

## LEARNING OBJECTIVES

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After reading this chapter, you should be able to:

1. Explain the counseling theories and the schools of thought regarding communications.
2. Explain the developmental, humanistic, and cognitive-behavioral schools of thought.
3. Identify the elements of communication.
4. Describe nonverbal behavior or body language.
5. Differentiate between active listening and passive listening.
6. Describe open and closed questions.
7. Describe ways to clarify or restate a client's statement.
8. Describe client data collection.
9. Describe the concepts and theories behind behavioral finance.
10. Discuss the assumptions and building blocks of traditional finance.
11. Describe the issues and questions unanswered by traditional finance.
12. Define behavioral finance.
13. Identify the pyramid of assets and describe its mental accounting layers.
14. Describe what makes investors "normal" instead of "rational."
15. Describe patterns and types of cognitive biases.
16. Define anchoring, confirmation bias, gambler's fallacy, herding, hindsight bias, overconfidence, overreaction, and prospect theory.
17. Describe the Disposition Effect.
18. Analyze a client's degree of risk and loss aversion and insure recommendations are consistent with a client's risk propensity, attitudes, capacity, knowledge, and needs.\*
19. Explain how a client's psychological profile, such as a Meyers-Briggs assessment, and learning style, and values impact the format of the plan produced and presented.\*
20. Evaluate how a client's values, including cultural and religious values and attitudes will affect his/her goals and a planner's recommendations.\*
21. Describe how behavioral psychology, such as a client's comfort zone, impacts a client's objectives, goals, understanding, decision making and actions.\*
22. Explain the applications of counseling theory to financial planning practice.\*
23. Demonstrate how a planner can develop a relationship of honesty and trust in client interaction.\*

\* CFP Board Resource Document - Student-Centered Learning Objectives based upon CFP Board Principal Topics.

## INTRODUCTION

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This chapter is organized into three main sections. The first section identifies theories and schools of thought for counselors. Knowing these schools of thought can place the advisor in a better position to communicate effectively with the client. The second section addresses communication tools and techniques for financial counselors. The third section discusses and examines the realm of what is referred to as "Behavioral Finance." Traditional or conventional wisdom about finance typically assumed that all investors participating in the market are "rational" machine-like beings. Yet, individuals are different, subject to errors in judgment and are guided or misguided by emotions. To put it simply, people are human. These two realms of financial knowledge will be compared and discussed.

## COMMUNICATION WITH CLIENTS FROM A COUNSELING PERSPECTIVE: COUNSELING THEORIES AND SCHOOLS OF THOUGHT

Financial advisors serve to educate their clients on financial matters, identify financial goals or problems, make recommendations and monitor the client's progress. This relationship is that of counselor and client. As will be discussed later in this chapter, there has been a movement in recent times for the financial industry to be more in touch with psychology and sociology due to their effect and persuasiveness in financial matters. Therefore, when dealing with fundamentals of financial planning in the context of communication and counseling, a basic understanding of the different schools of counseling and therapy would benefit the advisor and, ultimately, the client. These counseling theories or schools of thought apply to the *advisor*, and what are the advisor's beliefs, strengths and style. For advisors to be effective, they must first understand from what perspective and school of thought they are most properly situated.

### KEY CONCEPTS



1. Identify the three general schools of counseling.
2. What is the fundamental belief of the Developmental School of Thought?
3. What is the nature of the relationship between advisor and client in the different Schools of Thought?

A number of theories and models have been developed, investigated and studied so as to account for various aspects of human development and behavior. There are hundreds of models of counseling and therapy and hundreds of different techniques that are linked to these models.<sup>1</sup> Rather than provide an entire course in this area, this chapter provides a general overview of these counseling theories which will assist the later evaluation of communication tools and techniques for the financial planning advisor with clients.<sup>2</sup>

As explained and summarized by Professor MacCluskie, there are three general and noteworthy schools of counseling:

1. Developmental
2. Humanistic
3. Cognitive-Behavioral

These three areas emerged temporally in this same order and sequence in the 20<sup>th</sup> century.

The specific, numerous theories in each school of thought will not be discussed, however, the common elements of the theories that cluster within each school of thought will be briefly described. These general schools of thought can serve as a guide for the individual counselor's beliefs and style so as to aid the financial counselor in identifying a style that fits himself or herself and in developing and honing in on skills and techniques to make the planner a better counselor.

