Saving & Investment

a guide to personal financial advising; the process and outcome

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Abstract

The ongoing global recession has made the economy widely discussed in recent months. As individuals, who are part of, and affected by what is happening in the global economy, we found it interesting to investigate the current financial situation on a more individual and personal level. We intended to find out more about personal financial advising, how it is conducted and what the financial advisors suggest we do with our money today. Is it best to stick the money under the mattress or has the current financial situation brought on a perfect opportunity invest money in the financial markets?

We hope to find patterns on how financial advisors recommend that we save and invest our money today. Also, we want to investigate what these recommendations are based on and how these financial advisors work to present these advices. We intend to look for similarities within the branch in the advising process, as well as the outcome of the process in order to create guidelines for saving and investment.

We intended to answer these questions by conducting a qualitative study where we interviewed six financial advisors at three different financial institutions. We take on a constructionist ontological position assuming that reality is constructed by the perception of social actors. Furthermore, we have taken an interpretivistic epistemological stance that view knowledge based on interpretations, and try to understand the world from the research subjects’ point of view.

We utilized a number of theories in order to support and build our study. These theories were used in order to help us construct and conduct our collection methods of primary data, and further used to aid us in analyzing the interview findings.

Analyzing the empirical results we learned that the basis in the financial advising process is fairly standardized within the branch. First, personal and financial information is gathered in order to assess the client's unique situation, followed by the creation of a risk profile, which is very important according to the respondents. Even though the study shows that there are different methods to collect this information and create these profiles, the patterns show that all institutions work around the same concept, that every client is an individual that needs to be assessed as unique. We also learned that the financial crisis have not had a significant impact on the financial advising itself, but rather in the attitudes of the clients. Furthermore, the increased level of documentation due to the new laws is the only evident change, with minor signs of an increased protection for both the advisor and the client. Finally, conclusions about saving and investment today were drawn by finding patterns and common denominators between the respondents advices for the individual profiles created for this study.
# Table of Contents

1. Introduction .............................................................................................................. 1  
  1.1 Background ........................................................................................................... 1  
  1.2 Problem Discussion ............................................................................................... 3  
  1.3 Research Questions ............................................................................................... 3  
  1.4 Choice of Subject ................................................................................................. 3  
  1.5 Purpose .................................................................................................................. 4  
  1.6 Limitations ............................................................................................................ 4  
  1.7 Outline of the Research ......................................................................................... 5  
2. Theoretical Method .................................................................................................. 7  
  2.1 Preconceptions ....................................................................................................... 7  
  2.2 Research Method ................................................................................................. 8  
  2.3 Scientific Approach .............................................................................................. 9  
  2.4 Research Strategy ............................................................................................... 10  
  2.5 Perspective ........................................................................................................... 11  
  2.6 Literature Review ............................................................................................... 11  
  2.7 Access ................................................................................................................. 13  
  2.8 Selection of Theories ......................................................................................... 13  
  2.9 Criticism of Sources ......................................................................................... 14  
3. Practical Method .................................................................................................... 16  
  3.1 Qualitative Research Method ............................................................................... 16  
  3.2 Profiles ............................................................................................................... 16  
  3.3 Interviews ........................................................................................................... 18  
   3.3.1 Selection of Interview Subjects ....................................................................... 18  
   3.3.2 Interview Guide .............................................................................................. 19  
   3.3.3 Interview Process ........................................................................................... 19  
  3.4 Primary Data ........................................................................................................ 20  
  3.5 Reliability and Validity ....................................................................................... 22  
4. Theory ...................................................................................................................... 23  
  4.1 Financial Instruments ......................................................................................... 23
Table of Figures

Figure 1 – Literature Review Process .................................................................11
Figure 2 - Interview Chart ...........................................................................20
Figure 3 - Financial Advising Process .........................................................66
Figure 4 - Saving and Investment Recommendations ....................................69
1. Introduction

In this section the reader will be introduced to the background of our research and the problem we found. We will also present the reader with our thoughts on the choice of subject and the purpose of this study, as well as the limitations we found necessary to make. Last, but not least, we will provide the reader with an outline of the research paper.

1.1 Background

Cash is king. Or is it?

We are standing in the middle of a deep global recession (Kollewe, 2009), with billions of money and thousands of jobs lost every day (Willis & Chandra, 2009). While the initial cause of the crisis is still under debate, it is easier to assess what has actually gone wrong so far, even though the full effect may yet remain unseen. A collapse of the real estate market in the U.S. initiated the subprime mortgage crisis, which along with lost confidence in the value of securitized mortgages, resulting in a liquidity crisis, paved way for trouble for banks, institutions and financial markets around the globe (Elliott, 2008), spreading the recession all over the world (OECD.org, 2009). Experts go as far as labeling the current financial crisis as the worst since the Great Depression (Stewart, 2008); some say it is even worse (Petrov, 2008). Quarterly statistic reports are showing decreasing numbers in aggregate output and economic growth (OECD.org, 2009), and financial analysts are expecting the downward trend to continue in 2009 (Roubini, 2009). Along with the decline in GDP, the financial sector has suffered heavy losses and the stock, bond and currency markets continue to haunt investors with its volatility (MacMahon, 2008) (Wall Street Journal, 2008). In Sweden, the average household consumption has dropped and GDP is following the global trend with decreasing numbers (Joshi, 2008). The Swedish stock market continues to trouble its clients with its instability (E24Börs, 2009), and companies keep on laying people off as a result of the ongoing financial crisis. A feeling of uncertainty about the current financial situation is spreading in the Swedish households, and now, more than ever, it is extra important to take an extra glance at your personal finances.

With much talk in a global perspective, it seems that the average private person sometimes is forgotten. In these times of financial crisis, people are faced with many difficult, but extremely important questions regarding their personal economy. How should they handle their money? Do they stick them under the mattress? Do they put them in a bank account? Is it smarter to buy stocks or bonds? There are many questions, but none of them are easy to answer.

While many experts agree on what has gone wrong, there seems to be quite a few different opinions on what to do now. According to Petro (2009), some people, like New York University Professor Nouriel Roubini, find the markets too far away from recovering and
believe cash is the way to go at the moment, while others like Warren Buffett see these
times as the perfect opportunity to find bargains on the financial markets. Warren Buffett
(2008) wrote an eye-catching article titled “Buy American. I am,”, where he stated that now
is the time to invest, the market will move higher even before the economy starts to
recover. But if people with these backgrounds and experience cannot agree on what to do
with money in these times, how should the average person be able to?

Throughout life we are constantly faced with making decisions that will affect our future.
Not knowing what the future will present us creates uncertainty, or risk. Our personal
finances follows the same principle, where our decisions, from the day we receive our first
coin until the day we spend our last, will affect our future income and earnings. Depending
on the current life situation, investment decisions will be made based on different factors,
such as age, income, risk-return etc. Where should individual investors turn to invest their
money? Where can you invest your money and who should you turn to for advice?
Investments are made on the capital markets, and advice can be given by professional
advisors and also by sources such as financial newspapers. Capital markets contain the
financial markets, such as stock and bond markets but also financial intermediaries (Howells,
2007). The financial markets are where investors with investment needs and borrowers with
capital needs meet in order to have their needs fulfilled on mutual acceptable terms.
(Oxenstierna, 2007) Financial intermediaries are financial institutions which work the
markets on behalf of someone else, such as banks, pension-funds etc. (Gavelin, 2007) Capital
markets merge potential investors and borrowers and therefore facilitate their capital
needs. There are two markets, the primary market and the secondary market. The primary
market is where companies go to facilitate their capital needs by issuing stocks for the first
time; new emissions. When those stocks are later resold it is done at the secondary markets
(Howells, 2007). Hence, when we follow the evolvement of the stock markets it is the
secondary market we mean. The secondary market is very important for the primary
markets since it maintain continuous price adjustments and trade. (Gavelin, 2007) The price
on a financial instrument is set by the potential risk that is involved. Risk can be measured as
the probability that the investor will not receive the expected return on the investment
compared to when the investment decision was made. Therefore, this implies that capital
markets also have the function of pricing instruments and handle financial risk. Financial
systems essentially have three central functions to support, and they are: (Oxenstierna,
2007:28)

1. Risk management – spread and redistribute risk.
2. Transfer capital from sectors with surplus saving to sectors with financing needs.
3. Give access to efficient means of payment.

These markets can be hard to maneuver on for nonprofessionals. Financial advisors are easy
to access for every investor who wants their help with investments. “A financial advisor is a
person who gives advice on investments in financial instruments to an individual private
client and has characteristics of a personal recommendation, based upon the institutions information about the client’s economic situation, investment experience, and the goal of the investment.” (Oxenstierna, 2007:192) Hence, people who give financial advice to the public through television, newspapers, internet etc, are not financial advisors.

So, what do these financial advisors suggest that we do with our money now?

Is Cash really king? If not, what is?

1.2 Problem Discussion

We found our problem in the area of personal finance, and more precisely in what individuals do with the money intended to be saved for future purposes. We intend to look deeper into the matter of private saving and investment, with focus on how financial advisors work, and how they suggest that people should handle their money in these times of financial difficulty. We look to find patterns and guidelines, and are further interested in investigating what potential affects the current recession have on personal financial planning. What is the best way to handle money at the moment? The stock market has shown great volatility lately (E24Börs, 2009), but are there ways to take advantage of that? Is it safer to go for bonds, or maybe move money into the real estate market? How can I maximize my returns without risking too much? As mentioned earlier, these questions are not easy to answer but we hope to bright some light in these times of financial trouble by finding out what financial experts suggest we do with our money today.

1.3 Research Questions

How do financial advisors suggest we save and invest our money in these times of financial difficulty?

On what basis do the financial institutions work to come up with these recommendations? What does the financial advising process look like and how do they create risk profiles; and does this process differ among the institutions?

What impact have the financial crisis and the new laws had on financial advising?

1.4 Choice of Subject

Our decision to conduct a study on personal finance, and more precisely on how financial advisors suggest we save and invest money today, is a result of many different factors. First of all, both of us are business students with an interest in finance. We have studied several
courses in finance, learning about stocks, bonds, and other financial instruments and we hope to gain deeper knowledge by exploring the area even more.

Secondly, these times of financial trouble affect us all, in many different ways. The ongoing recession has spread all over the world, and we are starting to see clear results of that here in Sweden. Companies have to let more and more people go because of financial problems, the financial markets are turbulent, and people are left with more uncertainty. All of this is happening right now, and that is why it feels so important and interesting to look at what can be done by individuals to aid their own financial situation.

Last, but not least, we are interested in investigating if there is an optimal investment strategy in these troubled times and what it would look like depending on who is investing. What do financial experts, who work with these financial instruments every day, believe is the right way to act at the moment? We hope to take advantage of their earlier experiences from troubled times to draw guidelines and make recommendations on investment and saving today.

1.5 Purpose

The purpose of this study is to create guidelines for personal finance, based on suggestions and recommendations from several financial advisors. We intend to give people help on how to save and invest their money, depending on their current life situations and economic realities. We also want to investigate and compare the bases of financial advising and risk profiling within the branch, and what impact the financial crisis and the new laws have had.

1.6 Limitations

Due to limited resources, there will be certain limitations to the study. Considering the time frame for the study and in terms of convenience, all interviews took place with financial advisors at bank offices in Umeå. Furthermore, we realize that with a subject as broad as this, it is hard to present a full picture that will represent the whole investing population. Since we are interested in how the financial advising process works and how they suggest people save and invest money today, we solely concentrated our work on those areas, leaving out other aspects of financial advising and its clients not relevant for this particular study.
1.7 Outline of the Research

The following subchapter intends to give the reader a quick overview of the research paper, by showing how the paper is structured and what the different chapters include. The outline of the paper is presented at the end of the first chapter as we believe that it is helpful to first read the introduction in order to better understand the contents of upcoming chapters.

Chapter 1 – Introduction

In this section the reader will be introduced to the background of our research and the problem we found. We will also present the reader with our thoughts on the choice of subject and the purpose of this study, as well as the limitations we found necessary to make. Last, but not least, we will provide the reader with an outline of the research paper.

Chapter 2 – Theoretical Method

In this section the reader will be introduced to the theoretical methods that are used in the study. First, our preconceptions will be covered to show how this might affect the study. Following that, the research methods that we use will be presented to the reader, along with our scientific approach, research strategy, and perspective. In addition to that, we will explain how we chose the relevant theories for our study.

Chapter 3 – Practical Method

In this section the reader will be introduced to the practical methods chosen for this study. First, we will explain why interviews were chosen as the data collection method, followed by a description of the profiles used for the study. Furthermore, the reason for the sample selection will be explained along with a thorough description of the interviews, both in terms of prior, during and after the interviews. Finally, the primary data collected for this study will be evaluated and criticized.

Chapter 4 – Theory

In this section the reader will be introduced to theories that relate to our study. Initially, brief descriptions of common financial instruments will be presented to provide the reader with an overview of the investment alternatives that the financial advisors talk about, along with a short summary of the current legislation in the area of financial advising. Furthermore, the financial advising process will be described together with some of its components, such as risk and risk profiling. Finally, theories concerning the life-cycle of savings and consumption, modern portfolio theory and behavioral finance will be presented.
Chapter 5 – Empirical findings

In this section the reader will be presented with a summary of the interviews conducted for our study. We will present the interviews one at a time, divided by the different themes we investigated. Those themes include the background of the advisor, the financial advising process, impact of the financial crisis, risk and risk profiling, impact of the new laws, saving and investment in general, as well as a saving and investment for the three fictional profiles.

Chapter 6 – Analysis

In this section the reader will be presented with an analysis of our empirical findings. We will compare our interviews, theme by theme, to find similarities, patterns and/or differences, and further relate those to the theories chosen for this study.

Chapter 7 – Conclusions

In this section the reader will be presented with our conclusions that were drawn from analyzing the results of this study. We will look at patterns in the work of the financial advisors, both in the financial advising process and in the outcome of the process.

Chapter 8 – Trustworthiness

In this section the reader will be introduced to the issues concerning the quality of our study, including credibility, transferability, confirmability, dependability, and authenticity.
2. Theoretical Method

In this section the reader will be introduced to the theoretical methods that are used in the study. First, our preconceptions will be covered to show how this might affect the study. Following that, the research methods that we use will be presented to the reader, along with our scientific approach, research strategy, and perspective. In addition to that, we will explain how we chose the relevant theories for our study.

2.1 Preconceptions

The knowledge the authors have prior to the study about the subject is called preconceptions and is influenced by their prejudice, values, beliefs and background. Hence, preconceptions could influence any stage of business research process (Bryman & Bell, 2007). Even though we come from different cities, both have been brought up in a similar environment and therefore might share some beliefs, values etc, which in turn might lead to similar viewpoints and increase the subjectivity. Our preconceptions have influenced our research mostly in terms of our choices of topic and theories, and the methods for collecting primary and secondary data. In order to help the reader to better understand the implications of the preconceptions and how they will influence the research, we have decided to divide them into a theoretical and practical part.

2.1.1 Theoretical

In this day in age with the global economic crisis the subject of personal finance and investment strategy is very interesting. The fact that financial markets has become highly volatile and lost the trust of the ordinary investors makes the area of financial advisory important. Since many people are unwilling to invest in common stock personal advisors can give guidance to other instruments or help them regain the trust for stocks. We both have experience from financial advisory and also from personal investment decisions. Further, we also have a good understanding on the financial institutions and markets which will helpful with analyzing the findings.

2.1.2 Practical

We have both studied the International Business Program at Umeå University for three and half years and have gained a substantial theoretical knowledge. During these years we have studied courses in statistics, economics, law, business English, management, accounting and finance, and those courses has given a broad theoretical knowledge base. The last semester
both of us have gained a deeper knowledge in finance due to specialisation in that subject. This deeper understanding has given us an interest in the subject of personal finance advisory and investment strategy.

2.2 Research Method

2.2.1 Ontology

Ontology concerns the assumptions that researchers have when it comes to how the world behaves and to which extent the researchers hold on to their particular view (Saunders, Lewis & Thornhill, 2003). Further, Bryman and Bell (2007:22) states that ontological considerations is “the question if social entities can and should be considered objective entities that have a reality external to social actors, or whether they can and should be considered social constructions built up from the perceptions and actions of social actors.” Hence, the statement from Bryman and Bell above shows two views, objectivism, which says that social entities exists in reality and is not affected by social actors and subjectivism, which claims that social actors create the reality with its actions and perceptions. (Saunders, Lewis & Thornhill, 2003)

A constructionist (or subjectivist) view is adopted since it gives the researcher the possibility to explore the subjective meanings which motivates actors to make certain actions. (Saunders, Lewis & Thornhill, 2003) This view argues that reality is constructed by social actors and that every individual is probably going to interpret situations differently due to differences in their preconceptions.

2.2.2 Epistemology

Epistemology is concerning what should be accepted knowledge in a field of study. An important argument is if whether or not the social world can and should be researched using the same methods as for the natural sciences. (Bryman & Bell, 2007) There are two commonly used views for developing a knowledge base, which are Positivism and Interpretivism. Positivism is linked to the philosophies of natural science and Interpretivism is linked to social science philosophy (Saunders, Lewis & Thornhill, 2003).

