EI + IQ = The Whole Family Advisor

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The exclusive availability of wealth-management software to financial advisors ended in 2008 when the robo-advisor was born. At first, robos targeted the unserved mass and mass-affluent investors who did not meet minimum asset requirements to work with a financial advisor, enabling those investors to rebalance their assets held in target date funds online.

The technology did not pose an initial threat to advisors in 2008. Fast forward to 2017, and robos now pose a very real threat to three components of advisors' businesses:

1. **High-Net-Worth and Ultra-High-Net-Worth Investors:** As a result of technological advancements over the last nine years, automated advisors now have the ability to serve some of the more complex investment needs of high-net-worth (HNW) and ultra-high net-worth (UHNW) investors, such as personalized financial planning and tax advice.[1] These investors, like their Millennial-generation successors, recognize the purported benefits of working with robo-advisors – ease, speed, transparency, lower fees – and so this technology has captured their attention. To make robo-advising more attractive to older investors, companies such as Vanguard and Betterment have adopted hybrid robo-services, a combination of automated and human advisors, to help personalize the investing experience.

2. **Rising Generations:** Millennials, specifically, prefer working with robo-advisors over their human counterparts. Many Millennials watched their parents struggle during the 2008 market collapse and now have a fear of investing and a distaste for high advisor fees.[2] Additionally, having been raised with the convenience and immediacy of technology, this cohort tends to feel more comfortable with and confident in automation than people. Many advisors may not be adequately focused on the Millennials in the families they serve. Yet, the appeal of these robo firms presents a risk as wealth begins moving from older to younger generations. Given the generally lower fees of automated investing, combined with Millennials' comfort level using technology, robo-advisors could be a match for Millennials.[3]

3. **Fees:** Advisors are facing pressure on fees on several fronts (e.g., from exchange traded funds (ETFs) and passive strategies). Among these pressures, robo-firms' low fees have captured the attention of investors and the federal government alike, causing both to question the higher fees historically charged by advisors.

About Legacy Capitals

Legacy Capitals is a leading provider of training, coaching, and consulting services on topics such as wealth and values transfer, preparing the rising generation, family governance, legacy planning, and family philanthropy to financially successful families and family businesses, wealth advisors, family offices, and financial institutions.

The Human Touch

There is an ongoing debate about whether or not robo-advisors meet fiduciary standards. Advocates say almost all robo advisors are registered investment advisors and must, by law, act and provide investment advice that is in the best interests of their clients.

Critics say robos, by definition, are little more than mathematical formulas and algorithms. Elliot Weissbluth, founder and CEO of HighTower, put it this way: “People have duties. Machines have functions. Machines don’t yet have the capacity to discharge a duty to a human being.”[4]

Machines, as such, lack the human touch. They are incapable of providing the authentic loyalty, care, and empathy their human counterparts do, or of building the trust that develops between people. While some firms offer the hybrid-robo option, brief phone calls and emails do not make for authentic, long-lasting human connections that can prove to be essential when “life happens” to families/investors.

At the core of the very best family/advisor relationships is an advisor’s intimate understanding of a family’s personal goals, objectives, and concerns. This goes hand-in-hand with a family’s absolute belief in their trusted advisor as someone who has their best interests in mind.

Absent the human element, automated advisors and hybrids are unable to serve clients as effectively regarding life events, even those that are part of a client’s plan. They lack the ability and/or time to develop a deep understanding, care, and concern about what matters most to each client or discuss important topics such as personal and family values. They cannot help develop family mission and vision statements or glean a full understanding of the patriarch’s and matriarch’s concerns and fears – the issues that *keep heads of families up at night*. Nor can robo-advisors relate on a personal level and build relationships with spouses and children of HNW and UHNW family clients or engage in meaningful multi-generational planning.

In contrast, some of the most successful advisors we work with have adopted the Whole Family Advising philosophy, which focuses on advising the entire family, not just the heads of families, and seeks to build strong relationships of trust across all generations. These advisors tell us they will not discuss financial wealth and investing with new clients until they have had meaningful discussions with those individuals about their values, family goals and priorities, and the purpose of their wealth. Whole Family Advisors focus on the relationship first, including beginning to build relationships immediately with rising generations, to create a complete, holistic framework to guide their investing advice.

When major life events occur that call for a human connection that goes beyond numbers and crosses into more intangible realms such as creative problem solving, guidance through family transitions and change, empathy, and leading family meetings, automated intelligence, no matter how advanced, does not have the capacity for that distinguishing human quality called emotional intelligence.

