INVESTMENT RISK PROFILING: LESSONS FROM PSYCHOLOGY

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ABSTRACT

The risk profiling process is one of the most under-utilised assets the financial planning profession has at its disposal. This paper presents a novel approach to risk profiling, which is based on the application of the psychology literature to develop an empirical risk profiling system. This paper provides a theoretical foundation for considering the risk profiling system by applying the literature from self-control, optimism, financial literacy, and risk tolerance, to a risk profiling system. This paper discusses how understanding client levels of self-control can impact 'stickability' to a financial plan, and how prior knowledge of optimism, financial literacy and risk tolerance can enable financial planners to have more engaging discussions and design more tailored financial plans for their clients. This is the first stage of the research project, with the second stage the development and testing of a risk profiling system based on the theory within this paper.

Introduction

Financial planning is a profession in flux with a series of legislated changes occurring in quick succession over the last two years, leaving many wondering what the future holds. Regulators of financial planners seek consumer protection, and attempt on a regular basis to raise the standards of advice, focussing often on remuneration, education, and compliance disclosures (FOFA, 2016). However, there is one aspect of financial planning which is simultaneously ingrained in professional financial planning practice, and yet unable to be regulated: risk profiling of clients. Despite the challenges around regulating this process, ASIC has found that the risk profiling system is one of their main concerns via their recent shadow shopping exercise (ASIC, 2016). This aspect of financial planning is so important because it gets to the heart of how the client interacts with their financial world. For example, clients have different propensities to make impulsive financial decisions which sabotage their long term wealth creation goals, or they might be overly optimistic about the future and thus fail to save. While accounting or stock broking may deal with the quantitative aspects solely, financial planning is as much about knowing the psychology of the client and building a relationship of trust, as it is about achieving wealth for the client. An integral aspect of this process is risk profiling. Developing a full risk profile may extend for many meetings, and often involves questionnaires found in the academic literature. However, the qualitative nature of this process makes it is impossible to systemise and regulate.

Where does that leave the financial planning regulator when it comes to their profession in flux and keeping consumers safe? It leaves them in a situation where it is up to the profession itself to set the risk profiling standards, not the regulator. While this may make the regulator and consumer groups uncomfortable, on the other hand it does provide the financial planning profession with the opportunity to unify and develop a risk profiling standard of the highest level. The development of this standard provides the financial planning profession with the opportunity to stop looking inward, pointing the finger and grumbling about the regulated minimum standards by working together towards a risk profiling methodology that results in quality advice for clients. This paper seeks to provide a theoretical analysis of factors which will be incorporated into a risk profile system, and as such forms the first part of a two-stage research project, with the second stage the development and testing of a risk profiling system based on the theory in this paper.

Risk profiling is, at every step of the way, psychological personality profiling. Founded in the psychological literature[1] the inherent personality and character trends unearthed in risk profiling and the use of the process for uncovering this profile, has been taken up by business people and implemented as a business survey, although of only one aspect of a risk profile: tolerance for financial risk. This does injustice to the client and their unique combination of tolerances for risks in their financial and lifestyle situation, because it artificially simplifies their overall risk profile to one aspect, which arguably cannot be considered in isolation. Further, this over-simplification puts the business process and need for efficiency above the client, which goes against what an ethical financial planner would do, given that the psychology of the client is at the heart of financial advice

[1] The psychology literature has long been interested as tolerance for risk, or ambiguity tolerance, and studies on this topic have been conducted by Bandura (1997), Kimball, Sahm, and Shapiro (2008), Kinnier, Kernes, and Dautheribes (2000), Nelson (2015).

success. This is evidenced by advice from the Financial Ombudsman Service (FOS) that 70 per cent of the cases that are escalated through them are because of inadequate or incorrect risk profiling of the client (FOS, 2015). Additionally, financial planners who follow risk profiling systems which are not empirically tested put themselves at risk of incorrectly investing a client's assets (asset allocation), and this exposes them to litigious risks, particularly in market downturns. This paper argues that the investment risk profiling system of financial planning requires re-evaluation, and expansion to include the psychological factors which have the potential to impact the accuracy of risk profiles, and to increase the success of the financial plan.

