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WEALTH MANAGEMENT

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Using 'Money Scripts' for Better Financial Planning

By THOMAS COYLE

At Kahler Financial Planning in Rapid City, S.D., new clients fill out long questionnaires that probe their thoughts, feelings and beliefs about money.



The firm's wealth managers develop composites of their clients' "money scripts"--powerful internal dialogues that shape their financial decisions. Then the firm can work with their clients to help them overcome their irrational or self-destructive thoughts to achieve better and more realized financial plans.

"These things come into play for everyone," says Rick Kahler, who heads the firm, which manages about \$165 million. "At least 80% of all financial decisions are made emotionally."

Mr. Kahler sees a contrast between probing attitudes about money in the name of financial planning--he calls it "interior" finance--and "behavioral" finance, which tracks the effect of emotional, cognitive and social factors on investing habits. Behavioral finance can help us understand why people tend to buy high and sell low, but it doesn't do anything for a client who reacts to an unexpected \$5 million inheritance by becoming depressed.

'Interior Finance'

Some advisers probe thoughts, feelings about money in the name of better planning

"Money scripts" shape our most basic attitudes toward finances

"Interior finance" may work for advisers as a marketing tool as well

The client "thought money not earned wasn't worth having," says Mr. Kahler. So the heir kept putting off decisions about how to use and manage the money. Eventually, he agreed to let Mr. Kahler help him understand what was bothering him. Now his attitude about his windfall,

while unaltered, is something he and Mr. Kahler can work around.

And it isn't always about treading lightly. Mr. Kahler has another client who thinks the stock market is a gambling casino. He has overcome this view enough to approve an investment portfolio with what Mr. Kahler sees as a suitable allotment of equities-but the attitude resurfaces whenever the stock market dips.

"He'll call in a panic, and I'll tell him, 'That's your money script talking,' and he'll say, 'Yeah, you're right,'" says Mr. Kahler.

Insights from interior finance are helpful, adds Mr. Kahler, "because the human brain is wired for financial failure." In this view, our hunter-gatherer past has conditioned us to live for the day--or paycheck to paycheck, as two thirds of Americans do, according to the American Payroll Association.

"Are you going to put \$6,000 in an IRA, or spend \$6,000 on a beach vacation? The financial decision with the most 'juice'--the beach, in this case--is what usually wins," Mr. Kahler says.

In other words, our primitive minds tell us saving is irrational and spending is smart.

For Judy Haselton of Harmony Financial Advisors in New York, being aware of her clients' "money scripts" is vital to being an effective financial planner.

"Money has a personal and human side," she says. "If you don't address that, you can't have the outcome you and the client want."

Interior finance may also have potential as a client-relationship and marketing tool. "You're taking themes from behavioral finance and applying them as a sales tool, or something to enhance your bedside manner," says Louis Harvey, chief executive of Dalbar, a Boston investment-market research firm. "I can see that having enormous power."

But Mr. Harvey worries about its misuse. "That's a powerful position, getting into someone's psyche," he says. "So what are the controls to keep someone from using it to sell you the Brooklyn Bridge?"

For Ms. Haselton, one safeguard is that fiduciary advisers like her and Mr. Kahler don't present themselves as therapists who seek to cure their clients' money foibles. They leave that to a small but growing cadre of professionals: Financial therapists.

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