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Ever wonder why your discussions about risk fall on deaf ears? In their book, *Denying to the Grave, Why We ignore the Facts that Will Save Us*, authors Sara and Jack Gorman offer insights you may find surprising.

Let me jump to the bottom line. Your risk discussions are based on a premise that’s fatally flawed: You believe logic and data are persuasive.

The authors provide a number of reasons why this premise is dead wrong.

**Emotions intrude**

Every student of behavioral finance understands emotions trump data. We tend to base our assessment of the probability of risk on emotions, and then rationalize that we have done so using objective data.
We overreact to risks we can’t control (like the fear of nuclear accidents) and underreact to risks we can (like how we drive a car).

We particularly overreact to risks that are uncontrollable, have catastrophic or even fatal consequences and involve “one group taking a risk and a separate group reaping the benefits,” according to the Gormans.

Once you accept those facts, you understand the uphill battle confronted by those advocating for nuclear power and others warning about the potential adverse impact of climate change.

**Misperception of probabilities**

We overestimate small probabilities and underestimate large ones.

This misperception of risk is what explains why we purchase lottery tickets, despite the odds against winning, and why we continue to consume more calories than we burn, despite adverse health consequences.

Another factor contributing to misperception of risk is “ease of imagination.” We can easily imagine the horror of being attacked by a grizzly bear in a national park. Consequently, we have a heightened fear of such an occurrence, even though the rate of injury from bear attacks is only one per two million visitors.”

**Familiarity distorts risk perception**

According to the authors, we’re tolerant of risks “that are familiar, frequently encountered or part of a well-understood system.” We perceive unfamiliar risks with a heightened sense of fear and anxiety. This explains why most of us believe the likelihood of a fatal accident while riding a train is more remote than the danger posed by nuclear energy, although the data is doesn’t support this conclusion.

**Practical implications**

I will discuss additional factors that distort our assessment of risk in future articles.

This research has practical implications when you discuss risk with your clients. Here’s my take:

1. Don’t assume a dispassionate discussion of data will cause your clients to view risk objectively.
2. Stock market risk falls into the category of “familiar.” This makes it more difficult for your clients to take this risk seriously.
3. The risk of a recession (or worse) is a large one. As noted above, we tend to underestimate these kinds of risks.

Armed with this knowledge, ask your clients questions about their perception of stock market risk, rather than lecturing them. Here are some suggested questions:
1. Are you concerned about stock market risk? If so, why? If not, why not?

2. Are you comfortable with the plan we have in place to deal with this risk? If so, why? If not, why not?

3. What kind of risk keeps you up at night?

I’m sure you can think of others. The point of this exercise is to understand how your clients perceive risk, and to then apply your knowledge about the ways most of us distort probabilities to help them evaluate it more realistically.

Dan Solin is a New York Times best-selling author of the Smartest series of books. His latest book is The Smartest Sales Book You'll Ever Read. His sales coaching practice includes helping advisors convert prospects into clients and generating leads through videos and other elements of marketing. Dan is not affiliated with any advisory firm.

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