

Money and your emotions

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We enjoy advertising campaigns of fund managers and other financial institutions. It is compressed, creative and entertaining. For example, a story about a blind doctor who cares for his patients (by Coronation); re-visiting the great Ali versus Foreman fight in Kinshasa (by Sanlam); re-uniting with a loved one after the fall of the Berlin wall (by Allan Gray). We all could make an emotional connection with many of these stories, but what information do they provide us about the underlying investment(s) in order to help us decide if I should use or invest with them?

Why do you invest?

If you ask most investors what they want from their investment, the answer might seem clear: They want return; i.e. grow their capital. A recent article by *Meir Statman* (his studies focuses on topics related to *behavioural finance*) pointed out that, while this might be an obvious response, it is likely not true or genuine. When searching for the benefits from any service or a product (this may include financial advice), there are three kinds of benefits that people generally seek – utilitarian, expressive and emotional. Let's unpack each of them briefly:

- The utilitarian benefit refers to the "utility" that you could derive from a service or product. For example: *What does this do for me? Or, how do I benefit from using a service, or taking good financial advice?* The utilitarian benefit of a car would be to get you from point A to B in a safe and timeous fashion. For an investment it could be to increase one's wealth, or provide you with a predictable passive income;
- Expressive benefits convey to ourselves (and others) our status and values. These benefits might answer a question such as: *What does this product or service say about me, to others?* Exclusive clubs and driving the latest Bentley model express high social status. As such, investing in hedge fund strategies with high entry costs and performance fees (often designed for high net worth individuals), may convey a similar message;
- Emotional benefits are the answer to a question such as: *"How does this product or service make me feel?"* E.g. driving an eco-friendly vehicle might make you feel environmentally responsible. Investing in a company that doubled its profits may give you a feeling of euphoria and confidence in your abilities. Or, if you made a poor investment, you might experience feelings of remorse.

There is nothing wrong with buying an expensive vehicle if you can afford it. After all, there might be an emotional benefit. However, are you willing to pay a substantial premium for those benefits, even though the vehicle isn't any more reliable than a vehicle that is a fraction of the cost? Conversely, are investors aware of the emotional and expressive reasons (one could argue a natural bias) that shape our investment decisions?

The media and your money

Okay, so what role does the media (and more specifically advertisers) play in guiding our investment decisions? Essentially we could distinguish between two types of information:

1. Return, any perceived guarantees, cost and terms offered. This is **factual** information that could help, or guide an investor to make rational decisions. How do you compare and assess the differences?
2. The use of vivid pictures, or poetic and metaphorical language with strong emotions and cultural symbols to promote, for example, a brand. This is **non-utilitarian** and how do you interpret these messages?



"Legal says we could get by with the term 'super' but adding 'duper' might be pushing it."

Advertisers are clever and realise that consumers are emotional beings. They are as likely to seek identity as utility with irrational and other kinds of expressive and emotional appeals. This often clouds factual information required for a rational decision.

Advertisers tend to argue, "it is not all about the money". Investors, on the other hand, have multiple goals and seek a connection with their lifestyle. Hence, financial institutions' promotions are often not limited to factual information that requires further questioning. Jane Bryant Quinn, a renowned American financial journalist, is quite critical of print media and describes much of financial journalism as "financial pornography" – alluring, but utterly lacking in redeeming value. Keep in mind that journalists often need to sell something, whether it is a magazine or service they promote. We can only write so many articles that focus on the basics namely: **plan, diversify, keep costs down, don't get too fancy, and don't trade or switch too often.** Before long it starts to get very old.

Your financial advisor

How does your financial advisor help you interpret these subtleties and are we appropriately assessing the utilitarian benefits of financial instruments? In other words, do we focus on the features that will increase the likelihood of you achieving your financial goals? They might include the following:

- Understanding a well structured financial plan;
- What is diversification and how do we obtain it through asset classes or various investment styles?
- Evaluating the transparency of fees and your alternatives.

We may also ask: What do investors look for when they search for an advisor? Do you choose an advisor based on the fact that your peers and colleagues also approved him? Do you choose an advisor because there might be a strong emotional connection? At Afrafin we want to believe that we empower our clients to unlock the financial maze they are presented with. It is a process that takes time and a proven way to build trust.