Unitifi: Investor Behavior Tools

Pre-Test Executive Summary Report

Published January 2018

Authors

Edan Jorgensen, Ph.D.

Stacia Jorgensen, M.A.

Jerry Szatko, Unitifi Chief Executive Officer

Publisher

FIIRO, Inc. d/b/a Unitifi
www.fiiro.com | 12020 Shamrock Plaza #200 | Omaha, NE 68154 | 402.819.7537

Table of Contents

Purpose

The purpose of this executive summary report is to provide an overview of the outcomes from the pre-test survey using the FIIRO Consumer Behavior Intelligence Report. This tool was developed in 2016 and is administered by its proprietor, Financial Industry Information & Rating Organization, Inc. (FIIRO) d/b/ Unitifi. Here, the reader will find a brief description of the Consumer Behavior Intelligence Tool as well the outcome of the tools' statistical reliability and validity assessment.

Understanding the Consumer Behavior Intelligence Report

The FIIRO Consumer Behavior Intelligence Report Tool, also known as the Unitifi UCIT is designed to assist Financial Advisors and Financial Brokerages with the empowerment to better understand the individual decision-making process of their clientele. At the inception of the advisor/advisee relationship, the advisee completes the Consumer Behavior Intelligence Tool. The initial tool was administered via a web-based platform and consisted of 43 questions for testing and validation. We removed the redundant and validation questions resulting in a current version of 20 questions on this web-based platform. The responses to these questions are then compiled and an empirically-based risk assessment is calculated according to the personality and investment tendencies of the advisee. Using the summation of the advisee's responses, the financial advisor is provided two important sources of information. First, the advisor is given a visual display of the advisee's investment personality. Better said, they will be provided a visual guide for understanding the aggressive, moderate or conservative investment style of their client(s). Second, the advisor will gain critical insight regarding the advisee's investment tendencies; that is, do they tend to protect, observe, act in a liberating, or energizing manner when making investment decisions. In sum, the advisor will have a statistically reliable and valid tool to provide powerful insight on how they

best strategize, communicate, advise, and build a relationship that is customized to the unique needs of each individual they interact with in their financial sphere.

Consumer Behavior Intelligence Report Pre-test Methodology

FIIRO, d/b/a Unitifi adheres to a rigorous research processes when creating and evaluating assessment tools for the financial services industry. Because of this standard, a pre-test of the Risk Tolerance Tool was conducted in the spring of 2016. A total of 1,001 individuals completed the assessment between 07 June 2016, and 08 June 2016. The objective of the pre-test is to gather real-world data to empirical test the statistical robustness of the tool.

As part of the Financial Consumer Risk Behavior and Preferences Tool questionnaire, also known as the Unitifi Assessment, respondents answer each item using a sliding scale to indicate their level of agreement or disagreement. This sliding scale then calculates their position along a continuum ranging from strongly disagree, or negative 50 (-50), to strongly agree, or positive 50 (50), with a neutral point of zero.

As a means to test the overall performance of the Financial Consumer Risk Behavior and Preferences Tool, pre-test respondents were also asked to complete the Investor Profile Questionnaire developed by Charles Schwab as part of the pre-test study. Comparison of the Risk Tolerance Tool to the Financial Consumer Risk Behavior and Preferences Questionnaire allows for evaluating the effectiveness of the Financial Consumer Risk Behavior and Preferences Tool using an established and industry standard tool for assessing the risk tolerance of investors.

Reliability of the Unitifi Consumer Insight Tool

Testing for reliability is a process where the dependability and consistency of a survey tool is measured. Simply, reliability testing evaluates the ability for a survey respondent to achieve a similar outcome if the test were taken again to verify the results were not due to chance alone. The most commonly used test for measuring internal consistency test, Cronbach's alpha, is used here to assess the reliability of the Risk Tolerance Tool. Results show that a Cronbach's alpha of between .74 and.77 were achieved for each of the four investor types. These scores are within the optimal statistical range (.70 to .90) and indicate the Risk Tolerance Tool meets reliability standards. The Cronbach's alpha for each investor types is included in Table1. These results indicate that the Consumer Behavior Intelligence Tool is statistically reliable or, stated differently, will accurately measure the investment tendency of each advisee 99%, to 99.9% of the time.

Table 1. Cronbach's alpha scores by Investor Type

Theme	Cronbach's alpha
Protector	.74***
Observer	.77***
Liberator	.77***
Energizer	.75***

*** p-value $\leq$ .001

Validity of the Consumer Behavior Intelligence Report

Assessing the validity of the Consumer Behavior Intelligence Tool is key to interpreting its effectiveness. While reliability tells us how stable the Consumer Behavior Intelligence Tool is in measuring the behavior and investment tendency of respondents, validity indicates how accurately the tool is at predicting an individual's these same concepts. For the purpose of this study, the criterion that the Consumer Behavior Intelligence Tool is predicting is investment behavior, and the amount of "risk" each advisee is willing to accept.

