Risk Fingerprint Forensics: A New Behavioral Tool to Better Understand and Meet Your Clients’ Needs

By Michele Wucker
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When I started my first job with 401(k) benefits, I remember getting a simple cardboard tool with a wheel to help me decide the best risk allocation between stocks and bonds, mainly based on age. It was presented as cut-and-dried.

How things have changed. An array of software tools now helps advisors to build customized portfolios based on an analysis of clients’ choices among options carrying varying risk levels.

We might think of risk wheels and the newer tools as “Risk Portfolios for Non-Finance Professionals,” versions 1.0 and 2.0. Both rely mainly upon quantitative measures and on types of securities as the main elements in constructing a financial portfolio.

Version 3.0 incorporates a qualitative, personality-based dimension—the new art and science of risk fingerprinting. This broadens the scope of factors considered, putting more emphasis on the dynamics that shape human risk perceptions and responses.

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Helpful when working with couples or families where the decision-makers are trying to accommodate very different experiences, perceptions, and feelings about risk or ideas about what needs to happen.

RISK FINGERPRINTS DEFINED

A risk fingerprint is the combination of influences on your risk choices. Similar to a real fingerprint, this includes genetic characteristics (such as your innate personality), experiences (past successful or failed risks), habits (decision-making processes), and environment (both social and physical surroundings).

Just like the fingerprint that uniquely identifies the person who held a glass at a crime scene, a risk fingerprint creates an imprint. In this case, the imprint comprises the choices you make among possible risks.

Financial advisors can see the imprint left by a client’s risk fingerprint by looking at the options that client has chosen among various financial risk options. But when an advisor understands and can talk with clients about what’s behind the reasons for those choices, you gain powerful insights that can strengthen your relationship and help you to guide them.

These influences include familiar concepts such as risk perception, sensitivity, tolerance, propensity, and appetite. The answers to questions in typical financial risk survey questionnaires represent risk appetite, which is how much risk you’re willing to take.

Two people might have the same risk appetite but varying levels of risk tolerance, which describes the difference between your comfort level and how far above that comfort level you are willing to take risks.

Risk perceptions and sensitivities explain the difference between risk tolerance and appetite. Two people might assume the same absolute amount of risk but have very different comfort levels because they perceive that risk differently and experience distinct emotional reactions.

How sensitive you are to risks is a function of your personality combined with experiences, your decision-making process, your knowledge of the risk at hand, and your broader circumstances.
such as the composition of your financial portfolio or how secure you feel in your job.

It also involves how well you tolerate uncertainty and ambiguity, or the conditions under which you cannot calculate the likelihood of various options. For example, people asked to bet on the outcome from a drawing of yellow and blue balls will behave very differently depending on whether or not they know the ratio of yellow to blue—and in turn, how comfortable they are with not being able to know the odds of either outcome.

**INNATE PERSONALITY**

You can’t change who you are. But you and your clients can change your self-awareness about your risk personalities. In turn, this helps to create habits and conditions that make it easier to capitalize on your risk strengths, offset weaknesses, and overall make better risk decisions.

Geoff Trickey, the creator of the Risk Type Compass, a psychometric tool, has found that risk personalities fall along two axes: how calm or anxious people are and how methodical or impulsive they are when faced with a risk decision (see figure 1). Using a Big Five personality type methodology specifically focused on risks, the Risk Type Compass breaks down personalities into eight characteristics and represents how closely an individual appears to conform to each (see figure 2). The traits on the compass are wary, prudent, deliberate, composed, adventurous, carefree, excitable, and intense. The tool also compares risk tolerance in different areas of life, including health and safety, reputation, social, finance, and recreation. Finally, it assigns an overall risk tolerance score.

Understanding these personality types and their nuances can guide your strategy for talking with a client about financial options. This knowledge can be particularly powerful when helping a couple or family members talk through decisions that need to be made together. It can provide a focal point for conversations among people with widely divergent risk fingerprints, or for people who are so similar that they could benefit from seeing a different risk perspective.

Focusing financial conversations on risk personalities can de-personalize difficult conversations and make it easier to accommodate very different personalities and preferences.

This tool also comes in very handy for clients who dislike numbers and may become stressed by the financial choices included in many risk tolerance assessments.

**EXPERIENCES**

A risk fingerprint includes life experiences as well as innate personality traits. Getting a sense of how clients have reacted to major life shocks can help you to better meet their needs.

Some people, for example, go through a major unexpected event, such as the death of a family member or a career crisis, and become much more conservative and risk avoidant. Others, by contrast, emerge from a crisis with the feeling that if they made it through that, they can handle just about anything. Crisis may lead them to make other big changes and take other risks, like starting a business.