To date, the research on risk profiling has been limited to topics which are not directly applicable to the actual risk profiling process required by professional financial planners, namely assessments of financial risk tolerance which follows quantitative analysis of trends in proxies for the same (e.g. (Chavali, 2016; Hanna & Chen, 1997); Kimball *et al.* (2008); Nguyen (2015); Rahmawati (2015); Roszkowski and Grable (2005); Sung and Hanna (1996); Van de Venter, Michayluk, and Davey (2012); Yusof (2015)) or an assessment of survey validity from an economic perspective which treats the client as a purely rational actor (eg. (Droms & Strauss, 2003; Gerrans, 2015; Grable, Lytton, & O'Neill, 2004; Grable & Lytton, 1999; Hanna, Gutter, & Fan, 2001); Kimball *et al.* (2008); Nelson (2015)). Given the gap in the literature regarding investment risk profiles, this paper will contribute by applying a range of perspectives which have previously not been considered. The outcome of this approach is ultimately to provide a theoretical foundation from which the risk profiling system currently in use can be re-evaluated and adapted to consider current research.

The current paper follows a methodology which seeks to establish a theoretical foundation from which the risk profiling system can be developed. In order to determine which aspects of the psychology literature are relevant for risk profiling, the psychology literature has been combed to determine the four most powerful areas of research which have direct implications for financial planning client relationships and financial outcomes. The four psychological aspects to be considered in this paper are: self-control, optimism, financial literacy, and risk tolerance. Each of these areas for research will be discussed with direct relevance to implications for risk profile development. Each theoretical section will conclude with examples of how previous research contributes to our understanding of individual client factors which may impact the success of their financial plan. This paper also considers the literature on investment strategies and how it relates to the risk profiling process and psychological literature. This paper concludes with a summary of the implications of this theoretical analysis and outlines stage two of the research project: the development of a risk profiling system.

The remainder of this paper is structured as follows. The second section discusses risk profiling, psychology, and implications for ethics and professionalism in financial planning. The third section presents the relevant literature from psychology. The fourth section presents research relevant to investment strategies, and the fifth section concludes.

Risk Profiling and Psychology

It could be argued that the heart of professionalism[2] is ethics[3]. Those occupations which have risen to professions have widely accepted and enforced ethical procedures which rest on a foundation of academic literature and targeted journals, such as medicine, accounting, nursing, and law. Such professions commonly have established professional bodies which connect all members to the community and the next generations of professionals, while simultaneously operating as self-regulatory bodies which establish and enforce codes of conduct and audits of their members. This system allows the regulatory bodies of those professions to focus on other issues. In the case of financial planning however, there is still a long way to go before the above steps to professionalism are achieved. This is despite the fact that most financial planners undertake their practice in highly professional ways. It has been noted that the division between financial planners and the financial planning bodies compounds the lack of community engagement and hence community distrust of this occupation despite it developing a foundation of higher education qualifications and ethical conduct to rival established professions. Given the contentious nature of current risk profiling practices within financial planning, by considering the relevant psychological research, a more complete risk profiling system can be developed.

The financial planning process is often misconstrued in the media as being focussed on product and investment advice (Rose, 2106), when in reality the majority of financial planners add value to clients' lives through highly strategic advice (Gerrard, 2016). Financial planners provide a great deal of psychological benefits to clients including empowerment and confidence in their financial future (Hunt, Brimble, & Freudenberg, 2011). However, in order to provide clients with peace of mind, financial planners must understand the client and invest heavily in relationship development, a costly process which takes time. The process of risk profiling provides financial planners with the opportunity to discuss targeted risk tolerance and risk capability questions in an effort to provide them a greater understanding of how they can serve their clients with unique strategic and product advice. The next section discusses the psychological research relevant to the financial planning risk profiling process.

Psychological Research Relevant for Risk Profiling

Psychology literature regarding persistent trends in characteristics of people is directly relevant to understanding how the financial planning risk profiling system can be developed. There is a large body of research on persistent personality traits linking aspects of personality such as intelligence with the need for achievement (Harris, 2004), and extraversion with creativity (Schuldberg, 2005). Additionally research on success in business has found that temperament is more important than talent (Thompson, 2009) and that emotional stability is the most reliable predictor of financial

[2] Professionalism in this context means the current journey that the financial planning industry is on to be recognised by the community as a 'profession'. Hence, although individual financial planners operate as professionals, the industry as a whole needs to be recognised as such by the community. This process is termed professionalism.
[3] Ethics in this context means the collectively defined and upheld principles within client relationships and business processes of financial planners.

success (Brandstätter, 1997, 2011). Trends in personality and risk tolerance are of integral importance to researchers across many fields of study to understand groups of people to help tailor facilities and products for their needs. Given the purely psychological nature of risk profiling, it is critical that risk profile systems of the future incorporate the relevant academic literature on these topics. Additionally, behavioural finance biases become relevant in the making and monitoring of financial decisions, such as herding, overconfidence, loss aversion, and framing (Shleifer, 2000), which can impact on the risk profiling and investment process.

