CHAPTER 1

Accepting the Challenge

If you're still reading this, you have accepted the basic premise that things are moving in a direction presenting you with a new mandate around working with clients. You already have a great deal of expertise and have been successful to date, and now understand that, whether you like it or not, the impact of your advice, wealth strategies, and interventions on families is substantial. As with any change that is both this subtle and this profound, there is both opportunity and risk facing you as you vector between the rock of what you know and the hard place of stepping into unknown territory. Start first by not being too hard on yourself about having trepidation about this. In fact, if what is proposed here doesn't make you nervous, there's something wrong. You have been extended an invitation to a protracted event in which the rules are still getting invented and from which there is no graceful exit.

The purpose of this chapter is to frame the challenge of the new financial advisor as someone on the frontier of change in the lives of families. The industry is changing in ways that present the advisor with risks to be managed and opportunities to capture. As such, this chapter examines the new basis of competition for the new financial advisor as it shifts toward personal solution development and away from product differentiation. We then look at the risks and opportunities present in this changing environment and conclude with some tips and takeaways regarding the work that lies ahead.

A New Basis of Competition

As advisory business models are shifting from a commission to a fee basis, several things have happened. On the one hand, there has been a movement away from transaction-based client interactions (with minimal intimacy) toward a much more intimate client/advisor relationship where the client's financial *and* personal needs must be understood. As such, it is no longer sufficient for advisors to compete on product or price. Rather, it has become important to embed products into solutions that require advice and coordination of other components, sometimes over extended time frames.

For example, investment policy and implementation in a trust may have to be revisited regularly in the context of making sure a family rift does not emerge between the shifting current and prospective needs of income versus remainderman beneficiaries. This need to connect products and advice to living solutions for different individuals in families has not been felt or acted upon everywhere in the industry in the same way. I can walk between two advisors' offices in midtown Manhattan and talk to one advisor with $500 million under management and 1,500 clients, and another with a $1 billion under management with 50 clients. The frantic nature of the former means that our half-hour meeting is interrupted four times by four different clients who have four different financial questions that pertain to their financial needs: "Should I short this stock?" "Did we hang on to that stock too long?" "What do you think the Fed is going to do?" And the like. The same half hour spent with the latter is, by contrast, contemplative, bordering on serene. Both will say they do in-depth planning and 360-degree wealth management. Both have shifted to fee-based compensation. And while the dynamics of their businesses are different, they both say that the need to be more client intimate has gone past being desirable to forming their very basis of competition.

On the other hand, with the rise of the asset management discipline through its own maturity cycle, it has also become more and more difficult to compete on product features and price. It is not that this has been entirely erased from the market, as in the case of steep hedge fund compensation that is also showing signs of pressure or, at the other end, the emergence of innovative index products challenging the concept and need for active management. What this has come to mean for advisors, though, is that there are two broad career paths that unfold along the contours shaped by a shift in the industry's structure—being a deep product expert or being a deep relationship expert. These paths should not be construed in absolute oppositional terms, as will be shown later when we look at the new Wealth Management Model in Chapter 8. There are certainly individuals who are good at both.

The problem is in a more direct way related to the paths that organizations have to choose as they examine the true basis of their competitive advantage. The organizational correlate is the organization that gets good at being a component player in the wealth management delivery system versus the organization that concentrates on the delivery of solution-centric advice. The former has deep silo expertise—such as doing sophisticated, concentrated securities transactions or offering complex structured products.

Their challenge is to get good at embedding their products or services into those firms who themselves excel in managing client relationships. This latter organization has developed a core competency of managing relationships, both on the demand or client side and on the supply or vendor side. Relationship management–centric organizations pride themselves increasingly on their "open product and service architectures" while component players build deep intellectual capital in essential but narrow disciplines.

As seen in Figure 1.1, the shift in the basis of competition for financial advisors presents the financial services professional with a set of both risks and opportunities that are a little like looking for steady ground during an earthquake. The key in this environment is to avoid falling into the crevasse that standing still in one's practice may create. We now turn to some of the risks that are presenting themselves to advisors.