1. MacCluskie, *Acquiring Counseling Skills: Integrating Theory, Multiculturalism, and Self-Awareness*, Chapter 7, p. 181-182 (Pearson 2009).  
 2. For a detailed look at the various theories and models in the subject of counseling and therapy, see text by MacCluskie. Id. at n.1 above.

Knowing these schools of thought may also help shape an understanding of client behavior and assist in defining the client's goals during the advisor-client relationship.

### THE “DEVELOPMENTAL” SCHOOL OF THOUGHT

The Developmental school of thought, or the “**Developmental Paradigm**” as it will be referred to in this chapter, believes that human development occurs in stages over time. Relationships that are formed early in life become a template for establishing relationships in adulthood. As to emotions, the Developmental Paradigm assumes that all humans develop and progress in a predictable sequence. Disruptions, whether by trauma, incident or otherwise, at a particular stage of that individual's development will result in predictable problems, symptoms, and behavior. Much of the Developmental approach has its origin in and was influenced by Freudian psychoanalytic theory. Counseling in the Developmental Paradigm has an overall aspiration to recount or correct earlier, disrupted development to foster change in the client or the client's behavior. Once the client can resolve those earlier conflicts or disruptions, there is more understanding and self-awareness, thus allowing the client to grow.

For some counselors who follow the Developmental Paradigm, questions could play a larger role in the counseling process than they do for counselors who follow the Humanistic Paradigm (discussed in the next subsection). Questions should be used in moderation for Developmental counselors especially if the counselor is seeking to increase a client's awareness of the developmental tasks or issues associated with a presenting problem. For instance, if a client has had issues in the past with debt accumulation and the advisor has noticed that the client has overspent on personal items to compensate for an event that occurred in that client's earlier stage of life, then the questioning process should be done in moderation.

### THE “HUMANISTIC” SCHOOL OF THOUGHT

The **Humanistic Paradigm** is dominated by theorists whose models have their origins from a shared philosophical approach. Like the developmental approach, much of the Humanistic approach was influenced by Freudian psychoanalytic theory. For a client to grow, the relationship requires a transparent and genuine counselor. The advisor needs a philosophical stance that humankind is basically good and that people have the inherent capability of self-direction and growth under the right set of circumstances. A Humanistic counselor would define mental health as having congruent and aligned thoughts, feelings, and behavior. Goals in treatment are centered on establishing congruence and acceptance of personal responsibility.

Part of achieving this “congruence” is that treatment emphasizes one's experience of the present moment, freedom of choice, and keeping in touch with oneself. It is therapeutic in and of itself to have an authentic, human relationship between the client and counselor. For example, if an advisor is more comfortable with a close, more friendly relationship with clients (as opposed to a more professional and distant relationship), then the advisor may be more inclined to operate under the Humanistic Paradigm. Indeed, the alliance between the counselor and client is extremely important for Humanistic counselors and is the basis of the treatment or plan of action.

The majority of the Humanistic theories view clients as experts on themselves. Accordingly, counselors who subscribe to the Humanistic Paradigm are disinclined to use questioning with any frequency. When questioning is used, the emphasis is likely to be more weighted on process and

feelings rather than details or content. In fact, a humanistic counselor would help clients articulate for themselves what their questions are.

Applying the Humanistic Paradigm to the financial advisor-client relationship, the advisor may consider spending time with the client on discovering what goals will help the client achieve congruence, allow for self-growth, and identify some of the client's feelings about money and tendencies to cognitive biases.

## THE “COGNITIVE-BEHAVIORAL” SCHOOL OF THOUGHT

In the **Cognitive-Behavioral Paradigm**, humans are beings that are subject to the same learning principles that were established in animal research. The basic principles of classical and operant conditioning are assumed to account for an individual's behavior and understandings throughout their lives. The quintessential example of “classical conditioning” is Ivan Pavlov's initial research conducted on dogs. Meanwhile, B.F. Skinner's related model on “operant conditioning” posited that all behavior is subject to the principles of reinforcement by environmental conditions that reinforce or fail to reinforce a given behavior. Self-talk refers to that ongoing internal conversation one has with oneself that can influence feelings. Self-talk and certain behavior can be reinforced and persist. The counselor's challenge lies in performing a sound evaluation of how reinforcers are maintaining problematic self-talk and behaviors. The counselor is the expert in the Cognitive-Behavioral Paradigm, but the counselor and client have a working alliance where the client must be actively engaged.