The current templated questionnaires for risk profiling of clients is in a multiple-choice format which inherently applies there is a right or wrong answer. Questions seem to mirror financial literacy surveys, with items such as: *On the risk-return graph shown, indicate your preferred level of risk and return*. This question requires explanation to clients who have not studied Markowitz and the optimum portfolio (Markowitz, 1952, 1989), and forces an answer from all. Despite that, many spend years studying Markowitz's portfolio theory, and are not in a high power-imbalanced meeting when illustrating their understanding of the concept. Many clients understand the general risk-return trade-off given the media coverage of events such as the Global Financial Crisis. As such, when presented with this kind of questionnaire, it is predictable that clients feel a certain social pressure to be more risk averse than they would otherwise feel (Fisher, 1993). A more complete understanding of the client including their behavioural trends, historical events which led to risk aversion, and a holistic understanding of the client would arguably result in a stronger client-professional relationship and higher quality financial advice. This can be achieved through a combination of empirically tested, succinct survey items (a maximum of 20 items would be necessary), with tailored question prompts based on the survey responses.

In line with this, this section discusses the following topics of psychological research and theoretically applies the research to the financial planning risk profiling process with a view to theoretically constructing the aspects required for an empirical measure of risk profiling. Topics discussed are: Self-control, Optimism, Financial Literacy, and, Risk Tolerance.

Self-Control

Many aspects of financial planning are similar to those of accounting or finance. For example, financial planners routinely consider a client's financial situation regarding their assets and liabilities, and their cashflow. In both accounting and finance, these two perspectives provide the foundation for much of the analysis and decision making, as it is in financial planning, only applied to personal finance. The personal cashflow of clients is often an integral component of developing a financial plan, and the regular income available for investing in wealth protection or wealth creation is critical. However, many clients have disconnected reporting regarding their expenditure, and actual expenditure. To compound this issue, the cashflow details are often the cornerstone of a financial plan seeking to provide long term financial security. Risk profiling systems do not consider an individual's self-control levels, despite the fact that self-control has the potential to determine not only the amount of available income each period to support the financial plan, but also adherence to the financial plan itself.

The history of research on self-control can be traced to well before financial planners began to document risk profile questionnaires, yet there is no self-control measurement in risk profiles. Research by Shefrin and Thaler (1977) initially described self-control as the internal battle between the immediate and future selves, which was subsequently applied to the field of economics in a broad based article which established self-control as the cornerstone of economic achievement (Schelling, 1978). A significant body of literature has since considered self-control in relation to other identifiable character traits. For example Puri and Robinson (2007) found that optimism mediates the relationship between the immediate and future selves in that over-optimists, expecting positive future outcomes, allocate a greater amount to their future selves for enjoyment. On the other hand, Puri and Robinson (2007) found that moderate-optimists tended to experience fewer self-control challenges and hence fewer corrective steps after behaviour which went against allocating towards their future self. Research has also considered self-control specifically in relation to financial behaviour, with authors finding that self-control is a better predictor of over-indebtedness than financial literacy (Gathergood, 2012).

The research on self-control is directly relevant for risk profiling questionnaires. This research suggests that risk profiling systems, whether in survey or interview format, should consider a client's level of self-control. Incorporating specific questions or discussion around self-control may provide financial planners with an opportunity to build trust in the client relationship through showing care for the client's unique financial personality characteristics. Further, there are direct implications for the specific financial plan details, where clients who have low self-control would need formal systems such as restricted access to savings that has been committed to the achievement of long term financial plans. Without prior knowledge of self-control levels, it would be impossible to anticipate a client financially sabotaging the financial plan to which they had agreed.

Optimism

Persistent trends in positive expectations, ie. optimism, is an integral component of the risk profiling discussion because optimism levels have been tied to business success and entrepreneurial behaviour, which may directly influence a client's ability to stick to a financial plan. Financial planners who understand these basic characteristic traits are likely to be better adept at understanding their clients and how best to communicate strategies and challenges to them. In addition, persistent trends in optimism can help financial planners communicate in specific ways to clients regarding the particular risks in their strategy.