Risks: Getting Outflanked by Change

The greatest risks in this shaky environment stem mostly from doing things the same way. They come hardest when the advisor fails to confront the reality that there is no real turning back from the larger thrust of the industry toward solution-centric wealth management. This kind of wealth management has a strong impact on client families because it necessarily focuses on wealth's human as well as financial components. Some of the risks an advisor must manage in this context include:

1. *Your practice will become ordinary.* You need to stand out! This doesn't mean that you are the only one doing work that is more sophisticated with families. It does mean that you change in ways that leave your clients surprised at how much you really care about their lives. Alternatively, your practice will become ordinary for at least a couple of reasons. One level concerns word of mouth and the ways in which memory and peer influence work in the market. Every client of a financial advisor is asked, and likes to talk about, why their financial advisor is the best. Whether around card games or social events, clients compare and contrast everything from prices to services. Because of a psychological maneuver called "cognitive dissonance," which can be translated here to mean that "because I continue to consume this advisor's services, they must be really good," a subtle contest is often set in motion between clients to see who is getting the best services. Often, if one of these individuals is in the market for a new advisor, the first reference is to the one the other individual is using. Were you to listen in, the details of how your practice is described may surprise you in the

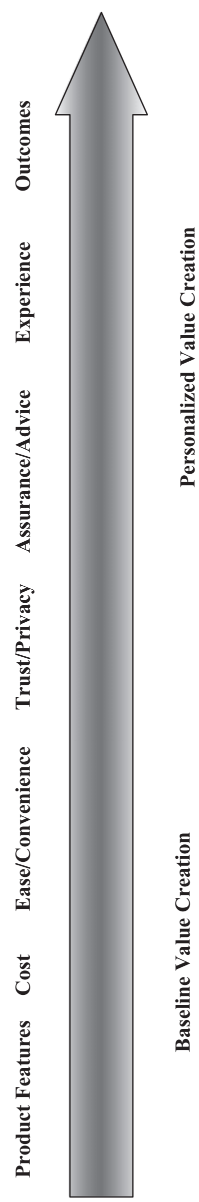

FIGURE 1.1 The Shift in the Basis of Competition for Financial Advisors.

way they distort, for example, fees and other things you think you are doing.

I was recently privy to a conversation of this kind where one client was prepared to take to the mat the idea that her advisor never charged her any fees. This was a brokerage client talking to a wrap fee client. Neither one knew exactly what the other was saying, and on some level, how they were getting charged. This may be extreme, but the risk about becoming ordinary is not that what you are doing is wrong but that what you are doing is not memorable or striking in how it resonates with your clients when you are not there. The client receiving ordinary service with only passing concern for family impact will become defensive of you—and by extension, of themselves because of their invested ego in having made a good choice—instead of deeply confident in the value that you have created together.

2. *You will keep staple clients but won't make quantum leaps.* Being unwilling to change does not mean you will immediately lose your business. There is a base client segment that in fact will be just fine with little change. They may in fact prefer that, as a wealth advisor, you stay at arm's length with respect to important family wealth outcomes. They want you in a product box and would be surprised, if not unnerved, if you stepped outside of your traditional sphere. The basis of competition for them continues to be on the basics of product and price, and the extent to which you remain competitive that way means that you will enjoy a part of your book of business that is stable. Part of the risk is that, because of that social contract, you will also be vulnerable to being outpriced and outperformed. But the other part is that you will be less likely to secure major wins with larger, more meaningful client systems. I have argued in another context[1] that financial services should look to other industries and cases—such as IBM or Sun Microsystems—where product commoditization forced industry leaders to shift from a product- to solution-based approach. The risk of not doing this in wealth management is going to lie in erosion of your book of business and the elimination of your ability to compete for larger mandates with family client systems.
3. *You will not be prepared for up-market clients who by definition have financial and familial complexity.* Many advisors clamor for fewer clients with more assets—what's not to like? But you have to be prepared to shed the transactional culture so many of us grew up in and to develop your approach to complex financial families. One way to undermine yourself here is to not recognize the impact that you can and do have with client systems only to find yourself unwittingly veering away from big jobs with lots of moving parts. You will be nervous and overly cautious the minute you smell conflict and you may not