Emotional Intelligence

Emotional intelligence (EI) is an essential skill for building and maintaining quality personal and professional relationships. It is considered a *critical success factor* that is associated with higher job satisfaction, among other things.[5]

The concept of EI was first developed in 1990 by current Yale University president, Professor Peter Salovey, Ph.D, and University of New Hampshire Professor John D. Mayer, Ph.D, a post-doctoral fellow at Stanford University at the time. They define EI, in part, as follows:

> **"…the ability to engage in sophisticated information processing about one's own and others' emotions and the ability to use this information as a guide to thinking and behavior. That is, individuals high in EI pay attention to, use, understand, and manage emotions, and these skills serve adaptive functions that potentially benefit themselves and others."[6]**

An Opportunity for the Whole Family Advisor

This is not to say that technology can't be an important part of sophisticated advisor practices. However, technology on its own leaves a fundamental gap in the client experience. Advisors today have a unique opportunity to fill this void by adopting the Whole Family Advisor mindset and building strong relationships with clients and their families that extend beyond the parameters of their investment portfolios.

Whole Family Advisors seek to develop a portfolio and overall financial plan that is more meaningful to their clients by being more reflective of their client families' values. For some advisors, that may mean shifting from a micro focus on the family wealth creator to a macro focus on the entire family, recognizing that *preparing multiple generations of a family for their assets* is equally as important as preparing the assets for the family.

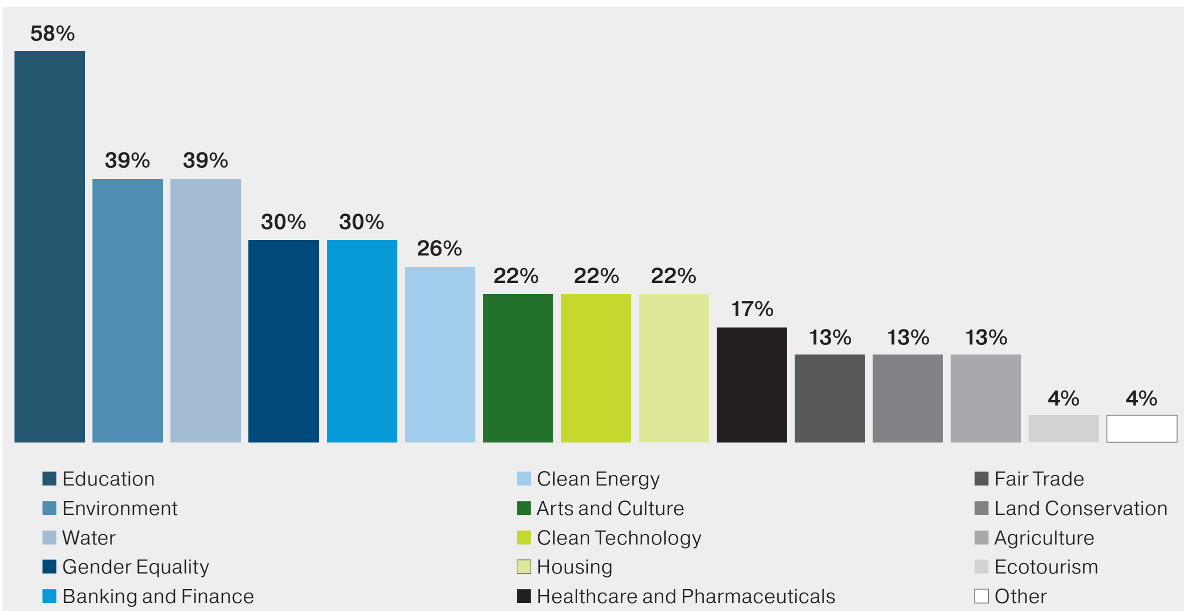
Family Matters

Some of the critical financial planning topics HNW and UHNW clients want to engage in today are grounded in deeply held values that are inextricable from their finances. Recent research from OppenheimerFunds shows that HNW and UHNW Millennials are concerned with issues that affect not just their families but the world at large.[7] Environmental, social, and governance (ESG) investing, impact investing, supporting social justice and values-related causes sit side by side with more traditional goals such as family wealth preservation and philanthropy.