### QUICK QUIZ 2.1

1. The nature of the relationship between advisor and client following the Cognitive-Behavioral approach is highly directed.
  - a. True
  - b. False
2. Self-talk usually does not influence feelings or behavior.
  - a. True
  - b. False
3. The Humanistic theory emphasizes accepting personal responsibility whereas the other two theories do not.
  - a. True
  - b. False

True, False, True.

For Cognitive-Behavioralists, the questioning process is most prevalent because the counseling process is considerably more directive than it is in either of the other two paradigms. The counselor in the Cognitive-Behavioral Paradigm must identify behavioral excesses and inadequacies, identify their source of reinforcement for these excesses and inadequacies, and try to manipulate these reinforcers to change the client's behavior and thought process. In short, a Cognitive-Behavioral counselor is searching for specific material and information from the client so as to design and implement a counseling intervention or plan that is consistent with Cognitive-Behavioral theory.

If the financial advisor is more attuned to the Cognitive-Behavioral Paradigm, then the advisor may discover goals of the client and may be able to point out, during the relationship, specific areas where the client has succeeded on certain financial issues. The advisor may spend more time on content and positive results that will reinforce the client's belief in the process, in the client's financial behavior, and in the client's trust in the advisor. Cognitive-Behavioral advisors would also

want to reinforce positive financial feedback during the plan monitoring stage of the financial planning process which is after the recommendation stage.

**EXHIBIT  
2.1**

**COMPARISON OF COUNSELING PARADIGMS<sup>3</sup>**

Theory Group	Nature of Relationship	Emphasis of Treatment (Prominent Themes)	Microskills Most Likely to be Used Frequently
<b>Developmental</b>	<ul style="list-style-type: none"> <li>Moderately directive.</li> <li>Alliance is important.</li> <li>Provides client a chance to resolve emotional needs not met during earlier development.</li> </ul>	<ul style="list-style-type: none"> <li>Healthy development.</li> <li>Focus on past experiences in family of origin and relationship to present difficulties.</li> <li>Resolution of conflict.</li> <li>Understanding and self-awareness.</li> </ul>	<ul style="list-style-type: none"> <li>Active listening.</li> <li>Client observation.</li> <li>Paraphrasing.</li> <li>Feeling reflection.</li> <li>Supportive challenging.</li> <li>Reflection of meaning.</li> </ul>
<b>Humanistic</b>	<ul style="list-style-type: none"> <li>Varies from nondirective (person-centered, existential) to highly directive.</li> <li>Alliance is extremely important; is the basis of the treatment (person-centered, existential).</li> </ul>	<ul style="list-style-type: none"> <li>Experiencing present moment.</li> <li>Accepting personal responsibility.</li> <li>Emphasis on freedom of choice.</li> <li>Authenticity, fully in touch with oneself.</li> </ul>	<ul style="list-style-type: none"> <li>Active listening.</li> <li>Client observation.</li> <li>Feeling reflection.</li> <li>Reflection of meaning.</li> <li>Supportive challenging.</li> </ul>
<b>Cognitive-Behavioral</b>	<ul style="list-style-type: none"> <li>Highly directive.</li> <li>Alliance only important to extent client feels engaged to participate in assignments.</li> </ul>	<ul style="list-style-type: none"> <li>Identification of behavioral excesses and inadequacies.</li> <li>Identification of reinforcers.</li> <li>Manipulation of the reinforcers to change the behavior and thought process.</li> </ul>	<ul style="list-style-type: none"> <li>Active listening.</li> <li>Questioning.</li> <li>Reflection of meaning.</li> <li>Supportive challenging.</li> </ul>

In conclusion, the advisor can better serve the client by understanding what counseling school of thought is most suited to the advisor. Of course, there may be times that the client's style may necessitate a change to a different school of thought or combination of any two or all three. These are decisions that should be made by the advisor using his or her best judgment.

3. Id. at p. 156, Table 11.1. This chart was compiled and crafted by Professor MacCluskie in her textbook.