even know consciously why this is happening. Once confident making presentations to relatively passive prospects, you have learned to talk too much and listen too little. In your rush to explain the old ways you are different, you will inadvertently convey how similar you were to the last advisor they heard. In not closing the value deficit between what couples and families really need and what most providers have to sell, you will render yourself entirely forgettable. The worst part of this is that, because much of this interplay of advisor and prospect or client is unconscious, your client will have a difficult time even identifying what wasn't quite right. We have taught clients over many years to expect little from sales and service encounters—and keep delivering on this expectation. In some cases, this will work fine, but the minute the complexity of stakeholder needs becomes clear and the possibility of conflict or the need for deep problem solving exists is the moment when how you behave will leave this client yours to keep or yours to lose.

4. *You will charge people like you always have, and continue to be defensive about fees.* Nowhere will your new approach be more evident than when you begin to use different ways of charging for new services. One uphill battle we are fighting is the effects of how well we have trained clients to expect to get a number of our services for free. As psychologist George Kelly used to say, "Today's insight is tomorrow's resistance." The wealth management analogy is that when we insisted—while the markets were roaring upward—that we would charge asset-based fees, we could count this as an insight, a simplification of pricing that would tie our success to that of our clients. So we began to give away project-based services, like estate planning reviews or financial planning, "for free." The problem, of course, came when the cross-subsidization of services became problematic when markets declined. While giving away estate planning at certain asset balances became de rigueur, the cost of doing this was recognized too late: clients now came to expect expensive services for free. In fact, when markets decline, the need for these extra services hardly declines in concert. Arguably, this is when clients are most in need and most willing to explore strategies and scenarios. Now is when they want to talk, whether about refinancing or renewed needs to get on a budget.

Of course, giving something away both devalues your work and invites more and more bottomless demands. Because much of this project work entails behind-the-scenes activity on the part of the advisor and service team, it is also kept somewhat invisible to clients, who are in turn going to wonder why they are paying you the fees they're paying anyway. The argument for active management—itself a prime rationale for charging significant fees—breaks down precisely when the markets are down and advisors are in most need of a justification of why they are charging what they are.

5. *You will leave your service model alone—and so will your clients!* Part of what is challenging about changing the depth and sophistication of your approach to clients is the understandable fear that ever greater involvement with clients will become a profit killer, that you will entangle yourself in issues you are not trained or comfortable dealing with, and that it will drag you into an abyss of work you cannot manage. And while you cannot expect to turn your wealth management practice into a "psychotherapy clinic," there are some tools and techniques for running health care–related practices that actually can be deployed in this environment (something more fully addressed in Chapter 4). This may sound a bit absurd, but consider the following:

   You have a client for whom greater intimacy has meant that they seem to feel entitled to call you at all hours of the night because in fact you have become the most trusted advisor. Or you have a client who is managing a parent with deteriorating mental capacity and therefore have a situation with complex start and stop features around estate planning. These may seem like nightmare scenarios, with bottomless demands on your time. But the same is true for a psychotherapy practice, and in many cases more so because of the constraints on getting paid for this kind of work placed on providers by third-party payers, not to mention their need to have a life as well. The key here is that developing intimate relationships does not mean developing unmanaged relationships with uncompensated work—what I call *shadow work*. If you leave your service model alone *and* you expect to develop more thoughtful and intimate client relationships, you are going to be vulnerable to seeing a ballooning of shadow work—work that you have to do to retain clients that is often invisible to them and uncompensated. By contrast, development of a proactive service model that bakes in new ways to manage how you touch clients and get paid for it can bring significant results to your business. This concept is important enough to require separate treatment in Chapter 4.

