More light on behaviour

The South African Financial Planning Handbook 2011
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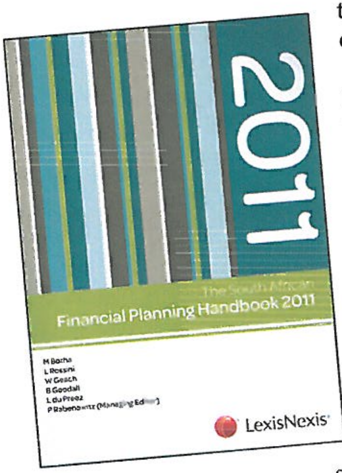
ANY BOOK AIMED AT PROFESSIONALS THAT reaches its eighth edition has clearly become an industry stalwart, and this is the case with the celebrated *South African Financial Planning Handbook*, which has released its 2011 edition.



This comprehensive textbook, which can be found on the bookshelves of all good financial planners and is mandatory for financial planning students, is also a very useful reference work for anyone who is looking for in-depth knowledge about how to plan their finances.

At 1 061 pages, the *Handbook* is no light read. But the extensive content has been structured in a logical, easy-to-follow format.

The major changes to the 2011 edition are the legislative updates.

The authors have listed the latest changes to how company-owned policies – for example, key man and contingent liability – are taxed. However, the content may be out of date in a few months: the legislation is due to be revised this year, because some errors were detected after the bill was passed into law and issues of interpretation have to be ironed out. No doubt, these changes will be reflected in the *Handbook's* 2012 edition.

A chapter on behavioural finance was first included in the *Handbook* in 2006, and the content has been reviewed twice since then.

Behavioural finance is a branch of financial economics that deals with investor behaviour. It uses social, cognitive and emotional factors to understand the economic decisions made by individuals and institutions.

You may ask why the inclusion of a chapter on behavioural finance is so important. Simply, because when you take your money to a financial planner to have it invested, that money is accompanied by bias and emotions. Behavioural finance helps financial planners and investors to better understand these emotions and biases and how they affect their decisions.

Financial planners need to be a coach and a conscience for their clients, helping them to get to grips with their money issues and to steer them away from the pitfalls associated with investing.

The chapter on behavioural finance discusses 50 systematic biases identified in investor decision-making. These biases are observed in the behaviour of fund managers, financial planners and their clients. These biases can be either cognitive or emotional.

In the latest edition, the chapter on behavioural financial has been expanded. Not only are examples of the biases in investor decision-making identified, but the authors explain how to test for the susceptibility to bias, how to deal with bias and how to minimise the affect of bias on behaviour.

Nevertheless, I was slightly disappointed that behavioural finance received only one chapter of 30 pages in the *Handbook*. I encourage the authors and people who are instrumental in teaching prospective financial planners to reconsider this in future editions.

Perhaps it is time to include information on the global trend of financial life planning. Using behavioural finance as a starting point, financial life planning is the actual process that guides planners and clients towards a financial plan where money and meaning meet.

The *Handbook* will go a long way in helping readers gain a better insight into their own financial planning. While it cannot take the place of a qualified financial planner, it will enable them to play an active and informed role in securing their financial future.

Kim Potgieter

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WIN! **The three readers who each won a copy of *The Fundamentals of Financial Planning* in the competition run in the previous edition of PERSONAL FINANCE magazine are xxxxxx xxxxxxx, xxxxxxxxx xxxxxxx and xxxxxxx xxxxxx. This time LexisNexis is giving away three copies of xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx. See the advert on page XX for details on how to enter.**