2.2.2.1 Positivism

The epistemological view of Positivism advocates the methods of the natural sciences in order to study social reality. According to Remenyi (1998:32) a positivistic researcher prefer “working with an observable social reality and that the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists”.
According to Bryman and Bell (2007) it is difficult to identify an accurate outline of the principle of positivism since, authors tend to use and describe it in various ways. Bryman and Bell (2007) further state that positivism is a descriptive category which describes a philosophical stance that can be distinguished in research, while others claim it to be a negative expression to describe rough and sometimes superficial collection of data. Further, Bryman and Bell (2007:16) also put forward in five principles that positivism describes:

1.”Only phenomena and hence knowledge confirmed by the senses can genuinely be warranted as knowledge (the principle of phenomenalism).”

2.”The purpose of theory is to generate hypotheses that can be tested and that will thereby allow explanations of laws to be assessed (the principle of deductivism).”

3.”Knowledge is arrived at through the gathering of facts that provide the basis for laws (the principle of inductivism).”

4.”Science must (and presumably can) be conducted in a way that is value free (that is objective).”

5.”There is a clear distinction between scientific statements and normative statements and a belief that the former are the true domain of the scientist.”

2.2.2.2 Interpretivism

Interpretivism, view knowledge based on interpretations and hence, according to Bryman and Bell (2007), the researcher in a way becomes part of the reality he is researching. Therefore, researchers have to take an empathic stance, and a real challenge for the researcher is to enter the social world of the research subjects and trying to understand the world from their point of view (Saunders, Lewis & Thornhill, 2007). Since, Interpretivism allows us see preconceptions as a positive contribution to the study and the fact that we will conduct a qualitative study which allows us to interpret and analyse the respondents’ answers subjectively, we will follow this view.

2.3 Scientific Approach

When performing a scientific report there are several ways to approach the research, however, two common ones are the deductive and inductive approaches. The deductive approach is according to Bryman and Bell (2007) the most commonly used. Deduction essentially means that you are testing the theory since you develop a theoretical framework which you test against your findings. (Saunders, Lewis & Thornhill, 2007) The process of deduction starts with creation of the theory, then the hypothesis, collection of data, analysis
of the findings, then reject or confirm the hypotheses, and finally, a revision of the theory. (Bryman & Bell, 2007)

The inductive approach according to Saunders, Lewis and Thornhill (2003) is the opposite of deduction, since theory is created or searched, after the data is collected. When performing an inductive study the goal is to get a deeper understanding of the subject, and then formulate theory based on the knowledge and results of the research. (Saunders, Lewis & Thornhill, 2003) Hence, the inductive approach is in essence a way to build theory since, first the research is conducted and later theory is created from those findings. (Saunders, Lewis & Thornhill, 2003) Therefore, an inductive approach is useful when there is a lack of literature and theory around the researched subject.

We have discussed back and forth in order to decide which approach suits our research. We have argued for an inductive approach since we do not have any real hypothesis to test. However, we will use our research questions as a sort of hypothesis which we will try to test and answer (instead of simply rejecting or accepting), with the help of our empirical findings. We have also discussed the fact that we need to use existing theory to build our research on. Therefore, we have decided to follow an abductive approach which gives us an opportunity to begin by choosing relevant theories in order to construct interview guides, frameworks for our “fictive profiles” and broad theories to guide the whole study. Further, it also gives us the opportunity to add theories into the theoretical frameworks as we progress with our study. The abductive approach should not be viewed just as combination of induction and deduction. In a way it is a mix between the two other approaches, however it is closer connected to deduction since also an abductive approach in a sense involves a kind of empirical testing of hypothesis. (Johansson Lindfors, 1993)

2.4 Research Strategy

The research strategy can be explained as the general direction on how to perform a study. Quantitative and qualitative research can according to Bryman and Bell (2007) be differentiated by three areas. They are; 1., the research relation towards theory, 2., Epistemological view and, 3., Ontological view. Further, Bryman and Bell (2007) puts forward that a quantitative research often has a deductive approach, often has positivistic epistemological view and objectivistic ontological orientation. Since we will perform an abductive study, have an interpretivistic epistemological orientation, and a constructionistic ontological view, we will perform a qualitative research using semi-structured interviews.
2.5 Perspective

In our study we are taking the perspective of the financial advisors considering that we want to investigate how they view the financial advising process and how they recommend that people save and invest money today.

2.6 Literature Review

2.6.1 Overview

The literature review is an important part in a study, since it informs the reader on how the authors have collected the data and helps the authors to analyse the data in an informed way. (Bryman & Bell, 2007) The author further states that the process of reviewing literature involves making judgements on what to include and what to exclude, reading and understanding what others have written in the subject and writing in a way that makes sure the contents demonstrates your understanding in the subject. Moreover, the purpose of the literature review is to identify a set of issues which are: (Bryman & Bell, 2007:95)

- What is already known within the area?
- What theories and concepts are relevant within the subject?
- Which kinds of research methods and strategies have been adopted when studying the subject?
- Are there any controversies which are significant?
- Are the earlier studies’ findings inconsistent within the subject?
- Are there any unanswered research questions within the subject?

For most research projects the literature review starts early in the study, however, even though the process starts early, it is often necessary to continue to search and review literature throughout the project life. This process can be seen as an upward spiral since, in the beginning of the literature review it is likely that the researcher define initial research questions and purposes, and after the initial literature search it is common that a list of references is found which are then reviewed. And as this process continues more relevant sources has been found and the initial research questions and objectives can be refined. (Saunders, Lewis & Thornhill, 2007)
Saunders, Lewis and Thornhill (2007) show this phenomenon with a figure (see figure) which clearly show the critical review process.

We have performed our literature review having the literature review process in mind. In the beginning of our research we set our questions and objectives which led us into the parameter decisions. We focused on Sweden, and tried to use as recent sources as possible. We looked for peer reviewed journals, and the initial keywords used were words such as risk, risk profiling, financial advising, advisory process, saving, investment. With this in mind, we started to look for literature, which we then evaluated; we used some, and disregarded some. Using this information helped us refine our keywords and parameters, and hence, it led us further into the literature search. Hence, we moved upwards in the spiral and kept refining our methods, keywords and searches, to try to improve the quality of our literature used.

2.6.2 Information Search

It is important for researchers to critically review the choice of theory and information. The theory and information search should be based upon the study’s starting points and the theories chosen should be in the field of study which suit the research. (Johansson Lindfors, 1993) Our starting point with the thesis was; how do private investors build their financial advices and how would they advise our created profiles? From that point we discussed which areas we had already relevant knowledge about and also thought about topics which would be important to research. With this approach in mind we started our literature search.

There are several different categories of literature. We have used books, journals, articles, working papers, and internet sources. We chose to use scientific research search engines, mostly; Business Source Premier (EBSCO), Emerald Full Text and Web of Science. We used keywords such as: risk, risk profile, financial advisory, risk attitude, etc in order to narrow our search into relevant topics. Further, the internet database diva-portal.org was used in order to find relevant research in our field of study. These researches were used in order to find relevant further reading by reviewing the reference lists of these studies. Bryman (2007) state that using relevant working papers’ reference lists are a good way of finding new information. The books we have used have been searched using Umeå University library’s search tool ALBUM, and most of them found and used are also course literature, hence their validity can be assured. The journals used were mostly financial, such as Financial planning journal and those were accessed through the library’s proxy. All journal articles used were peer reviewed and hence, we imply that their trustworthiness is good. Some articles were found using the Google scholar search engine using keywords like, financial crisis, unemployment etc. In order to get credible sources we tracked down the initial source and critical reviewed what said, and looked for evidence from other authors in order to confirm
the information. Finally, we used Finansinspektionen in order to find information on how the new laws, SFS (2003:862), financial advisory to consumers and SFS (2007:528), Securities market affect financial institutions.

Far from all of the information we have read has been used in the paper. We concur with Bryman and Bell (2007) that when a study is performed it is crucial to read an extensive amount of literature even though all information will not be used in the report. We believe that this is important in order for the authors to be credible. Since our research is built upon a qualitative method using semi-structured interviews we believe that it is crucial to read different methodology literature to get an overview of the topic. This is important since many authors have different ideas on how to approach methodology in business research and we wanted to get an overview in the area in order to know how to best construct our research.

2.7 Access

When conducting our literature review we had minor problems accessing the original source. However, in most cases we succeeded to find the original source and in the cases we could not find the original source we decided to analyze the information more critically or in some cases left the information out. The reason for searching for the original source was to avoid problems with citation error and erroneous information. There were several cases when the literature we wanted to review was not accessible. For example, UB’s album gave us significant problems since the books we sought after were already loaned out.

2.8 Selection of Theories

The theoretical framework of our study is built around risk, risk profiling, advisory process, laws and financial theories which concerns saving and investment. The reason why these topics were chosen is because, while performing our literature review these topics and theories came up on several occasions and hence, it became clear they were significant. Further, we imply that the chosen theories in our framework are including most of the factors of financial advising that is important for this study. When deciding on which secondary sources to use, we thought that it was important to use findings from several different studies. We imply that this is important in order not to be too narrow in scope and understand different viewpoints in order not to be guided solely on one author’s ideas.

We began by explaining different commonly used securities which we believed would be important for this study. We imply that it is important for the reader to have a basic understanding on the topics in order to better grasp our research. On the topic of risk and risk profiling many sources we found referenced David Cordell, who works as a professor at The American College in Pennsylvania, USA. We used his research on risk profiling since many other authors (Roszkowski & Grable 2005, Grable 2008) confirmed his research as
credible and that we thought it was suitable for our research. We also included basic information about risk in order to bring forward basic information about the topic. On the topic of Advisory process we decided to use Swedish sources in order to have as relevant facts as possible. This is because laws and regulation differ across borders and our study is only about the Swedish financial advisors. Both Oxenstierna (2007) and Svensson (2007) brought up the implication on the new laws in their books and also their information is confirmed by each other since they more or less state the same. When the investment theories were researched we tried to find the original research made by the inventors. However, in some cases the original work is now so refined that it is not really applicable anymore and we used sources that explained the up to date model instead. Important sources for these models are especially Malkiel (2007) which were often referenced by the studies we found, Swisher (2005) which has made important improvements to the Markowitz’s Modern portfolio theory and Ritter (2003) who has researched the area of Behavioral Finance.

We believe that all of these sources are suitable and their research has given our research the information we believe to be important. Many of these sources are often referenced in publications in the area which even further strengthens their validity. There are a lot of studies done in the area of risk and investment theory and probably a lot more authors are important, however, these were chosen since they seem valid and gave the right information for our study.

2.9 Criticism of Sources

There are three conditions which are the main purposes for performing a source critique. They are: firstly to establish if the source measure what it is suppose to measure, or in other words if it is valid, second, if it is relevant by checking if it is significant for the study, and third, making sure it does not have systematic failures in the variables, or in other words if it is reliable. (Eriksson & Wiederheim, 2006) To critically review all sources used during the buildup of the thesis is very important. We believe, in accordance with Eriksson and Wiederheim (2006), that source critique of all information used in the theoretical framework will increase the study’s reliability. Further, Eriksson and Wiederheim (2006) put forward that there are four criteria which should be utilized in order to judge the literature:

1. **Demand for present information** which means that a writer has to write something down which is still current information. Information gathered some years ago do not fulfill this criterion.

2. **Tendency critique** which means that the reader should try to answer questions like, what motives the writer has in publishing the information?
3. Dependency critique means that the reader should research if the sources are dependent upon each other. Have both sources gotten their information from the same source.

4. Authenticness means that the reader should make sure that the source is whom he/she claim to be.

We have had these criteria in mind throughout the process when critically reviewing and gathering of information. In first hand we have used primary sources, since then it is clear that the information is not depending on someone else and authentic, however, in some cases we have used secondary sources after more research confirmed this information. Further, the theories chosen have all been taken from relatively known researchers in the area which we believe improves the quality of the information. Further, we imply that another positive factor using known researchers is that it is easy for the reader to make their own literature review, hence even further increase validation and authentication of the information. All journal articles we have used are peer reviewed. We believe that peer review is crucial for the quality of the data and much easier to critically review since other peers have approved the information which also an indication that the data is valid and authentic. To a great extent we have used only current sources or sources that are still regarded as relevant in order to fulfill the first criteria. Further, all sources have been screened for which motives the author has for writing the study. We had some problems finding strong and generally excepted theories concerning risk profiling. However, with extensive review of the information, using the criteria, we believe that the studies made in latest years fulfill these criteria (see Cordell 2001-2002), and further, these studies are also getting more accepted by the peers in that area. Hence, we strongly imply that the information we have in our report is trustworthy and valid.
3. Practical Method

In this section the reader will be introduced to the practical methods chosen for this study. First, we will explain why interviews were chosen as the data collection method, followed by a description of the profiles used for the study. Furthermore, the reason for the sample selection will be explained along with a thorough description of the interviews, both in terms of prior, during and after the interviews. Finally, the primary data collected for this study will be evaluated and criticized.

3.1 Qualitative Research Method

Contemplating on whether to use quantitative or qualitative data, we concluded that in order to collect relevant information as well as to understand the reasoning behind the financial advices, a qualitative study using interviews had to be done. A qualitative method, contrary to a quantitative, would allow us to gather this in-depth information and create an understanding on the subject needed to fulfill our purposes of creating guidelines for personal saving and investing, understanding the financial advising process and assessing the impacts of the financial crisis and the new laws. Furthermore, by using interviews as our method of collecting data we aim to establish personal contact in order to build trust between us and the interviewees, which increases our chances of reliable and valuable information (Saunders, Lewis & Thornhill, 2003). Moreover, in comparison to a questionnaire, where potential research participants may have been reluctant to provide sensitive information to people they have never met, or may not completely trust the way the information will be used (Saunders, Lewis & Thornhill, 2003), interviews allow us to connect more with the research participants. In addition to that, interviews also provide the interviewer with more control over who answers the questions, whereas a questionnaire might be passed on from one person to another (Saunders, Lewis & Thornhill, 2003). However, one potential setback could be the matter of subjectivity in a qualitative method, which could both be positive and negative in a study. We chose to conduct semi-structured interviews since it allows us to probe answers where we want the interviewees to further elaborate on their responses (Saunders, Lewis & Thornhill, 2003). This opens up possibilities to add significance and depth to the data collected, as well as leading the discussion into areas interesting for the study, but which had not been considered earlier (Saunders, Lewis & Thornhill, 2003).

3.2 Profiles

In order to find answers to our problem question we decided to create three fictional characters, all with different backgrounds and prerequisites, to use in our interviews. These
characters allowed us to gather information about saving and investment alternatives for different life situations. We named them “Student”, “Worker”, and “Retired”.

3.2.1 Creation of Profiles

These three characters were made up with help of statistics and earlier research in order to make them representative for a large number of people. Our aim was to make them as common as possible so that many people could take advantage and use different advices depending on their own situation.

See Appendix C2 for explanation on profiles.

3.2.2 Profile Critique

When creating these three different profiles we knew that keeping our research problem in mind would be extremely important in order for us to make them suitable. Since one of our purposes was to create guidelines and recommendations for people on how to save and invest their money, our aim was to create profiles that a large number of people could find similarities to. However, to make these recommendations based on fictional profiles means there is a chance they do not actually fit as many “real-life” people as we hoped for. In addition to that, financial advising is quite a complex process which could mean our profiles lack sufficient depth in order to make recommendations that fit to a 100%.

All of the advisors we interviewed were asked to comment on our fictional profiles in order for us to assess how well they fit the real world.

3.2.2.1 Student

Most comments that were made on the student profile concerned the probability that an “average” student can save 500kr per month. However, since the one of the purposes of our study was to create guidelines and recommendations for people on how to save and invest money, we are interested in the “average” student who CAN save, not just the “average” student. Creating guidelines for savings and investment for a student who cannot save anything would not be very logical. In that case, it would be smarter to create guidelines on how to live to keep your expenses low and provide room for savings. Furthermore, most advisors found the student’s attitude to risk and time horizon to be quite realistic. However, one of the advisors mentioned that it would be even easier to give recommendations with even more specific details about the student, such as what exact car in what price-class a student is looking for, or the exact price of another future purchase that the student wants
to make. We decided to not make the profiles too detailed to increase the chances of making the profiles fit a larger population to an acceptable degree.

3.2.2.2 Worker

As with the student, the comments that were made on the Worker profile concerned the probability of being able to save 2,500kr per month. Two of the advisors mentioned 2,500kr as a rather large amount to save each month considering they have two children, but not unlikely in any way. We decided to stick with 2,500kr per month since we are interested of providing help to those with an interest in saving and investing money. Furthermore, the advisors found the attitude to risk and time horizon to be matching with reality.

3.2.2.3 Retired

All of the advisors agreed on that this was in no way a strange case for a retired person looking for financial advices, but that this was close to the upper limit they often meet. Also, all of the advisors found the attitude to risk and time horizon to be realistic.

