Beyond risk: Matching solutions to people

Delivering personalised suitability through behavioural insight into smoothing

Standard Life

01 Executive summary

Even the most elegantly optimised portfolio can fall short if the investor cannot stick with it.

While financial theory focuses on risk-adjusted returns, real-world investing depends on emotional resilience. The true objective is not merely to maximise performance, but to build portfolios that investors can live with, especially during periods of uncertainty and volatility.

Smoothing is one tool that can support investors emotionally by softening the peaks and troughs of market movements. But it is not universally appropriate. For some, it offers a much-needed buffer against the anxiety of volatility. For others, it adds additional cost or complexity.

Oxford Risk's behavioural fit to smoothing provides a structured way of addressing this challenge. It is grounded in Oxford Risk's Financial Personality Assessment, which identifies stable behavioural traits that influence how investors experience volatility. These insights can then be enriched with context-specific considerations – such as income needs, goal timelines, and portfolio visibility – to reflect the realities of the investor's current situation. This enrichment is often something the adviser brings to the table, placing behavioural insight into the human context of prescription. Together, this helps firms judge where smoothing is likely to add meaningful value, and where other strategies may be better suited.

This behavioural perspective helps bridge the gap between optimal portfolio theory and practical portfolio decisions. It enables a more personalised and emotionally sustainable approach to portfolio construction, ensuring the solution chosen isn't just appropriate in theory, but truly viable for the person who needs to live with it.

This document provides a summary of the behavioural rationale for smoothing, explains a structured approach to understanding behavioural fit to smoothing, and explores its application across advice journeys, solution selection, and regulatory frameworks.

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Behavioural concept callouts

Behavioural capacity

An investor's emotional ability to stay invested through volatility. It complements Risk Tolerance and Risk Capacity, helping explain who may need additional support, such as smoothing.

Anxiety-adjusted returns

The best returns an investor can achieve, given the emotional strain they can endure. Smoothing improves this by reducing stress without sacrificing returns.

Emotional liquidity

A behavioural buffer that gives investors the confidence to draw on their capital, even in downturns. Smoothing can help preserve this comfort when it matters most.

The behavioural say–do gap

The gap between good intentions and real-world actions. Understanding behavioural fit to smoothing helps close this gap by aligning strategy with emotional needs.

02 Why smoothing matters

Most investors fall short of their potential not because they lack financial knowledge, but because they struggle to maintain their strategy in the face of emotional discomfort. When markets fall, many investors panic. When markets rise, they chase performance. Over time, this behaviour leads to costly deviations.

Traditional portfolio construction is centred on risk-adjusted returns. It assumes that investors are emotionally neutral and capable of withstanding volatility. But most investors are not spreadsheets – they are people. They experience fear, regret, uncertainty, and doubt. This is why Oxford Risk proposes a broader framing: **anxiety-adjusted returns**.

Anxiety-adjusted returns reflect the actual outcomes an investor can achieve given their behavioural tendencies. While not a formal metric, they provide a valuable conceptual lens for understanding what a client can realistically achieve and sustain over time. The goal is not to eliminate volatility, but to manage it in ways that make it tolerable for the individual. For some, this may mean simplicity. For others, smoothing offers a more manageable journey. It can also be useful in portfolios that are segmented by time horizon or targeted to specific goals, helping maintain more stable values for medium-term, four to seven year goals.

By reducing the emotional noise of market movements, smoothing can help investors stay invested when they might otherwise disengage. This is particularly powerful for those with low behavioural capacity, meaning the emotional ability to withstand discomfort, or for those with a short emotional time horizon. Smoothing can act as a form of behavioural insurance, helping give these investors the confidence to persevere.

One example is Sarah, a client approaching retirement. She has moderate risk tolerance and a well-funded portfolio but feels increasingly anxious as markets fluctuate. Despite her solid finances, she checks her portfolio daily and recently considered switching to cash. Her Oxford Risk Financial Personality Assessment – completed as part of her adviser's broader advice process to enable a deep understanding of her behavioural preferences – shows low Composure and low Financial Comfort, and moderately high Impulsivity and Spending Reluctance. Together, these characteristics suggest that she is likely to find a smoother investment journey more emotionally comfortable. Rather than reduce long-term growth potential, her adviser incorporates smoothing as part of her overall portfolio strategy. It gives her the emotional support to stay invested and on track, without sacrificing her goals.

