

2023 Annual  
Conference



# Download Our Slides

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<https://www.ria-compliance-consultants.com/2023-conference-resources>

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- **View Entire Live Presentation** – You are required to watch the entire live presentation of the course. If you do not watch the entire live presentation, you will have to watch the recorded version in its entirety.
- **Attendance Codes** – As you watch the live presentation, you will receive two attendance codes, each containing three alphanumeric characters. Save these codes. You will need to enter the full six-character attendance code prior to accessing the final quiz.
- **Login** – You will need to login into <https://www.CE4Advisers.com> and select this course.
- **IAR Acknowledgement** – Sign the IAR CE Acknowledgement & Attestation.
- **Final Quiz** – You must complete each lesson and receive a score of **70%** on the final quiz to receive IAR CE credit.

# Content Questions & Technical Help

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# RIA COMPLIANCE CONSULTANTS ~ CE COURSE

## *Behavioral Finance - "Why Now? Why Me? - Compliant, Reliant, Preferred"*

By Jerry Szatko, CEO ~ Unitifi: Subject Matter Expert in Behavioral Finance

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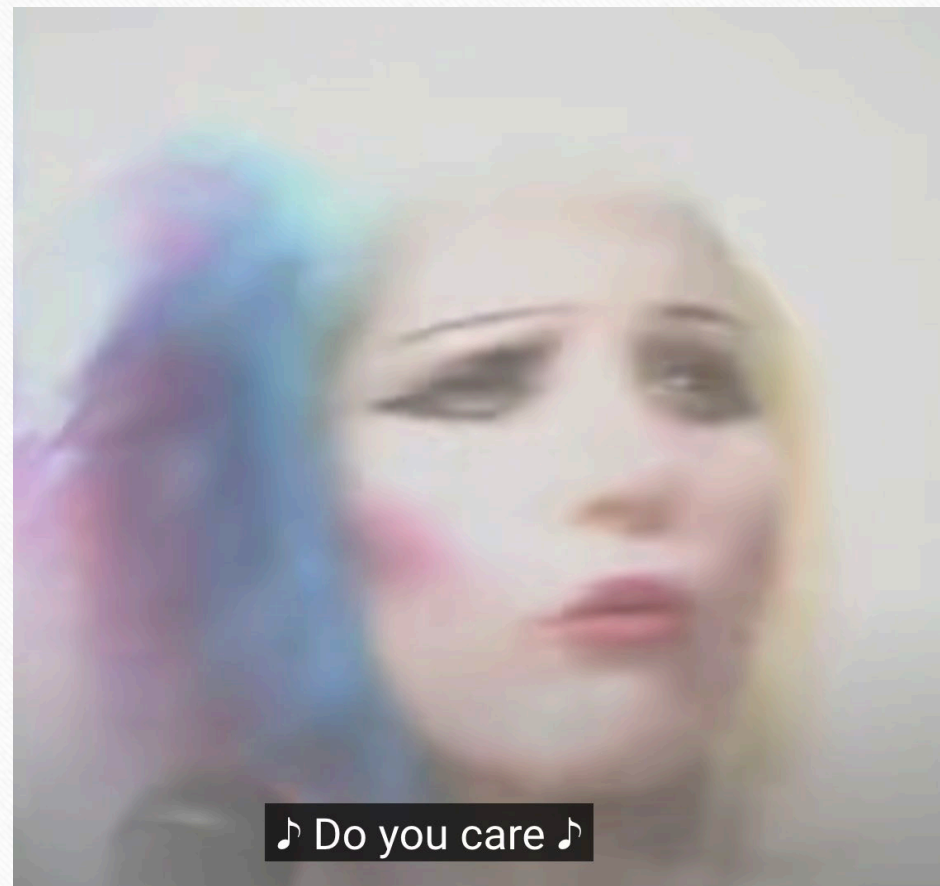