3.3 Interviews

3.3.1 Selection of Interview Subjects

One of the purposes with our study was to find out how financial advisors recommend we save and invest our money today. Therefore we chose to use purposive sampling, which enables us to select cases that will best help us answer our research question and meet our objectives (Saunders, Lewis & Thornhill, 2003). This form of sample is often used when working with small samples and when the researcher wishes to select cases that are particularly informative (Saunders, Lewis & Thornhill, 2003). We scanned the local area for financial institutions and found five major banks that would fit our study well. We chose contact two financial advisors on each of these banks in order to make the sample more conclusive. All of the banks we contacted had offices in Umeå, providing us with the opportunity to do face-to-face interviews, further increasing the trust and openness, hence the giving us more reliable information (Saunders, Lewis & Thornhill, 2003). Since all of the interview subjects come from the same line of business, it gives more room to draw reliable and consistent conclusions. Six advisors from three different banks accepted our interview proposal, which we, together with our tutor, deemed to be a large enough sample.
3.3.2 Interview Guide

We chose to conduct semi-structured interviews, which contains a list of themes and questions to be asked, but that may vary from interview to interview (Saunders, Lewis & Thornhill, 2003). We felt that it was important to make sure we covered the same themes with all of the interview subjects, but at the same time leave room for follow-up questions in order to further explore our research question and objectives (Saunders, Lewis & Thornhill, 2003). Using a semi-structured interview method allows the interviewer to ask questions that were not intended to be asked, but that relates to something the respondent previously said (Bryman & Bell, 2007). Conducting a semi-structured interview also made it possible for us to engage in discussions with the interview subjects, further improving and helping us add rich and detailed data to our report (Saunders, Lewis & Thornhill, 2003).

The interview guide was constructed by exploring theories on our subject, as well as looking at the way we formulated our research question, and then writing up questions. We made sure both our theory and research question were fully represented in our interview guide, before proceeding to categorize them into themes, according to our theory. Categorizing the interview guide and therefore adding some structure to the interview situation makes it easier to structure the analysis in the next step (Kvale 1999).

First, questions were asked about the advisors background, in order for us to draw any conclusions regarding which affect this might have on their answers. Then questions were formulated to cover the financial advising process, and how this had been affected by both the financial crisis and the new laws regarding financial advising. We continued on to ask questions about how they looked at risk, and how risk profiles were created in the financial advising process. Our last, and main theme, concerned the financial advisors view on saving, and how they recommend people save and invest today.

3.3.3 Interview Process

We first contacted each of the banks’ main office in Umeå, asking if they would let us interview two of their financial advisors. Three of the banks accepted our proposal and sent us contact information to their financial advisors. We then contacted all six of the advisors by e-mail, explaining our research area and purpose, and asked if they were willing to be interviewed. Kvale (1999) states that it is important to give the interview subject a chance to get oriented with the upcoming interview by providing them with some background information, such as the purpose of the study, and usage of a dictaphone etc., which we did. As all of them accepted our proposal, we asked if face-to-face interviews were possible, and as they all gladly accepted we asked them to specify a time and date for the interview to take place. All of the interviews were conducted in the personal offices of the advisors, except one, which was carried out in a conference room. We sent an interview guide to all of the interview subjects a few days in advance, in order for them to be able to prepare
themselves, creating possibilities for more thorough and thought-through answers. To maximize the quality of our data collection, we used a dictaphone to record all of the interviews. This made it easier for us to analyze and draw conclusions from the interviews. We made sure that all of the interview subjects agreed to this and informed them that they would be anonymous in our report. All of the interviewees were offered transcripts of the recordings, but none of them requested this. However, all of the interview subjects were interested of looking at the data that would be presented in the empirical chapter, before making it public. Both of us participated in all of the interviews, asking questions and follow-up question, even though one of us always had the main role as interviewer. Although an interview guide was used, sometimes questions were left out as the interviewee already answered them in previous questions.

Figure 2 - Interview Chart

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Interviewee</th>
<th>Place</th>
<th>Interview Type</th>
<th>Time</th>
<th>Info. Gathering</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank A, Advisor 1</td>
<td>Conference Room</td>
<td>Face-to-face</td>
<td>44 min</td>
<td>Recorded &amp; Notes</td>
</tr>
<tr>
<td>2</td>
<td>Bank A, Advisor 2</td>
<td>Personal Office</td>
<td>Face-to-face</td>
<td>35 min</td>
<td>Recorded &amp; Notes</td>
</tr>
<tr>
<td>3</td>
<td>Bank B, Advisor 3</td>
<td>Personal Office</td>
<td>Face-to-face</td>
<td>33 min</td>
<td>Recorded &amp; Notes</td>
</tr>
<tr>
<td>4</td>
<td>Bank B, Advisor 4</td>
<td>Personal Office</td>
<td>Face-to-face</td>
<td>30 min</td>
<td>Recorded &amp; Notes</td>
</tr>
<tr>
<td>5</td>
<td>Bank C, Advisor 5</td>
<td>Personal Office</td>
<td>Face-to-face</td>
<td>30 min</td>
<td>Recorded &amp; Notes</td>
</tr>
<tr>
<td>6</td>
<td>Bank C, Advisor 6</td>
<td>Personal Office</td>
<td>Face-to-face</td>
<td>29 min</td>
<td>Recorded &amp; Notes</td>
</tr>
</tbody>
</table>

3.4 Primary Data

The use of interviews can help the researcher to find valid and reliable data relevant to the study’s research question and objectives (Saunders, Lewis & Thornhill, 2003). The primary data in our study was collected through face-to-face semi-structured interviews with six financial advisors. All of the interviews were recorded and the results were transcribed into a
written document. We then took the most important and relevant information for our research question from the transcription, and translated it into English to be used as our empirical results.

3.4.1 Criticism of Primary Data

When collecting primary data by interviewing people, there is always room for human errors to be done, such as misunderstandings and misinterpretations. By doing face-to-face interviews, the possibility to ask what was meant in a certain answer or to explain a question that was not understood might both help minimize this problem, but may also lead to altering questions so that irrelevant information is received. We tried to minimize this by recording the interviews, as well as taking notes of what was happening during the interviews. Furthermore, conducting face-to-face interviews using a audio recorder as we did could potentially affect the respondent answers in a few different ways; there is for example a risk of leaving the interview guide in an attempt to explain a question which could result in wrongful or irrelevant information, or the interview subject might become extra cautious with what is being said and reluctant to give out information that could be seen as sensitive. However, we did not get the impression that this was the case, and it felt like all of the interview subjects talked freely in answering our questions. In accordance with Kvale’s (1999) quality criteria for interviews, we felt that all of the respondents gave us spontaneous, rich, specific and relevant answers, and that they often elaborated or further explained issues that they felt extra relevant.

As all of the respondents are Swedish, we found it most suitable to conduct the interviews in Swedish to ensure the respondents were not limited by language difficulties. Bryman and Bell (2007) explains that there is way to make sure valuable information is not lost when conducting interviews in a language different to the language used in the thesis. To do this, it is advised to first transcribe the interviews into the same language used during the interviews, and then translating the transcription into the language to be used in the thesis. In choosing what data to use from the transcription our subjectivity might have an effect on the outcome, but this had to be done to ensure the primary data used was relevant to our study. Talking in financial terms and about financial instruments means using complex terms sometimes which could affect our understanding of the data collected; however, since we both are business students with an interest in the field of finance we hoped to keep these misunderstandings to a minimum. Furthermore, we sent the empirical findings that were to be used in the thesis to all of the respondents, to make sure everything was in order.
3.5 Reliability and Validity

Reliability and validity are two quality measures for research that enables the reader to judge the credibility of the results (Bryman & Bell, 2007). Reliability touches upon the trustworthiness of the actual findings of the research, and if the results are coherent. That is, if someone else would conduct the same study with the same results, the study can be considered reliable. The lower the amount of random variations in the measurements is, the higher the reliability of the results is. (Bryman & Bell, 2007) Validity, on the other hand, is concerned with how well a measurement of a certain concept actually measures that concept; does the result actually describe what it was intended to. (Bryman & Bell, 2007)

In our study, the reliability and validity of our findings mainly comes down to our interviews. All of our interviews were made with different individuals, who all have their own view on how things are. We recognize that this might hurt the reliability of our study, but hoped to compensate this by providing a large enough sample. Furthermore, we hope to achieve high validity in our measures by looking at theories and taking advantage of earlier research when creating the interview guides and conducting the interviews.
4. Theory

In this section the reader will be introduced to theories that relate to our study. Initially, brief descriptions of common financial instruments will be presented to provide the reader with an overview of the investment alternatives that the financial advisors talk about, along with a short summary of the current legislation in the area of financial advising. Furthermore, the financial advising process will be described together with some of its components, such as risk and risk profiling. Finally, theories concerning the life-cycle of savings and consumption, modern portfolio theory and behavioral finance will be presented.

4.1 Financial Instruments

Financial instruments entail various types of securities such as common stocks, bonds, and other instruments that are bought and sold on the various markets. Financial instruments are traded both on Over-the-counter markets such as the Nasdaq and on stock exchanges such as the New York stock exchange. Investing your money in the capital markets are connected with risk. Depending on which instrument you decide to invest in, different risk will follow. In general, the higher the potential risk the investor wants a higher expected return. (Beckman, 2008) We believe that it is important for the reader to have a basic knowledge of various commonly used financial instruments since the investment in these products are what the advisory process eventually leads to. Therefore, we will briefly present a few common and important financial instruments for private investors.

4.1.1 Common Stock

If you buy common stocks you are an actual owner of that company. You are paid dividends depending on the performance of company and there is no maturity on the investment. As a stockholder you have the opportunity to influence how the organisation is run since you have voting power with the ownership of the stock. (Oxenstierna, 2007) However, stocks are more risky than interest bearing instruments since stockowners claims to the assets comes last in case of a bankruptcy. (Gavelin, 2007)

4.1.2 Interest-bearing Instruments

The interest bearing instruments can be divided into two categories. Money market instruments which have a short maturity time, within one year and bond market instrument which has maturity dates which exceeds one year. (Bain & Howells 2008) In essence they work as an ordinary loan. Hence, it is loan capital which is transferred from the buyer of the
instrument to the emitter on the primary market. These loans are paying fixed interest which is known to both parties beforehand. (Gavelin, 2007) In general interest bearing instruments are deemed a safe investment.

4.1.3 Derivatives

Derivatives are a fairly new financial instrument. It has been established and grown in financial markets only in the past quarter of the century. A derivative instrument bases its value on the performance of separately traded securities, an underlying value. The initial purpose of derivatives was to allow traders to hedge risks that they faced in cash markets. However, now many players use derivatives in a speculative way and therefore increase risk instead of lowering it. (Bain & Howells, 2008)

4.1.4 Funds

Funds are basically a portfolio of different securities. Several investors’ money is pooled together into a fund which is run by professional investors and analysts. The goal of these funds is to generate as much return possible depending on how much risk it is allowing, which in turn depends on what kind of fund it is. Investing in funds solves the two biggest challenges most investors’ face, which are to diversify the portfolio and having a professional financial management. (Oxenstierna, 2007)

4.1.5 Structured Products

They are a form of a derivative product which has been developed during the last couple of years and are sold to ordinary investors as well as the usual money market actors (Nyberg, 2006). It can be described as a mix of two financial instruments, a derivative and an interest bond where the interest payments from the bond are used to finance the derivative. (Beckman, 2008) The most commonly used structured products are stock-index bonds. The idea behind structured products is to guarantee the investors deposits back as well as offer an opportunity to get a return on the underlying products potential value increase. (Nyberg, 2006)

4.1.6 Capital Insurance

Capital insurance is an investment with a long time horizon which has the opportunity to insure the outcome, which means that you can decide who will be a beneficiary in case of death. The premium paid into the insurance are already taxed, hence there is no tax
deduction involved like there are with pension insurances. (Oxenstierna, 2007) However, the gain from the outcome of the insurance is tax free (Beckman, 2009). There are two kinds of capital insurances, one which has a maturity of 10 years which gives a pre set interest income and the other is based on securities and has a shorter maturity limit of five years. There is no realization tax on the gains from securities within the insurance, instead there is a template yearly tax which is relatively low, however, the fees of this investment are often high. (Oxenstierna, 2007)

4.2 Current Laws

There are two relatively new laws which affect personal financial advisors in the Swedish market. Law (2007:528) regarding the securities market and law (2003:862) regarding financial advisory to consumers. These two laws have been passed in order to increase the consumer protection of financial services. Some financial instruments are difficult to assess and complex in nature, hence hard to understand what they really are. Further, there are an increasing number of institutions which supply these products and therefore it is important for the consumer to gain knowledge and information in order to feel safe in their financial decisions. (Finansinspektionen 2007:9)

The law on financial advisory to consumers (2003:862) contains all businesses which gives individual advice to consumers how to invest its savings in various financial instruments. In short the law states that financial advisors must have adequate competence, document what has been said during the advisory meeting and deliver that document to the consumer. Moreover, the business owner should make sure that the advisor which performs the advising uses good advisory ethics, and takes the consumers interest in first hand. They should also adjust the advice after the wishes and needs of the individual consumer and also not recommend other options than those seem fit for the consumer. Further, they should also advice the consumer against taking any action which not seems fit with regards to the consumer’s needs, economic condition and other circumstances. If the financial advisor do not follow these rules he/she can be legally responsible for compensation.

This law is narrow in scope and contains only of basic ground rules which are set to work as a guide for advisors. Complementary provisions on how these rules should be followed are given by Finansinspektionen (FI) in their code of statutes (FFFF 2007:16) and (FFFS 2004:4). The statutes scope on personal financial advisory is targeting competence and documentation which it describes in great detail.

The relatively new law on securities (2007:528) which came into effect in November 2007 has its foundations in the euro directive (MiFID). (FI 2007:9) It contains rules concerning the financial markets as well as rules for the financial institutions (Beckman, 2008). Since we are not interested in the market itself we will focus on the implications of the law on the institutions. Beckman (2008) puts forward that this law further increase the obligations of
the financial institutions and protects the consumer’s interests to an even higher degree since it contains rules about side-operations, acquisitions and most important, codes of conduct. Hence, the law becomes a central part in how financial institutions run their operations. The law and FI (FFFS 2007:16) explain the demands which are set upon advisory. Svensson (2007) divides these demands into two parts: general and specific;

The general demands consist of:

- Generally accepted advising practices
- Taking the consumers interests first
- Adjust advice to the individual consumer
- Advice the consumer against harmful products

The specific demands consist of:

- Demand for documentation
- Demand of competence

Further, (FFFS 2007:16) states that institutions shall safeguard its client’s interests when they supply investment or side services and also act honest, just and professional. A financial institute should always act in a way that insures the public confidence in financial institutes and markets. Moreover, they must also have a satisfactory risk management to ensure that the business do not jeopardize its possibility to fulfil its obligations towards its clients. Another implication of the new law is that advisors have to divide its clients into two groups; professional investors and non-professional investors, heavier information and documentation burden upon advisors. (FFFS 2007:16) One of the main purposes of the new law is to increase consumer protection as mentioned above by tailoring the offered services to each individual and limit the risks especially to non-professional investors.

To sum up, the implications to the advisor on these laws are that they now have to have knowledge about the products and the laws about advising, tailor the advices for each individual with risk and goals in mind and take the interest of the consumer first, categorize the client, advice against bad choices the consumer wants to take, finally, document the meeting and the eventual advices to the consumer.

4.3 Financial Advisory Process

In this part we are going to provide the reader with an overview of how the advisory process to private investors looks like. We believe that it is important for the reader to have a basic understanding of the process in order to have a fundamental understanding of the topic when we come back later to it in the thesis in more detail.
First off, we need to distinguish what financial advisory is. There are some criteria that needs to be fulfilled in order for the business to be seen as an advisory. Svensson (2007) claims that one who works with advisory normally gives advice on the procedure of purchase or sale of financial instruments. He/she should have a special competence in the field and be able to use this competence in order to guide a consumer on how to act in a certain case. Further, the advices should be individually built upon the clients factors and formed by the needs and goals of the client. According to SFS law (2003:862, 1§) financial advisory is:

“financial advisory which a business owner provides a consumer and which comprise investment of the consumers assets in financial instruments or in life-insurance whose capital wholly or partly is invested in financial instrument which the consumer decides.” (Own translation)

There are several ways to categorize the advisory process. Oxenstierna (2007) put forward five steps in this process. The first step is where the client shows its interest in the service and the advisor creates a client relation through communication. The advisor needs to clarify the expectations the client has from the advisory, collect basic information such as the client’s current employment, contact information, housing situation etc. Further, the advisor judges the client’s knowledge about investments and overall economic factors (Svensson, 2007). Then if the client wishes to continue with the advisory session the advisor moves to the next phase of the process; step two. In this step the advisor needs to get a clear understanding about the client’s need of financial instruments (Oxenstierna, 2007). He/she does this by; first, determining the need of and expectations upon the eventual returns, second, produce a fair overview of the client’s economical situation, third, verify the client’s current risk exposure and finally produce the risk-profile of the client (Svensson, 2007). After the advisor has collected and documented the background and economical information about the client the third step commences which is to find investment solutions which suit this individual investor (Oxenstierna, 2007). The advisor puts up an investment plan consisting of instruments based upon the client’s economical factors, return expectations, time-horizon and risk-profile. When the advisor has put together a suitable portfolio for the client the fourth step starts. The advisor now becomes a salesman and tries to sell the advised portfolio to the client. Finally, the fifth step which concern the follow-up of the client relation. The client relation should be maintained every now and then. And at the same time the portfolio should also be looked over to make sure the clients interests are taken care of. (Oxenstierna, 2007)

4.4 Risk

The topic of risk is very important, however it is very hard to give an overall explanation to what risk is. However, since this study is about financial advisory and how they build up their advice to clients we will explain financial risk. Howell and Bain (2007) put forward that risk in
a financial context refer to the probability that the outcome of an investment may differ to what was expected. Harrison (2007) claims that financial risk is the standard deviation of the arithmetic average return. She also put forward that private investors’ view financial risk in terms of loss of capital or not achieving a personal investment objective (Harrison, 2007). Further, Duran (2001) say that is important for advisors to describe risk in a way so that the client understands the impact, rather than using typically applied financial terms such as beta and standard deviation. Moreover he states that risk should be stated in absolute terms not in order to scare investors but rather to make sure they are not surprised if and when the investment goes down. (Duran, 2001)

4.4.1 Risk Profiles

Financial advisors has to follow FI’s directives for SFS (2003:862) and map up and document the client’s knowledge and position on risk. Further, advisors have to perform a risk profile of every individual client that wants the advisors services. When performing a risk profile it is important that the advisor consider the clients psychology. This is important since there are problems with clients’ short-sightness, risk neglection, over optimistic expected returns, etc, which all could influence the good communication between advisor and client. (Oxenstierna, 2007) Moreover, the advisor must be able to connect factors such as; time horizon, return expectations, risk aversion, goals etc in order to build a suitable portfolio for the client. There are more to risk profiling than just finding out a clients risk tolerance even though that is a huge part of it. The other part is to explain to the client the risk needed to take in order to have the ability to reach the set investment goals. (Oxenstierna, 2007)

In many studies regarding risk profiling the authors mentions the term risk tolerance (McCarthy, 2009) (Kirby, 2005). The studies conducted in the field of risk tolerance according to Grable (1999) are fairly new and there are no or very few generally accepted measures or instruments to determine a client’s risk tolerance. Grable (1999) further put forward that in over 75 years, American researchers has tended to work around five methodologies; choice dilemmas, utility theory, objective measures, heuristic judgements, and subjective assessment. However, according to Grable (1999) research has shown that using choice dilemmas, utility theory, objective measures, heuristic judgements methods are not very appropriate when trying to assess a client’s risk tolerance. Instead it is recommended to measure subjective risk tolerance with multidimensional financial scenarios and situations, however, as mentioned above, there are no or few generally accepted tools.