Sarah's story is common. Many investors need more than technical optimisation. They need support that helps them manage their behavioural reality. Smoothing is one such tool – and a behavioural understanding of fit helps advisers judge who is most likely to benefit.

03 Understanding behavioural fit to smoothing

Understanding behavioural fit to smoothing brings behavioural science into suitability. Rather than relying solely on risk tolerance or demographics, it considers an individual's emotional needs and behavioural patterns in a structured and evidence-informed way.

It does this through two core components:

The behavioural foundation

This draws on Oxford Risk's validated Financial Personality Assessment, which identifies how investors are likely to react under stress, uncertainty, or decision complexity. Traits such as Composure, Impulsivity, and Financial Comfort have been shown to strongly predict the emotional sustainability of a portfolio. These stable personality traits provide the behavioural foundation for understanding when smoothing is likely to make the investment journey more emotionally sustainable.

The contextual layer

This reflects the broader context the adviser considers alongside the investor's Financial Personality. These considerations include income withdrawals, short-term or medium-term goals, the presence of time-segmented portfolios, and the level of attention or visibility the investor has over their investments. This enrichment with context-specific information is where the adviser adds significant value, placing behavioural insight into the human context of prescription.

Together, these two components provide a structured way for advisers and firms to judge whether smoothing is likely to be helpful for a particular investor. This supports more tailored communication, recommendations, and solution pathways that reflect each investor's emotional profile.

By structuring the framework in this way, the behavioural perspective remains robust enough to support consistency across different investors, yet flexible enough to reflect the nuances of each individual's circumstances. This balance is essential for making smoothing recommendations that are both evidence-based and genuinely personal. It ensures that advice is not only grounded in behavioural science but also anchored in the practical realities of the investor's life.

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04 The role of financial personality

Financial Personality offers a stable, empirically grounded view of behavioural tendencies that shape decision-making. The behavioural fit to smoothing focuses on the personality traits most predictive of anxiety during the investment journey. These traits often act as behavioural analogues to classic financial risks.

For example, low Composure and high Impulsivity increase the temptation to sell at market lows – mirroring the effects of sequencing risk, where the order of returns matters most at the point of withdrawal. Meanwhile, low Financial Comfort and high Spending Reluctance often reflect a psychological fear of running out of money, even when the financial plan is robust – paralleling the challenge of managing longevity risk.

Composure is the trait most directly linked to how calmly an investor experiences volatility. Low Composure investors feel each market downturn as a threat, triggering heightened stress responses. For them, the emotional experience of the journey may be so uncomfortable that sticking with the plan becomes difficult.

Impulsivity compounds this challenge. Investors high in Impulsivity are more likely to act quickly and emotionally rather than ride out discomfort. They may switch strategies, withdraw, or de-risk portfolios prematurely. Smoothing offers these investors a behavioural buffer that reduces emotional salience.

Financial Comfort represents how safe or secure an investor feels about their financial situation. Low Financial Comfort can lead to a persistent fear of running out of money – even when objectively well-prepared. These investors benefit from solutions that reduce perceived vulnerability.

Other traits such as **Confidence, Spending Reluctance, Liquidity Preference,** and **Desire for Guidance** all play a role. Together, they shape how an investor evaluates risk, responds to change, and engages with advice.

A behavioural understanding of fit to smoothing helps bring these insights together in a clear and usable way. This simplifies a complex behavioural picture while preserving the depth of understanding needed to match investors to solutions that are emotionally and financially sustainable.

05 Contextual factors and real-world fit

While personality provides the behavioural anchor, context ensures that the adviser's judgement reflects the investor's current situation. The contextual layer recognises that even investors with similar personality profiles may require different solutions depending on their financial and personal circumstances.