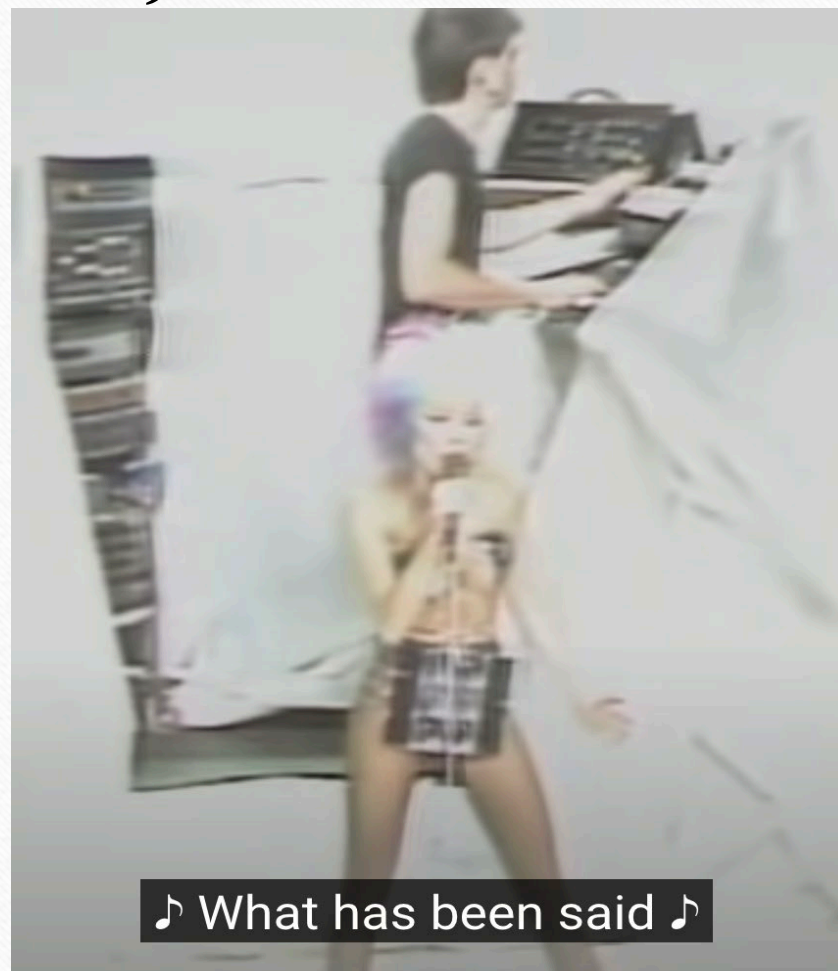
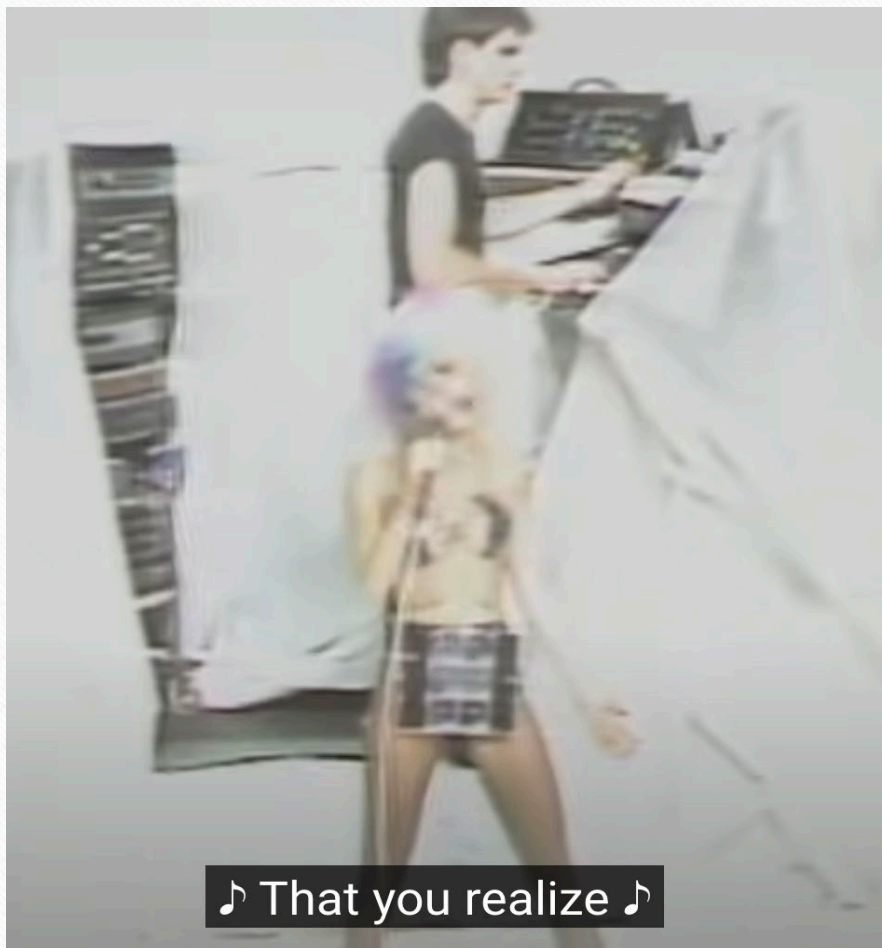
1982 Missing Persons,  
"Words" ~ Dale  
Bozzio

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# 1982 Missing Persons, "Words"



# 1982 Missing Persons, "Words"



# The History of Behavioral Finance

# Dictionary



Merriam-Webster

<https://www.merriam-webster.com> › dictionary › beha... ⋮

## Behavioral Definition & Meaning

Cassie Kreitner. 2. : relating to or concerned with the social, psychological, and emotional factors that affect financial decisions and behavior.

*Behavioral* finance ... holds that financial man—far from the perfect, mechanical trader depicted in textbooks—is a rather neurotic fellow. He follows the crowd, fails to plan ahead and often makes mistakes.

— Roger Lowenstein



JACOB H/GETTY IMAGES

# Tulipomania

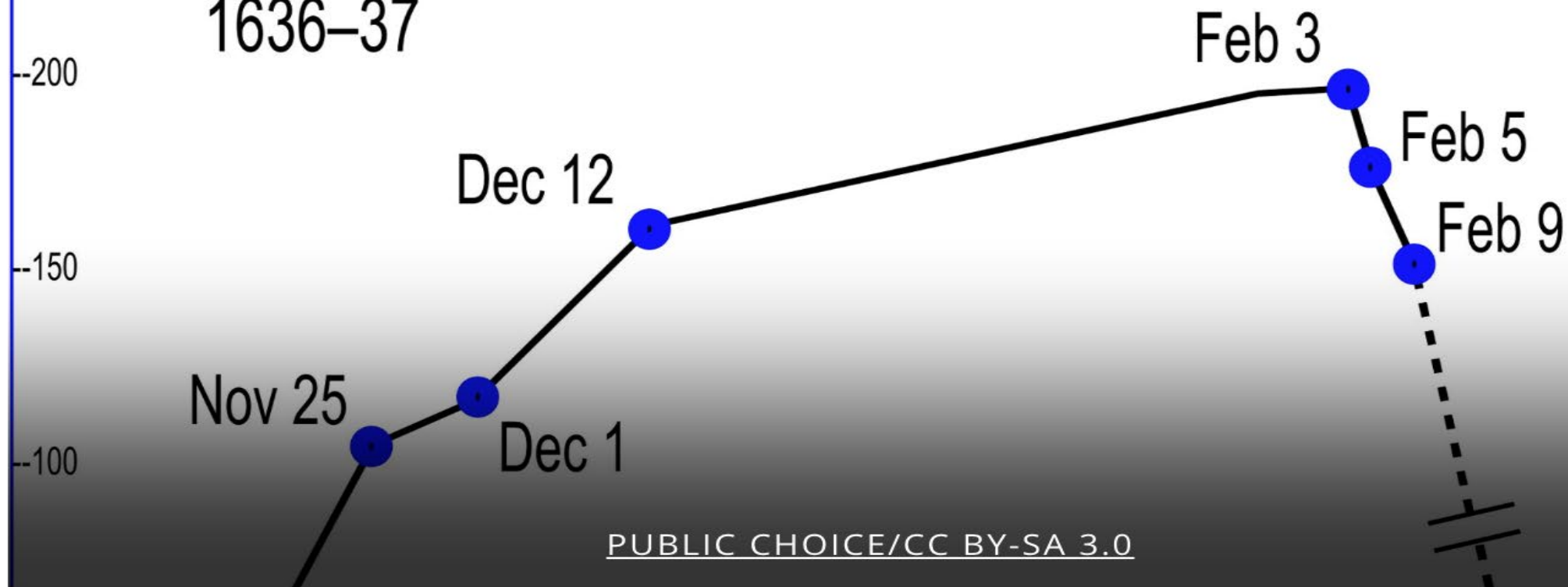
In 1636, according to an 1841 account by Scottish author Charles Mackay, the entirety of Dutch society went crazy over exotic tulips. As Mackay wrote in his wildly popular, *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds*, as prices rose, people got swept up in a speculative fever, spending a year's salary on rare bulbs in hopes of reselling them for a profit.

