance for people who are doing it on their own, versus people who are working with advisors, and showing that if you have an advisor, you tend to have higher risk adjusted returns from your portfolio. And therefore, again, attributing that to the advisor is saying, well, the advisor is adding this value that if an advisor charges 1% as a fee, but you're getting an investment return, that's two to 3% higher than you would otherwise be getting, then you're still getting net gains or net value from that relationship. And and so the advisor is useful. But again, if you don't necessarily think that's more well, of course, these financial firms are gonna have studies showing that working with financial advisors just gives you better outcomes. Don't necessarily buy into that a whole

lot. And so that's where, like Alex was saying, I don't think you can convince people that financial advisors add value, like, certainly, we do think that for many people, financial advisors can add value. But if that's something you just don't accept, all the convincing in the world isn't going to change your mind. And so how do you view that detail? Do you view a financial advisors being able to add value beyond their costs? Or do you not view a financial advisor as being able to add value beyond their costs? And again, there's no right or wrong answer to that. It's just your perceptions. And ultimately, that will then impact some of this financial implementation, because it's gonna speak to whether or not you perceive their being worthwhile to work with a financial advisor. Now, yeah,

Alex Murguia 38:10
I mean, no, no, you're right. I mean, we looked at it. That's what we wanted to do. So we created a scale around advisory usefulness, which is not just as an advisor add value, because everyone can say, yes. But does he add value relative to the cost of that advice? And that really is in our view, that that hurdle that needs to be jumped, if you wanted to implement with an advisor or not. And again, the whole purpose of why we detailed these is going back to the beginning, we really wanted to study now that we've identified retirement income styles, the RISA profile matrix, and how that leads to a starting point for your retirement income strategy. How do you implement and so before implementing, you know, Wade, and I looked at it. And, you know, we came to the conclusion that there is these factors that we want to study. And we wanted to see how they may be signal, certain implementation methods, because just like there's many strategies that are credible, there are various methods in business models to implement a retirement income plan. And in the same philosophy of, you know, in that same philosophy, we want to match your implementation approach to the appropriate method. Why? Because we view that if you can match yourself with the right implementation approach that that fits you, there's more likelihood that you'll have a positive retirement outcome. That's really what we want to get at. And, you know, and make no mistake about it, like if you're a self directed investor, then our approach isn't to tell you know, you need an advisor. No, we just wanted to like examine, you know, what are the characteristics that really lend for a successful outcome, If you're a self directed investor, you know, and or there's others, there's other types and we'll get we'll get into them. You know, in future podcasts, but we really want to get a sense of how these factors play with each other. So we can identify, like, if you're this type of implementer, these are your strengths. And these are your weaknesses. If you're that type, these are your strengths. These are your weaknesses, that kind of vibe, and we feel that's a that's a much more productive manner to help you implement financial advice, then trying to beat you over the head and tell you you need an advisor, you need an advisor, you need an advisor, we'd rather just figure out how you want to do it and facilitate that. Now, I Wade.

Wade Pfau 40:33
I think yeah, that kind of sums up for today. Stay tuned for more in terms of starting to then implement a strategy based on some of these issues we discussed today.

Alex Murguia 40:45
And you're right, Wade, we thought we literally thought this was going to be like a 10 minute 15 minute podcast yet here we are 39 minutes in.

Wade Pfau 40:55

A lot of background on the psychology.

Alex Murguia 40:58
So it is. Alright. So thank you so much. Again, we're going to examine the decisions that help you implement your retirement income plan. Next, we'll discuss you know, a couple of couple of very interesting findings from from our studies. All right. Stay tuned for more Wade, take us home.

Wade Pfau 41:14
Thanks, everyone. See you next time.

Alex Murguia 41:17
Bye.

Bob French 41:20
Wade and Alex are both principals in McLean Asset Management and Retirement Researcher. Both are SEC registered investment advisors located in Tyson's Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with a risk including risk of loss. Past performance does not guarantee future results.