



'Behavior tech' experiments with how to decode client biases

By Sean Allocca

Published September 11 2018, 5:20pm EDT

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The emerging field of behavioral finance paired with fintech promises to give advisors new client tools and investment opportunities.

At the leading edge are tools that help clients manage their cognitive biases. Big data, artificial intelligence and even blockchain, to name just a few, will allow firms to create deeper personality profiles of clients and overcome their predispositions.

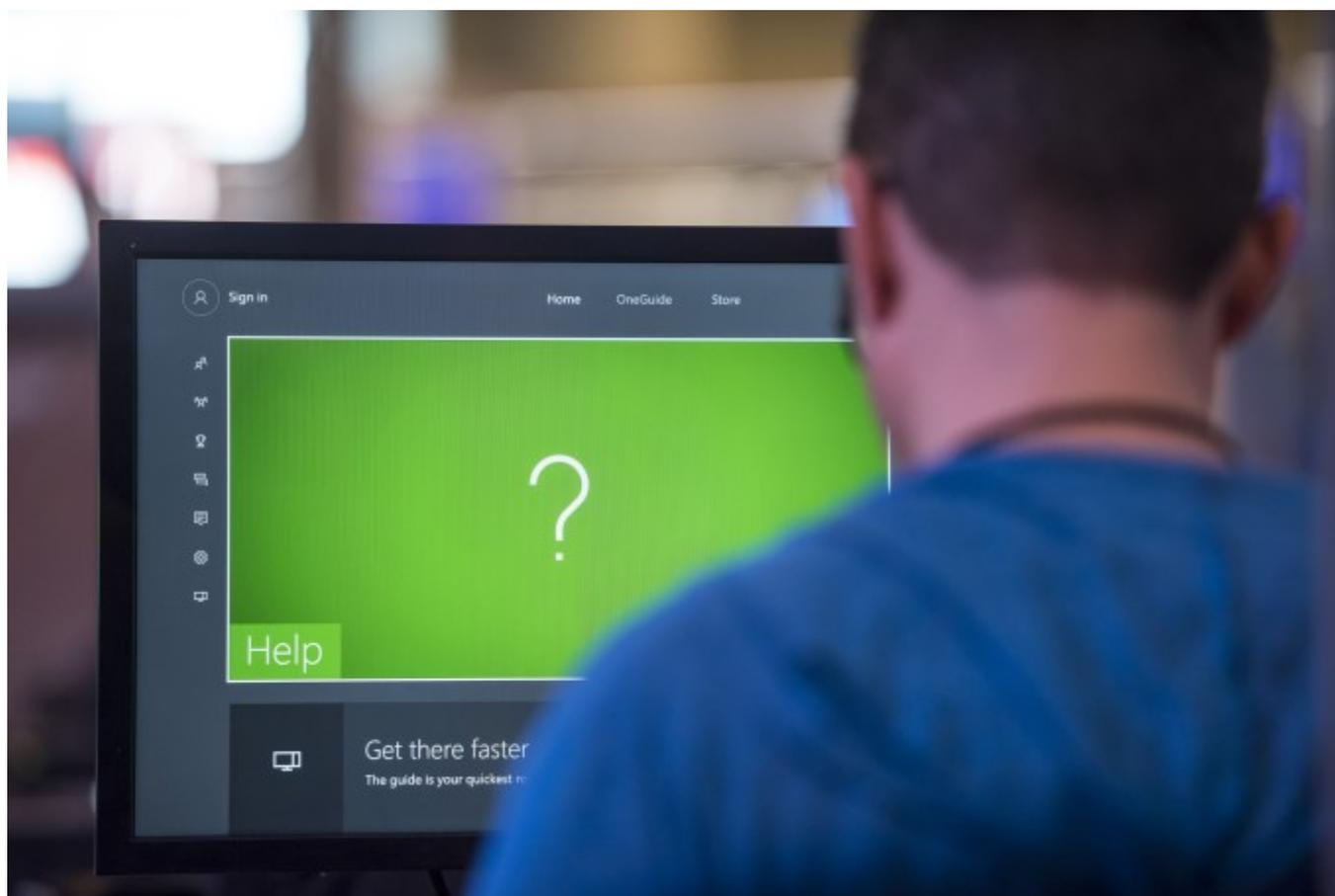
Still, there are hundreds of cognitive biases cataloged to date. How to measure them becomes a crucial question, says Ted Prince, founder of the financial behavioral firm Perth Leadership Institute.

"We get to 86 and realize, 'I've always favored companies with low-growth margins,'" Prince says. "We are only discovering these biases about ourselves just before we die."

Developers are realizing, that no framework exists to manage all of the cognitive information about clients, he adds. So to tackle the bias issue, fintechs have taken an array of approaches.

[Advisor Software Incorporated](#) employs a tool named Behavioral IQ, that uses hypothetical

questions and real-life scenarios to better ascertain a client's investment profile. It measures client behavior and financial knowledge to understand how investment decisions are being made in real time, according to the Walnut Creek, California-based firm.



Bloomberg News

"Behavioral finance sheds insight into how people's biases have caused them to make suboptimal business decisions," says Mark Ferrari, research analyst with Advisor Software. "These biases can include people not wanting to realize their losses or cash in winning investments too early."

The firm has taken private strategic investment specifically to build out the Behavioral IQ tool, says a spokesman, but the details of the deal were not disclosed.

[Betterment employs visual cues](#) to indicate whether a client is doing enough to reach their goals — or if they need to save more. The independent robo displays financial information in green when a client is meeting savings goals, but those same numbers show up in bright orange if not, says Dan Egan, Betterment's director of behavioral finance.

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Another firm, Financial DNA, breaks down what it calls a "financial personality" to understand where clients are most comfortable making life and financial decisions over the long term. It also gauges how they might react in turbulent markets. The [tool can gain deeper insights](#) into a client's natural and learned financial behavior, according to the Atlanta-based fintech, which has strategic partnerships with Schwab Intelligent Technologies, TD Ameritrade and Salesforce.

Firms aren't stopping at psychology to provide solutions to financial planning problems.

[Genivity, a Chicago-based fintech firm, collects medical data](#) from clients and inputs it into an AI-driven algorithm. Called the Health Analysis and Longevity Optimizer, the tool uses DNA to create detailed health projections to help understand long-term medical costs.

Technology-driven human assessment will take off as AI takes hold in wealth management, says former LPL chief Mark Casady, who is invested in venture capital fintech fund Vestigo Ventures.

"Almost every firm has a little AI in them today," Casady says.

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Casady and business partner David Blundin invested \$5 million in Vestigo and the fund recently closed at almost \$60 million. U.S. fintech investments are expected to top last year's levels, according to KPMG's [Pulse of Fintech study](#). Funding surpassed \$14 billion across 427 deals in the first quarter of 2018, buoyed by a surge in venture capital funding that exceeded \$5 billion, according to the study.

Vestigo will be fully invested in roughly 20 fintech startups by early 2020, he says, the majority of which will be working with artificial intelligence and especially in

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firms that help clients manage their emotions, he says. The fund has already backed startup Digital Assets Data, which aims to provide clients with more clarity involving investment decision making.

"We're watching very closely how that market will legitimize [this data] and what the tools will look like," he says.



Sean Allocca

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