Roszkowski and Grable (2005) see risk tolerance as the client’s emotional comfort with financial risk, hence, how much an individual is psychologically receptive to situations which include taking on financial risk.

Cordell (2001) suggest a framework that separates risk tolerance into four parts, propensity, attitude, capacity and knowledge. Propensity means that the advisor should analyse the
client’s real life choices, what the client has done earlier, analyse the current portfolio and draw inference from that (Schooley, 2003). *Attitude* is to what extent the client is willing to be exposed to risk and this attitude is measured by asking scientifically designed questions to the client. *Capacity* refers to the client’s actual ability to take on risk, can they actually lose money? (Cordell, 2001) *Knowledge* is referred to the client’s overall knowledge about risk and the risk-return trade-off. A knowledgeable client is more likely to make an informed decision which is in line with accomplishing the client’s investment goals. (Schooley, 2003) The author states that if the advisor uses these four components they can get a better understanding of the client’s risk tolerance. (Cordell, 2001)

Cordell (2002) further build on this framework and refines it. He states that from a advisors point of view they can put aside risk propensity and risk knowledge and analyse risk tolerance in two dimensions; risk attitude and risk capacity. Risk propensity and risk knowledge can be put aside since they both are incorporated into the latter two dimensions. Risk knowledge is incorporated into the two dimensional model since, a client’s risk attitude is heavily weighted by an increased understanding of financial risk. Further, the risk propensity is according to Cordell (2002) a poor surrogate for risk attitude when it comes to evaluating willingness to expose to risk. This model uses an attitude questionnaire and financial analysis to rank a client’s risk attitude and risk capacity. (Cordell 2002)

Cordell (2002) argues that this model can be applied by advisors even though they do not have the tools to measure the risk capacity and attitude. They could use this approach in order to help their clients to get a better understanding on their risk tolerance. Cordell (2002) says that discussing these factors with the clients is a good starting point. Further, by describing some general concepts of capacity and attitude in light with what the advisor already know about the client can lead the client to a self assessment that is similar to the advisors own assessment of the client in regard to the two dimensions. The advisor should point out anomalies in the two dimensions in order to persuade clients to do something they should do, but do not want, and also persuade them not to do things they want which are wrong for them. Cordell (2002) exemplifies this by saying that “if clients understand that their financial situations allow them to take greater risks, they will be more willing to do so.”

We imply that Cordell’s (2001) (2002) description of risk profiling is well-founded, and further, that risk profiling is essentially finding out the clients’ risk tolerance. The method of constructing this risk profile is generally performed in either a quite formal way, by handing out questionnaires, informally by having a conversation with the client or a mix of the two methods. (McCarthy, 2009) What is important for the advisor is to make sure that they ask the right questions in order to get the right information for the risk profiles.
4.5 Life-Cycle Theory

The Life-Cycle Hypothesis, as developed by Franco Modigliani and Richard Brumberg in the early 1950’s, explain that the main motivation for saving is to accumulate resources for later expenditure, mainly in order to support consumption during retirement. (Jappelli, & Modigliani, 2003) Modigliani and Brumberg based this theory on the idea that people themselves make intelligent choices on how to save and spend money, and these choices are in turn based on their resources, making it possible to shape their own consumption patterns to fulfill their needs at different ages, independently of their income at each age. The authors further argues that saving for households should be positive during working years and negative when in retirement, creating a hump-shaped picture of wealth. (Jappelli & Modigliani, 2003)

The concept of the life-cycle theory of investments is to encourage investors to move between conservative and risky investment in order to find the balance which suit the investor at their current stage in the life cycle (Weagley, 1991). Malkiel (2007) argue that the investment strategy is clearly linked to an investor’s life cycle, since; it is common sense that a mid 30 year old and a mid 60 year old will probably use different instruments in order to fulfil their investment goals. The author defend this statement by explaining that the younger investor can use future wages (human capital) in order to cover potential losses from increased risk, while the soon to be retired investor cannot use the future salaries to the same degree. Hence, the retiree cannot lose the same amount of money since the money is needed in the near future and therefore cannot be equally exposed to risk. (Malkiel, 2007) According to Wilson (2009) human capital and financial capital should be balanced when planning an individual investment plan. Hence, factors such as; employment stability, earning potential and the individual’s job should heavily influence the investment strategy. Further, the life cycle theory of investment states that people generally like to smooth out consumption across their lifetime, and especially avoid big downturns is their standard of living. (Wilson, 2009) Therefore, the most important investment decision is balancing the asset categories at different stages of life. (Malkiel, 2007)

Further, Malkiel (2007:342-345) argues that there are three guidelines which should be followed when designing a life cycle investment plan and they are the following:

1. **Specific needs require specific asset**, which means that you will have to buy different instruments depending on what your goal of the investment is.

2. **Recognise risk tolerance**, which means that an investor has to find its own individual risk tolerance. Risk tolerance is an important aspect to a financial plan and only the individual is able to evaluate this tolerance.
3. *Persistent saving in regular amounts will payoff, non regarding how small the amount*, means that even the smallest regular investment can in time yield a large sum of money.

Having these guidelines in mind, even though financial planning is highly individual the lifecycle investment theory can be used to give highly generalised advises on investment. Malkiel (2007) states that in general, people in their twenties are recommended to have an aggressive investment portfolio, due to the long time horizon, and future earning power. The author continues by stating that the investment should be diversified internationally to reduce risk. Moreover, as the investor age, the portfolio should move gradually away from the risky instruments and increase investment in bonds and high dividend stocks. The closer the investor comes to retirement, more weight should be put toward income generation instead of growth. Finally, when retired, the portfolio should be heavily weighted in various bonds. A general rule of thumb is to have the weight of bonds in the portfolio, matching the investor's age. (Malkiel, 2007)

4.6 Modern Portfolio Theory

The Nobel Prize winner Markowitz published Portfolio Selection in 1959. In this publication he proposed that investors expect to be rewarded for taking on more risk and that an infinite number of efficient portfolios exist along a three variable defined curve. (Swisher, 2005) These three variables are standard deviation, correlation coefficient and return. The curve these three variables define gives portfolios with a maximum return for each given level of risk. The algorithm which is used to generate this curve is known as the Mean Variance Optimization or MVO since, what is essentially optimized is the returns against the standard deviation. (Swisher, 2005)

The work Markowitz did has since revolutionised how the capital markets operated, and how knowledge has implicated the design and diversification of investment portfolios. Before Markowitz introduced MVO the idea of diversification was to hold a handful of stock when it seemed like one stock would be sufficient. The important factor Markowitz pointed out was that it was correlation that was important for diversification, not the number of securities. (Curtis, 2004)

Swisher (2005) states that Markowitz’s Modern Portfolio Theory (MPT) was not designed for what it are used for today, which is asset allocation. The author believes that this theory is not efficient for its purpose because, standard deviation is not risk, and because different mathematical frameworks are needed to explain risk more efficient. He continues by claiming that he has found a way to refine the MPT in order to create superior portfolios. What Swisher has done is to replace mean variance optimization’s way of describing risk which is the standard deviation with downside risk (DRO). However, the goal is still to find
the optimal mix of risk-return trade-off. Further, Swisher (2007:75) brings out three arguments to support the thesis that DRO is a better asset allocation tool than MVO.

1. Standard deviation could lead to erroneous results when used as a measure of risk, whereas downside risk more accurately defines humans’ conceptions of risk.

2. Even if volatility were to be the perfect measure of risk, it would still be erroneous since, financial asset returns is not normally distributed.

3. When putting DRO and MVO against each other and comparing portfolios, DRO wins. DRO outputs make intuitively sense while the output of MVO sometimes does not. Further, MVO frequently put out opposite risk conclusions compared with DRO.

PMPT can be seen as the successor of the MPT since it involves the use of Downside risk optimization instead of Mean variance optimization. Further, PMPT begin a discussion on how to incorporate behavioural finance and dynamic allocation into the optimization problematic. (Swisher, 2005) Hence, this model has a better chance of creating portfolios which are better suited for the individual investor.

Modern portfolio theories try to inform investors how to combine securities in their portfolios in order to provide the expected return with the minimum exposure of risk. Further, according to Malkiel (2007), MPT provides strong mathematical justification for the diversification advantage in order to reduce risk for investors. However, it is not just the number of different securities in the portfolio that matter; it is the negative correlation between them that is important. However, anything less than perfect positive correlation will actually reduce risk. (Malkiel, 2007)

4.7 Behavioral Finance

According to Ritter (2003) Behavioural finance is the paradigm where financial markets are researched utilizing less narrow models than the ones used when studied expected utility theory and arbitrage assumptions. He further states that there are two building blocks to behavioural finance theory, which are cognitive psychology and the limitations of arbitrage. Cognition is regarding how people think, and according to Ritter (2003) there is much literature available explaining that people make systematic errors in their cognitive behaviour. An example of this behaviour is that they are overconfident, hence putting too much influence on their recent experience. Further, preferences could create distortions and therefore behavioural finance uses these two bodies of knowledge instead of taking an arrogant approach and disregards these facts. Moreover, the arbitrage block of Behavioural finance is referring to predictions into which circumstances arbitrage forces are effective, and which are not. (Ritter, 2003)
The main pedagogical goal of behavioural finance is to give explanations to various actions which are based on non rational behaviour of investors. Behavioural finance models are based on how investors actually behave according to extensive experimental evidence and not unrealistic assumptions; hence it explains the evidence better than the traditional financial models. (Subrahmanyam, 2007) The fact that investors are not always rational is an important factor in behavioural finance (Malkiel, 2007). Ritter (2007) put forward that cognitive researchers have documented many patterns on cognitive biases regarding how people behave, and the ones the author specifies and explain are the following:

- **Heuristics** or the rules of thumb, makes decision taking easier, however, heuristics will also probably lead to non-optimal investment decisions due to bias.

- **Overconfidence**, which means that investor are overconfident in the abilities in investing. This overconfidence can be shown in a number of ways such as the lack of diversification, and hence, a tendency to invest heavy in familiar industries.

- **Mental accounting**, which is a pattern that concerns the fact that people tend to separate decisions which in fact should be combined. The author give the example that people have a household budget for food and a household budget for entertainment. This means that when they eat at home they will not eat lobster since it is too expensive, however, when eating at a restaurant they will order lobsters instead of a cheaper fish dish. What they should do is to combine the two budgets and eat the lobster at home and eat the cheaper fish dish at the restaurant. In order to save money.

- **Framing**, means that the way a concept is presented is of great importance for individuals. Doctors rather talk about survival probabilities than mortality rates.

- **Representativeness**, means that people are too short sighted, also known as “law of small numbers”. (Ritter 2003:432) The effect of this is that if people are exposed to some odd phenomena regularly, it becomes normal to them after a while.

- **Conservatism**, means that when situations change, people tend to be slow to pick up those changes. This bias can be in conflict with the representativeness bias.

- **Disposition effect**, means that people tend to avoid to realize losses and seek to realize gains. This can be seen by the trading volume differences in bull (growing) and bear (dropping) markets.

People who believe in behavioralism think that market prices are highly imprecise and that it is more of a rule that exception that prices on securities is overreacted. Further, people
systematically deviate from rational behaviour and investors irrational trading tend to be correlated. (Malkiel, 2007) Further, the seven steps previously stated explain why people are irrational and all economic theory admits that occasionally people are irrational. However, in behavioural finance it is believed that irrationality is not only occasionally but continuously. (Malkiel, 2007)
5. Empirical Findings

In this section the reader will be presented with a summary of the interviews conducted for our study. We will present the interviews one at a time, divided by the different themes we investigated. Those themes include the background of the advisor, the financial advising process, impact of the financial crisis, risk and risk profiling, impact of the new laws, saving and investment in general, as well as a saving and investment for the three fictional profiles.

5.1 Bank A, Advisor 1

5.1.1 Background

Advisor 1 at Bank A is 36 years old and works as a private financial advisor. The respondent studied business at University level and has worked at Bank A since finishing school in 1999. The respondent started working in the front office but has now moved up to work in private financing.

5.1.2 Financial Advising Process

The respondent explains that the financial advising process begins with a thorough investigation into the client’s personal and financial situation. First, questions are asked about the client’s personal situation regarding job, family, living conditions etc, in order to assess what kind of saving forms that are appropriate. Furthermore, questions are asked using a pre-made form concerning the client’s incomes, expenditures, assets and liabilities, in order to map out the financial situation, and to determine what saving and investment possibilities are available. This information, together with the client’s ability and attitude to risk, as well as time horizon for potential investments, creates the base for the recommendations that are given. Throughout the whole process, everything is documented.

5.1.3 Impact of Financial Crisis

In general, the financial crisis has not affected neither the financial advising nor the actual process, in which the advising is carried out, but rather the attitudes and risk awareness of the clients. The respondent explains that the most significant difference lies in the changed financial and personal situation of the clients, depending on how the crisis has affected their lives.

On a more personal level, the most noteworthy impact of the crisis does not lie in the respondents’ personal advisory, which remains unchanged, but rather in the changed
financial situation for the clients. The respondent states that “Many clients having loans with floating interest rates have more money left for investments, while others who were hit by the crisis in a negative way, who for example lost their job, has lost their room for investment.” Looking at financial instruments, the respondent has noticed a slight change away from interest-bearing instrument towards the stock markets, due to lower interest rates.

5.1.4 Risk & Risk Profiles

The respondent explains risk to its clients by showing how an investment can fluctuate up and down. To make the client aware of the risks of a potential investment, the respondent shows how it is affected by, for example, a forty percent loss. The respondent asks the clients if he/she can accept a loss like that if it were to happen. It is important to make the client realize that even though the market is booming today, it might crash tomorrow.

In order to create risk profiles, the respondent needs to know certain factors about the client. Therefore, a set of questions are asked about the investment horizon, attitude towards risk and the motive for the investment. The respondent exemplifies the investment horizon and motive for the investment by mentioning a scenario where the client is saving for a vacation trip in one years’ time. This goal-saving with a one year time horizon makes it suitable to invest in, for example, interest-bearing funds or a savings account, due to lower risk. The respondent explains that due to the short time horizon, higher risk instruments, such as stocks and funds, should be left out since the client needs the money in within one year, making a safer investment preferable. Furthermore, the respondent explains the factor of attitude towards risk by mentioning that in order to receive higher returns, higher risks must be taken, making the client aware of the risk-return relationship. If the client is satisfied with a lower return in order to avoid losing too much money, certain products are excluded from the respondents’ recommendations. For those clients who still have an interest of entering the stock market without taking too much risk, the respondent suggests capital-protected products, which guarantees a certain amount back. As explained above, these factors of time horizon, attitude towards risk and motive for investment are used to assess which potential investment opportunities are suitable to the client. The risk profiles are updated at every meeting with the client in order to have an updated portfolio suited for the current situation.

5.1.5 Impact of New Laws Concerning Financial Advising

The respondent explains that the new laws concerning financial advising has not changed the way they work at their bank, other than that everything has to be documented. The respondent explains that “We still work in the same way we did before, except now
everything has to be documented; why the investment was made, whether the investment was made on the client initiative or ours, things like that.” Finally, the document has to be handed out and signed by the client. The respondent makes it clear though, that they still work around the same model for their financial advisory process, and in determining the clients financial and personal situation.

5.1.6 Saving & Investment

The respondent explains that there is no certain investments that they advice all people to invest in or not to invest in. There could be markets that the bank does not believe in, however, since these recommendations are very short-term, the time horizon of the investor could affect if a certain market is recommended or not. The respondent mentions that even though the bank has certain general recommendations for different stock and funds in different markets, it is very much up to the individual factors to decide what is invested in or not.

