

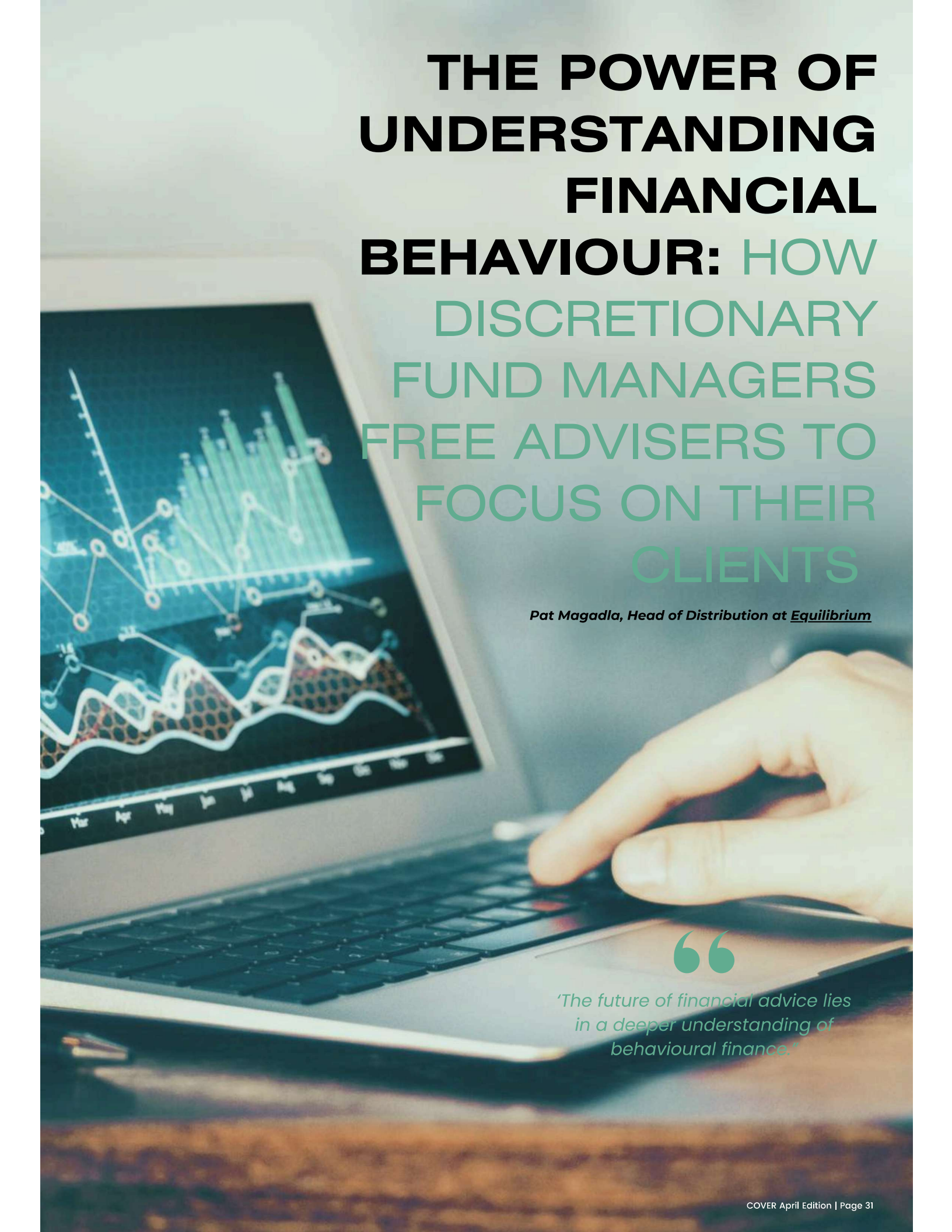
FINANCIAL PLANNING

Articles



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*Pat Magadla, Head of Distribution at
Equilibrium*



THE POWER OF UNDERSTANDING FINANCIAL BEHAVIOUR: HOW DISCRETIONARY FUND MANAGERS FREE ADVISERS TO FOCUS ON THEIR CLIENTS

Pat Magadla, Head of Distribution at Equilibrium

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In the ever-evolving world of financial planning, advisers are faced with a myriad of responsibilities — managing investments, conducting client reviews, handling operations, marketing their services, and more. Yet, amid these competing demands, the most crucial element can get overlooked: understanding the financial behaviours and motivations of clients.

One of the most significant developments in the industry has been the introduction of the two-pot retirement system. While designed with good intentions — to provide financial relief to those in immediate need — the reality has been a surge in withdrawals, often for reasons unrelated to financial distress. Data suggests that many individuals are not using these funds as intended – for financial emergencies – but instead opting to use it on short-term expenses or unnecessary luxuries.

This brings us to a deeper issue: why do people make financial decisions that may not serve their long-term interests? The answer goes beyond financial literacy. While financial education is necessary, it is not sufficient. The real challenge lies in bridging the gap between what people know and what they do.

Studies have shown that individuals struggle to connect with their future selves, which can lead to short-term financial decisions that undermine long-term security. Behavioural psychology suggests that people justify decisions by constructing internal narratives. For example, withdrawing pension savings to pay off a credit card may seem rational in the moment, but if spending habits don't change, the debt will likely return, leaving the individual in a worse financial position.

So, what's the solution? The future of financial advice lies in a deeper understanding of behavioural finance. Around the world, financial personality assessments are helping individuals recognise their financial habits and triggers. Many financial professionals are beginning to integrate psychology into their practice, aligning financial advice with a client's unique behavioural patterns.

For instance, an adviser who understands a client's past experiences with money can better guide them toward healthier financial habits. Personal experiences shape financial behaviour more than we

realise. A child who grew up in a financially unstable household may become an adult who either hoards money out of fear or overspends to compensate for past hardships. If advisers fail to acknowledge these deep-seated behaviours, they risk offering advice that doesn't resonate.

This is where a discretionary fund manager (DFM) plays a crucial role. Advisers wear many different hats, and the sheer volume of tasks can make it difficult to focus on meaningful client conversations. By outsourcing investment management to a DFM, advisers free up valuable time to delve deeper into their clients' financial behaviours. Instead of worrying about selecting funds, they can focus on providing tailored, insightful advice that fosters real behavioural change.

By partnering with a DFM, advisers can conduct more effective client meetings, present a more professional image, and ultimately build stronger relationships. The key to successful financial advice is not just about managing money — it's about understanding the people behind the numbers.

As the industry moves forward, those who embrace behavioural finance and leverage DFMs to optimise their time will stand out. They will be the advisers who truly make a difference in their clients' lives, not just in growing their portfolios, but in shaping healthier financial habits that last a lifetime.

For more information, scan the QR code to listen to our vodcast on understanding what drives the financial behaviour of your clients or visit our website eqinvest.co.za.

