

# Behavior Gap

THE FAMILY CFO.  
Investing in your family's  
long-term financial success.

When was the last time you examined  
your finances? No, really looked at  
them in regards to where you are today,

what you're spending now, and how  
your financial plan will determine  
your future lifestyle?

Let's face it. Most of us simply don't  
have the time to pay close attention  
to our finances. Sure, we may glance  
at our investment statements

when they arrive and consider them  
at tax time, but with our busy lives,  
it's hard enough to find time for  
things we actually want to do.  
That's completely understandable.  
But when you consider the chal-  
lenges investors face today, having

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a plan in place for your finances becomes even more important. Without a disciplined approach to managing and saving the money that's coming in right now, it's easy to spend it and not have enough left when it's time to retire.

Today's investors face multiple challenges:

1. Our financial lives are getting more and more complex.
2. It's difficult to coordinate all of your different financial advisors and components.
3. There's a gap between what investors earn and what their funds earn.

This paper will discuss these challenges, and what you can do to solve them.

**OUR FINANCIAL LIVES  
ARE GETTING MORE AND  
MORE COMPLEX.**

We all start our financial lives pretty simple. A basic savings account. Balancing a checkbook. Making a car payment. Paying back a student loan or two. Then, it starts to get a little more complicated—soon there's

a mortgage payment, contributions to a retirement account, and eventually we begin investing in the stock market. As our lives get fuller, our financial plates do, too. Having children adds a whole new set of financial issues, including saving for their education, life insurance, and estate issues. There is also disability insurance, wills, and tax issues. And if you purchase or sell a business, there are certainly financial and tax implications that must be dealt with.

It all adds up, and quickly. While you could probably do an excellent job of managing your finances if you had the time, inclination, or training, the fact is, most of us don't. And so they sit, unattended, on the back burner.

**IT'S DIFFICULT TO  
COORDINATE ALL OF YOUR  
DIFFERENT FINANCIAL  
ADVISORS AND COMPONENTS.**

Further complicating things is the fact that most people work with multiple advisors. We have CPAs, financial planners, insurance agents, tax attorneys, and estate attorneys—all handling a portion of our financial affairs. That's all fine. The problem stems from the fact that very few of them communicate with each other. Too often, decisions are made that can impact other financial areas, for better or for worse.

For example, one estate attorney estimates that 60% of people who take the time to create an estate plan never do anything with it. In part because it means going to their financial advisor, their CPA and others to implement it, and that can be time consuming. So even though they pay the bill, the plans are never implemented, making them completely ineffective. Furthermore, most people have no one to do their overall strategic planning. A point person. A team leader. A CFO to coordinate everyone else

The fact is, many investment decisions have tax implications. Yet far too few CPAs are consulted ahead of time, often being left to clean up the “mess.” Investment decisions can also directly impact an estate plan. Yet again, how often are estate attorneys brought in before implementing any changes? Unfortunately, not very often.

### THERE'S A GAP BETWEEN WHAT INVESTORS EARN AND WHAT THEIR FUNDS EARN.

To better understand this challenge, it's important to clarify that INVESTMENT returns and INVESTOR returns are always different. During the past few years, you may have noticed that your returns (investor returns) fell short of the returns you kept reading about in the media (investment returns). If so, you're not alone.

That's because a fund's reported return is only part of the picture. The other half is driven by investor behavior. And classic behavior mistakes have cost the average investor close to 7% a year.

We call this the Behavior Gap™. And multiple studies show that it does indeed exist. (You can learn more about how behavior impacts your investment success at [behaviorgap.com](http://behaviorgap.com).)

The question is, how do you close the gap? First of all, you have to know that investing isn't about skill. It's about emotion. And that's where investor behavior can wreak havoc. It's extremely difficult for anyone to maintain objectivity and not make emotional decisions about their own money. So that's why we recommend finding someone who cares as much about your money as you do, has the time to do an excellent job, and also has the emotional distance to help you make the right decisions.

In a nutshell, someone to help you tackle all three of these challenges.

### THE FAMILY CFO

While a financial professional makes sense, it's hard to identify the right person. Part of the problem is that there's no uniform standard of care in the industry, and there are plenty of “quacks” out there who may have tainted your view.



We understand your frustration. In fact, our contention is that the traditional financial services industry is ill-equipped to handle the challenges most investors face. We believe you need an unbiased, highly trained professional who takes a holistic approach to wealth management, which includes estate planning, tax planning, life goals and more.

We call that person a Family Chief Financial Officer (CFO). A Family CFO is the corner-

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stone of a Wealth Management Team, which consists of all the financial advisors in your life, from your lawyer to your CPA. Working with this team, your Family CFO will sort

through the complicated web of financial issues for you, putting together a custom-tailored approach that will take you from high income to independent wealth and well-being.

Note that a Family CFO doesn't face the same conflict of interest as most financial planners or brokers. This person isn't focused on making a short-term sell, which may be driven in part by commissions on products and services you don't really need. The best Family CFOs are paid a predetermined rate and receive compensation

from only one source—you. There are no strings attached, no lurking fees. You control your financial relationship.

