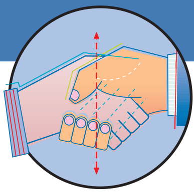

Private
CLIENT CORNER

PROFESSIONAL PRACTICE

When Values Clash

Reconciling different points of view is key for client relationships

BY ED MCCARTHY

A prospective wealth management client comes into your office for an initial meeting. As you work to get a sense of his values, you realize that the two of you hold opposite views on investing and the role of money in one's life. You believe that a broadly diversified portfolio makes sense for most investors; his mantra is "no risks, no taxes." You're an active supporter of several charitable causes and nonprofit organizations; he views philanthropy as a foolish waste of hard-earned money. You've planned for and funded several trusts to support your children's education and early adulthood; he says that his children will become self-sufficient at age 18, voluntarily or involuntarily.

This scenario is not entirely a caricature. Clients and prospective clients have a range of attitudes and values about investment and the role of money in their lives. From a business perspective, the challenge is deciding how to deal with clients whose views differ significantly from your own. Should you—provided the prospect's views don't violate the law—always remain "value neutral"? Or should you agree to work with the prospect but with an unstated goal of influencing the person's attitudes over time? If the disagreements are extensive, should you refer a client or prospect to another adviser?

Unrealistic Assumptions

Clients who lack investment experience often have naive notions about financial risk and potential returns. These notions set the stage for conflicts if—and, most likely, when—results fail to meet expectations. David Hultstrom, CFA, president of Financial Architects, LLC, in Woodstock, GA, recently met with a couple seeking an investment manager. The man and wife were in their early 30s, and their personal finances were sound—they earned high incomes and saved a large portion of their salaries. Their goal was to retire in their early 50s, and they wanted an investment adviser who would help them reach that goal.

Hultstrom ran several projections and determined that the couple would need to earn a real annual return of 16 percent to achieve their goal. When told that such a return was an unrealistic expectation, the man and woman responded that they were already earning 8 percent in their 401(k) accounts, which they were managing on their own. Couldn't Hultstrom, as a professional manager, double that result? Hultstrom decided against working with the couple because of those performance assumptions. "I don't know that it would be worth having them as a client because they would be unhappy in the long run," he says. "I look at it as a no-win deal where we would have endless conversations trying to re-explain things to them and help them be well calibrated on their expectations."

Tied Up in Knots

The values underlying a client's financial goals can be another source of conflict. Tom Orecchio, CFA, principal with Greenbaum and Orecchio, Inc., in Old Tappan, NJ, has a widowed client whose goal is to pass on as much of her wealth as possible to her children, both of whom are financially well off. She has been making annual gifts to her heirs but has become concerned about the potential impact of long-term care costs on her US$2 million portfolio. Consequently, she is considering transferring her assets to an irrevocable trust that would allow her to qualify for Medicaid if she entered a nursing home.

Orecchio's primary concern is keeping the woman solvent for the remainder of her life, not protecting assets for her children. Nonetheless, he at first refrained from voicing his personal opinion about the strategy she was considering. Instead, he explained the pros and cons of various strategies and reminded the client that her mother had lived beyond age 100, which increased the odds of a long life for the client. "I was careful to avoid my personal commentary until the end when she asked me what I would do," he says. "That is when I said 'What I am about to tell you is my personal opinion and not my professional advice.' After I told her that she should be worried about herself first and not her kids, we went back to discussing strategies and my *professional* advice."

Clients' desires to avoid incurring income taxes on their portfolios at all costs is a values-based motivation that has posed problems for Orecchio. He has found that some investors are willing to "tie their money up in knots" to avoid paying taxes, and this mindset can lead to poor decisions. "So, instead of paying the government, they wind up paying the insurance companies or the financial institutions, or they make

KEY POINTS

- Private clients bring a range of assumptions and values to the wealth management process, and some of those attitudes and beliefs are likely to conflict with views held by advisers.
- If a prospective client's assumptions about risk and return are unrealistic and unlikely to change, the advisory relationship will be difficult to manage.
- The client's values, not the adviser's, should determine the appropriate course of action to achieve the client's goals.
- Values are influenced by many factors—including gender, ethnicity, and religion—but even clients with similar backgrounds may have different values.

it overly difficult to access their own money simply to avoid paying taxes," he says. "It baffles me sometimes that people will go to such great lengths in order to avoid paying taxes."