5.1.6.1 Profile 1 – Student

The respondent recommends that the student saves 400kr every month in a short-term instrument that will work as a buffer. Either an interest-fund or a savings account is recommended, keeping the money as relatively liquid assets in case the student needs them with short notice. The remaining 100kr per month is recommended to be placed in a long-term fund with a higher risk, and should be seen as money that the student can afford to be without for a longer period. Here, the respondent recommends investing 50% of the 100kr in an Asian-fund and 50% in a Nordic-fund, spreading the risk slightly.

The respondent suggests that the student divides the 20,000kr into monthly installments in funds of up to 1,000kr per month to decrease the risk and to become less vulnerable to fluctuations on the market. It is explained though, that there is good possibilities to invest everything as a lump-sum, but that it is harder and more uncertain, which might not suit the student. It is however, possible to make an extra deposit into a certain fund if the student feels that it is of interest. The respondent also mentions that depending on the students’ overall interest and knowledge of the market, he/she can trade stocks and funds in an attempt to gain higher returns.

5.1.6.2 Profile 2 – Worker

First of all, the respondent suggests that the worker saves 500kr per month in a pension-fund, made up of funds. Depending on the interest and how active the worker is on the market, different solutions are available. If the worker is not very interested in making
changes in his pension savings, the respondent recommends to invest 50% in a generation-fund, 25% in a emerging market and 25% in Latin America. The respondent explains the choice of funds by stating that the generation-fund provides a safe alternative with more interest the longer the maturity is, while the other two funds are more high risk options. The respondent also mentions that the more active the investor is, the more risk can be taken, and the portfolio can contain a higher percentage of risky assets.

Considering the family situation, the respondent suggests that the worker puts 1,500kr per month into a "buffer", either in a savings account or a short-term interest bearing fund, which are two safer alternatives with low risk. Furthermore, the respondent suggests that the worker put 500kr per month in a more high risk fund, such as Russia and Asia. However, this should be a long-term investment and should be seen as money that will not be needed in a near future. This is recommended since 1,500kr per month is already invested in a short-term safer alternative, that will work as a "buffer" to cover unexpected expenses.

The respondent suggests that the 50,000kr per month should be invested in a capital-protected product to keep risk relatively low, and since higher risk products are already part of the monthly investments. This provides the family with a safety net since they are guaranteed a certain amount back, no matter what happens on the market. Furthermore, the respondent argues for this kind of product since investing 50,000kr in a lump-sum in funds makes you very vulnerable, and it is not sensible to buy twenty different funds in an attempt to diversity your portfolio. With this in mind, the respondent suggests a stock index bond. However, if the worker is a more active investor with good knowledge of the market, the respondent suggests looking up the alternative of investing in a capital-insurance towards funds. This makes it possible for the worker to trade funds without paying taxes for profits, allowing the investor to sell unattractive funds and buy attractive funds.

5.1.6.3 Profile 3 – Retired

Taking the risk tolerance and time horizon of the investor in mind, the respondent suggests safe and fairly liquid investments. It is recommended to put 1,500kr per month in a savings account or a short-term interest-bearing fund. Even though the interest rates are fairly low and the returns are therefore also low, the important aspects are keeping the money in liquid assets, without taking risk, making them available for consumption.

The respondent recommends that the 40,000kr should be invested in some sort of capital-protected product, such as a stock index bond or other similar products, which guarantees the investment back. The respondent further states that considering the risk profile of the retired, there is not much else to chose from.
5.2 Bank A, Advisor 2

5.2.1 Background

Advisor 2 at Bank A is 35 years old and works as a manager on the private market department, with personal financial advising as a part of the job. The respondent has studied four years on University level and has worked within the field of finance since 1998, and at Bank A for the last two years.

5.2.2 Financial Advising Process

The respondent begins with explaining that Bank A uses a model based on individual advising, where they look at the client as a unique person with unique needs. The respondent states that this is the main competitive advantage that Bank A uses in order to satisfy its clients. The financial advising process starts out with a background check and a set of questions in order to gather the necessary information needed to conduct financial advising. The respondent explains that Bank A uses a pre-made form where the client is asked to present his/her income, expenditures, assets and liabilities. The respondent is quick to explain that in order for the advisors to give accurate recommendations, it is important that all information is presented by the client; otherwise the advice might be wrong. Along with the financial information, the client is asked a set of questions regarding more personal issues, such as attitude to risk and questions about the time horizon for a potential investment. The respondent explains that it is not until all this information is given that good advices can be made.

The respondent also presents an alternative way that can be used if the client does not have time, nor interest of attending a private financial advisory session; namely a guide for saving and investment at Bank A’s website. However, the respondent makes sure to explain that this is very general advices and should be applied with care.

5.2.3 Impact of Financial Crisis

In general, the most noteworthy change the respondent has experienced is that advisors are more careful with asking the client why he/she wants to do a certain high risk investment. The respondent explains that it is important clarify the reasons behind the investment, so that it is not only made because there are no other interesting options.

On a more personal level, the respondent has not noticed any change in the personal advising that is given.
5.2.4 Risk & Risk Profiles

The respondent begins with explaining risk as fluctuations, but is quick to add that even if risk is seen as a negative thing by most people; for people with some knowledge and experience, it can be seen as positive as well. Furthermore, the respondent also talks about what a certain investment is made up of; what it guarantees, who it guarantees this, what credit risk and liquidity risk it has etc. If the risk is concerning stocks and funds, the respondent also shows the different risk categories that the Bank uses.

In order to create risk profiles for its client, the respondent asks about the clients’ attitude to risk, as well as the time horizon for the investment. Moreover, every time the respondent meets with the client, an update of the risk profile is made. “How would you feel if you woke up one day and your savings has gone down 20%?” is a question that the respondent has made it a habit of asking the client. The respondent explains it as a very helpful tool to draw up scenarios for client to make them understand the concept of risk.

5.2.5 Impact of New Laws Concerning Financial Advising

The respondent has not noticed any changes in the actual financial advising that is conducted due to the new laws, other than that the level of documentation has greatly increased. The respondent believes this new demand on documentation makes the advising sessions more difficult to conduct since too much time is spent on reading and signing documents. Sometimes the client does not bother to read everything since it is so much, and the respondent is worried that this might lead to dishonest people take advantage of this, trying to hide things in the huge amount of paper work that has to be signed. Even though the respondent believes there is still much to do to create a good client-oriented process, he believes one good thing about the new laws is that since everything is document and the banks are more protected, it leaves less room for shady actors on the market.

5.2.6 Saving & Investment

Generally, the respondent does not tell clients to save or avoid saving in anything specific. Nevertheless, there are simplified advices where the analysis department has put upward- or downward-pointing arrows on different markets or funds, depending on how interesting they look at the moment. At the moment, North America looks like one of the markets that will first start turning. The respondent states that most of the time, in these times of financial trouble, investment strategies are the main advices, rather than specific markets, stocks or funds. For example, monthly installments might be a better option right now in a volatile market, compared to investing everything in a lump-sum.
5.2.6.1 Profile 1 – Student

The respondent gives two different recommendations based on how knowledgeable and active the investor is on the market. If the student is not an active investor, the respondent recommends placing the 500kr per month in a generations-fund. This means that in case the money is not needed for any sudden expenses, it will automatically be replaced with lower and lower risk until the age of 65. However, if the student has an interest and is active in his investment, the respondent recommends splitting the 500kr up into two stock-funds that the investor, together with a financial advisor, can handle more actively. This respondent explains that this is a great way of learning how to deal with money, since it demands that the investor spends time learning about his investment. Furthermore, the respondent states that it is important to follow up these kinds of investments, in order to evaluate what has been good and bad. The respondent also mentions the idea of investing in pure stocks or capital-protected products, but that in this case there is not enough money to be invested.

The respondent recommends either splitting up the 20,000kr into twenty monthly installments, or into two 10,000kr capital-protected products. The idea with the capital-protected products is that the investor is guaranteed a certain amount back, while still having the potential of getting returns way above what an investment in interest-bearing instruments would most likely give. The respondent suggests the student invest in either of these two safer options, but continue to evaluate the investment in case the investor feels more risk is desirable. The respondent explains that often in these cases the investor is fairly inexperienced on the market and might not do the right choices dealing with risk, which leaves it up to the advisor to try to explain the up- and downside of it. A smart alternative can be to start off with safer investment options, and then move up into products with higher risk as time goes on. The respondent also mentions the importance for financial advisors to try show clients the difference real risk can have with how people view risk sometimes. For example, if the newspapers has been writing bad news about the economy for a few days it might be hard to persuade someone to enter the stock market, while if the market has been booming the last few days, everyone wants it. In those situations, the respondent explains that the advisor have to present the investor with both the risk and possibilities of a certain investment.

Another aspect that the respondent points out is the importance of diversification; spreading the risk by not putting everything in at once, as well as keeping your portfolio mixed. Often, it is the strategy that can make the difference. Along with diversification, the respondent also states that it is important to be active when dealing with stocks, to cut the losses short and be aware of how your portfolio is doing, both in good and in bad times. A common mistake that the respondent has noticed is that people tend to ignore when things are going bad, that as long as they have not sold they have not lost anything, and to get out of this trap can be extremely tricky.
5.2.6.2 Profile 2 – Worker

As mentioned for the student, the respondent recommends the worker to keep in mind the same guidelines; diversify and try to keep a good portfolio mix. However, the respondent adds that with this income, the worker might have more room to play with, creating opportunities for investing in riskier instruments. With that in mind, the respondent quickly mentions the importance of knowing what the goal is with a certain savings plan or investment, moving away from the emotional look at money to a more rational look, which is needed for long-term investments. The respondent states that often when investors hit bad periods in an investment, they let emotions take control, making them very vulnerable to the market. That is where the respondent feels the financial advisors can help, in making the investor look at the investment in a more rational way, and from that, take appropriate actions, whether it is to sell, or to invest more.

5.2.6.3 Profile 3 – Retired

The respondent suggests that the money saved by the retired is not saved or invested, but rather used on children and grandchildren. The respondent mentions that “even though it might be an unorthodox way of acting as a bank, I see so much pain and agony when it comes to families fighting over money, and to avoid any conflicts like that, I often give the recommendation to spend the money on children and grandchildren.”. From experience the respondent feels like these advices can be helpful to give since during the years as a financial advisor, the respondent has seen much agony and pain as a result of people fighting over a relative who passed away. Often elderly people might have a house or apartment with no loans that they do not think about, which the respondent tries to remind them of to ensure them that they are not left without any money if they spend their savings on their children and grandchildren. The respondent admits that the financial advisors sometimes have to take the role of a personal or relationship advisor when dealing with different clients. Furthermore, the respondent mentions that the one part of financial advising that they often to the most help with, is setting up a strategy for saving, not the actual specific stocks, bonds or funds to invest in.

5.3 Bank B, Advisor 3

5.3.1 Background

Advisor 3 at Bank B is 34 years old and works as a private financial advisor. The respondent has studied business at University level and has worked within the field of finance since 1998, and at Bank B for the last five years.
5.3.2 Financial Advising Process

The respondent explains that Bank B uses a standardized computer program to collect all the necessary information about the client. This information includes personal information, as well as financial information, such as the client’s disposable income, earlier experiences and knowledge of investments, time horizon, attitude to risk, the clients interest and activity in investment, which all together creates a base from which the advisor can make recommendations. Additional questions on a more individual level are asked depending on the investor’s situation.

5.3.3 Impact of Financial Crisis

In general, the most noteworthy impact of the financial crisis has been the attitude to risk, both from the consumer and the advisors point of view. When the markets are doing good, the respondent states that people often get overconfident in the market, while on the other hand, when the market is doing bad, people suddenly become aware of the risks of the financial markets.

On a more personal level, the respondent admits that advisors at times also get too involved and affected in what is being written in newspapers and such, sometimes creating overconfidence in a booming market or unnecessary low risk tolerance in downturns.

5.3.4 Risk & Risk Profiles

The respondent explains risk to the client as the deviation and fluctuation in returns.

In order to create risk profiles for its clients, the respondent tries to map out the client’s personal and financial situation by asking a large set of questions. It is important to know where in life the client is, how this affects him/her and what needs this person has. Along with this more personal information, the advisor gathers the necessary financial information, in order to pinpoint what potential investments are appropriate. The respondent explains that the process of collecting information on the client is a very vast and individual process, and that it can be very different depending on the client’s situation. This process is done every time the respondent meets with the client in order to update the profile, and also the portfolio.

5.3.5 Impact of New Laws Concerning Financial Advising

The respondent feels that the new laws have created more protection for both the client and the bank. The financial advising process has become more thorough the last few years,
and the financial advisors has increased their level of collecting sufficient information to be able to give good recommendations. If not all information is presented by the clients, the advisors are quick to point out that it makes it much harder for them to give a suitable investment plan.

5.3.6 Saving & Investment

In general, the respondent does not recommend or suggest people avoid anything specific at the moment. However, the bank has a department that handles analysis of the market, which in turn gives indications of what markets are interesting to look at. The respondent mentions North America as quite possibly one of the first markets to being turning up again. If the client is looking for a long-term saving or investment, the respondent mentions that “the current situation is a golden opportunity to enter the market, keeping in mind that you are in it for the long run”. However, it is recommended to not put everything in right now, but to slowly invest more and more money on a regular basis, since it is hard to determine if the market will start turning now, in 2 months, in 6 months, or maybe even in longer time. Furthermore, the respondent believes that the stock market will attract more speculators in the near future, due to the low interest rates.

5.3.6.1 Profile 1 – Student

In light of the current financial situation with low interest rates, and bearing in mind the clients attitude to risk, the respondent suggests the student save 200kr per month in a active medium-risk fund. Even though the student has a medium-high attitude to risk, according to the respondent’s experience, many clients believe they can take more risk than they actually are willing to. Therefore, the respondent suggests that the other 300kr per month are saved as a “buffer” in a savings account, to cover unexpected expenses.

Instead of placing all of the 20,000 in a lump-sum, the respondent suggests investing an initial 10,000kr, and then the remaining 10,000kr in monthly installments, all in a active medium-risk fund.

5.3.6.2 Profile 2 – Worker

In this case, the respondent argues for safe alternatives bearing in mind the family situation. The respondent recommends that 1,000kr per month are put in a short-term interest-bearing fund to work as a “buffer” for the children, house etc., and the remaining 1,500kr per month in a low-risk (2 on a 5-risk-scale) fund, with active trade within the global stock market and a portion of interest-bearing instruments. However, the respondent also
suggests that if the client’s income is above the tax bracket, a monthly investment should be made in a private pension-fund.

The respondent suggests that the client invest the 50,000kr in a 2-year interest-bearing account, which guarantees a certain return, making it a safe investment, which is recommended considering the family situation. The respondent also mentions that saving for family, a new house etc., often means taking less risk and not jeopardizing the saving capital. Today’s financial situation also makes it more difficult to take loans, meaning all of the money could very well be needed in case of a house purchase.

5.3.6.3 Profile 3 – Retired

The respondent argues to stay away from any riskier investments since the time horizon for the client in this case is fairly short. Also, safe investment alternatives such as stock index bond are out of the picture since it often requires a 5-year period to make it worth, which is a too long time horizon for the retired. The respondent suggests investing the money intended for the retired themselves in liquid assets to keep them close at hand if needed for consumption. So, in addition to the 1,000kr that are placed in a short-term interest bearing account or a savings account, 300kr per month are placed in a fund to make room for dealings in the market for the more interested. The remaining 200kr per month are placed towards children and grandchildren, depending on the family situation, in a long-term fund.

The respondent suggests that the client invests a majority, 30,000kr of the 40,000kr, in a liquid low-risk instrument, such as a short-term interest bearing fund or a savings account, to keep them close at hands, and ready for consumption. The remaining 10,000 are placed in an active low risk fund, to create some possibilities for higher returns.

5.4 Bank B, Advisor 4

5.4.1 Background

Advisor 4 at Bank B is 39 years old and works as a private financial advisor. The respondent has studied business at University level and has worked within the field of finance since 1990, and at Bank B for ten years.

5.4.2 Financial Advising Process

The respondent explains that Bank B uses a standardized computer program to collect all the necessary information about the client. This information includes personal information, as well as financial information, such as the client’s disposable income, earlier experiences and
knowledge of investments, time horizon, attitude to risk, the clients interest and activity in investment, which all together creates a base from which the advisor can make recommendations. Additional questions on a more individual level are asked depending on the investor’s situation.

5.4.3 Impact of Financial Crisis

The respondent has noticed that the most evident impact of the financial crisis is that people have become more risk averse, and this affects the financial advisors as well. People do not want to take as high risks as before, and advisors do not want to recommend the same riskier investments as they did before.

5.4.4 Risk & Risk Profiles

The respondent explains risk to its client by showing how the return differs from index and how big fluctuations different investment alternatives have. If the client can accept bigger fluctuations, they can accept higher risk.

In order to create risk profiles, the respondent draws up scenarios for the investor to show how much investments can go up and down, and if the investor is ready for this. The respondent explains that “I usually draw up scenarios for the client and let them look at statistics to explain what can actually happen”. The respondent continues by stating that the profile is updated at every meeting.

5.4.5 Impact of New Laws Concerning Financial Advising

Due to the increased level of documentation, the respondent feels that both the client and the bank have become more protected.

