Chapter 1
The Masquerade Party Is Over

I intend to live forever ... so far, so good.

—Steven Wright

It's easy to get comfortable with the way you're doing things, but it's dangerous. Imagine the feelings that horse traders had 110 years ago upon hearing about the "horseless" carriage. Their sentiments had to range from incredulity ("How can you pull a carriage without a horse?"), to cynicism ("Who's going to take a chance on this unproven contraption?"), to utter disdain ebbing into panic as they saw their once established trade go by the wayside.

Imagine further the horse traders' agitation and confusion as the new technology measured its capacity and effectiveness in terms of horsepower—and yet, no horses were involved: "How can a mechanical motor the size of a big dog have the propelling power of 100 horses?" We need not elaborate any further; we all know what happened. Smug in their role of providing a commodity (the horse), horse traders failed to realize that customers were more interested in progress itself than the means by which that progress appeared.

People will do what they must to expedite progress in their lives.

Presently we are deep in the labor pangs of a similar revolution in the financial advice business, but this one is going in a reverse direction—away from technologically driven results to the more organic version of progress. We are entering an age of advice where the chief algorithm is emotions-driven and the result clients are looking for transcends a number.

This phenomenon has been building for some time on the periphery of the financial services industry. In 2001, Mitch first introduced the term *financial life planning* in his book *Your Clients for Life*. He had reservations about the public coming to financial advice offices for "life planning" services—they were coming for financial advice. Adding the term *financial* to *life planning* did, in fact, make it more palatable, but we admit that after almost two decades of effort from us and a few others, the concept of financial life planning appears to remain on the periphery of the profession.

This slow transmutation is about to accelerate in a big way. What was on the periphery is moving toward the center, and what was in the center is being pushed irrevocably to the perimeter. Investments and investment guidance have been the nucleus of the financial advice business since inception. The center is now in flux. We describe the arc of the business as moving from the boiler room to the living room—from a sales-driven industry to service-oriented profession.

The financial services realm was founded by investment managers who simply wanted to peddle their products. The business was then reengineered by advice and planning processes that put the investment products themselves in a secondary or tertiary position in importance. We are now in the throes of the final stage of evolution for the industry—life-centered financial planning—where the context of how the money will be used in the life of the client can no longer be ignored or quarantined as a "soft-side" issue. Up until this point, the question driving the advice industry has been, "Do you have enough money?" This will now be the secondary question. The primary one will be, "Are you managing your money in a way that improves your life?"

To properly help clients answer this question necessitates a different skill set than what was required in the past. Just being a clever capitalist or student of markets is no longer enough. To be successful going forward means being both a service-minded professional and a student of financial behavior. Scripts for selling are being replaced by candid truth-telling. Relative investment performance reviews are being replaced by financial accountability dialogues. If being genuinely interested in others' stories and building authentic relationships is important, then the future is yours—and it will be far more welcoming for those who have a bigger heart for service than they do an ego for selling.

As of this writing, there are two very promising examples of this move toward life-centered financial planning. First, the XY Planning Network (named for its focus on younger generations), founded by Michael Kitces and Alan Moore in 2014, has grown at such an accelerated pace that it even caught its founders off guard. While attending their conference, we met young and middle-aged planners alike sharing some destiny denominators: a focus on serving, not selling; compensation for advice, not products; and a desire to learn how to be better financial coaches.

While many of the young planners attending were just beginning their businesses, others had established practices in their markets. The group shares a life-centered focus, and the majority of planners are off-loading investment advice as they recognize that this piece has been commoditized. The future of the profession is moving toward their ideology—and the average age is 37. You do the math.

The next example is the BACK2Y Conference (founded by Paul) where close to 500 advice professionals from 12 different countries attend, and where the atmosphere is electric with enthusiasm for the next stage of the advice profession. Mitch sees his coauthor as a visionary rebel who has refused to abide by business-as-usual in flogging products and calling it "advice" or "planning." The title of BACK2Y pretty much sums up the maypole around which these vibrant and energetic advisers rotate—going back to "Why?" by asking, "Why are we in this business?" and "Why do people need the money?"