Key contextual factors include:

Withdrawal frequency

Clients making regular withdrawals, such as retirees drawing income, are more exposed to behavioural sequencing risk. The stakes of short-term volatility are emotionally amplified when it coincides with withdrawals.

Goal proximity

Spending goals within the next one to three years increase the emotional salience of portfolio movements. If funds are needed soon, the impact of any dip feels more immediate.

Medium-term goals and time-segmented portfolios

For investors managing portfolios by time horizon or goal, smoothing can be used to provide more stable values for segments with a medium-term (four to seven year) horizon, reducing anxiety over meeting these objectives.

Portfolio visibility

Clients who check portfolios daily are more exposed to the emotional highs and lows of markets. The same volatility feels less acute when the investor isn't watching closely.

Life events

Divorce, bereavement, job loss, or health issues all reduce emotional resilience. Even the most composed investor may temporarily need additional support. Such events can also heighten **behavioural vulnerability** – a related but distinct concept from behavioural fit to smoothing. Behavioural vulnerability, like smoothing fit, is influenced by financial personality traits and may make smoothing a useful support, though not all who are behaviourally vulnerable require it, and not all who benefit from smoothing are behaviourally vulnerable.

These factors refine – but do not override – the behavioural foundation, helping ensure that smoothing is not considered (or dismissed) solely on personality or circumstances, but on a realistic picture of how the two interact. In practice, this means a behavioural understanding of fit to smoothing gives the adviser a strong starting point, which they can then enrich with their understanding of the client's current and anticipated circumstances.

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06 Beyond smoothing: Matching solutions to people

Smoothing is one of several behavioural levers available to help investors achieve better long-term outcomes. While it can be a valuable approach for many, it is not always the most effective or efficient way to provide emotional comfort. Some investors may not need it at all, while others may benefit more from different or complementary features.

For example, some combinations of financial personality traits may point towards **guaranteed income** solutions, which provide certainty of cash flow and can address both emotional and financial concerns. Others may be better suited to **natural income** approaches, or to investments aligned with their values, such as sustainability-focused solutions. For many, the optimal outcome may be a blend of solutions, where smoothing plays one part in a broader, personalised strategy.

Oxford Risk's **Investor Personas** offer a behavioural segmentation framework that groups investors with similar profiles of financial personality traits, emotional needs, and decision-making styles. Multiple personas may exhibit behavioural characteristics that make smoothing particularly valuable, but differ in their suitability for other features:

- A **Cautious Protector** may value both smoothing and guaranteed income for emotional security.
- A **Planner** might appreciate smoothing alongside structured, transparent solutions that reduce uncertainty.
- A **Pioneer** may reject smoothing in favour of higher-risk opportunities, autonomy, and market exposure.

By mapping persona profiles to solution characteristics, advisers can create well-rounded portfolios that maximise each client's anxiety-adjusted returns. Further detail is provided in the Appendix, which offers adviser-ready persona snapshots showing how behavioural tendencies relate to likely smoothing preferences and broader solution considerations. These help illustrate how personas align with features like smoothing, guaranteed income, and investment style, and offer one-page snapshots of behavioural tendencies and solution preferences for practical use.

Understanding these differences enables more targeted and effective advice. An understanding of behavioural fit to smoothing is just one element within a broader set of behavioural considerations, each helping to match clients to solutions they are both financially able and emotionally willing to maintain.

07 Suitability, regulation, and Targeted Support

Behavioural alignment is central to modern suitability. The FCA's Consumer Duty, and the Targeted Support framework, both emphasise the importance of tailoring solutions and communications to individual needs – not just in financial terms, but in the way they are experienced and understood.

A behavioural understanding of fit to smoothing supports this by helping firms:

- Identify investors who may be at risk of emotional disengagement, poor decision-making, or knee-jerk reactions to current volatility, as well as those who avoid investing due to anticipated regret or fear of future volatility.
- Personalise solution recommendations to reflect emotional needs, not just financial facts or risk metrics.
- Justify decisions and evidence suitability clearly and consistently across clients.
- Tailor communication style and message framing to match behavioural preferences.
- Segment clients in a scalable, behaviourally meaningful way for Targeted Support.