6. *You will leave your technical infrastructure alone—and be crushed by the work.* Technologies—just like organizations and the disciplines underlying wealth management—have evolved around the vertical silos of work, such as financial planning, credit underwriting, portfolio management and the like. That is to say, technology development has tracked the industry silos and rendered work within them much more powerful and efficient. So what is the problem? To put it simply and perhaps state the obvious, if the nature of your work needs to change, the tools and technologies that support that work need to change as well. This is manifesting itself as a discrepancy between the actual work an advisor

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does and the business processes supported by the technologies advisors are required to buy or inherit from sponsors. All the good technology news has been about the vertical systems, which have made extraordinary things possible at the fingertips of advisors. The bad news is that many of the "software suites"—whether integrated or not—continue to lack functionality that supports the new way advisors work. The starkest example of this is around the palpable lack of project management functionality being developed adjacent to core applications. Most client relationship management (CRM) platforms are as bereft of this functionality as planning or portfolio systems.

The new platform for advisors needs to support horizontal management activities. It needs to help advisors manage lists and generate alerts; it needs to listen to other systems for relevant data and screen out the noise in a way that is now possible with "service-oriented architectures." It needs to track time and calculate profitability. It needs to support collaboration inside and outside firewalls. It also needs to extend itself in thoughtful and nonintrusive ways to clients and provide increasing ways to render shadow work visible. The question from clients as to why they are continuing to pay these high fees begins to vanish from the vernacular as the nature and value of work an advisor does is expressed in brilliant sight lines into what it takes to do wealth management.

Opportunities: Getting to the Next Level with Clients

Just as there are risks in keeping your way of doing business status quo, there are major opportunities to be found in getting more adept at working in new ways with clients and their families. The new financial advisor can step into major service gaps in the wealth management industry, including the one that exists between organizations that say they are all about the lives of their clients and what they actually continue to do day in and day out. Some of these opportunities for the new financial advisor are developed below.

1. *You will genuinely "get" what your clients need, and they will know and value this.* With a greater understanding of psychological and family dynamics, a financial advisor will develop a larger appreciation of the different forms of logic that come into play when clients make high-stakes financial decisions. Why doesn't the individual who just sold their business to a publicly traded company want to diversify out of the stock? What is in the way of the execution of a brilliantly conceived estate plan? Of course, in general: Why don't clients just listen to your immaculate

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financial reasoning? Climbing the learning curve here will not only help you demystify what clients are doing, it will enable you to intervene in ways that produce more durable solutions and deeper relationships with your clients. A subtle shift will begin to take place, where you move out of "convincing" and "sales" modes and into consultative and joint problem-solving modes with clients. You will collaboratively weigh the full complexity—human and otherwise—of making key decisions while conveying a palpable sense of empathy, that you really do understand what is going on and what the stakes are for them holistically. You will discover that, for example, paradoxical interventions—where you virtually talk someone out of something they should do—can have the effect of helping someone consider how odd their position is without blame or defensiveness. You will learn that tactical use of silence can say well more about how deeply you are listening than all the chatter you can muster about how the solution you propose can benefit the client. You will also learn that an empathetic statement about the difficulty of raising the client's child or the ambivalence you hear about a client's initiating divorce can carry far more force than beating quarterly benchmarks by an aggregate of 200 basis points ever will.

This is not rocket science. And it is not about turning you into a therapist. It involves rethinking the real business you're in and retooling yourself and your practice to genuinely be in that business and be strong and confident. The financial value you provide will go up and down. It is the value you provide in achieving life outcomes that will really pay the dividend.

2. *Your close and implementation rates will increase.* Estate planners know this well: they know that the actual close rates on estate planning—defined as executed documents and funded vehicles—are poor. In case after case, the difficulty around getting clients to execute wealth strategies lies in giving inadequate consideration to the larger force field in which financial decision making takes place. The reason is that this force field ebbs and flows with highly valenced familial and developmental needs, each pressing their case and presenting family leaders with dilemmas and ambivalence. And often this goes on unconsciously in the family system.