Mackay dubbed the phenomenon "The Tulipomania."

"A golden bait hung temptingly out before the people, and one after the other, they rushed to the tulip-marts, like flies around a honey-pot," wrote Mackay.

"Nobles, citizens, farmers, mechanics, sea-men, footmen, maid-servants, even chimney-sweeps and old clothes-women, dabbled in tulips."

# Tulip price index 1636-37



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TULIP PRICE INDEX FROM 1636-1637. THE VALUES OF THIS INDEX WERE COMPILED BY EARL A. THOMPSON IN THOMPSON, EARL (2007).



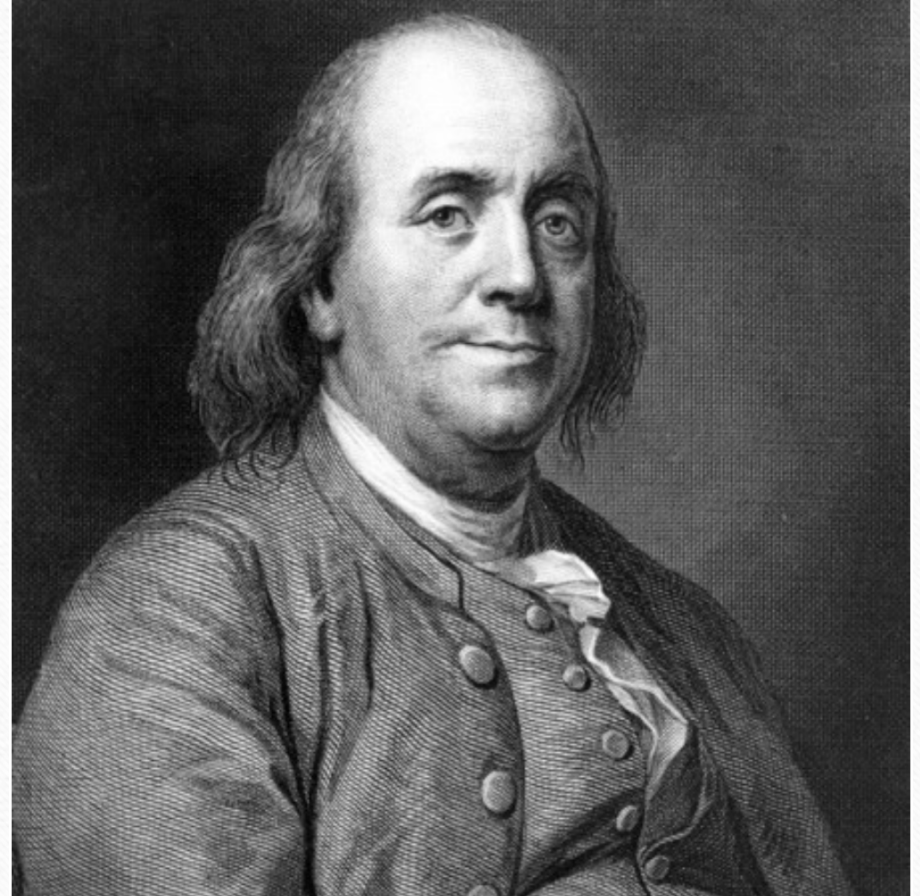
# Google search... When did behavioral finance stock market

Behavioral finance has evolved since it was first introduced as a concept in the early 1980s. At the outset, investors were often thought of as being economically 'irrational', frequently falling victim to cognitive biases in their pursuit of what standard finance calls 'rational' wants. Jan 9, 2020

[The Evolution of Behavioral Finance Research - LinkedIn](#)

## Benjamin Franklin

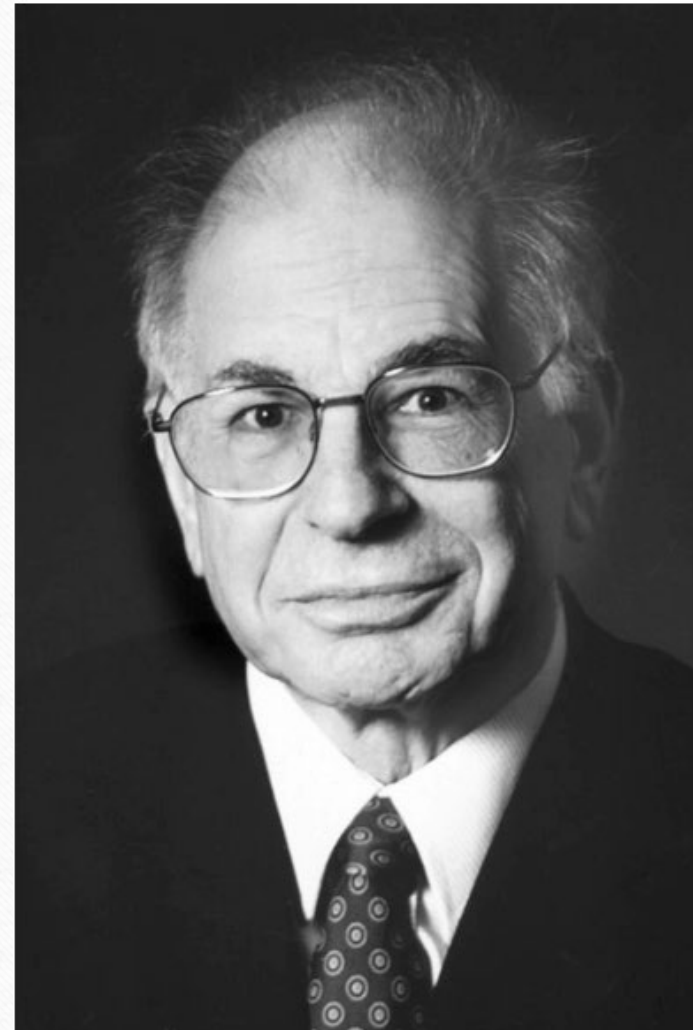
“No one cares what you know until they know that you care!”