Time with these two groups and others that are emerging have affirmed our suspicions that the ROL™ (Return on Life) revolution is clearly under way—and it's not going back to the days of horse trading (we'll talk more about ROL in chapter 2 and throughout the book). The horse trading in our analogy is the business of investment returns and investment management (which is necessary but no longer deemed as valuable). As of this writing, the *race to the bottom* of fees for asset management is nearly complete with all the major firms capitulating to 0–.25 basis points for managing assets. Prices don't lie. They are indicators of perceived value. The wise professionals are letting others manage the monies while they manage the relationships. It is the horseless carriage that spells progress for both client and adviser.

For those who embrace the inevitability of the life-centered financial planning profession and the ROL revolution, it is important to understand the difference between evolution and revolution. Evolution is about waiting for the inevitable to take shape and for what is to morph into what shall be. Revolution takes place when those already convinced decide to hasten the pace of the inevitable.

Life-centered financial planning is here. Life is the point, the objective, the logical conclusion, and the only context that counts for our clients. It's time to get our eyes off the numbers and get our ears on the stories. Progress matters to people—and is best measured by the impact their money has on their lives. If we aren't centered on understanding our client's storyboard, then we will certainly be left behind by "those blasted contraptions" blowing dust into our eyes.

Financial Advice in Flux

For the last couple of years as we've traveled the globe and addressed financial planning and advisory conferences, we have been telling audiences that the financial services profession is at a historic inflection point and that a radical and substantive shift in value propositions is required—immediately. This is not an overdramatization or a sensationalized siren. This is a reality check. A broadened skill set is now required, and there is no turning back to how it once was.

After making remarks along these lines at an FPA Congress in Sydney, Australia, Mitch was followed to the podium by Stephen

Glenfield, chief executive officer of the Financial Adviser Standards and Ethics Authority; Stephen informed the audience of 1,500 planners and advisers of how different their world has become. For example, a bachelor's degree or better is now required to practice in financial advice. Those who have been practicing for years without this level of education are now required to complete specific educational courses to qualify.

In Australia, the Future of Financial Advice reforms, introduced in 2012, were enacted to better align the incentives of clients and advisers. In Canada, advisers have been working under the Client Relationship Model Phase 2 (CRMP2), introduced in 2013. In the UK, advisers are adjusting their practices to the Retail Distribution Review (RDR)—a set of rules aimed at introducing more transparency and fairness to the investment industry.

"In the U.S., they have just introduced a fiduciary requirement to put your client first, but if you go back 15 years, the U.S. would normally be 10 years ahead of the world," said Jacqueline Lockie, head of financial planning at the Chartered Institute for Securities & Investment, a global body headquartered in London. "A lot of regulators around the world are now looking to the FCA [the U.K.'s Financial Conduct Authority] to see what they are doing. RDR really has had a positive impact on the U.K. advice market by helping the public see how they are paying for the advice they seek."[1]

In our discussions with advisers in South Africa, one key question being examined is, "Do you receive financial advice from an 'adviser' or an 'agent,' and what exactly is the difference between the two?" Once the RDR legislation is enacted in South Africa, registered financial advisers (RFAs) will be the only ones able to offer financial advice. According to the current version of the RDR, an RFA can be an individual or a company, but in both cases, its ability to provide professional, independent financial advice will have to be verified by an external source.

At the heart of the reform in South Africa is a set of rules on how customers should be treated—aptly called "Treating Customers Fairly." One of the rules (number 4) is interesting to note: "Where advice is given, it is suitable and takes account of customer circumstances." Back in the United States, the Securities and Exchange Commission's Regulation Best Interest rule is gaining traction and will inevitably branch further and deeper into the discussion of how advice is presented. It seems so obvious that it's hard to understand how financial advisers operate without doing everything they do in the best interest of their clients. Yet many do.