Of direct relevance to the risk profiling system is that people with high levels of optimism have low sensitivity to the costs of their investments (or interest rates on loans) (Yang, Markoczy, & Qi, 2007). This has potential implications for the communication of risks and costs by a financial planner, where clients with low levels of optimism may need to have more communication regarding the justification of fees and charges associated with their financial plan. The academic literature tends to indicate that overly-optimistic people have consistent adverse behaviours such as inaccurate forecasting abilities (Flyvbjerg, 2008), less investment prudence and lower work ethic (Puri & Robinson, 2007). On the other hand, those with moderate levels of optimism have been found to make prudent financial decisions and work more (Puri & Robinson, 2007). Although optimism has been found to be correlated with most of the 'Big 5' Personality traits (Sharpe, Martin, & Roth, 2011), when combined with risk aversion, optimism has the tendency to result in the first best option being chosen (T. C. Campbell, Gallmeyer, Johnson, Rutherford, & Stanley, 2011). This is relevant for the risk profiling system where it would be of benefit to financial planners to know their client's optimism level in order to communicate the alternative and recommended strategies most effectively. This has potential implications for the communication of the risks associated with different financial planning strategies for clients with different levels of optimism.

Optimism has been consistently linked with high levels of risk tolerance, such as the risk of entrepreneurship (De Meza & Southey, 1996), self-selecting into short-term debt (Landier & Thesmar, 2009), and overestimating future income (Seaward & Kemp, 2000). This research provides financial planners with the knowledge they need to adapt risk profiling systems to incorporate an understanding of the personality characteristics which might provide a reasoning for certain risk tolerances. For example, high risk tolerance may be because of optimism rather than linked to the risk tolerance which comes from a more complete personality behind the trends. It is argued that risk profiling systems, both quantitative and qualitative, be adapted to incorporate measurements of optimism. Prior knowledge of a client's optimism levels would allow financial planners to design a financial plan which clearly communicates the need to keep working for high optimism clients, as an example.

Financial Literacy

The topic of financial literacy[4] is a topic which has gained prominence in recent years because of its direct association with empowering consumers to affect their own sound financial decisions. Given that one of the key benefits of financial planning is client empowerment (Hunt *et al.*, 2011), this topic is intimately linked to a risk profiling discussion. Indeed, financial literacy has positive impact on people's lives only if they also have the confidence, motivation, and ability to use this information.

Previous research has generally associated financial literacy levels to home or school education on financial theory and behavioural strategies. However, recent research has found that financial literacy is in fact a choice, as it has a current consumption cost and depreciates over time (Jappelli & Padula, 2013). This research implies that the decision to acquire financial literacy is affected by the same things that affect savings decisions over the life-cycle. In the context of the broader financial market, these authors indicate that financial market deepening will result in higher levels of financial literacy and higher levels of savings via an increased incentive to invest in financial literacy as a result of private pension funds and similar investment innovations (Jappelli & Padula, 2013).

Research on financial literacy is undecided on whether it has any measurable positive impact. Authors have discussed that financial literacy programs have little proof regarding their effectiveness (Ben-Shahar & Schneider, 2011) (p.667). Authors have reported that the effect of financial literacy programs across a broad number of studies either have not been found, or are very small (Willis, 2008)(p.208-209). These studies confirm previous discussions in this paper which emphasise that relying on financial literacy as a method to ensure consumer protection within financial planning is contrary to academic literature on this topic.

[4] Financial literacy in this paper refers to the 'information, knowledge, and skills to evaluate options and identify those that best suit needs and circumstances (USA-Department-of-Treasury, 2006).

Although many authors have found that financial literacy programs are ineffective, the impact of financial literacy itself is a separate discussion. Authors have found that underlying financial literacy can reduce the effects of financial shock and increase savings rates (Klapper, Lusardi, & Panos, 2013). Authors have also found that combined with low self-control, low financial literacy results in adverse debt behaviour (Gathergood, 2012). In addition, low financial literacy has been found to be associated with a higher cost of credit, lower confidence, low improvement behaviours, and higher interest rates on loans (Disney & Gathergood, 2013). Indeed, these authors found that lower financial literacy was associated with a greater chance of obtaining high-cost consumer credit in the first place (Disney & Gathergood, 2013).

Despite the uncertain impact of financial literacy on client behaviour (Ben-Shahar & Schneider, 2011), it is clear from the literature that discussions around financial literacy have the potential to provide not only engaging material to discuss with the client, but also a potential avenue for increasing professional transparency. This paper argues that the result of professional financial planning practice should be increasing education of the client to such a level that financial planning clients are fully able to understand the discussions regarding the advice and strategy relative to their situation. This education requires continual and intentional financial literacy discussions which are based on a valid measure of a client's initial levels of financial literacy.