5.4.6 Saving & Investment

The respondent mentions that there are no specific instruments or markets that they generally recommend to everyone; it is all very much up to assessing each individual’s situation. However, the respondent states that if the client has no knowledge at all about a certain instrument, the recommendation is often to stay away. Other than that, it is mostly strategies for investment that are more general recommendations. At the moment, the respondent believes it is a good time to enter the market on a long-term basis, so to start saving monthly now is one of few recommendations the respondent feels everyone can listen to.
5.4.6.1 Profile 1 – Student

The respondent argues that depending on the time horizon in this case, the recommendation is to put the money in solely interest-bearing instruments or in a portfolio mix with both interest and global funds. If the money is intended to be used within the next two years, the respondent suggests putting the money in a short-term interest-bearing fund or a savings account. However, if the intention is to save them for a longer period, of at least five years, and the client is somewhat knowledgeable in the market, the respondent recommends a portfolio mix with 30% interest-bearing instruments and 70% in a global fund including North America, China, Russia and Sweden. The respondent advises the student to invest both the 500kr per month and the lump-sum of 20,000kr in this manner.

5.4.6.2 Profile 2 – Worker

If the worker’s income is above the tax bracket, the respondent suggests that the worker save monthly in a pension fund, with a risk level depending on the client’s interest and knowledge of the financial markets. Furthermore, the respondent suggests saving 500kr per month in a short-term interest-bearing fund to be used for short-term objectives, such as next year’s vacation etc. It is important though, to choose a fund with a low administration fee. Another 1,000kr per month is recommended to be saved in a more long-term instrument, such as a portfolio with 30% interest-bearing instruments and 70% stocks, to be used for intended larger future purchases such as a car etc. The remaining 500kr (or 1,000kr depending on if 500kr is used for pension savings) is recommended to be saved in long-term portfolio to build up a capital that can later be used as a “buffer” for future purchases, unexpected expenses etc. The respondent adds that the longer the time horizon is for a certain investment, the more risk the investor can afford to take, since it leaves more room to make up for potential losses.

The lump-sum of 50,000kr is recommended to be saved in a safer short-term portfolio mix with interest-bearing instrument and currencies, to work as a “buffer” for the family’s future unexpected expenses. Once again, depending on the interest and knowledge of the investor, the respondent mentions that a riskier investment (with potentially higher returns) can be recommended if the investor can handle it. In that case, the respondent suggests increasing the share of stocks in the portfolio.

5.4.6.3 Profile 3 – Retired

The respondent is quick to recommend saving 1,000kr per month in liquid assets, such as a interest-bearing instrument, making the money close at hands for the retired to use for consumption. The remaining 500kr per month is suggested to be saved to aid potential
children or grandchildren in their life, in a long-term instrument, such as a diversified portfolio with both stocks and interest-bearing instruments.

The respondent suggests the retired save the 40,000 kr in a savings account or an interest-bearing fund, to be used as a “buffer” to secure their retirement, and for leisure, travels, and consumption in general.

5.5 Bank C, Advisor 5

5.5.1 Background

Advisor 5 at Bank C is 31 years old and works as a private financial advisor. The respondent studied business four years at University level and has worked at the bank since 2001. The respondent has worked with various tasks within the bank before his current position.

5.5.2 Financial Advising Process

The respondent explains that the bank has different divisions depending on what type of client. There is a Private Banking division where the wealthiest clients go and also those who have a genuine interest in meeting advisors at a regular basis but not as wealthy. For the latter category, their wealth is a couple of millions. Then the bank has a concept where the client has regular access to a private investor, while only having a couple of 100,000 kr invested. Then there are clients who do not have their own private advisor but maybe have to meet different advisor from time to time. These are clients with smaller portfolios and are not very active in their investing.

The respondent continues by stating that the advisory process looks different from time to time depending on the client. Some clients meet with the respondent more or less every quarter where they together go through the clients’ finances. The cause of the meeting is either that the clients’ finances demands a meeting or because the client wants to meet an advisor on a regular basis. Further, there are clients which only want to meet for example every third year since the portfolio is built in a way which do not need an active investor. Therefore the process is highly individual; it depends on who you meet.

However, if a new client whom the advisor has no relation with books a meeting, the respondent explains that the bank has computer software which the advisor uses to make a client inventory. Questions regarding the client, which takes approximately 15 minutes is asked in order to produce this inventory. It is questions similar to; where do you live?, family situation?, etc, so that the advisor know that the legal side looks ok. Then questions about the client’s income, assets in this bank and assets outside the bank are asked. This information is crucial so that the advisor do not give advises on high risk instrument if the
client already is exposed to high risk somewhere else. In short, what is done is essentially a balance sheet and a cash flow statement which will show the client’s ability to invest or the “game plan”. Then when the economic and legal issues are known the respondent explains that the advisor needs to do an inventory on the investment aspects as well. What is important to know is factors such as time horizon, goals of the investment, risk tolerance, accept losing money, etc. The respondent claims that when all these factors are known the advisor and client can sit down and look at suitable investments. The respondent further states that if the risk tolerance and time horizon is known, a basic understanding can be made about the direction of the advice. The third important factor is how interested the client is, because it could be that the client is risk tolerant but is not active, and therefore some instruments are out of the question. When you have all the previously mentioned factors documented a sort of weighting on the different instruments in the portfolio is done and advises are given on that.

5.5.3 Impact of Financial Crisis

In general, the respondent does not think that the financial crisis has affected the advisory. When looking on advisory as a whole the respondent claims that they work with the same theories in the background which is to have a high-quality portfolio idea behind the advice. However, with the crisis company came for example company specific risk, which increased risk for non diversified stock portfolios since the risk could be very high in some companies. So if a client trades a lot with stocks the advice in that case is now different with advising to move from business cycle sensitive stocks to others which are less volatile. Further, as mentioned before, the principle idea behind advising has not changed, no new products has been created for the crisis hence the respondent claim that there have been no major changes. What have changed according to the respondent are the clients. There are differences how the clients’ behaved two years ago and now. Before when everything went up clients were positive and thought they were risk tolerant, now when the crisis hit clients are asking if companies will go bankrupt?, if the bank will go bankrupt?, some are now panicking. However, the respondent continues by saying that clients and advisors tend to have short memories and in six months the panic will pass and the clients will probably take on more risk again.

The respondent continues by saying that his personal advising has not changed significantly. An advisor has to listen to the clients. Many clients usually exaggerate their reactions so the advisors role when panicking clients come in and want to sell of everything is to make sure that the suitable risk level is chosen. It is crucial to make the client understand that the money should be reinvested in instruments which suit the clients current risk tolerance, and have invested right all the time in order not to miss potential returns on investments. The other way goes when the markets are booming, then the advisor needs to talk investors down and not expose them with too much risk since, clients often change their risk
tolerance in booming times. It is important to tell the client that a crash could come at all times. This is what the respondent think has changed since the crisis, how the advisor communicates with clients, talk them up in bad times and cool them down in good times. However, he stated that the techniques and portfolio theory has not changed.

5.5.4 Risk & Risk Profiles

The respondent mentions that it is not helpful for the client to speak about beta numbers, or very specific explanations about risk, since 90-95% of the clients do not understand those terms; hence, it is useless. Therefore, a simple way of explaining risk is better, which for clients often means losing money. The respondent says that drawing up for example how much return the client wants, let say the client wants a 40% return, then the respondent ask how much can you lose? The respondent says that the advisor has to try to explain the relation between gaining and losing. That this is what risk is.

Then there are other risks, such as company specific risk. If a client has 30% of the investments in stocks which per say is not very risky, however if all those are invested in one company, this is now a very risky investment. The same goes if a client only invested in emerging markets. You have to explain that if this stock or market falls like a stone, there are no other investments balancing it out. Therefore you have to explain the positives by spreading risk so that the investment ends up at an even risk level.

The respondent says that the bank has computer software to produce the profiles. The advisor just need to fill in the variables such as risk tolerance, time horizon, activity level etc and the program will weight all factors and calculate a portfolio suggestion where the risk is calculated. It could be that a client come in and want to invest 100,000kr in 10 years with a very low risk tolerance. However, the computer will still suggest a small part of stock since, time horizon is relatively long and hence the risk is judged to be fairly low. The other way around goes if a client comes in and wants to invest the same amount however, with a three year time horizon and high risk tolerance, then the program will probably not suggest 100% stocks even though the risk tolerance is high due to the short time horizon. Finally, the respondent states that the risk profiles are updated at every meeting.

5.5.5 Impact of New Laws Concerning Financial Advising

The respondent claims that the laws have affected the work of financial advisors. It started when the Law of Financial Advising (2003:862) was passed since the advisors then were forced to document the process. The bank then created the software the advisors now use, so the respondent says it has affected the work significantly. The respondent continues by stating that about 10 years ago advisors talked about risk in the products but not if that risk was suitable for the client and saying that changes are refined continuously.
5.5.6 Saving & Investment

The respondent says that advises are so individual that it is hard to say if something should be avoided right now. However, if a low risk normal investor comes in for advise I would not advise investing in stocks of specific companies which have high beta values hence, are heavily affected by index fluctuations, for example financial stocks right now. But in general the respondent claims that they do not specifically give advice on what not to invest in since it is very individualistic.

The respondent says that what they do recommend a normal investor now is broad based funds and the reason for this is to spread the company or market specific risk. If the contents of an average portfolio the last five-six is analysed, it is based on broad American and European funds consisting of extremely large companies since, generally, they bring lower risk than funds consisting of smaller companies. The respondent further add that in the recent month or so the risk tolerance of the clients has increased and the advisors has started to recommend emerging markets again, however, the recommendation is still on large corporations. If individual stocks are interesting to the client the banks analyst updates their recommendations daily on the homepage.

5.5.6.1 Profile 1 – Student

The respondent starts by saying that advises are very independent. With a short time horizon pure stocks are not suitable, maybe stock funds and mix with interest bearing funds. If the time horizon is two years maybe all in interest bearing instruments, however, if the time horizon is specifically two years an stock index bond is preferable since, if the market is booming it gives high returns and if the market fail you get the money back. The respondent continues by saying if the client is active, a capital insurance is suitable since you can sell and buy without pay realization tax.

The respondent recommends that the student puts about 70% of the 500kr per month in the stock market in the form of funds and the rest in interest bearing markets. If the time horizon is five years, the risk tolerance medium-high and if the client were interested in investment and active, the respondent says that he would discuss opening a capital insurance. If the client is not active, the former alternative with medium-high risk funds and interest bearing funds would be advised. No pension saving would be advised.

The 20,000kr the respondent would recommend to put into the same investments. One alternative could be to divide the lump sum and invest it in smaller parts in order to be better protected against sudden drops in the market. However that is a discussion the adviser needs to have with the client says the respondent.
5.5.6.2 Profile 2 – Worker

The risk tolerance of this person is medium and the time horizon is a bit longer, since saving for family, car, house, pension etc. If these factors are taken into the account the respondent recommends dividing the monthly payments into three parts. First off, the respondent mentions that in this age bracket pension savings is important. The interval for this kind of person should be between 1,000 and 500kr per month depending on the income, if the income is above the breakpoint, definitely 1,000kr, if not 500kr. The respondent suggests that this person should put in a monthly investment of 500kr in the pension savings.

The respondent further says that probably some of the monthly investment is going to be needed in a short period of time; hence a more short-sighted investment without significantly high risk is to prefer. Hence, 1,000kr in an interest fund is suggested since the client can access the money in case of unforeseen expenses.

With the remaining 1,000kr the respondent states that based on a discussion with the client, the recommendation would be to starting a capital insurance for a longer time horizon.

Finally, the respondent states that the 50,000kr would be recommended to be split up in two parts. Spontaneously the respondent says that with these facts in hand the recommendation would be to put 30,000kr in a sort of interest fund and the remaining 20,000kr in either a capital insurance or funds.

5.5.6.3 Profile 3 – Retired

The respondent says that these kinds of clients are hard to predict since it depends so much on what they say. However, with the factors given, short time horizon and low risk the recommendation is to choose an investment which keeps the money accessible and the risk low. A capital insurance is probably not an option since it demands an active approach making changes and to expose the money to higher risk over long periods of time.

Taking the factors into account the monthly savings would go into some sort of savings account or interest fund. This is suggested since, the money is accessible there, however, if they are willing to take on more risk and keep the investment for a longer time horizon maybe put some of the money into a fund with a small degree of stocks.

The respondent says that the same recommendation goes for the lump sum of 40,000kr. Put it into an interest fund to keep the money liquid, and if they want more risk put it into a fund which also has a small part stock.
5.6 Bank C, Advisor 6

5.6.1 Background

Advisor 6 at Bank C is 26 years old and is currently working as a private financial advisor. The respondent studied Business at University level and has worked at Bank C for three years. The respondent started working in the front office but now works as a personal financial advisor.

5.6.2 Financial Advising Process

The respondent says that the process starts off with an inventory of the client where questions about age, income, life phase etc are asked. Questions about risk follow the first set of questions and risk profiling is essential to the process. Finally, the time horizon is established and the advices are built on the information these question gives.

5.6.3 Impact of Financial Crisis

The financial crisis has brought on minor changes on the advising. The most significant changes are the clients’ attitudes towards risk and risk profiling. Clients have become more aware of and afraid of risk, less risk is taken and investors move from stocks into interest bearing instruments in the portfolio. Amortization of loans is also considered since many banks do not want to have 100% loan on a house anymore since house prices have gone down due to the crisis.

The respondent claims that the crisis has not significantly affected the advisory on a personal level. On the other hand, the respondent admits that maybe the crisis has a slight personal affect since, if the advises are shown to be bad, the effect could be a more defensive approach. However, this will not affect the advisory since; all advices are made using computer software.

5.6.4 Risk & Risk Profiles

The respondent explains risk by showing how much a client’s money can fluctuate over time and not using terms like volatility and standard deviation. If a high risk exposure is taken the possibility of high returns are there, however there is an equal possibility that losses will occur. This is taken into account when the respondent explains the fact that time is a vital factor in taking on risk. In one year the investment can be down a lot, however, in five-six years the investment can be back on a positive and outperform a five year interest bearing
instrument. The respondent says that these kinds of scenarios are given to clients’ in order to explain risk.

In order to create risk profiles the respondent reads out statements such as: “I want high returns but limited risk”. These sorts of statements are used to find out the client’s time horizon, how much they want to invest, what kind of return they expect etc. These factors are used when building the risk profile of the client. Furthermore, these profiles are updated at every meeting with the client.

5.6.5 Impact of New Laws Concerning Financial Advising

The respondent does not feel that the new laws have affected his institution and his personal advising. This is due to the fact that the bank uses various computer tools in every aspect of the advising. The client sits down with the respondent and they have a discussion about factors which is important to the advising and put them into the computer. Thereafter, the tools will hand the advisor a set of investment alternatives which suits the client’s criteria. Further, there is seldom that the respondent is giving out personal unique advises since the central investment centre does the analysis of the markets and put out internal recommendations. The main difference from before is the documentation.

5.6.6 Saving & Investment

The respondent claims that there are of course markets and instruments which should maybe not be invested in, however, it is personal views and should be kept personal. The tools suggest the investments which the bank are supporting and sometimes the personal ideas of the advisor is different, however, in order to avoid liability the banks recommendations are followed.

At present time, the respondent claims that the investment recommendations are heavily weighted into the Swedish market with a small portion in Europe, depending on the currency. The belief now is that the SEK will get stronger against the Euro and Dollar, however; still a cautious and defensive approach is advisable. Further, even active clients still have about 50% of the portfolio invested in interest bearing instruments, however, the respondent claims that it could be different in six months and a more aggressive investment strategy is followed.
5.6.6.1 Profile 1 – Student

The respondent recommends that a student today should be fairly liquid. Stocks, at least pure stocks are out of the question, in that case funds. Further, with the risk level of the student funds is a good option and also maybe a stock index bond in order to mix it up.

The 500kr monthly investment would go into funds with a mix of 20% interest and 80 stocks in long time horizon investment. When the investment is as small as 500kr a month, the advice is to invest the money in active funds which rebalances. And if and when the investment has grown the advice is to move on into a capital insurance and put the whole 500 there instead.

The respondent gives the same advice regarding the lump sum of 20,000kr. At first put the whole amount into the same fund as the 500kr monthly and later if successful move it into the capital insurance.

5.6.6.2 Profile 2 – Worker

This character is also saving for the pension, family, children and various goal savings. Therefore the question is, how much to the children? Let's assume 250kr per child, it makes 500kr per month for at least a 15 year horizon. Hence, the recommendation is to put in a medium risk active fund.

The question of pension saving depends a lot if the person earns above the tax bracket? If so, a lot should go into pension funds in order to skip paying extra taxes. At least 500kr into the pension saving.

The rest of the 1,500kr is recommended to be put into a free fund saving medium risk to cover the other goal savings, the time horizon is unlimited.

If the worker was active on the market the 50,000kr would be recommended to go straight into a capital insurance. However, this is often not the case for this client, therefore the advice is to put 5,000kr in a stock index bond, and 20,000 would go into the same free fund saving as the 1,500kr monthly and 25,000kr into a capital insurance. It is individual how long maturity time to bind up the money; it always depends on the client’s time horizon.

5.6.6.3 Profile 3 – Retired

With a short time horizon and a not very active person with 1,500kr to save monthly, the first reaction is to recommend interest bearing instruments or savings account. Since a client like this is often generous with their grandchildren, and the time horizon is very long, the recommendation is 500kr in a fairly high risk fund for them. The 1,000kr that are left would
be advised to be split in half, 500kr into a savings account and 500kr into low-medium risk fund.

