



Why Clients Succumb to Bias and What to Do

Market fluctuations will always rattle investors, but your guidance can ensure clients stick to their financial plans despite the temporary downturns

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THE FIRST HALF OF 2025 has been fast and furious. It's likely that some clients are panicking, despite all your good guidance. They may be defending their anxiety by saying "It's different this time." Understandably, you may be wondering why clients keep repeating the same fears, even though they've been through this before, and they should know better.

Unfortunately, a client's panic feels totally justified, and based on our natural biases, it is. Daniel Gilbert, Ph.D., a leading behavioral psychologist,

has spent 30 years studying how biases impact decision making. In a recent interview, he highlighted four cognitive errors that cause clients trouble.¹

We can't see the future. The human brain is not good at imagining the future. We can't picture future life and can't imagine how we'll feel in that life. As a result, the needs of our future self are not pressing, like the needs of our present self. As Stanford psychologist Hal Hershfield puts it, "One of the reasons people fail to make good choices and don't act in ways that are positive in the long term is because they feel a sense of emotional disconnect from their future selves".²

We think money buys happiness. Although research has shown money does not buy happiness, we act like it does. People are lured into buying because new things are exciting, initially. Then when the luster fades, we spend more money to acquire more pleasure. This deludes us into believing that money buys happiness. As a result, when clients are talking about their money, they're likely to focus on their purchasing power as the key to satisfaction, even if that's a fallacy.

We're myopic: When bad things happen, people

are overwhelmed with negative feelings. In that moment, we assume life will never improve. Clients are likely to forget how bad they felt when the markets dropped at the start of the Great Recession or COVID-19, and how they regained stability over time. It's a normal response because we don't remember the emotional journey of initial despair followed by restoration.

We give up: Despite repeated experiences of recovery, people don't rally when new challenges arise. They discount strategies that worked before because today is not *exactly* the same as past events. Lessons learned from previous upheavals are attached to that time, and not automatically applied to today's situation. This is why clients may feel completely derailed, again.

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Considering the combined impact of these biases, it's entirely normal for clients to conclude the following: “We've never experienced these events before. It's unprecedented! Things are completely unpredictable and could be disastrous. I need to protect my money now! If I lose money, I will be miserable forever!”

Undoubtedly, you've worked hard to teach clients they and the markets are resilient. Many will remember those lessons. For clients who succumb to panic, be patient. They're experiencing normal bias, and they need your help. Let's review how you can help those who are overly worried.

Before starting a reasoned discussion, help clients



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vent their emotions and calm down. Start with listening and acknowledging their concerns (see “Calm the Storm: How to Soothe Anxious Clients” in the January 2025 *Journal of Financial Planning*). Keep doing this until you see their anxiety dissipate. Clients will not be able to work with you until they've calmed down. Then combat the biases by guiding the clients to convince themselves.

You Can Do This

As clients are ready, review their experience of past volatile markets. Take them back to their earliest market downturn. Then, ask questions that recall each journey from downturn to rebound, from the earliest to the present. The purpose is to have clients remind themselves how bad the start of each market upheaval felt. Then recall the effective strategies and recovery that followed.

When you do this for each disruption, the client will be reliving their emotional resilience. Be sure to gently reinforce how each event felt “unprecedented” and how your work together led them through to recovery. This is a great way for clients to remember they've done this before and can do it again, with your help.

For example, you might say: “We've been working together a long time and been through volatile periods before. Let's go back and review. It'll help us put today's situation in perspective.” Then prompt clients to tell their recovery story using open-ended questions, like the following examples:

Four Steps to Calming Down Clients

1. **Listen with care and concern.** As you listen, focus on empathy for the client's discomfort. Be sure to pay close attention to your non-verbal messages. Any hint of impatience in your expression will agitate the client. Listening with care is an ideal way to meet their emotional needs.
2. **Acknowledge the client's concern.** Summarize the client's comments to demonstrate that you take their anxiety seriously. You can fully recognize their concerns without agreeing to any irrational declarations. Skillful acknowledging helps clients release their distress.
3. **Find a spot of agreement.** People are more inclined to move forward if they feel validated. As the client vents, look for a sliver of truth to confirm, and fully agree with something the client said. Even if you completely disagree with the client's opinions, you can likely agree that other people are concerned. This technique further reduces emotion and raises the client's ability to collaborate with you.
4. **Create a bridge to a productive discussion.** After connecting with some agreement, add a transition to move the conversation forward. Asking if the client is ready to move on respectfully gauges their ability to shift focus. You will see when they're ready to take the next step.

- Remember that first downturn? How did you feel when that started?
- What were you tempted to do then?
- What were the strategies we put in place?
- What happened over time?
- Reflecting back, what did you learn from that experience?

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Telling their own story is a powerful way to remind clients that “unprecedented” events ended in a recovery, each time. For clients who rejected your advice, reflecting on past mistakes will motivate them to avoid the same errors this time. For those who did stay the course, it will be a vivid reminder to do so again.

Let's Plan a Good Future

When you evoke past lessons learned, the clients will convince themselves that reacting in a panic is both unnecessary and unproductive. Ideally, they will shift from panic to perseverance. Now you can pivot to future thinking with a transition statement. You might say:

It's really helpful to go back and review all the past downturns—the feelings, the strategies, and the outcomes. It's a good reminder that our planning strategies are built to reach your life goals, regardless of events. Our approach worked then and will continue to work. Are you ready to review our next steps to continue on this path?

This is an ideal time to revisit their values-based goals. When people are anxious to avoid losses, they're focused on guarding their money and possessions. In that moment we forget that things are not the greatest source of happiness. Decades of research shows the greatest life satisfaction comes from relationships and everyday simple pleasures.

In fact, once-in-a-lifetime experiences were less satisfying than regular interactions with friends and family. In the end, people gain far more happiness from their book club, walking partners, bike buddies, and coffee crew than from the African safari, or six-month around-the-world cruise. As you talk about the future, revisit important people and experiences. You might try the following prompts:

- When you think about your life, what relationships and activities are most meaningful?
- How much do temporary blips in the market impact this?
- How does this help you put today's events in perspective?

As you draw on the client's values, they'll be reminded of all the stability in their lives, despite current events. Hopefully by this time, they'll feel a renewed sense of calm and confidence. Much of this has been accomplished through the client's own story telling. Your thoughtful questions, listening, reflecting, and gently reinforcing the lessons learned are the financial counseling skills that will accomplish this transformation. This approach is likely to take longer than a direct persuasion, but psychologically it's more effective and enduring. Your help to overcome persistent biases will enable clients to follow and stick with your financial guidance. ■

Endnotes

1. ReThinking with Adam Grant. 2025, April 8. "We're Wrong About What Makes Us Happy with Dan Gilbert." www.ted.com/podcasts/ted.com/podcasts/were-wrong-about-what-makes-us-happy-with-dan-gilbert-transcript.
2. Lee, Cynthia. 2015, April 9. "The Stranger Within: Connecting with Our Future Selves." UCLA Newsroom. <https://newsroom.ucla.edu/stories/the-stranger-within-connecting-with-our-future-selves>.



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