There are methods to gauge a client's financial literacy without involving tedious questionnaires and discussions which feel judgemental. This paper proposes that financial planners incorporate alternative measures of financial literacy in the risk profiling process, such as financial games or 'betting' to determine a client's present bias (Fischer & Ghatak, 2010; Takeuchi, 2011). Through this knowledge financial planners will be equipped to develop tailored discussions for the client throughout the relationship which communicate the value of financial planning.

Risk Tolerance

Risk tolerance has the potential to affect whether people become entrepreneurs and what proportion of risky assets they are comfortable holding, both of which are issues which can relate to whether and how clients seek financial advice. In addition, the amount of uncertainty people are comfortable in accepting is of direct relevance to explaining the behaviour of clients, particularly those who may be acting as much out of personality reasons as financial need (Yang *et al.*, 2007)[5]. Research has identified that there is support for intuitively understood demographic trends in risk tolerance in that female headed households have reduced risk tolerance compared with male headed households (Sung & Hanna, 1996)[6]. Despite the inherent importance of identifiable risk tolerance in a range of financial sectors, including financial planning, there is little practical

[5] Research has explored the assessment of financial risk tolerance and its role in household decision making (Grable & Lytton, 1999). Measures for financial risk tolerance have been adapted to include questions which are very basic and can be used with the wider population regardless of financial literacy (Kimball et al., 2008). Other authors have constructed scales relating to ambiguity tolerance, an issue related to but not the same as uncertainty (Mac Donald JR, 1970)

[6] It should be noted that this research explicitly states that these findings are likely to be as a result of social programming rather than genetic risk aversion tendencies. In addition, research has emphasised the need to discuss risk tolerance before discussing the potential benefit of strategies which are associated with different risk levels (Droms & Strauss, 2003).

and relevant literature on the topic.

Investment Research Relevant to Risk Profiling

Professional financial planners are required to place a large amount of effort in communicating their value to clients. This is because clients often have the perception that financial planners have the key role of reducing taxation and increasing investment returns. While this may be some of the potential skills a financial planner has to offer, the real financial planning relationship encompasses much more. Professional financial planners lament that clients are preoccupied by an aspect of their activities which, while being clearly measurable, is not where the greatest value is added. For these reasons, the current paper considers the investment research which is relevant to risk profiling as it has the potential to illustrate some of the strategic investment issues which may be relevant for the initial stages of a client relationship. For example, investment strategies which are based on either life-cycle (Bodie & Treussard, 2007; Gomes, 2008) or dynamic (Basu, Byrne, & Drew, 2009) philosophies have the potential to be interconnected to client risk tolerance and risk capacity (Viceira, 2007), as well as overall investment returns.

Investment Strategies

Asset allocation is the most important contributor to investment returns, particularly in the years prior to retirement (Basu & Drew, 2007; Byrne, Dowd, Blake, & Cairns, 2006). However, despite this weight on risk capacity, or the quantitative features of an investment strategy, authors have also confirmed that there is no room for a one-size-fits-all investment option for clients (Antolin, Payet, & Yermo, 2010). This is partly because each person has a unique amount of human capital, which is generally the largest asset of working people (Bodie & Treussard, 2007). Authors have gone so far as to indicate that there is a human capital trade-off with young people (who have the most human capital) required to invest in risky assets to offset the large inherent position taken in conservative assets through human capital (Viceira, 2007). The results of previous research are important for understanding the current context within which financial planners provide personal financial advice. In the current system, financial planners develop investment strategies which combine a number of trade-offs and restrictions such as predicted investment returns, client risk tolerance, regulatory restrictions, and client goals. Once the investment strategy has been developed, specific investments are recommended to implement the investment strategy. The risk profile of a client is reflected in the asset allocation of investments. This is of critical importance because it is an issue which is often highly contentious as a result of the significant impact it can have on financial returns, particularly in the short term (Brennan, Schwartz, & Lagnado, 1997; J. Y. Campbell & Viceira, 2003; Eychenne, Martinetti, & Roncalli, 2011).