In a separate study, OppenheimerFunds finds that the primary focus of Millennials' socially responsible investing is on basic human rights, which many see as an extension of the values they learned from their families.[8] **Exhibit 1** ▼

Exhibit 1: Areas of Interest for Millennial Impact Investing

Multiple Answers Permitted



Sources: OppenheimerFunds and Campden Wealth.

This is one area where, unlike robo platforms, advisors who are fully knowledgeable about the beliefs, goals, and aspirations of all members of a client family may connect their clients with asset managers who are able to provide the types of investment products that align with their clients' values.

For example, Heidi Heikenfeld, Portfolio Manager of Oppenheimer Emerging Markets Innovators Fund, shows how the "human touch" can go beyond the "mechanical" approach of index funds. According to Heidi, index investing in emerging markets is skewed toward what she calls the "old emerging markets," in other words, manufacturing and labor arbitrage business models.

In Heidi's words, "Computers can't assess exploitation. Our competitive advantage over machines is our compassion and our ability to feel." These types of investment strategies go beyond systematic approaches and may offer investors not only compelling investment opportunities, but the satisfaction that comes with investing in companies whose values and commitment to sustainability align with theirs.

Advisors to HNW and UNHW families should not overlook emotions and empathy as highly important components of the investment decision-making criteria, as well as necessary elements of strong relationships with client family members across multiple generations.

However, while advisors naturally bring a capacity for human connection to their client relationships, not all are comfortable with and/or skilled in addressing the non-financial concerns that may stand in the way of creating an investment strategy that serves the family as a whole. Advisors sometimes encounter competing values or priorities within a family that may create stumbling blocks.

For example, during our Whole Family Advising Workshops with OppenheimerFunds, we ask advisors:

"What comes to mind when you think about designing and facilitating family meetings?"

Among the responses, advisors often express worries about the possibility of emotional responses and behaviors on the part of their clients, such as:

- What if someone cries?
- What if things get too emotional?
- What if family members disagree?

Having the ability to engage effectively in wealth- and legacy-related conversations that may be emotionally charged, and guide families toward potential resolutions, not only differentiates traditional advisors from robo advisors, it also distinguishes them from their peers who do not take the initiative to invest in their EI.

Invest in EI

Developing EI skills is most useful for advisors who want to:

- Focus on relationships across generations of their client families,
- Differentiate themselves from automated and traditional counterparts,
- Illustrate the distinguishing value they offer that justifies their fees,
- Offer holistic advising that takes into account the needs of the entire family, and
- Grow their business by earning a larger share of existing clients' assets.

We recommend investing in learning and/or enhancing your EI skills to benefit both yourself and your clients. The return on that investment has the potential to be quite substantial over the long term:

- $30 trillion of wealth is projected to be transferred to rising generations over the next 30-40 years,[9] and research shows that 66% of adult children fire their parents' advisor after receiving their inheritance.[10]
- 70% of all widows leave the family advisor following their spouse's death.[11]

An investment in EI has the potential to equate to both financial and personal gain for advisors.

5 Steps to Investing in EI

Based on the Mayer-Salovey model, we recommend advisors take the following steps to invest in their EI:

1. Identify Your Values, Priorities, Goals, Emotions/Feelings in the Context of Whole Family Advising

- What are your values? How do your values influence your interactions with clients?
- What are your priorities? How do your priorities influence your work with clients?
- What are your goals? What impact do your goals have on your decision making?
- What emotions/feelings arise when you think about developing deeper relationships with clients and rising generations?
  1. After you identify these emotions/feelings, identify what elicits these emotions/feelings.
  2. How do these emotions/feelings help or hinder you?
  3. What can you do to use these emotions/feelings to your advantage?
- What do you see as your EI strengths and areas for growth?
  - Assess your ability to recognize and identify your emotions/feelings
    1. What emotions/feelings are you experiencing right now?
    2. Take note of your emotions/feelings throughout the day, or multiple days, what emotions/feelings do you experience, when do you experience them, and why?

Self-awareness is a key element of EI. It helps you recognize your biases, the commonalities you share with your clients, and differences between you and them. It also helps you take stock of how your emotions/feelings affect your decisions. Knowing the answers to these questions will help you build stronger relationships with your clients because you will be better able to navigate how you receive and respond to input from them.