# Daniel Kahneman

**The Sveriges Riksbank Prize in  
Economic Sciences in Memory of  
Alfred Nobel 2002**

“for having integrated insights from  
psychological research into  
economic science, especially  
concerning human judgment and  
decision-making under uncertainty”



# Richard H. Thaler

**The Sveriges Riksbank Prize in  
Economic Sciences in Memory of  
Alfred Nobel 2017**

“for his contributions to behavioural  
economics”



# The Role of Behavioral Finance Now

# 4 Reasons Why Clients Leave Financial Advisors (Plus 4 Client Retention Strategies)

[PRACTICE MANAGEMENT](#)

Joe Buhrmann • September 13, 2022

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## **#1: “You didn’t communicate with me—at least not the way I expected you to.”**

Communicating with clients clearly and responsively is table stakes. In an often-cited survey from Financial Advisor magazine, 72 percent of advisors said their client fired a previous advisor for failing to communicate in a timely way.<sup>1</sup>

# Why do clients fire their advisors?



34% said the advisor's Investment performance was poor.

# Advisors Lose up to 90% of Their Clients When the Husband Dies: What's Your Plan?

Written by: [Annette Bau](#) | [PMA360 Academy](#)

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A client retention strategy is critical whether you are an advisor, consultant or entrepreneur. Industry statistics and our own [research](#) shows that advisory firms lose up to 90% of their clients when the husband dies. One financial firm is losing 98% of their clients at the death of the first spouse.



According to University of Kansas research, it takes considerable time commitment to build relationships:



40 and 60 hours to form a casual friendship



80-100 hours to transition to being a friend



200+ hours together to become good friends

# Advisor/Client Time per Year:

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- Meeting 1/Year - 40 years
- Meeting 2/Year - 20 years
- Meeting 4/Year - 10 years
- Meeting 12/Year - +3 years

# Behavioral Finance & Fiduciary Responsibilities



U.S. SECURITIES AND  
EXCHANGE COMMISSION

# Regulation Best Interest and the Investment Adviser Fiduciary Duty: Two Strong Standards that Protect and Provide Choice for Main Street Investors

## a. Regulation Best Interest – Enhancing the Standards of Conduct for Broker-Dealers

Regulation Best Interest—or “Reg. BI”—imposes a new standard of conduct specifically for broker-dealers that substantially enhances their obligations beyond the current “suitability” requirements. The standard can be viewed as having two components. First, it establishes a general obligation that draws from key fiduciary principles, requiring broker-dealers to act in the best interest of their retail customers and not place their own interest ahead of the retail customer’s interest. Second, it includes specific requirements to address aspects of the broker-dealer relationship where our experience indicated that focused attention was appropriate. More specifically, Reg. BI is satisfied only if the broker-dealer complies with four specified component obligations: Disclosure, Care, Conflict of Interest, and Compliance. Each of these obligations includes a number of prescriptive requirements, all of which must be satisfied to comply with the rule.



**Chairman Jay Clayton**

**Boston, Massachusetts**

**July 8, 2019**



U.S. SECURITIES AND  
EXCHANGE COMMISSION

# Regulation Best Interest and the Investment Adviser Fiduciary Duty: Two Strong Standards that Protect and Provide Choice for Main Street Investors

## **b. Fiduciary Interpretation – Affirming and Clarifying the Investment Adviser Fiduciary Duty**

Our Fiduciary Interpretation reaffirms, and in some cases clarifies, certain aspects of the federal fiduciary duty that an investment adviser owes to its clients. This duty—comprised of both a duty of care and a duty of loyalty—is principles-based and applies to the entire relationship between the investment adviser and the client.

The Fiduciary Interpretation confirms the Commission’s longstanding view that an investment adviser must, at all times, serve the best interest of its client and not subordinate its client’s interest to its own.



**Chairman Jay Clayton**

**Boston, Massachusetts**

**July 8, 2019**

# Recorded Webinar – Best Practices to Reduce the Risk of Arbitration and Litigation

October 07, 2020

Reading time : 2 minutes

- Bryan Hill, President, RIA Compliance Consultants, Inc.
- Patrick Griffin, Kutak Rock
- Jerry Szatko, CEO, Unitifi
- Tom Schrandt, Lockton Affinity

## Best Practices to Reduce the Risk of Arbitration and Litigation



# Recorded Webinar – Best Practices to Reduce the Risk of Arbitration and Litigation

October 07, 2020

Reading time : 2 minutes

- Bryan Hill, President, RIA Compliance Consultants, Inc.

## Best Practices to Reduce the Risk of Arbitration and Litigation



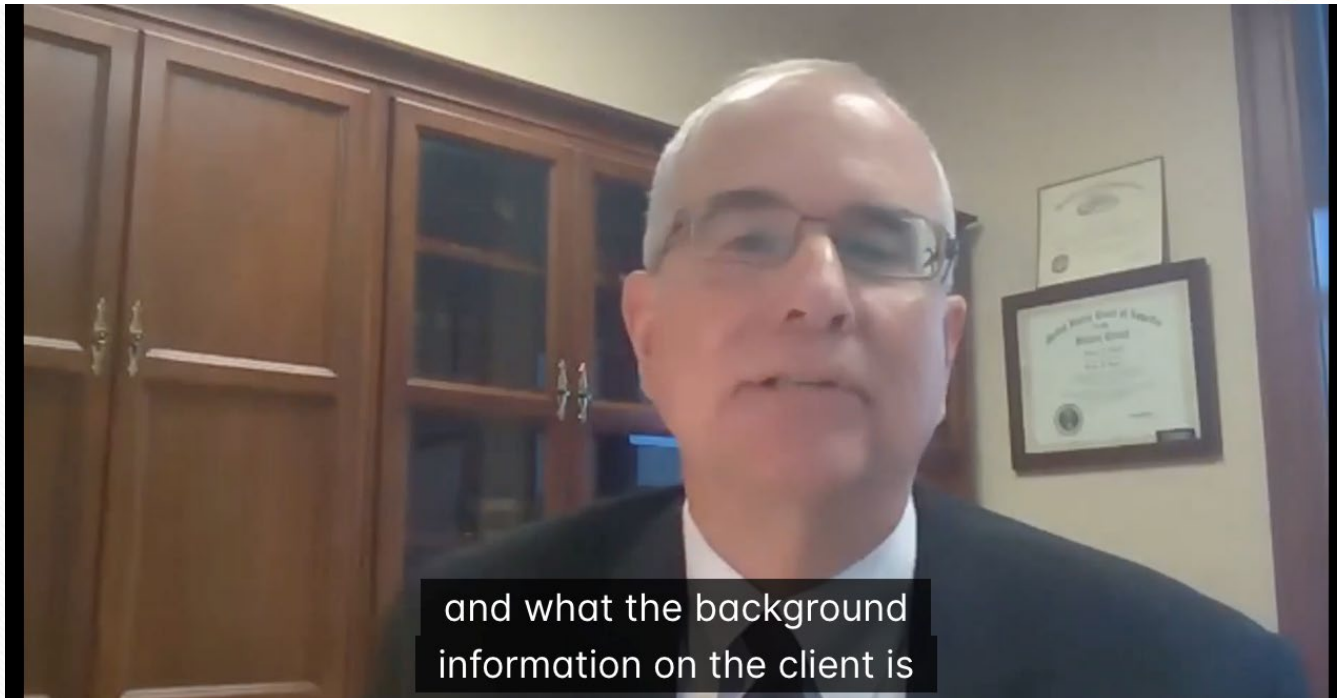
# Recorded Webinar – Best Practices to Reduce the Risk of Arbitration and Litigation

