Now let me turn the program over to Kelly Jenkins-Pultz, from the Women’s Bureau’s Regional office headquartered in San Francisco, to introduce our third speaker.

Thanks, Jane. It’s my pleasure to introduce Karen Goodfriend, Vice President at Allied Consulting Group in Los Altos, California. Karen is a CPA and Personal Financial Specialist with over 20 years of senior financial management experience in national and local accounting firms. She’s best known for the high-quality personalized services she offers to clients with a very high net worth.

She’s developed a national reputation for guiding individuals with the extreme good fortune of finding themselves suddenly rich. She teaches practical approaches to managing money and has successfully guided many of the young people in the Generation X group that live in Silicon Valley. As you might imagine, Karen has worked with many different types of personalities, and she’s developed such a fine skill in advising that Worth Magazine has selected her for its list of Best Financial Advisors five times in a row.
In addition to advising clients, she writes frequently on financial topics for professional journals and is quoted frequently in the press. Her professional activities include serving as Chair of the State Personal Financial Planning Committee of the California Society of CPAs, and active membership in the AICPA Personal Financial Planning Executive Committee and professional advisory councils for several charitable foundations. Karen earned a BA in Economics from the University of California Santa Barbara and an MBA from UCLA. Thank you very much for sharing your expertise with us today, Karen.

K. Goodfriend

Thank you, Kelly, for the introduction. I’ll say good morning to everyone, although it’s lunchtime for many on this call, I’m sure, that are farther east than I am. I am very pleased to be here. I find that dealing with people’s unique personalities is the most interesting and gratifying aspect of what I do as a financial advisor.

Unlike my colleagues Olivia and Susan on this call, who spoke before me, I don’t have a psychology background. I have a financial background, but I find that when I help people with their financial plans and help them implement their investments,
understanding their personality is very key as a starting point and throughout my helping them.

I find that it’s very important too. Even though a lot of giving financial advice is dealing with rational decisions, it’s not that clear cut, and it’s so important to integrate the human element.

Today I’m going to touch on two types of topics. Very briefly, I’ll offer a few practical tips for dealing with money personality issues that tie into some of the comments that Olivia and Susan have made. Then I’ll switch gears a little bit and talk about a specific aspect of money personalities, which is investor behavior. That will deal with some areas that have actually been studied, but what I have found in dealing with clients in real life.

So, talking about just a few tips, I think there was a lot of discussion about spenders, and I have found that, as an analogy to think of for people who are going to need to work on their spending habits, to think of it as like going on a diet. It’s been found that people who go on crash diets and try to lose weight quickly, that it’s not really a long-term successful solution.
What’s more successful is developing some habits that they can really live with, and if it means you enjoy ice cream and it’s going to be hard to cut it out for the rest of your life, cutting down on portions of ice cream might be a better way to do it. The analogy could be of spending, to make some incremental changes to reduce your spending. Let’s say you enjoy manicures, maybe doing them less often. You’re trying to cut expenses there, or buying – you’re still enjoying buying clothes, but not necessarily as much.

It’s also very important to set up a tracking system, and it’s not a one-size-fits-all. Some people are very disciplined, and it works very well to use a computer system as they go to track everything, but that’s not right for everyone. Some people need to approach it a different way and sit down periodically, and it may be just an informal process. The important part is to develop a tracking system where you gain an understanding to quantify where the money is really going and how much.

So, that’s also important, and also the idea of implementing a savings plan, and again, some people, it’s hard to have a discipline to periodically put money away. So, to utilize a method to force savings, and just make it an automatic process, direct deposits from
your paycheck into a savings account and also to 401(k)s and IRAs.

Susan talked about calculating, and the idea here, for many of these money personalities is to – it’s helpful to create a road map, and that would be developing a long-term financial plan. Here, the idea is to gain a perspective, doing a reality check. How am I doing versus my goals? For the spender, it’s going to give feedback of how much they need to save, which means, cutting down on spending.

For people who--maybe like the examples of hoarders or people who worry a lot, it might actually give them more comfort to take a long-term view. They may find out that they’re okay, and that gives them permission to spend a little bit more. It may also show that, for some of the worriers, it gives them more of a feeling of control, that they know where they stand and that they can do something about it.

I’m going to switch gears a little bit and talk about investor behavior now. I think the important part here to realize is that when individuals are investors, they follow some behavioral patterns that are perfectly normal, but they’re not necessarily
rational and they do not necessarily lead to success. So it’s important to have this awareness, and avoid some of the pitfalls.

Not all these behaviors would apply to everyone. Some would depend on your experiences or your personality. I find that for people who are younger, they may be vulnerable to some of these pitfalls, but they haven’t run into them yet, so it’s good to be aware in advance. Also, it’s been studied that there are some gender differences. I don’t like to generalize too much, but it is of interest to be aware that there are some differences between men and women that have been studied. So it’s not really possible to be 100% rational, but it’s good to be aware and try to avoid these pitfalls.

Let me first start and talk about some frameworks for successful investing, and the idea here is not to base investing on emotions. It’s important to adopt a long-term and disciplined strategy for investing, and that’s taking into account your goals, your time horizon, your individual tolerance for risk, and also, put together an investment strategy that involves diversifying, which really is a method to reduce risk over time.
Now I’ll talk about some of these behavioral patterns that don’t necessarily follow these elements of a successful investment strategy, and there are actually many, and I’ll only mention a few. One thing that’s been studied—and I’ve seen personally—is that it is human nature to feel a lot of pain and want to avoid risk. Unfortunately, people don’t always take that into account when they make investment decisions. The pain of a loss is more acute, felt more intensely, than the pleasure of a gain. When people don’t realize that when they make their decision up-front, they are very sorry later on. So it’s important that people try to anticipate that in advance. I’ve seen that with people, where they may hold a lot in company stocks, and they’re anxious to realize more and more gains, but they’ve underestimated how they’ll feel if there’s a loss that takes place later.

There is a tendency for some people—and this is where it’s been studied that it happens more often with men than women—to have an over-confidence in their investment abilities. Sometimes they don’t realize that they’re actually not doing as well as they think. They may have had a run of good luck or good timing and perceive that they have a skill level that may have just been more of a coincidence. These individuals do tend to have riskier portfolios rather than this kind of diversified approach that I spoke of earlier.
Other people--and it could be the same people--may overreact and they may put too much weight on recent patterns that they’ve seen. So, for example, I think most people either know someone or had this experience themselves where they saw the technology stock run-up and they wanted to be involved in that as well. They felt that if stocks kept going up that they would continue to go up. So that’s just a normal human reaction.

Also, people can react that way when they see home prices increase year after year. It’s a natural tendency to assume that that will continue rather than look at what the long-term trends have been over time and [are] likely to be. Finally, I’ll wrap up with one more, and that’s [that] some people’s investment behavior is driven by--they want to avoid regrets. So they’re reluctant to sell what maybe has been a losing investment. Rather than look ahead and say, “What could I do that’s better?” and move on, they don’t want to admit that they made a poor decision or face that.

So, in summary, I would just say it’s important to think long-term and apply that to your planning and your investment decisions, create a roadmap, and then just recognize that it’s natural, it’s
normal not always to be rational, but sure be aware of the difference. Thank you.

J. Walstedt  

Thank you, Karen. I think that complemented the other two presentations beautifully. Now let me ask the conference call operator, Carrie, to again give us instructions on asking questions. Carrie?