2. Identify Client Values, Priorities, Goals, Concerns, Emotions/Feelings

- Listen to your clients' words: What key words/concepts help you identify what is most important to them?
  - For example, if they repeat the same words, or say different words with the same meaning, or repeat similar concepts, such as, "We are afraid our children will feel entitled...," "We don't want to enable our children...," "We work hard...," "Money doesn't grow on trees...," "We are grateful for what we have...."
- Listen beyond the words: What is their tone of voice telling you?
- Observe their body language: What is it telling you about how they feel?
- Listen to moments of silence: What messages does the silence convey?
- Listen for accelerated speech: What does it indicate?
- Ask open-ended questions:
  - How are you feeling right now?
  - What are your feelings (versus thoughts) around this topic?
  - What makes this important to you?

- What do you see as your EI strengths and areas for growth?
    - Assess your ability to recognize and identify others' emotions/feelings
        1. The next time you are in a conversation with someone, silently name their emotion/feelings.
        2. Take note of others' emotions/feelings throughout the day, or multiple days, what emotions/feelings do they experience, when do they experience them, and why?

Having an awareness of others' emotions/feelings is another key element of EI. The ability to accurately identity others' emotions/feelings helps you navigate conversations and situations for optimal results. This ability also builds trust and strengthens relationships.

3. Use Emotions and Other Information You Gather to Build Connections

- Your clients' emotions and feelings are data that you can use to build relationships and better serve your clients.

4. Understand Emotions

- How are the emotions helping or hindering the situation?
- How might the current emotions progress?
- What can you do to insure the best outcome given the current emotions?
- How might emotions change should the situation change?
- How might the situation change should the emotions change?

As a Whole Family Advisor, you are, by definition, working with many different personalities who have differing perspectives, goals, values, etc. Having the skills to facilitate and navigate meaningful, and perhaps difficult, conversations is essential.

5. Strategies for Managing Challenging Situations and Emotions that May Arise

- What words and actions can you use to effectively manage the situation?
- What open-ended questions can you ask?
- Acknowledge emotions without dwelling on them.
- Keep emotions in perspective – Don't minimize or exaggerate the situation.
- Use humor to alleviate stress.
- Create a positive environment.
- Accept what you can't change.
- Listen.
- Stay solution focused.
- Take a break.
- Encourage people to express gratitude when appropriate and when it may be helpful in a particular situation.[12]

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Conclusion

Your ability to connect with people on an emotional level is essential for building quality relationships. It is something robo-advisors simply cannot do.

Developing your EI is something you can begin doing today, with minimal time and energy, and at no cost – yet the return on this investment in your client relationships is potentially very high. Robo technology poses certain threats to advisors who maintain the status quo, but for those advisors willing to step out of their comfort zones, enhance their EI and serve their clients as a Whole Family Advisor, technology will never be an adequate substitute.

1. Source: "Robo-Advisors Take Aim at High-Net-Worth Clients," Theglobeandmail.com, 1/22/17.
2. Source: "5 Reasons Millennials Don't Trust Financial Planners," *Huffington Post*, 6/9/16.
3. Source: "Millennials and Robo-Advisors: A Match Made in Heaven?," CNBC.com, 6/22/15.
4. Source: "Can Investors Trust a Robot to Work in Their Best Interests?" Marketwatch.com, 3/22/17.
5. Source: "Recruitment and Retention: Could Emotional Intelligence be the Answer," David Glodstein, *Journal of New Business Ideas & Trends*, Volume 12, Issue 2 (2014).
6. Source: "Emotional Intelligence: New Ability or Eclectic Traits?," John D. Mayer, Peter Salovey, and David R. Caruso. *American Psychologist*, September 2008.
7. Source: "Coming of Age: The Investment Behaviors of Ultra-High-Net-Worth Millennials," OppenheimerFunds & Campden Wealth, April 2017.
8. Source: "Proving Worth: The Values of Affluent Millennials in North America," OppenheimerFunds & Campden Wealth, July 2017.
9. Source: Accenture study via CNBC, 6/16/16.
10. Source: *InvestmentNews*, 7/13/15.
11. Source: "How to Talk to Clients Who Have Just Been Widowed," *InvestmentNews*, May 2015.
12. Advisors may find the following resources on gratitude helpful for themselves and their clients: Gratitude Works Program, National Association of School Psychologists; Positive Psychology Center, Univ. of Pennsylvania; and TED Talks, including those by David Steindl Rast ("Want to be happy? Be Grateful"), Louie Schwartzberg ("Nature. Beauty. Gratitude."), and Matthieu Ricard ("The Habits of Happiness").

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