October 07, 2020

Reading time : 2 minutes

• Patrick Griffin, Kutak Rock

## Best Practices to Reduce the Risk of Arbitration and Litigation



and what the background information on the client is



# Recorded Webinar – Best Practices to Reduce the Risk of Arbitration and Litigation

October 07, 2020

Reading time : 2 minutes

- Tom Schrandt, Lockton Affinity

## Best Practices to Reduce the Risk of Arbitration and Litigation



to proactively figure out what's going on

# Recorded Webinar – Best Practices to Reduce the Risk of Arbitration and Litigation

• Jerry Szatko, CEO, Unitifi

October 07, 2020

Reading time : 2 minutes

## Best Practices to Reduce the Risk of Arbitration and Litigation



most appropriately for the client though a lot of this



**CFA Institute**

The investment policy statement (IPS) serves as a strategic guide to the planning and implementation of an investment program. When implemented successfully, the IPS anticipates issues related to governance of the investment program, planning for appropriate asset allocation, implementing an investment program with internal and/or external managers, monitoring the results, risk management, and appropriate reporting. The IPS also establishes accountability for the various entities that may work on behalf of an investor. Perhaps most importantly, the IPS serves as a policy guide that can offer an objective course of action to be followed during periods of market disruption when emotional or instinctive responses might otherwise motivate less prudent actions.



**CFA Institute**

The IPS is a highly customized document that is uniquely tailored to the preferences, attitudes, and situation of each investor. Templates that purport to offer convenience and ease in development of an IPS almost inevitably sacrifice consideration of factors that are highly relevant to the investor. The investment professional must thoroughly understand the investor's objectives, restrictions, tolerances, and preferences to be able to develop a truly useful policy guide.

Evaluation of Organizations  
for  
Trust of Behavioral Finance  
Assessments & Results

# How Can We Best Evaluate

Do they have publications available, such as a white paper or printed presentations regarding their Research?

Are they associated with one organization?

How Valid are the Results?

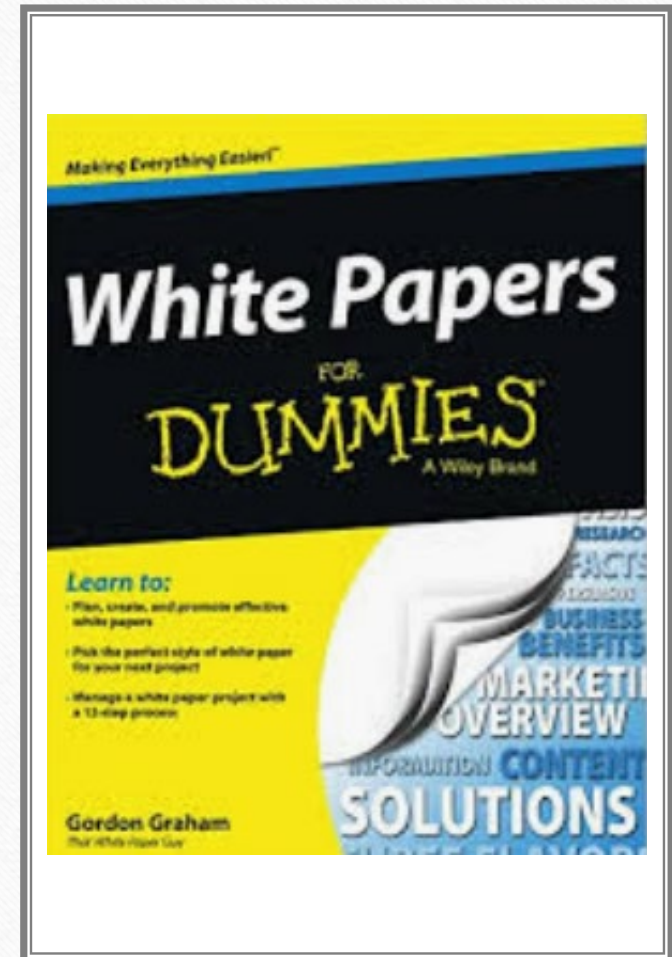
How easily Understood are the Results?

How long does it take to complete the Assessment?

How Many Questions are in the Assessment?