   Consider the sale of a family business. The financial logic may be beyond compelling, but the impact on the vocational identity of key family stakeholders may appear virtually shattering to some and as nothing at all to others. Worries about the fate of key nonfamily employees may seem overblown to you, while providing significant employment in the community and being loyal to key people is a profound source of pride for the owners. Moreover, the financial logic notwithstanding, the owners may have different cathexes ("psychological investments") in the business, some virtually bordering on an "addiction" to the business.[2] Mom may have substantially different feelings about a sale than Dad does, each of which are still different from what the kids feel, including those that are in the business and those that are owners who are not in the business.

The point of this illustration is to suggest that because your client is the one in the room discussing options with you, and is the formal "decider" in any case, does not mean that you have dealt with the systemic forces that are in play. This is one reason you will hear the term *client systems* over and over in this book. Underexamination of the systemic and historical forces in play will place you in a persuasion or convincing mode, which will generate ambivalence in the client "decider." Then you can flip a coin—literally—to see if they take the decision you think they should. You've got about an even chance they will because instead of helping them understand the multivalenced decision field they are in, you asked them to take a position that will invariably have some form of psychological blowback. The irony here is that you will spend less time closing complex deals if you are sensitive to this than you will by ignoring what is going on in the client system.

3. *You will manage wealth, rather than just investments, and get paid for it.* Wealth management is not just investment management wrapped with some advice and planning. As I have argued elsewhere, wealth is, at the end of the day, the "ability to accomplish an outcome."[3] This means that wealth refers to the full range of human and financial assets (and liabilities) that can be organized to create an outcome. At this level, everyone has wealth—that is, an inventory of talents and capabilities as well as financial resources that can be calibrated to achieve an outcome, however modest or grand in scale. This also means that the human component cannot remain an ancillary focus of the wealth advisor's attentions. The human part cannot be perceived as an irritation in the way of growing asset balances. The physical, intellectual, psychological, and, in some cases, spiritual integrity of client systems is intimately tied up with the issues surrounding their financial integrity. This extends to the advisory team as well, which itself is often dysfunctional in its own right and one of the impediments to successful strategy execution.

The net opportunity here lies in the "management" part of wealth management. Put simply, the ability to get paid for the management of wealth and all the coordination, project management, team development, product construction, and strategy development is where the upside is for advisors who can transition their practices from product- to solution-centric enterprises. Many advisors struggle with this, and if it were easy it would not likely be as valuable to clients. But the fact remains that families need advice and strategy to accomplish

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objectives, and they often need it from a variety of sources. They also need management of these components through long periods of time. Step confidently into this space and you will build a very differentiable enterprise with clients who are loyal over the long term.

4. *You will see rather than ignore the effects of what you are doing and it will help you proactively spot opportunities rather than find yourself constantly in a reactive mode.* The concepts, tools, and strategies you will explore in this book are designed to help you see around the corner with respect to what your client systems need. What you will learn will also help you see the true scope of effects you are producing in your client families, some of which are unintended. No one can perfectly predict the impact of what they are going to do on even the smallest social systems. At the same time, greater awareness of your potential impact on client systems will help you bring into greater alignment the "interventions" you deploy with the outcomes that are being sought. When done with care, these interventions can continue to lay groundwork for proactive action and the discovery of new opportunities. For example, you may work with a couple to establish a budgeting regimen that you know will produce pain in one or more of the couple's children. In fact, your real objective is to shift the family economy in such a way as to align financial processes with goals that have been stated. Done with care, these steps can help you become a resource to the larger family beyond your initial client couple. Equally, the overall service model you adopt will present you with multiple points of visibility into the many moving parts of multigenerational families.
5. *You will step confidently and respectfully into a position of greater trust with your clients.* Increasing the trust quotient with clients provides undeniable opportunities for enhanced work with and revenue from clients. Working through what it means to be in the business of intervening on families—a business you are actually in anyway—will demystify aspects of what is going on between you and your clients and breathe new confidence into your work. It will not rid you of anxieties and trepidations about the work, but will instead help you face down unnecessary worries about what you are doing and transform the anxieties you do have into data needed to be more conscious of what you are doing opposite clients.