## THE FAMILY CFO RELATIONSHIP

This truly is a relationship—one that requires an emotional investment on both parts. A good Family CFO will learn about your values, interests, and aspirations, which can sometimes be a little uncomfortable in the beginning. Knowing that this person cares as much about your money as you do, it's important to trust him as you work together to determine your needs and goals, such as retirement, education funds for your children, more free time for your family, etc. If you do, your efforts will be rewarded, and you'll reach a point where you can release yourself from the burden of second-guessing every investment decision.

Your Family CFO will compile your financial team's advice and put together a plan that focuses on your needs and goals, and ultimately your long-term wealth and well-being. You remain your family's CEO, making the big decisions. Your Family CFO just helps you make the right financial ones.

Unfortunately, the right Family CFO can be hard to find. The most important thing to look for is someone who resonates with

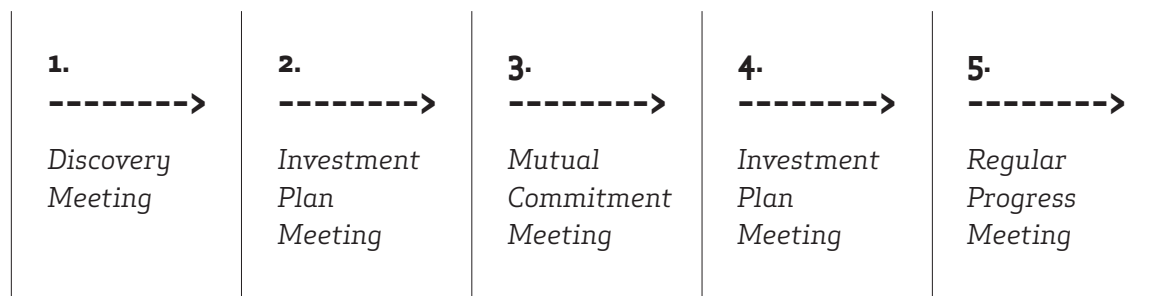


your values. This isn't a matter of finding someone who always knows the hot stock of the day. In fact, if you find someone you think is a good fit, ask that person how the market did that day. If he knows all the details, he's not the guy for you. Your Family CFO needs to be focused on the long term. You'll know you've found your Family CFO if you ask the previous question and he or she says, "I have no idea." Sounds crazy, but it works.

### WORKING WITH YOUR FAMILY CFO

Once you've found your Family CFO, he or she will guide you through a disciplined process, which includes a series of meetings to help identify your values and goals, establish a plan to help you meet those goals, and give you the ability to hold the course.

In the Discovery Meeting, your Family CFO will gather facts to understand where you



are right now and where you want to go with your investments. This will include information from all of your financial advisors: accountants, attorneys, insurance agents, etc. This is where you'll start to build your relationship and share a lot of important information about your values, goals and interests. (See "Discovering What Makes You Tick Financially.")

Once your Family CFO has gathered that information, he or she will meet with a

team of experts to develop a comprehensive plan that meets your objectives. Then, at the Investment Plan Meeting, you'll review the proposed plan, look at specific recommendations and discuss them in detail.

When you have reviewed the proposed Investment Plan, and feel confident about the advisor you have chosen, it's time to meet again and formalize a working agreement (the Mutual Commitment Meeting).



Like in a good doctor-patient relationship, it's important to provide as much information as possible to your Family CFO.

About 45 days after your Investment Plan is implemented, it is important to reconvene, review all the paperwork, and discuss how things are going. From here, you will move into the servicing stage of your relationship, in which the two of you will have regular Progress Meetings to review your goals and your plan's performance.

#### DISCOVERING WHAT MAKES YOU TICK FINANCIALLY

Like in a good doctor-patient relationship, it's important to provide as much information as possible to your Family CFO. And it's more than just sharing which investments you currently own. You'll sit down with your Family CFO in the Discovery Meeting and carefully pinpoint your values and goals, and answer questions you may never have really asked yourself before. Seven areas should be covered here:

**1. Values.** The first question your Family CFO should ask is, "What's important about money to you?" This helps you both get to the heart of what you want to do with your money, and what you want your money to do.

**2. Goals.** You'll spell out targeted goals, such as retirement, establishing college funds, leaving a legacy for your children, buying a vacation home, etc. If you don't get specific with your goals, it's hard to establish the right plan. Clearly-stated goals will come in handy down the road should you get a whim to change directions. Your Family CFO will be able to remind you about what your intentions were, and make sure you really want to stray away from them.

**3. Relationships.** Who do you love? Who are you expecting to provide for? These questions will help you clarify your values and goals, and find the right investment strategy.

**4. Assets.** Of course, you'll also discuss the assets you currently have. A quantitative review of exactly what you own establishes what we call your current reality.

**5. Advisors.** It's important for your Family CFO to know who your key advisors are, including your attorneys and CPA, but also any insurance brokers, private bankers, or others you're working with, so everyone can be on the same page. In the past, these advisors may have worked individually, but by working with your Family CFO, they'll have important information they need to add tremendous value to your overall plan.