# The Research is Key

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# Types of Assessments

## Diagnostic Assessment

*Happens at the beginning of a lesson, unit, course, or academic program.*

## Summative Assessment

*Aims to assess the levels of learning at the end of an instructional period.*

## Non-Referenced Assessment

*Compares student's performance against fixed average norms.*

## Ipsative Assessment

*Tracks learners' progress against their previous performance.*

## Formative Assessment

*In-process assessment designed for practice and feedback.*

## Confirmative Assessment

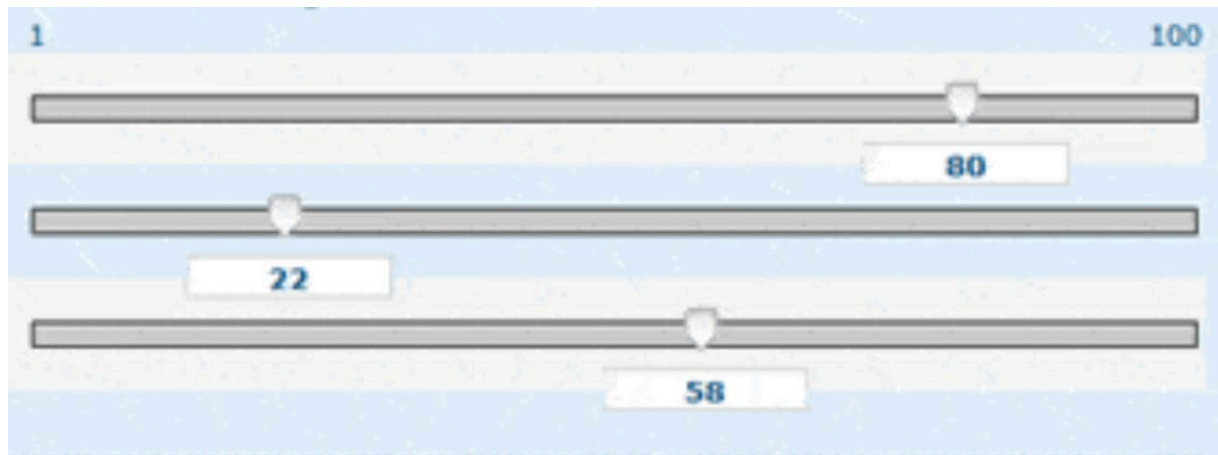
*Confirms the effectiveness of instructions.*

## Criterion-Referenced Assessment

*Evaluates specific skill-set or knowledge.*







# Sliding Scale

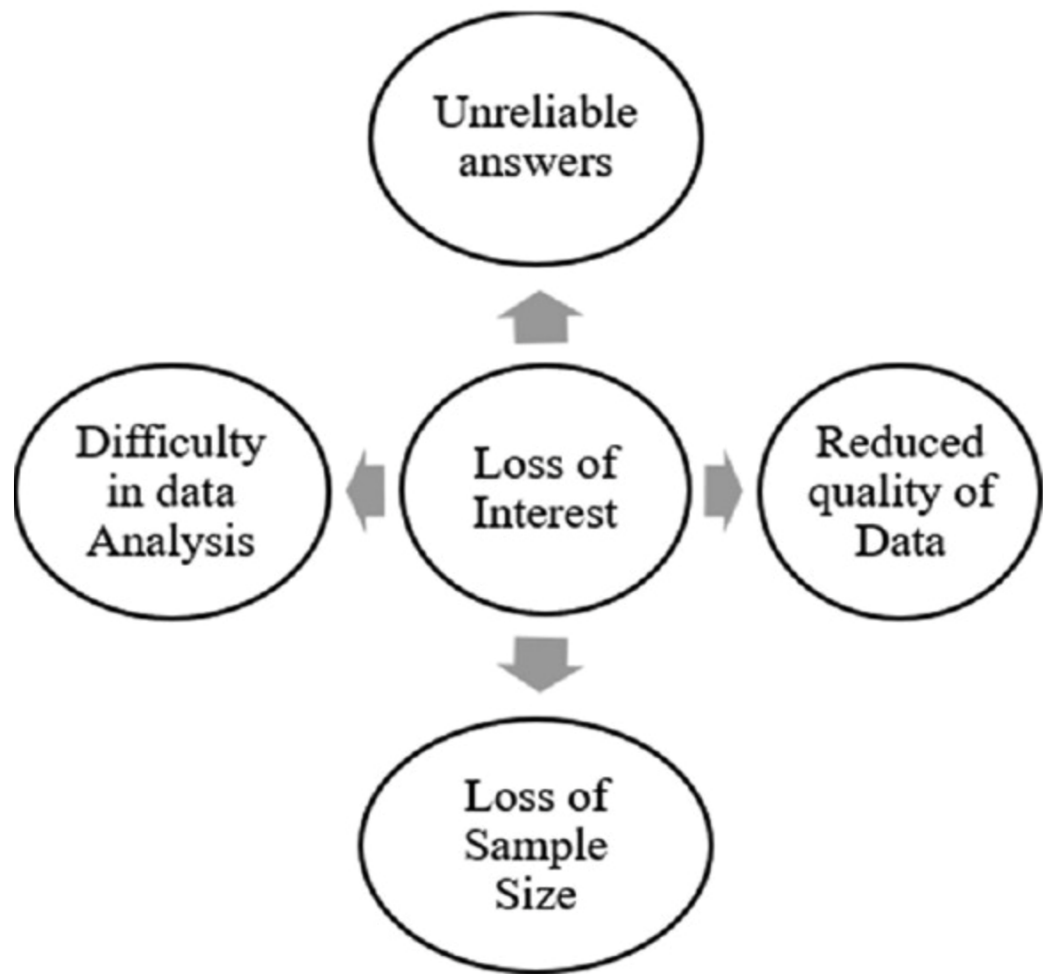
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**National Library of Medicine**

*National Center for Biotechnology Information*

A good questionnaire can be of 25 to 30 questions and should be able to be administered within 30 min to keep the interest and attention of the participants intact. It is observed that as the number of questions increases there is a tendency of the participants speeding up or satisficing through the questions, which severely affect the quality, reliability, and response rates.



**National Library of Medicine**

*National Center for Biotechnology Information*

Table 1. Cronbach's alpha scores by Investor Type

Theme	Cronbach's alpha
Protector	.74***
Observer	.77***
Liberator	.77***
Energizer	.75***

\*\*\* p-value  $\leq$  .001

Table \*: Bivariate Correlation between "Risk Tolerance" and Investor Personality /Tendencies

	"Risk Tolerance"	Pre-Risk Spectrum	Personality	Protector	Observer	Liberator	Energizer
"Risk Tolerance"	1.00						
Pre-Risk Spectrum	.35**	1.00					
Personality	.42**	.37**	1.00				
Protector	-.08*	.05	.08*	1.00			
Observer	.03	.16**	.2**	.67**	1.00		
Liberator	.14**	.23**	.34**	.62**	.65**	1.00	
Energizer	.17**	.25**	.34**	.64**	.74**	.72**	1.00

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

## WHAT DOES CRONBACH'S ALPHA MEAN? | SPSS FAQ

Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group.

Technically speaking, Cronbach's alpha is not a statistical test – it is a coefficient of reliability (or consistency).

Cronbach's alpha can be written as a function of the number of test items and the average inter-correlation among the items.