The 40,000kr is recommended to divide up and put in different products. 10000kr should go into an open running stock index bond since you can be sure to get your money back and still get a reward of a potential increase in the stock market, a “spice” in the portfolio.

The 30,000kr which are left is recommended to go into the same low-medium risk fund as the monthly saving. Then 15,000kr is on the stock market and still keeping the risk fairly low. This recommendation is built on the fact that the risk tolerance is low-medium. If this is the case, the fund would go down from a 50/50 interest/stock into maybe 25% interest. This choice is important to discuss with the client. Moreover, in this case, capital insurance is out of the question since the activity has to be high.
6. Analysis

In this section the reader will be presented with an analysis of our empirical findings. We will compare our interviews, theme by theme, to find similarities, patterns and/or differences, and further relate those to the theories chosen for this study.

6.1 Financial Advising Process

The main feature of all the respondents during the financial advising process is that they all use a standardized model, adjusted somewhat depending on the client, to gather the necessary personal and financial information. In accordance with Oxenstierna’s five step process of financial advising, all of the advisors state that they first conduct a background check on the clients in order to clarify where the client stands. Furthermore, the patterns show that all of the advisors try to create some sort of balance sheet, in order to get an overview of the client’s income, expenditures, assets and liabilities. According to the respondent, this, together with the personal information, such as family situation, creates a base for the respondents to present saving and investment alternatives. However, before any recommendations can be made, the advisors state that they need to know certain factors about the clients’ relationship to saving and investing. These factors include attitude to risk, interest and knowledge of the market, activity in their saving and investments and last, but not least, time horizon for their investments. Knowing these factors conclude the part in the advising process that involves collecting information, similar to the completion of the second step of Oxenstierna’s five-step process. When all of these pieces are put together, the advisors conclude that a valid and well-founded recommendation can be made, and the next step in the advising process, comparable to Oxenstierna’s third step which is to find investment solutions which will suit the individual investor, can begin. However, a majority of the advisors are quick to point out that if any information is left out by the client, the foundation on which the recommendations are made of is fragile, and might lead to bad investment decisions. Moreover, as our study is focused on the advisory process, and not the sales process, our analysis stops after step three is complete, hence no inferences can be made on step four and five of Oxenstierna’s five-step advising process. The overall pattern among the institutions shows that Oxenstierna’s research on the advisory process is significant and has a clear connection with how the financial advisors work.

6.2 Impact of the Financial Crisis

The financial crisis has not brought on any significant changes to financial advising, according to the respondents, but rather to the attitudes of the clients and advisors. All of the advisors interviewed mention the fact that clients have become more aware of the risks associated with the financial markets and a pattern of lower risk-taking is evident. In addition though,
Advisor 1 at Bank A reflects upon the changed financial situation due to the financial crisis and has noticed that depending on how the crisis affected the client, both positive and negative consequences have been seen. Advisor 1 at Bank A states that “Many clients having loans with floating interest rates have more money left for investments, while others who were hit by the crisis in a negative way, who for example lost their job, has lost their room for investment.” Advisor 2 at Bank A states that it has become extra important to clarify the reasons behind investments in these times of financial trouble, so that the client is aware of why a certain investment is made, as well as making sure that investments are made for a reason, and not because no other interesting options exist. The most noteworthy impact that analyzing the empirical results shows does, however, lie in the attitudes towards the market, and as Advisor 3 at Bank B mentions, often in times of trouble people suddenly become aware of risk, while when the market is booming people often get overconfident. This is also mentioned by Ritter (2003) in his research on the theory of Behavioral Finance, where overconfidence is one of the factors used to describe irrational behavior. Furthermore, this view is also shared by Advisor 5 at Bank C, who also highlights the fact that even though the changing financial climate influences clients’ attitudes, the tools and techniques financial advisors use has not changed, and their job remains the same; to find suitable investments for their clients.

The pattern clearly shows that not much has changed in the respondents’ work situation, regarding tools and techniques used, due to the financial crisis. The major change lies within the clients’ behavior. The fact that two of the advisors mentions that people often tend to become overconfident in a booming market, and vice versa, puts further weight into the concept of irrational behavior, and importance of Behavioral Finance models in financial advising, and also in saving and investments by itself.

6.3 Impact of the New Laws

The only evident impact that the new laws have had on all financial advisors is that the level of documentation has increased. Advisor 1 at Bank 1 explains that “We still work in the same way we did before, except now everything has to be documented; why the investment was made, whether the investment was made on the client initiative or ours, things like that.” None of the advisors feel that the advising process has changed in any other way; however, both Advisor 2 at Bank A and Advisor 3 at Bank B explain that the new laws have provided more protection for the banks and clients, since everything that is taking into account during the advising process has to be written down. This leaves less room for advices to be given without sufficient information to be based on. On the other hand, Advisor 2 at Bank A feels that with the increased level of documentation, the advising sessions have become more difficult to conduct since too much time is spent on reading and signing documents. The same advisor also mentions that this might enable dishonest people to take advantage of this by hiding information in the huge amount of paper work that people sometimes does
not bother to read. Overall, the most noteworthy impact shared by all advisors is no more than the actual documentation that the new laws demand.

As noted, the impact of the new laws has not changed the respondents work to a significant degree. However, it is mentioned that the protection of both parties in the advising process has improved. We consider it as important for both the advisor and the client to feel secure in this environment. Our belief is that feeling safe is crucial in order for the client to provide complete information to the advisor, and that the advisor needs to feel safe in order to be able to use this information and be certain of its validity when creating suitable portfolios.

6.4 Risk

6.4.1 Explaining Risk

Howell and Bain (2007) explain risk as the probability that the outcome of an investment may differ to what was expected, and Harrison (2007) defines it as the standard deviation of arithmetic average return. This is basically what the advisors try to explain to their clients; how much an investment can deviate, or in simple terms, how much it fluctuates. However, the major difference between theory and practice is that the advisors do not often define the term. Instead they use similar methods as Grable (1999) recommends in his research, and show the client what taking risk actually means, by drawing up different scenarios with ups and downs. Five of the six advisors in the study mentions drawing up scenarios as their standard method for explaining risk to their clients. According to Duran (2001), it is very important to talk about risk in terms that the client understands, rather in complex financial terms such as beta, standard deviation etc. As an example, Advisor 2 at Bank A has a habit of drawing up a scenario where the client is asked how he/she would react if their investment would suddenly drop twenty percent. This prepares the client for what can happen and gets through to the client in a way that Duran (2001) explains as “not to scare clients, but to ensure that they are not surprised when their investment goes down”. Even though one advisor merely explains risk as fluctuations to an investment, a clear pattern can be seen in using scenarios to make the client understand the concept of risk.

6.4.2 Creating Risk Profiles

In accordance with the directives of Finansinspektionen (SFS 2003:862), all of the advisors interviewed create risk profiles for their clients. In creating these risk profiles, Oxenstierna (2007) states that it is important to consider the client’s psychology, since there are problems with clients’ short-sightness, risk neglecting, over-optimistic expected returns etc., which all could influence the good communication between the advisor and the client.
Even though all of the advisors in our study seem to have slightly different approaches to creating risk profiles, an obvious pattern can be seen in the importance of two factors, which are attitude to risk and time horizon. The fact the two factors of risk attitude and time horizon is mentioned by most advisor shows that our study have similarities with Cordell’s (2002) framework, which state that risk profiles is important for risk profiling, and Oxenstierna (2007) thoughts on time horizon’s importance for risk profiling. Four out of the six advisors straight-up mention attitude to risk and time horizon as important factors to determine when creating risk profiles, while Advisor 3 at Bank B mentions clients’ life cycle and needs of the investment as important. The fact that the respondent mentions the life cycle as an important factor seem to tell us that Modigliani and Brumbergs (1954), or at least variations of the life-cycle theory, is still significant. Further, Advisor 4 at Bank B talks about how clients respond to scenarios regarding investments fluctuations, or, risk tolerance. We believe that what the respondent says goes hand in hand with what previous studies made by; for example McCarthy (2009) and Kirby (2005) conclude, that the client’s tolerance of risk is important for risk profiling.

Moreover, the empirical data supports Grable (1999) when he states that there are none or only a few generally accepted measures to measure risk tolerance since, there are some differences how the advisors measure and create risk profiles. Some, like Advisor 1 and Advisor 2 at Bank A explains that a thorough discussion is made with the investor where both made-up scenarios and questions are used to assess the client’s situation, before a suitable risk profile can be made. “How would you feel if you woke up one day and your savings has gone down 20%?” is a question Advisor 2 usually asks, and further explains it as a good way to make the client aware of what can actually happen with the money invested.

The advisors at Bank B have different approaches; Advisor 3 uses only questions to get information for the risk profiles, while Advisor 4 explains that “I usually draw up scenarios for the client and let them look at statistics to explain what can actually happen”. Further, Advisors at Bank C also has different approaches. Advisor 5 asks questions, while Advisor 6 uses scenarios or statements as the respondent puts it. Grable (1999) also puts forward that the recommended way to measure risk tolerance is use multidimensional financial scenarios and situations, even though, not all of the respondents use scenarios, a majority do.

It is obvious that all of the respondents create risk profiles before giving out any advices. Furthermore, the empirical data shows that risk tolerance and attitude to risk are important when creating risk profiles. Even though there are differences in how to create these risk profiles, patterns show that using a set of questions along with drawing up scenarios are the most common tools. We believe that a mix of the two methods is the best way to create risk profiles; however, we further believe that the underlying individual questions asked are the most important in the risk profiling process.
6.5 Saving and Investment

A majority of the advisors agree on the reasoning that there are no specific investments that they recommend all clients to invest in or to avoid. When asked about general saving advices, Advisor 1, 4, and 5 all underline the fact that it is very much weight put on the individual factors of the clients when deciding what to invest in. However, with that in mind, all of the banks have departments that analyze the financial markets and put out simplified advices in form of, for example, upward- and downward-pointing arrows for different markets or stocks. Both Advisor 2 and 3 mentions North America as a market that they believe will first start turning back again. Furthermore, both Advisor 3 and 4 believe that the current financial situation has brought along a good opportunity to start saving and investing money in the financial markets. Advisor 3 goes as far as saying that “the current situation is a golden opportunity to enter the market, keeping in mind that you are in it for the long run”. Overall, all advisors are careful with giving out any general recommendations for specific markets or instruments that can be used by everyone, but rather see it as a process of assessing the individuals situation. However, three of the respondents agree on that one general recommendation can be given to a large number of people, and that concerns the investment strategies to be used, which in the current financial situation is to save and invest monthly in order to protect oneself against heavy fluctuations. Furthermore, a majority of the advisors mention that an increased level of activity, knowledge and interest might open up further interesting investment opportunities, such as capital insurance.

6.5.1 Profile 1 – Student

A majority of the respondents agree on the reasoning that this client needs a “buffer” to cover for unexpected expenses; hence many of the recommendations deal with fairly liquid investments. Four of the six respondents mention saving at least a portion of the monthly amount in an interest-bearing instrument or a savings account, keeping the money close at hands. Advisor 6 also recommends staying fairly liquid, but still wants to put all of the 500kr per month in a fund with 20% interest and 80% stocks, considering the clients attitude to risk. Contrary to that, Advisor 3 mentions that it even though the student claims he/she has a medium-high attitude to risk, many times clients believe that they can take more risk than they are actually willing to. This phenomenon is also explained by Ritter (2003) as the factor of overconfidence. Furthermore, this leads Advisor 3 to recommend maximum a medium-risk fund for the student. While mostly safer alternatives in fairly liquid assets are suggested for the student, both Advisor 2 and 5 explain that if the student is active in his savings and investments, stock-funds or capital-insurances are to be considered since it leaves more room for higher returns, but also demands more knowledge, activity and risk-taking. Advisor 2 continues by explaining that it is a good idea for the inexperienced to start with safer investments and then move up to more risk as time goes on. Furthermore, the same
respondent believes actively handling your investment is a great way of learning how to deal with money.

Four of the six respondents advise the client to split at least half of the 20,000kr into monthly installments, to protect oneself against sudden drops or fluctuations on the market. Both advisors at Bank A recommends investing all of the 20,000kr in monthly installments of 1000kr, while Advisor 3 and 5 suggests a mix between monthly savings and lump-sum saving. Four of the respondents suggest investing the 20,000kr in funds, while the other two suggest interest-bearing instruments or savings accounts for short-term purposes, or capital-insurance or a portfolio mix with 30% interest-bearing instruments and 70% global funds for long-term purposes. All of the respondents suggesting investing in funds stick to medium-risk funds and/or monthly installments, both ways of keeping risk down somewhat.

Overall, the advisors seem to agree upon the fact that spreading the risk by diversification, keeping a good portfolio mix, and/or not investing everything at once are very suitable advices for the student profile. This is further supported by the Modern Portfolio Theory (Malkiel, 2007), which states that diversification is the best investment strategy. Furthermore, even though the student’s risk is set to medium-high, none of the advisors recommend investing in pure stocks at the moment. Moreover, even though the young investor, according to Malkiel (2007), can use future wages in order to cover potential losses from increased risk, all of the advisors seem to be eager to keep risk down a bit, which could be an effect of the current financial situation.

6.5.2 Profile 2 – Worker

Five of the six respondents make recommendations to save monthly in a pension-fund, though both Advisor 3 and 4 only suggests only doing that if the client’s income is above the higher income tax bracket. Advisor 5 and 6, on the other hand, suggests the client put money towards pension no matter what, but to save an extra 500kr a month if the income is above the tax bracket. Advisor 1 merely recommends saving 500kr in a pension-fund made up of mixed funds, regardless of income. Here, a significant pattern can be seen in the relationship between earning above the tax bracket, and pension-savings. Advisor 6 states that if the client’s income is above the tax bracket, he/she can take advantage of putting money towards pension savings instead of paying taxes for it, hence it is a suggestion the bank often brings up.

Furthermore, the idea of saving monthly to uphold a “buffer” for unexpected expenses is brought up by four of the six respondents, with a majority of them suggesting interest-bearing instruments to keep the money close at hands and not exposed to too much risk. Advisor 1 mentions the importance of having a safety net considering the family situation, which Advisor 3 agrees on stating that saving for family often means taking less risk and not jeopardizing the saving capital.

62
A common recommendation noted in the empirical findings is also the idea of having long-term savings as well, which is intended to build up capital to be used for larger future expenses. However, when it comes down to the specific long-term recommendations, the four respondents mentioning this have somewhat different ideas of what to place the money in. Advisor 1 suggests putting 500kr per month in a high-risk fund, such as Russia or China, while Advisor 4 and 6 recommends a medium-risk mixed portfolio with approximately 30% interest-bearing instruments and 70% stocks. In addition to that, advisor 5 insists on putting 1000kr per month in a capital insurance instrument. The most noteworthy sign here is that even though a majority of the respondents recommends having long-term savings, the similarities in their advices stop there.

Regarding the 50,000kr, all of the respondents have somewhat different investment recommendations which range from stock index funds and interest-bearing accounts, to mixed portfolios and interest-funds. However, despite that, three of the six respondents also highly recommend investing the 50,000kr in a capital insurance instrument if the client is active in his investments. Advisor 1 explains that this enables the client to trade freely in funds without paying taxes for the profits, allowing the investor to sell unattractive funds and buy attractive funds, at a certain yearly cost. Furthermore, Advisor 4 makes it clear that if potential higher returns (= also higher risk) are wanted in a long-term portfolio, a simple adjustment can be made by, for example, increasing the portion of stocks.

**6.5.3 Profile 3 – Retired**

As saving in retirement often has a fairly short time horizon, five of the six respondents recommend the client to invest a large portion of the monthly saving in fairly safe and liquid assets, such as in interest-bearing instruments or a savings account. This enables the client to have the money close at hands and available for consumption. Even though Advisor 1, 3, 4 and 5 realizes that the interest rates are low at the moment, no other recommendations are given since the most important factors are keeping the money accessible with low risk. Advisor 3 also refrains from recommending any riskier investments, since the time horizon is not long enough to make it worth. All this in accordance with Malkiel’s (2007) investment strategy on the life-cycle, where he explains that the younger investor can use future wages (human capital) in order to cover potential losses from increased risk, while the retired investor cannot use the future salaries to the same degree. Hence, the retired cannot lose the same amount of money since the money is needed in the near future and therefore cannot be equally exposed to risk.

Furthermore, a majority of the respondents recommends saving monthly in order to aid children and grandchildren with their present and future financial situations. In those cases, investments with a long-term commitment are made, increasing the risk, but also the potential returns. Considering the long time horizon which gives room to make up for
potential losses, Advisor 6 insists on a high-risk fund. Advisor 3 also recommends a long-term fund but with slightly lower risk, while Advisor 4 suggests putting together a diversified portfolio with both stocks and interest-bearing instruments. These advices are both supported by Malkiel’s (2007) thoughts on the Modern Portfolio theories’ mantra of diversification, as well the Life-Cycle theories’ idea of the long term maturities’ ability to assume higher risk.

The recommendations concerning the 40,000kr follow the same pattern as the monthly savings to a certain degree. Three of the six respondents suggest investing in fairly liquid assets, such as interest-bearing instrument or saving accounts, to keep the money close at hands and ready to use. Advisor 1 recommends investing the entire amount in a capital-protected product, such as a stock index bond to guarantee a certain amount back, given the risk profile of the client. Advisor 6 also insists on a stock index bond, but recommends only investing 10,000kr in that instrument with the remaining 30,000kr in a low-medium risk fund. Two of the advisors mention a capital insurance instrument as an interesting option but considering the time horizon and activity level it demands, it is not discussed further with the average client.