Dealing with Screens

Even for cases in which an adviser has no personal differences with a client's values, effectively translating those values to the portfolio can cause problems. Rob Oliver, CFA, a principal with Oliver Financial Planning, LLC, in Ann Arbor, MI, has encountered this problem with clients who want to adopt a socially responsible investing (SRI) strategy. Oliver has no objections to SRI's goals. What causes him difficulty is the challenge of implementing a client's SRI screens while maintaining adequate diversification and minimizing investment management fees. "I have had clients who want to invest in a way that meshes with their ecological or religious beliefs," he says. "The problem is that individuals have their own specific sets of screens they want to use. And going out and trying to find mutual funds specifically that meet their criteria can be daunting—and very time-consuming."

Oliver cites an example of clients who were Christian Scientists and wanted the usual SRI screens to avoid investing in companies involved with tobacco, liquor, and gambling but also wanted to avoid pharmaceutical, medical services, and health care–related companies. "Trying to find even SRI funds that don't invest in pharma or health care is very difficult," says Oliver. "I found one fund that I think is actually set up for the benefit of Christian Scientists. It is a large-cap growth fund, so we can cover one area of their portfolio through it. But then we're leaving out fixed income, which is something I normally recommend. That large-cap growth fund has a 1.45 percent expense ratio, and in an area like large-cap growth, we could easily get into an index fund for 20 basis points. That's where I have a conflict, and I let them know that I think they're overpaying for this fund."

The final decisions on diversification and expenses are the clients', of course, and Oliver works within that constraint. "I try to respect their values," he says, "but at the same time remember what my role is as their financial adviser—which is to make sure that they're making smart financial decisions."

Portfolio screens aren't the only manifestation of values-based investing by clients. Shashin Shah, CFA, president of SGS Wealth Management in Dallas works with clients across the religious spectrum—Christian, Hindu, Jewish, and Muslim. He says the broad diversity requires him to avoid bringing his own conceptions into meetings with clients. Instead, he strives to recognize any religious values influencing the client's finances. "Not every Catholic client follows along one line, and not every Hindu client follows along one line either," he says. "But pretty quickly, you get a sense of what the background is and what the values are. You can see whether it is a male-dominated or a female-dominated conversation, for example. You find out very quickly what the values are, especially when you start talking about kids and what the client plans to do for them."

Shah, who is Hindu, cites an example of a client who also is Hindu. Although Shah already had some information about the prospective client and suspected the client would want to discuss planning for his children's education, he didn't want to start the relationship by prejudging the client's goals. "We had a pretty good idea based on the background of what he wanted to do [with regard to his children]," Shah says. "But if the client came to the table and said, "We are not providing any education for our kids," that would be fine and we'd have to move forward."

The client stated his objectives clearly in the first interview: Funding his children's education in the United States was his top priority; no expense was to be spared in achieving that goal. "There was nothing above his kids, not his retirement, not his home," Shah recalls. "That set the tone for his overall financial plan." Whenever Shah subsequently met with the client, the children's education plans were the focal point for all decisions.

"Whenever we discussed what needed to be done and why it needed to be done," says Shah, "we would surround it and ask ourselves the question, Is this going to be good for his kids or their kids."

Accommodating Differences

A client's view of the overall role of money in one's life is another topic that may create differences of opinion between client and adviser. Some clients view wealth as a tool, a means to an end. Others view it as the end itself, which leads to an outlook that Orecchio describes as "let's accumulate as much money as possible." Those cases provide the only situation in which he will inject his personal opinion, which is that clients should view their wealth as a means to achieving their goals, not the "be all, end all." In most situations, however, Orecchio believes advisers should separate personal and professional opinion. "Too often, I see advisers imposing their own beliefs or values on a client's situation," he says. "We need to listen first and speak second."

Shah has reached the same conclusion. Everyone has his or her own belief pattern, he maintains, and when dealing with clients, you have to recognize that the client's pattern is not yours. "The goal," he says, "is to line up clients' values with their objectives and show them how that plan translates into financial success for them."

Ed McCarthy is a freelance financial writer in Pascoag, Rhode Island.

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