**National Library of Medicine**  
*National Center for Biotechnology Information*

## How to describe bivariate data

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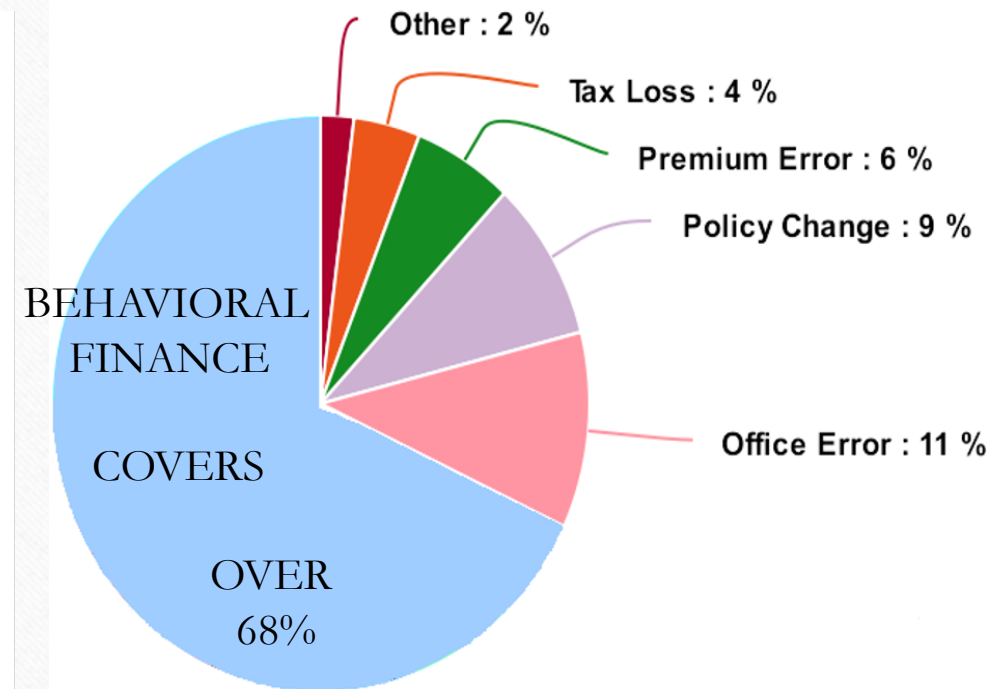
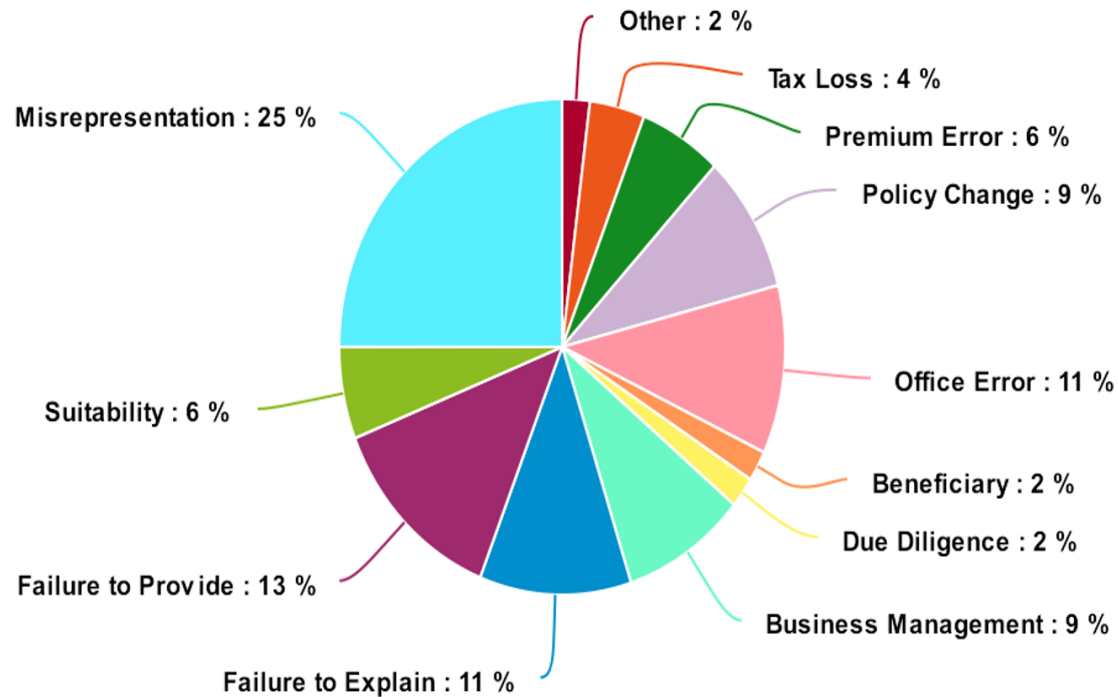
**More specifically, bivariate analysis explores how the dependent (“outcome”) variable depends or is explained by the independent (“explanatory”) variable (asymmetrical analysis), or it explores the association between two variables without any cause and effect relationship (symmetrical analysis).**

# Industry Preferences & Utilization of Behavioral Finance



# Understanding Compliance Claims

NAIFA Claims Frequency by Error Type



Understanding Client Financial Personality & Behavior is the Key to Success

The logo for planadviser, featuring the word "planadviser" in a blue, lowercase, sans-serif font. The text is centered within a white rectangular box that is part of a larger green arrow shape pointing to the right.

DATA & RESEARCH July 24, 2023

## Schwab: Financial Advisers Using Behavioral Finance Gain More in New Assets

Registered investment advisers who leverage behavioral finance tactics when working with clients saw more new assets from existing clients in 2022 than those who did not incorporate the method, according to Charles Schwab Corp.'s [2023 RIA Benchmarking Study](#).

In data drawn from 1,300 adviser firms, the financial services company found that advisers implementing behavioral finance—the psychological factors that go into investment decisions—**saw 3.3 times more new assets from existing clients.**

About half of the firms surveyed responded that they use behavioral finance in their practice and implement it with more than half of their client base.