   What does this mean? It means, for example, that because you are the most important instrument in the advisory encounter, if you are anxious about how a client is going to react to things you are going to say, chances are that an exploration of the basis of that anxiety will key you in to a problem with your intervention. An estate attorney once described a case in which he was about to present a client with the final drafts of a plan that called for, among other things, the creation of a family limited partnership whose interests would be held by generation-skipping trusts. On the face of it, the plan was perfect. Yet the attorney struggled with a vague sense that something was not right. He then went to another attorney who was familiar with the family and explained his unease. In the process, it emerged that there was conversational terrain that had really not been covered in the interactions with the patriarch and his wife. These issues included concepts of parenting in the couple, including what it would *mean* to their adult children (generation 2) that their children (generation 3) would stand to be substantially wealthier than their parents. The attorney in this case used his "anxiety" about what he was doing to drive a dialogue with a peer, which in turn produced a hypothesis that was worth exploring with the clients around the effects of the strategy on their children and grandchildren. This hypothesis was simply that the attorney and his client couple had not sufficiently explored the potential familial effects of what was being considered. The financial effects and benefits were clear enough; the articulation of possible family effects was needed to round out this strategy. In this case, rather than being undermined by anxiety, the attorney *used his anxiety* to speak to him about a pending client situation with high stakes. He took steps to understand its meaning and used what came out to formulate and test a hypothesis with clients. These clients, in fact, felt a tremendous relief at spending time talking about this and decided that they wanted to shift the balance of wealth to generations 2 and 3 and introduce a significant philanthropic component to alter the family wealth equation that had been previously contemplated.

6. *You may even see some clients less, but every encounter will be powerful and memorable.* How you use your time will not get any less important when you begin to rethink how you work with clients. As you get more comfortable with your new role, you will see that increased sophistication in the family intervention business does not at all mean getting vacuumed into a black hole of internecine familial warfare. In fact, thoughtful approaches to your service model will help train clients—much as they are trained in psychotherapy practices—that time counts and that there are rules of engagement that will actually enhance the quality of client encounters. Not that your quarterly investment reviews aren't the most exciting and anticipated encounters for your clients. (If that's so, they need to "get a life" anyway!) What this means is that the quality of the dialogue is going to get ratcheted up so that you will be saying less but what you do say is going to reverberate with clients and facilitate change.
7. *You will feel great about what you are doing and make more money doing it.* Dr. Keith Whitaker, head of Family Dynamics for Wachovia's elite Calibre unit—managing families with assets of $25 million and

above, spells this out perfectly, saying, "Most [of Calibre's advisors] are drawn to this work because they want to help families."[4] My experience with hundreds, if not thousands, of advisors confirms this. Many of you indeed become very drawn to this work because you are do-gooders. Some of you are closeted do-gooders and only learn of your true passion for this work over time, but it is there in your values and what you care about. The opportunity embedded in the new role change you are making is also very personal, and for many of you this turn of events in the market is going to enable you to explicitly get better than ever at changing the lives of your clients.

Tips and Takeaways for the New Financial Advisor

All told, the risk and reward environment for making changes suggested in this book is very positive indeed. As you delve into the meaning and thrust of the arguments ahead, you will find that small steps can be taken in support of the reinvention of your work. The changes suggested are meant to be suggestive, directionally correct, and bite-sized. They are meant to help you think about your clients differently, elevate your skills to intervene more effectively, and do this with the support of increasingly abundant resources to help you in the cause of helping your clients realize their objectives and make money doing so.

The first tip is to open your mind to new ways of doing family wealth management. Prepare yourself for some new vocabulary that will stretch your mind. Don't use what follows as the one gospel of family wealth management; instead, take what you find useful as an invitation to elevate the dialogue in the industry and to bring your own work to the next level.

Let's now turn to the psychology of money as a way of helping you begin to understand the basics of some of the core needs and conundrums families will present to you. For many of you, this will serve as validation of your experience and provide you with a new lens through which to view issues you may have seen before but have previously stymied your work or made you want to run for the trees instead of seize them as new opportunities to grow your business.