By doing so, this behavioural approach provides a pragmatic foundation for meeting regulatory obligations – particularly around demonstrating fair value, delivering appropriate support, and ensuring clear, accessible communication. For example, it can help ensure smoothing is considered only when it is likely to deliver meaningful emotional benefit while avoiding unnecessary complexity or cost; identify clients who may experience emotional friction so advisers can provide proactive reassurance and appropriate framing; and ensure that communications are delivered in a tone and style that match the client's personality as well as the content.

Importantly, a behavioural understanding of fit to smoothing can also help support clients with heightened **behavioural vulnerability**. While distinct from behavioural fit to smoothing, behavioural vulnerability is influenced by overlapping financial personality traits and can make market volatility more likely to trigger anxiety or disengagement. Smoothing can be one way of moderating this emotional intensity, reducing the chance of poor decisions in turbulent conditions. Life events such as divorce, redundancy, or bereavement can further heighten vulnerability, making the adviser's role in contextualising recommendations even more critical.

This means the behavioural perspective supports not only compliance but, more importantly, client outcomes. It allows firms to do the right thing, for the right reasons, in a way that can be documented, scaled, and sustained.

08 Practical application across channels

A behavioural understanding of fit to smoothing can be applied effectively across different advice and distribution channels, ensuring that behavioural insight informs decision-making at every stage.

In **full advice** settings, this behavioural perspective can be used to enhance client conversations. Advisers can frame recommendations not only in terms of potential return or volatility, but in terms of emotional fit – explaining how smoothing may help the client maintain their strategy in the face of market stress. This builds confidence and encourages consistent, sustainable decisions.

In **guided journeys**, this judgement supports smarter segmentation. Clients can be presented with solutions that align with their behavioural profile, supported by plain-language explanations of why they are a good fit. This personal relevance increases engagement and trust.

In **self-directed** contexts, an understanding of behavioural fit to smoothing acts as a behavioural nudge. By encouraging investors to reflect on the type of investment journey they can realistically manage, it can guide them towards choices they are more likely to stick with.

For **internal governance**, firms can use this behavioural framework to review whether smoothing is being offered where it is likely to add meaningful value, and avoided where it does not. This provides clear evidence of suitability and alignment with Consumer Duty principles.

When combined with other behavioural fit considerations – such as sustainability preferences, income needs, and liquidity preferences – understanding behavioural fit to smoothing becomes part of a broader behavioural suitability framework. This enables advisers, platforms, and providers to match clients to solutions they can confidently maintain, supported by a clear behavioural rationale.

Ultimately, this approach helps to close the behavioural intention–action gap: the difference between what investors say they will do and what they actually do. By offering solutions that fit both financially and emotionally, firms can deliver better long-term outcomes for clients while supporting stable, lasting assets under management.

09 Conclusion

Investing well is not just about maximising performance. It is also about managing the emotional experience of the journey. For many investors, their ability to achieve strong long-term outcomes depends less on selecting the theoretically optimal portfolio and more on choosing one they can realistically maintain through different market conditions.

A behavioural understanding of fit to smoothing provides a practical, evidence-based way to understand which investors are most likely to benefit from smoothing, and why. By integrating deep behavioural insight from the Financial Personality Assessment with an adviser's understanding of the client's current context, this behavioural perspective supports decisions that are both financially and emotionally suitable.

This approach helps advisers personalise recommendations, reduce behavioural friction, and create portfolios that are viable not only in financial models but in the day-to-day realities of client experience. It allows firms to document and scale these insights, supporting both client outcomes and regulatory alignment.

Used alongside other behavioural considerations, an understanding of behavioural fit to smoothing becomes part of a broader toolkit for matching clients to solutions they are financially able – and emotionally willing – to sustain. This combination strengthens trust, encourages long-term engagement, and helps close the gap between good intentions and consistent action.

The best investment is not just the one with the highest expected return. It is the one the investor can stick with, in good times and bad.