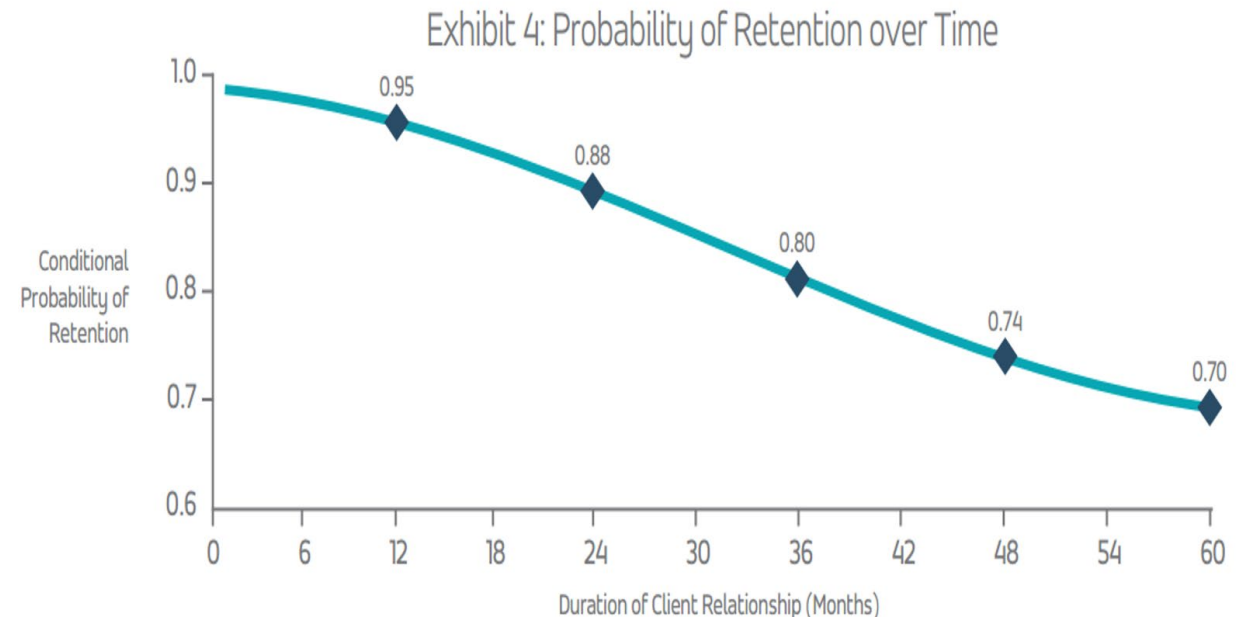
“Behavioral finance can help advisors deliver more impactful client experiences by increasing client satisfaction,”

**Increasing  
Revenue**

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**Client  
Retention**

## Client Retention and Time



Getting through years 1-4 is the most difficult time<sup>1</sup> for the client-advisor relationship

# Increasing Revenue | Client Retention

95% retention over 3 years = 25% more AUM  
80% retention over 3 years = 12% more AUM

Getting through years 1-4 is the most difficult time  
for the client-advisor relationship<sup>1</sup>

Depending on which study you believe, and what industry you're in, acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one. It makes sense: you don't have to spend time and resources going out and finding a new client — you just have to keep the one you have happy. If you're not convinced that retaining customers is so valuable, consider research done by Frederick Reichheld of Bain & Company (the inventor of the net promoter score) that shows increasing customer retention rates by 5% increases profits by 25% to 95%.

# Harvard Business Review

## The Value of Keeping the Right Customers

by Amy Gallo



## Key Points

- Think of client onboarding as the opportunity to give your client a roadmap for the work that lies ahead.

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- Onboarding ensures everyone is on the same page when it comes to key project details and milestones, and provides an opportunity to outline a communication plan and answer any final questions.

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- Client onboarding meetings are a great opportunity to learn more about your client and how they operate—especially if you haven't worked with them in the past. Take some time to talk generally about what success means to you.

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"You will never get a second chance to make a first impression" Will Rogers

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## Client Onboarding & Using Behavioral Finance Tools To Assist

# RIA COMPLIANCE CONSULTANTS ~ CE COURSE

## *Behavioral Finance - "Why Now? Why Me? - Compliant, Reliant, Preferred"*

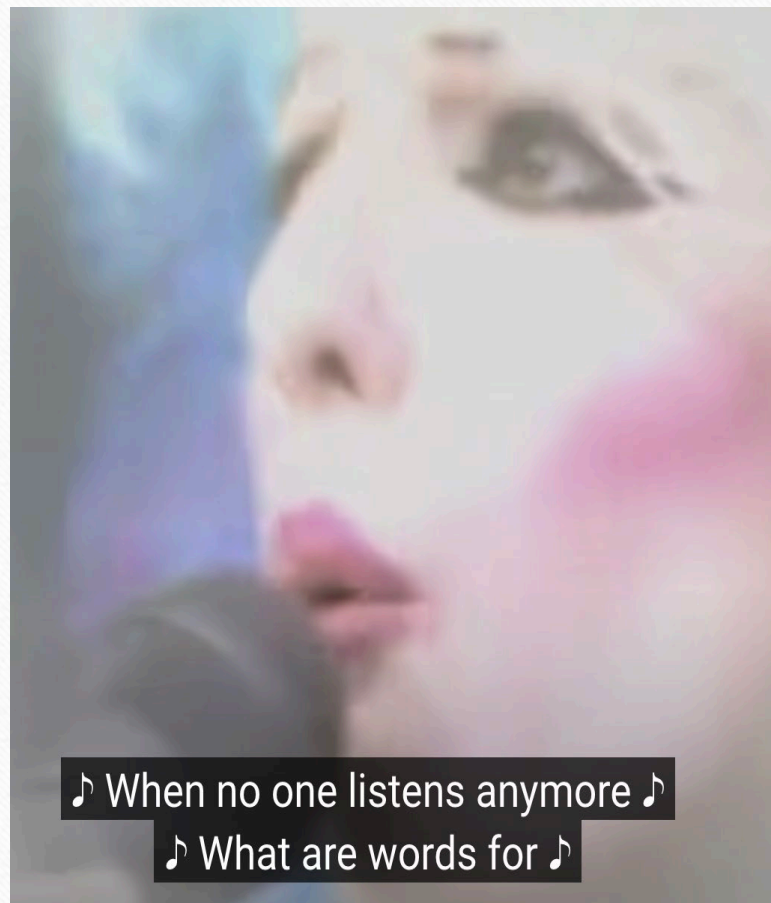
By Jerry Szatko, CEO ~ Unitifi: Subject Matter Expert in Behavioral Finance

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# 1982 Missing Persons, "Words"



# Questions

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Please submit any questions online or email with any questions about the content of this course.

[ContEd@ria-compliance-consultants.com](mailto:ContEd@ria-compliance-consultants.com)

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