The research on investments and asset allocation further confirms that the role of the financial planner is among the most complex and professional in financial services. Financial planners are required to combine a large amount of different information relating to the client's preferences, their objective ability to take investment risk, and the amount of human capital held by the client. With this information the financial planner must develop a strategy which is aligned with the client's risk profile such that the ethical standards of the profession are upheld. Hence, the development of a risk profiling system which leverages off the psychology literature allows that the investment strategies which have been optimised by financial planners will actually align to the client's risk profile and help the client to achieve their goals. It is important to remember that a risk profiling measure is only as sound as the investment strategy it guides, and hence both of these areas of financial planner expertise are worthy of consideration in this paper.

Conclusion

Financial planning is a profession in flux which will benefit from a more robust and empirically tested framework of risk profiling. This paper has provided the theoretical foundation which outlines the first stage of a research project designed to achieve a new risk profiling system.

The risk profiling system of financial planners provides immense opportunity for the profession to be recognised in the community as being of the highest ethical standards which operates for the benefit of clients and their families. The current state of affairs, where each Australian Financial Services (AFS) Licensee has a similarly designed questionnaire based on limited empirical research is at the core of the areas of change in the profession currently. This paper argues that the risk profiling methodology provides financial planners with the ability to rise above the limiting regulation and display a high level of transparency, integrity, and empowerment of clients. The natural by-product of this behaviour is community recognition of professional standing. This paper provides the theory behind the development of a new risk profiling system which will be developed as stage two of this research project.

This paper has presented the academic literature relating to particular psychological and investment research which provides a framework for understanding the potential avenues for risk profile development in the financial planning profession, and which will be documented in later stages of this research. It has been shown that some aspects of personality, such as temperament, self-control and optimism, are equally as important as financial literacy and risk tolerance. Through illustrating this research side-by-side the current paper allows a perspective of risk profiling which has not been previously afforded in the literature. Further, this approach has illustrated how the second stage of this research project, the development of a risk profiling system, will be developed.

The next stage of this research project will be the development of a risk profiling system which incorporates analysis and reporting on client levels of self-control, optimism, financial literacy, and risk tolerance. The second stage of this research project will also include development and testing of a new risk profiling system.

Financial planners have, at this point in time, the wonderful opportunity of having a very low base standard of risk profiling from which to catapult a new standard. Given that this stage of the financial planning process is inherently impossible to regulate to any quality level (above a questionnaire), this area provides financial planners an opportunity to unite and present a process to the community which is built on empirical research and the broad considerations of personality and behaviour – aspects of clients which are already considered by professional financial planners.

This paper proposes that the risk profiling system adopted by all financial planners is one which incorporates questionnaires and discussion regarding the aspects of financial risk tolerance identified in this article. The series of discussions identified in this paper, combined with ongoing self-reflection by the client, provides financial planners with clearly communicable value of their relationship to clients. This paper argues that financial planners seeking professionalism need to first reflect on their internal practices through which they have the ability to exceed expectations and establish a new benchmark of financial planning. The theory provided in this paper establishes a framework from which an empirical risk profiling system may be developed.

This research contributes to the academic literature by providing a theoretical application of core psychology literature to the specific task of risk profiling, which has not been documented before. Further, this research has established the theoretical first stage in the wider project of developing a robust and empirically tested risk profiling system, something which is also absent in the financial planning literature to date. This paper has core limitations in that it provides only a theoretical consideration of how the psychology literature applies to risk profiling, and primary data is not discussed. These limitations will be addressed in the next stage of this research project when the actual risk profiling tool will be tested.

The core of every profession is ethics. It is clear to all that a code of ethics by professional bodies is not enough to provide the community with the security of knowing their financial planners put their best interests first. Financial planners need to establish ethics at the core of their business practices, and the greatest opportunity for this right now, is the risk profiling process, as evidenced by the percentage of FOS claims which are based on incorrect risk profiling. An overhaul of the risk profiling processes undertaken by financial planners would result in clients of financial planners gaining insight into the value their financial planner provides, their own personality, and their investment strategy. The foundation of quality financial advice is an appropriate risk profile for the client which has been developed using empirically tested, relevant methodology. This paper proposes that in order for financial planning to develop into a recognised profession, systemised approaches which ensure quality advice and quality professional relationships need to be developed. This paper provides a foundation for considering the aspects which are relevant to be measured and reported on for each financial planning client. Through the systematic empirical research process on risk profiling, a profession-led risk profile assessment will be developed, leaving the regulator other things to focus on.

Author's note: If you would like to be involved in stage-two of this research project, the testing of the new risk profiling system, please email k.hunt@griffith.edu.au.

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