Expanding Your Reach

In his book, *A Whole New Mind*, Daniel Pink presciently states that the "value propositions of the future would be seated in the right side of the brain."[2] For financial professionals, this means that if key value propositions can be replicated by software, algorithms, and artificial intelligence, then they are at the mercy of the market and what it is willing to pay—which is decreasing each year. Commoditization relies on pervasiveness and standardization to flex its muscles. Once a program can achieve what advisers have been doing for their clients, advisers are at the mercy of the going price of the technology. Asset allocation, rebalancing, fund selection, and comparative research are a few obvious examples of irreversibly eroded value propositions that once paid the bills for planners.

Exactly what is meant by a right-brain-oriented *value proposition*? Here are three examples of what might fill that void in our current quest for a more substantive value proposition.

Comprehension of Context

We have read from more than one brain researcher that the most immediate curiosity of the right brain when faced with any proposition or input is: How does this apply to me? How does it fit into my situation? We often ask financial planning audiences, "Have you ever prepared what you believe to be a comprehensive and applicable plan for clients, only to see them fail to act upon it?" Every planner is familiar with this frustration.

We suspect this particular phenomenon of inertia is that the plan is not properly anchored in your clients' stories. Knowing their numbers isn't enough. Clients don't feel the plan until they know you have heard and comprehended their story, which should form the core of the plan itself. Developing a plan based only on numbers and facts is like having all the bones in place, but the sinew, organs, blood, skin, and bones never coming to life. In similar fashion, the client's background—his or her current and unfolding stories—is the vehicle for bringing their plan to life. To expand your reach, you need to gain a broader understanding of your client's biography.

Narrative and Understanding

What kind of experiences have your clients had with money and investing? What have been their worst and best experiences? What kind of experiences, good or bad, have your clients had with other financial professionals? What kind of financial vicissitudes have they witnessed with their families and friends? How have these observations influenced their current perspectives? These are the types of queries we recommend (and will teach in this book) for enabling dialogue and building client narratives around their personal experiences and observations. We call it the *fiscalosophy dialogue*—seeking to understand clients' very personal perspectives on key financial issues.

Emotional Connectivity

Are your clients certain that you "get it" and "get them"? Everyone in the financial services profession purports to be in the "relationship-building" business, but let's step back and examine how relationships are built: they are developed over time and through trying circumstances in which people are able to demonstrate their commitment to others. Relationships are also built through the honest exchanges of our stories. Mitch's stories reveal what Mitch is about, while Paul's reveal what Paul is about. In that exchange, we find common ground—sometimes we stand on it for a lifetime.

It's not enough to be on friendly terms, which doesn't require emotional connectivity; a smile from a distance doesn't equal a firm and friendly handshake. Our gestures can mean the difference between "I can tolerate you" and "I'm really thankful for you." Far too many professionals are content with a peripheral comprehension and superficial rapport when much deeper and more profound connections are available. To expand our reach, we need to be willing to go deeper into the dialogue.

An adviser told Mitch during a trip to Johannesburg, "When I make clients my focus and not their money, and do everything in my power to understand them, their situation, and their future challenges, they don't come into my office and tell me they found something online that does what I do for one-third the cost." This adviser understands the relational value she brings—she worked hard to add it to her approach before she had to.

We are at a historic inflection point in the arc of financial planning and advice. What got us here will not take us forward. The machine-like advisory functions are no longer as profitable. The human functions hold far greater promise amid intensified scrutiny and advancing technology. The game isn't going to slow down in order for you to catch up—it's time to take your game to a new level.

Notes

1. Hope William-Smith, "Advice Around the World: Has Regulation Held UK Advisers Back?" Money Marketing, February 9, 2018. `https://www.moneymarketing.co.uk/news/advice-around-world-regulation-held-uk-advisers-back/`.
2. Daniel Pink, *A Whole New Mind* (New York: Riverhead Books, 2005).