**6. Process.** This is where the two of you establish how you'll work together. You might be asked, "In an ideal world (working with someone you completely trust), how involved do you want to be in the investment process?" Many people want to be more involved at first, but as trust in the working relationship develops, and the investment plan gets well under way, it's common to have much less contact with your Family CFO than you may have had with other financial advisors. But this is completely up to you and your Family CFO.

**7. Interests.** And last, but certainly not least, you should talk about what rounds out your life, understanding that your interests—like travel, sports activities, hobbies, etc.—often drive your financial decisions.

Unless a financial advisor understands all of the information outlined above, you might as well stick to "The 20 best funds to buy right now" articles. On the flip side, by delving deeply into each of these seven areas, your Family CFO will be armed with the information necessary to help you

through the inevitable tough times. That's because you'll end up with a carefully conceived plan, called an Investment Plan, which will enable you to look beyond bumps in the road to your ultimate goals. Remember, this isn't about money, it's about your life.

### GETTING MORE SPECIFIC

Once your Family CFO has a thorough understanding of your values and goals, he or she is almost ready to generate your Investment Plan. Because this is a long-term plan, one you should be able to refer back to time and time again, three specific topics need to be discussed in order to develop it correctly. These include:

**1. Understanding risk.** Risk means different things to different people. It is very important to have a discussion with your Family CFO about what risk means to you. How much risk are you comfortable taking? Are you strongly averse to risk? How do you feel about short term fluctuations in the market? This conversation should also include the topic of inflation, or the erosion of purchasing power, because in twenty years, a dollar won't buy as much as it used to.

**2. Defining a time horizon.** Some investments are tied to a specific date. Are you planning on college for your kids in six years? Do you want to buy a vacation home

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in ten years? When will you retire? To live a life without compromise, it's important to keep in mind that life doesn't end when you retire. Research shows that you'll probably live another 40 years after retirement, so your investments will need to keep working for you during that time.

**3. Stating a rate of return goal.** Once you both understand risk and define a time horizon, you need to discuss your expectations for a rate of return. You'll be able to use this over time as a measuring stick to make sure you're meeting your goals. This needs to be a rate of return goal that will make all of your life goals work.

### NOW, SIT BACK AND RELAX

After you've covered this important information and your Family CFO has generated an investment plan, it's time to sit back and trust him or her to manage your finances with your family's best interests at heart.

This is the hardest part, because it's difficult to do nothing. Especially when the market is fluctuating and constantly in the news. But once your Investment Plan is implemented, it's time to hold the course. Let go. No matter what is happening at the time (the "crisis du jour"), it's important to not let your emotions take over.

Remember that you have a very defined plan which will get you to your goals, and

blips in the market won't affect it in the long run. By following the process of determining what's really important in your life, and then implementing an Investment Plan that matches those things, investing becomes fairly simple.

But don't confuse simple with being easy. It's hard to watch what's going on in the market and not respond. The good news is that investing, when approached with this disciplined process, is under your control. What really matters, and what ultimately determines your success over the long haul, is determined by your behavior—what you do and don't do during market ups and downs—and only you can control that.

In many ways, your Family CFO is your behavior coach. If you ever do get tempted to act in ways that may not be in your best interests, he or she can pull out the notes from your discovery meeting and point to your Investment Plan, using it as a touchstone to keep you grounded. Only if something drastically changes in your life should you second-guess your investment plan. Of course, there will be periodic rebalancing with your investments when necessary, but no matter what the hot topic is around the water cooler or at cocktail parties, remember that your plan is there to get you to your goals.

So, turn off your favorite money programs, throw away your financial magazines (or



read them purely for entertainment purposes) and start looking for a great Family CFO who will help you put your focus in the right place. Doing this will enable you to spend less time worrying about your investments and more time on what's really important to you and your family. And guess what? Your investments will do better too.

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#### ABOUT THE BEHAVIOR GAP

For years, a guy named Carl noticed something interesting: The real-life return of the AVERAGE INVESTOR was dramatically lower than the return of the AVERAGE MUTUAL FUND. In theory, this gap shouldn't exist, but investors were leaving money on the table and didn't seem to understand how it happened.

Carl named this phenomenon the Behavior Gap™. For over 15 years, Carl's relentless curiosity has driven him to explore why the Behavior Gap exists and to share what he knows about it. Carl's main purpose for creating the Behavior Gap is to help people close the gap by learning and practicing the best investor behavior. Carl shares his findings via [behaviorgap.com](http://behaviorgap.com) and at public speaking engagements.

#### ABOUT CARL RICHARDS

So who is Carl? After more than ten years working in the brokerage industry, Carl went out on his own to serve as the Family Chief Financial Officer (CFO) for a select group of families. In addition to his role as Family CFO, Carl also serves in a research capacity for multiple financial firms with offices in Arizona, Nevada, North Carolina, Georgia, and Utah.

Carl received a Bachelor of Science degree in Finance from the University of Utah, and he's credentialed as a Certified Financial Planner™. Married with four children, Carl enjoys spending time outside with his family. If you want to learn more about the Behavior Gap™, feel free to email him at [carl@behaviorgap.com](mailto:carl@behaviorgap.com).

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