A statistically significant relationship is found if the p-value is less than or equal to .05. Stated differently, a relationship that is significant at the .05 level indicates that the possibility of the relationship being found by chance alone is 5% (with a p-value of .01 indicating a 1% chance and a p-value of .001 indicating a less than 1% chance). For example, a p-value of .01 can be interpreted as "99% of the time, the Risk Tolerance Tool can be expected to predict the investment personality, tendencies, and risk tolerance of the target individual."

Table 2 summaries the p-values for the Consumer Behavior Intelligence Tool where it can be seen that the tool is found to be a valid predictor of investor behavior. More specifically, Table 2 indicates the Behavior and Tendencies measured have significant bivariate correlation with "Risk Tolerance". More specifically, each individual's "Risk Tolerance" has a strong, positive correlation to a self-reported "Pre-Risk Spectrum" (r=.35, p<.001) and self-reported "Personality" index when investing (r=.42, p<.001). More modest correlations were found for the "Liberator" (r=.14, p<.001) and "Energizer" (r=.17, p<.001) tendencies. In each case, it is clear that all four Independent variables (Pre-Risk Spectrum, Personality, Liberator, and Energizer tendency) have a positive correlation to "Risk Tolerance". More specifically, when individuals self-report their risk score as high on the "Personality" index, and are either demonstrating Liberator or Energizer tendencies, "Risk Tolerance" is significantly higher. This means they will tolerate more risk in their financial decision making and therefore should be partnered with an advisor who will understand, and respond, to their [high] Risk Tolerance. Contrastingly, individuals who score high on the Protector tendency demonstrated a negative, yet statistically significant correlation (r=-.08, p<.01) to Risk Tolerance. This means that Protectors have a negative correlation to "Risk Tolerance", or are significantly less likely to tolerate risk. Lastly, the only [statistically] non-significant relationship in the analysis was between Risk Tolerance and the Observer tendency. While not statistically significant, this finding explains the Observer investor theme well. In fact, by definition, the Observer does not fit either the aggressive or conservative personality/tendencies. These individuals take a "wait and see" approach. As such, they

could easily become a one of the other three investment types depending on the situation, messaging, and approach of the financial advisor.

Table *: Bivariate Correlation between "Risk Tolerance" and Investor Personality /Tendencies							
	"Risk Tolerance"	Pre-Risk Spectrum	Personality	Protector	Observer	Liberator	Energizer
"Risk Tolerance"	1.00						
Pre-Risk Spectrum	.35**	1.00					
Personality	.42**	.37**	1.00				
Protector	-.08*	.05	.08*	1.00			
Observer	.03	.16**	.2**	.67**	1.00		
Liberator	.14**	.23**	.34**	.62**	.65**	1.00	
Energizer	.17**	.25**	.34**	.64**	.74**	.72**	1.00

** Correlation is significant at the 0.01 level (2-tailed).
 * Correlation is significant at the 0.05 level (2-tailed).

Conclusions

The purpose of the FIIRO Consumer Behavior Intelligence Tool, also known as the Unitifi UCIT, is to provide individuals in the financial advisement profession a vehicle for better understanding client risk tolerance and investment ideology. In doing so, financial advisors have a strategic advantage to how they communicate with, guide, and administer to their clients based on each client's individual needs and preferences.

Based on statistical analysis, the "Behavior" variable and the employment of four distinct investor tendency types (Protector, Observer, Liberator, and Energizer) is empirically supported. That is, each type, in their own right, is statistically reliable. More specifically, they are measuring what they claim to be measuring regarding the behavior and tendencies of the financial advisor's clientele.

Likewise, the validity of the Consumer Behavior Intelligence Tool is statistically sound, meaning it will reliably predict, 99% of the time, the behavior type and tendency of each respondent. More specifically, the construct and criterial validity results demonstrate an accurate measure of behavior and tendency (Protector, Observer, Liberator, and Energizer).

By using the Consumer Behavior Intelligence Tool to identify behavior and tendencies of their clientele, financial advisors and institutions are better able to successfully support and guide each client based on their individual needs. This information is pivotal in understanding how the financial advisor buildings relationships with, and then appropriately invests, based on their clientele's personality and tendency towards financial risk.

To learn more about the Consumer Behavior Intelligence Tool or for additional details regarding the Consumer Behavior Intelligence Tool Pre-test, please contact FIIRO d/b/a Unitifi at:

> FIIRO, Inc d/b/a Unitifi.
> 12020 Shamrock Plaza #200 | Omaha, NE 68154
> **https://www.Unitifi.com** |
> 402.979-7185