Experience with risk-taking is important, too. The more risks people have actively chosen, the more comfortable they are likely to be with risk in general. But the nature of their experiences also colors their attitudes.

Ask your clients about the biggest risks they have taken or decided against—and if they are happy with the outcome of those decisions. Ask them about the biggest shocks, disappointments, or windfalls in their lives.

This history has shaped their relationships with risk. Knowing the background will help you to understand how to best advise them based on their comfort zone and willingness to stretch beyond it.

**RISK STEREOTYPING VERSUS RISK EMPATHY**

A common, major mistake is to make assumptions about risk fingerprints—particularly when it comes to women—without getting a real sense of a client’s priorities and the reasons behind those priorities.

I’ve heard so many stories about financial advisors who, after a client’s death, have lost the surviving spouse as a client because they didn’t pay enough attention to the spouse’s risk attitudes and needs. This is particularly true when the deceased client handled the couple’s major financial decisions.
One of the biggest stumbling blocks in financial advising, even among the services that market specifically to women, is the tendency to stereotype women when it comes to risk.

This often involves a phrase I’ve come to dislike intensely: “risk averse.” So many women have told me they see themselves as risk averse despite the fact that they are successful entrepreneurs or professionals. When we get to talking, it turns out they have taken many courageous risks in their careers, businesses, and financial decisions.

There is a big difference between being risk averse—taking the less risky option, all other conditions being equal—and being “risk savvy,” which involves weighing the available options and making smart decisions about risk.

But they persist in describing themselves using a stereotype that often is applied to women and often is inaccurate, leading to confusion. There is a big difference between being risk averse—taking the less risky option, all other conditions being equal—and being “risk savvy,” which involves weighing the available options and making smart decisions about risk.

Headlines often apply the “risk averse” misnomer to millennials and Gen Z as well because some research suggests they are less likely to invest in stocks than earlier generations. But all other conditions are not equal. Millennial and Gen Z individuals are more likely to have large amounts of student loan debt and have been rightly worried about stock indexes at historical highs.

Taking the time to understand a client’s risk fingerprint means avoiding stereotypes, using the right tools, and asking the kinds of questions that lead to real insights. That involves a concept I call risk empathy. Risk empathy is the ability to relate to the ways others understand and experience risks and then adapt your own behavior as appropriate.

**CREATING THE RIGHT ENVIRONMENT**

Practicing risk empathy considers the whole range of personality, experience, and environmental factors behind your client's risk fingerprint. It’s particularly important to take into account recent events, which have the most emotional resonance, particularly when they involve a major life or career shock.

Risk empathy also includes finding out how much control a client needs to feel, and in turn how assertive you should be with the guidance you provide. Are individual clients more comfortable coming to their own decisions, or do they prefer to rely on the expert? Do they like to pore over reams of information, or does lots of information overwhelm them?

Sometimes the answers to these questions will be obvious. Other times you’ll have to ask. Avoid making assumptions when the answer is not crystal clear. Don’t underestimate the value of an open, honest conversation about the factors affecting a client’s financial risk decisions.

These conversations can involve direct questions. One of my favorite approaches is to ask people to define risk. Some people tend toward negative descriptions such as “possibility of loss,” “danger,” and “peril,” but others will emphasize the potential for gain, such as “adventure,” “investment,” or “gamble.”

Personally, I prefer “it depends.” Knowing whether your client feels favorably, negatively, or neutrally about taking risks can help you to be aware of and counteract or honor biases that affect their decisions, as appropriate.

You also can glean information indirectly. If your client regularly listens to upbeat music or likes spicy food, the client may be more likely to take more financial risks. Research shows that both of these environmental factors can increase people’s risk-seeking tendencies, as can some fragrances.

**CREATING PERSONAL RISK ECOSYSTEMS**

Risk fingerprints use awareness of the personality, experience, and environmental factors behind your risk choices to provide you and your clients the tools to create the conditions needed for a strong relationship.

These insights are essential for developing a personal risk ecosystem—a set of conditions, habits, and processes that help people to make good risk decisions. This involves understanding what makes you more or less comfortable in a situation so that you can take more of the risks that lead to good things and be less likely to leap before you look. It means surrounding yourself with a supportive group of people with diverse risk fingerprints who can offer alternative perspectives and help you arrive at better decisions.

Michele Wucker is founder and chief executive officer of Gray Rhino & Company, based in Chicago. A speaker and strategic advisor, she has written four books including The Gray Rhino: How to Recognize and Act on the Obvious Dangers We Ignore and You Are What You Risk: The New Art and Science of Navigating an Uncertain World. She earned a BA from Rice University and a master’s degree from the Columbia University School of International and Public Affairs. Contact her at m@thegrayrhino.com.