Advisor 2, on the other hand, recommends this client to not save or invest at all, but rather to spend it on family. The respondent explains that “even though it might be an unorthodox way of acting as a bank, I see so much pain and agony when it comes to families fighting over money, and to avoid any conflicts like that, I often give the recommendation to spend the money on children and grandchildren.”
7. Conclusions

In this section the reader will be presented with our conclusions that were drawn from analyzing the results of this study. We will look at patterns in the work of the financial advisors, both in the financial advising process and in the outcome of the process.

7.1 Conclusions

Analyzing the results of our interviews with the six financial advisors has made it possible to draw certain conclusions that will help us reconnect to, and answer, our research questions;

*How do financial advisors suggest we save and invest our money in these times of financial difficulty?*

*On what basis do the financial institutions work to come up with these recommendations?*

*What does the financial advising process look like and how do they create risk profiles; and how does this process differ among the institutions?*

*What impact have the financial crisis and the new laws had on financial advising?*

We will present our conclusions theme by theme, in order to easier show the patterns we found.

7.1.1 Financial Advising Process

As a conclusion of the results of the study, a clear pattern is evident in the way the banks handle the financial advising process. All of the respondents describe the advising process as initially collecting the necessary personal and financial information, as well as creating a risk profiles for the client. When all of the essential information is gathered, the advisor can give suggestions and recommendations for how the save and invest money. A majority of the respondents also mention the importance of having full access to all necessary information in order to be able to give valid and well-founded recommendations. Based on the new laws concerning financial advising, which we will elaborate on later in this chapter, we also believe that this has further standardized the advising process, given the new guidelines that everything has to be documented. Concluding that all of the banks use quite similar guidelines and standards in their methods, we believe that the banks have found a successful way of conducting financial advising. We further find it as positive that all clients are approached in the same way, no matter what bank or advisor is chosen.
7.1.2 Risk & Risk Profiles

The pattern shows that advisors mostly explain how much the investment can fluctuate by showing scenarios instead of using financial terms like volatility and standard deviation. We believe that explaining risk in a way that the client understands is essential in order to gain knowledge about the client’s risk tolerance.

The laws passed in 2004 and 2007 bring up that it is necessary for advisors to take notice on the client risk profile when making financial advices. The patterns from the respondents show that two factors are important in their risk profile construction: time horizon and attitude towards risk. We imply that it is important for the institutions to create risk profiles that in depth explain the clients risk tolerance. However, we are uncertain if any of the institutions go beyond the framework of the laws in the way they research their clients’, in order to perform their risk profiles. Furthermore, the respondents mention that they update the risk profiles of their client at each meeting; however, none of the respondents put a lot of weight into the factor during the interviews. We imply that this is an important factor in order to continuously produce suitable portfolios, and that it is good that the respondents at least acknowledge it.
7.1.3 Impact of the Financial Crisis

The only significant impact that the financial crisis have had on financial advising concerns the clients’ and advisors’ attitudes to risk. As the economic situation has worsened, people have become more aware of how things can go wrong and they therefore become more risk averse. However, according to a few of the advisors, this is also the case the other way around, that people become overconfident in the market when it is booming. Hence, a pattern can be seen in how the economic situation affects the clients attitudes, and consequently the way they approach saving and investment.

7.1.4 Impact of the New Laws

Overall, the most conclusive pattern that can be noted on the impact of the new laws concerns the increased level of documentation. All of the advisors on all three banks conclude that the new laws have not brought any significant changes to the way they work, except that they have to document everything they do. As a result of this though, two of the advisors feel that the level of protection for both the banks and the client have increased. Even though only two of the banks mention the increased level of protection, we believe that this is a major step forward in the financial advising process by increasing the trust between the bank and the client, which we conclude is a significant change brought along by the new laws.

7.1.5 Saving and Investment

A noteworthy conclusion that can be made on saving and investment on a more general level, is that advisors are extremely careful about giving out any recommendations that are not based on an individual advising process, but that strategies for saving and investment are more generalized. Three of the six respondents suggest that people save and invest their money on a monthly basis, to protect oneself against fluctuations in the current somewhat volatile financial situation. More specific recommendations for the general public often does not go any further than the up- and down-pointing arrows on the banks’ websites for different stocks and markets.

Furthermore, a clear link is evident between the client’s level of activity, knowledge and interest, and the financial instruments that are recommended. A majority of the advisors mention the fact that more active clients with an interest and knowledge in the market, often are recommended to step up a level in their investments, taking advantage of the nature of certain instruments, such as a capital insurance, which allows the client to trade stocks and funds more freely. In other words, a high rating in the factors of activity, knowledge and interest are important when investments are made, and this means more risk can be taken, which leaves room for a portfolio mix with higher potential returns.
Finally, in these times of financial difficulty a clear pattern can be seen in the advisors recommendations when it comes to investing in safe, liquid assets which keeps the clients money close at hands. A majority of the advisors suggests saving towards a “buffer” for all of the profiles, which often means dealing with interest-bearing instruments or a savings account.
### 7.1.5.1 The Profiles

The following table shows the recommendations and guidelines that will serve as our conclusions on how these profiles should handle their personal finance.

**Figure 4 - Saving and Investment Recommendations**

<table>
<thead>
<tr>
<th>Profile</th>
<th>Student</th>
<th>Worker</th>
<th>Retired</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk</strong></td>
<td>Medium-High</td>
<td>Medium</td>
<td>Low-Medium</td>
</tr>
<tr>
<td><strong>Time Horizon</strong></td>
<td>Unexpected expenses, consumption, travel, larger purchases, first car</td>
<td>Unexpected expenses, family, children, house, car, pension</td>
<td>Secure retirement, family, children, consumption, leisure</td>
</tr>
<tr>
<td><strong>Advises</strong></td>
<td>1. At least a portion of savings in interest-bearing instruments or savings account to work as a “buffer”</td>
<td>1. Save monthly in pension-fund, extra if above tax bracket</td>
<td>1. Interest-bearing instruments or savings account for securing retirement, consumption and leisure</td>
</tr>
<tr>
<td></td>
<td>2. Medium-risk funds for potentially higher returns with medium risk</td>
<td>2. Majority of savings to build a “buffer” in interest-bearing instruments</td>
<td>2. Higher risk funds or mixed portfolios for children and grandchildren</td>
</tr>
<tr>
<td></td>
<td>3. Long-term savings with higher risk to build capital for future</td>
<td>3. Long-term savings with higher risk to build capital for future</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. If active, consider capital insurance</td>
<td>4. If active, consider capital insurance</td>
<td></td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td>Save monthly to protect against fluctuations</td>
<td>Build a “buffer”</td>
<td>Save in liquid assets</td>
</tr>
<tr>
<td><strong>Reasons</strong></td>
<td>1. Fairly liquid assets, to protect against unexpected expenses and to use for consumption</td>
<td>1. Take advantage of saving for pension instead of paying taxes</td>
<td>1. Keeping money close at hands, ready for consumption</td>
</tr>
<tr>
<td></td>
<td>2. Building capital for larger future purchases, first car etc.</td>
<td>2. Considering family situation, fairly liquid assets, to prepare for unexpected expenses</td>
<td>2. Long-term commitment gives room to make up for losses</td>
</tr>
<tr>
<td></td>
<td>3. Higher potential to build up future capital, since buffer already is taken care of</td>
<td>3. Higher potential to build up future capital, since buffer already is taken care of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Take advantage of trading freely with funds, potential high returns</td>
<td>4. Take advantage of trading freely with funds, potential high returns</td>
<td></td>
</tr>
</tbody>
</table>
7.2 Theoretical and Practical Implications

The respondents’ answers have validated our chosen theories in most parts, since we have found patterns that support existing theories (such as the life-cycle theory, behavioral finance and the financial advisory process etc.). We found all of the theories used as suitable since they all have contributed to a certain degree. However, no new theories have been generated as a result of the study.

We imply that the patterns, along with the support of existing theories, have generated valid guidelines in line with our purpose. Hence, if the characteristics of the investor are found to be similar to the profiles, these very general recommendations could be used in order to base a portfolio mix upon.

7.3 Suggestions for Further Research

There are fairly extensive possibilities for further research within the area of personal finance, and saving and investment in particular. However, in light of the findings of this report, three interesting ideas for further research will be briefly presented.

- Comparing the methods and tools used by financial advisors within the banking sector to other independent financial advisors.

- Analyzing the tools and software that financial advisors use to create saving and investment portfolios for clients.

- Looking more closely at the potential differences in financial advising during a recession and when not in a recession.
8. Trustworthiness

In this section the reader will be introduced to the issues concerning the quality of our study, including credibility, transferability, confirmability, dependability, and authenticity.

The truth criteria of validity and reliability are essentially based on a quantitative approach. Measurement, parameters, instruments, research methods etc must be valid and reliable in order to be usable and appropriate in order for the research to be of scientific value. (Ejvegård, 2003) Since an interview has to be standardised and very structured in order for these criteria to be useful and the fact that we have use semi-structured interviews, we imply that there are other criteria better suited for qualitative researches. According to Lincoln and Guba (1985) there are two alternative criteria in order to judge qualitative research; trustworthiness and authenticity. Trustworthiness has four building blocks which all have a counterpart in quantitative research. (Bryman & Bell, 2007)

8.1 Credibility

Credibility means that the description of the social reality the researcher is describing has to be credible. Bryman and Bell (2007) put forward that in order to guarantee the trustworthiness of the study the researcher has to let the respondents confirm that the researchers has understood them correctly. In order to confirm that our research is reliable we have done a respondent validation, hence we have sent our empirical data from our interviews to the respondent in order for them to verify and validate the data. Since all respondents were satisfied with our empirical data we can imply that the data in our report is credible.

8.2 Transferability

Transferability involves if the reality or phenomena which are supposed to be studied is studied deep enough. Bryman and Bell (2007) states that qualitative researchers should produce extensive detailed accounts and details, in order for the reader to gain a higher understanding and to a higher degree verify the contents of the report. In order for us to reach as high transferability possible we chose to interview six different advisors at three different banks. In the beginning we thought of interviewing two more, however, we discussed the impact of more respondents, and due to our limitations and the fact that we felt that we had reached a sort of empirical saturation, we chose not to interview more advisors. This phenomenon is also described by Johansson Lindfors (1993). They state that at some point more data would not improve the quality of the data, but only give the same
information again. Nevertheless, we are aware of the fact that more respondents would have given our report stronger evidence and hence, a higher degree of transferability.

8.3 Confirmability

Confirmability means that the researcher must be aware of the fact that it is impossible to have 100% objectivity in a qualitative study. What is important is that the researcher makes it clear to the reader that the study is made in good faith, and also that it is obvious that the researcher has not permitted own personal values or theoretical direction affect the implementation of, and the conclusions of the research. According to Lincoln and Guba (1985) it is the job of the reader to conclude to what extent the results can be validated.

8.4 Dependability

As an alternative to the quantitative truth measure of reliability Lincoln and Guba (1985) gives the criterion of “dependability”. Bryman and Bell (2003) states that in order to judge a research’s quality using this sub measure, the researcher should assume an auditing approach. This means that the researcher creates a complete and available account on all phases of the study. This document can then be evaluated by peers who act as auditors, and their role is to make sure that every step in the process is of good quality. However, Bryman and Bell (2003) states that this measure is seldom used in business research since qualitative studies generate massive amount of data and hence, the task becomes too heavy for the peers. This is a measure that not has been followed due to the reasons Bryman and Bell states. Our research has generated plenty of data and we assumed that no peer would be willing to act as an auditor for our study; hence we decided that other measures were more important in order to securitize the quality of the study.

8.5 Authenticity

Lincoln and Guba’s (1985) authenticity criteria has according to Bryman and Bell (2003) not had a great impact, but instead been seen as provocative. Instead, Bryman and Bell (2007) put forward that in order for the researcher to achieve authenticity it is crucial that all the opinions and viewpoints of the respondents is depicted and put forward. We have when performing the transcriptions tried to put forward all respondents’ viewpoints since their thoughts and inputs have been crucial in order to produce analysis and conclusions. We imply that since we have confirmed our empirical findings with our respondents, our research can also be seen as reliable. Further, since we have attached our interview guide and interview questions it is possible for the reader to judge if our material is trustworthy.
And with these factors at hand we imply that this study reflects openness and hence, authenticity.
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Appendices

Appendix A – Introduction Letter

To whom it may concern,

We are two students at Umeå University which currently are writing our bachelor thesis in the subject of finance. Our approach is from the viewpoint of three fictional profiles be able to create general guidelines on how to manage the personal finances. We hope to achieve this by interviewing a number of personal financial advisors at different institutions within the Umeå area. Therefore we ask if it is possible to arrange two interviews with two different personal financial advisors at your bank anytime in the end to week 18. The interviews are going to last approximately 20-30 minutes and our interview guide will be sent to the advisor beforehand if so requested.

Regards,

Peter Furberg & Danny Persson
Dear X,

We are two students at Umeå University and are currently writing our bachelor thesis in the field of finance, more specifically financial advisory in the current financial environment. In short, the thesis is going to discuss how different personal financial advisors at different institutions view saving and investment opportunities right now from the viewpoint of our created profiles. We will research patterns and guidelines, as well as analyze the recommendations and see if they have changed in effect of the current crisis. The goal of the thesis is to see if we can find any patterns in the financial advices today, in order to have a solid base for a saving and investment template, as well as see if the recommendations, patterns and guidelines can be explained by economic theory.

We have attached interview guide as well as the profiles which will be used in order for you to be able to be as prepared as you feel appropriate. The interview is going to be recorded if you do not have any objections to that, and of course the information is going to be anonymous. The interview will be transcribed and the information gathered will be sent out in order for you to confirm our transcription before the data goes into our report.

We look forward to our meeting!

Regards,

Peter Furberg & Danny Persson
Appendix C1 – Profiles

Profile 1 – Student
Age 22
Income 7,820kr/month
Can save up to 500kr/month
20,000kr in savings

(Risk: Medium-High)
(Time frame: Saving for unexpected expenses, consumption, travel, larger purchases, first car etc.)

Profile 2 – Worker
Age 40
Married and two children
6,600kr left after bills and such are paid
Can save up to 2500kr/month
50,000kr in savings

(Risk: Medium)
(Time frame: Saving for family, children, house, car, travel, pension)

Profile 3 – Retired
Age 65
Income 15,500kr/month
Can save up to 1,500kr/month
40,000 in savings

(Risk: Low-Medium)
(Time frame: Saving to secure life after retirement, family, children, leisure)
Appendix C2 – Explanation of how profiles were created

Profile 1 – Student

Age 22
Income 7,820kr/month
Can save up to 500kr/month
20,000kr in savings

(Risk: Medium-High)
(Time frame: Saving for unexpected expenses, consumption, travel, larger purchases, first car etc.)

In 2007, 75% of all Swedish students received both student aid and loan (E24Pengar, 2007), which is why we chose to give the “Student” an income of 7,820kr/month. (CSN, 2009)

Furthermore, we assume (based on our own experiences) that the “Student” have up to 500kr/month to save, as well as another 20,000kr in savings available for placement.

Profile 2 – Worker

Age 40
Married and two children
Disposable Income 15,600 (Income after taxes)
6,600kr left after bills and such are paid
Can save up to 2500kr/month
50,000kr in savings

(Risk: Medium)
(Time frame: Saving for family, children, house, car, pension)

According to Statistiska Centralbyrån (SCB, 2007), individuals age 34-45 have a median disposable income (in this case income after taxes) of 15,600kr/month.

Statistics from Nordea (2006) also show that on average people between the age of 25 and 65 have 6,600kr/month left after bills and such have been paid. We therefore assume that the “Worker” have 2500kr/month to save. Furthermore, we assume that the “Worker” have 40,000kr in savings available for placement.
Profile 3 – Retired

Age 65
Income 15,500kr/month
Can save up to 1,500kr/month
40,000 in savings

(Risk: Low-Medium)
(Time frame: Saving to secure life after retirement, family, children)

According to statistics (DN, 2009), the average pension is 15,500kr/month. Furthermore, statistics from SEB (SEB, 2007) show that 9 out of 10 retired people save money and about 40% save more than 1,000kr/month. We therefore assume that the “Retired” can save up to 1,500kr/month, as well as having 40,000kr in savings available for placement.
Appendix D – Interview Questions

Background

Age?

What type of education do you have?

How long have you worked within finance and saving/investment?

How long have you worked at your current institution?

Financial Advising

How is an ordinary financial advisory session with a private client conducted?

What do you base your advising / recommendations on?

What does the financial advising process at your bank look like?

What factors in a person to you take into consideration when you give your recommendations and suggestions on saving and investment?

How has financial advising in general changed since the financial crisis first hit Sweden?

How has YOUR advising to clients changed since the financial crisis first hit Sweden?

Risk

How do you explain risk to the client?

How do you determine what level of risk is appropriate to different clients?

How have the law on financial advisory to consumers and the law on securities affected your way of working?

Saving & Investment

What should people avoid investing/saving in right now?

What do you recommend people invest/save in right now?
Do you think these three profiles seem like good representatives for a larger group of people (based on your experiences)?

How do you suggest each of these three profiles set up their personal savings (based on their info?)