On Our Best Behavior

By Benjamin Valore-Caplan, CIMA®

Preface

Behavior is not new to finance—it gave birth to finance. Currency, debt, equity, savings, banking, diversification—all of these structural developments respond to the universal human desires for security, greed, control, power, comfort. Thus finance is not an absolute that is occasionally informed by human behavior; rather, human behavior gives rise to finance and influences its every expression and process.

So what does this relationship between behavior and finance mean for investment advisors—those professionals who have put themselves at the intersection of matters financial and matters behavioral? It means we must be attentive to behavioral concerns at every level, our own as well as our clients’. It means that our affective skills are at least as important as our financial expertise, that our guidance must respond to our clients’ concerns, and that we must hear what our clients really need.

In short, we must think about our behavior in light of our role in the lives of our clients, both private and institutional. We’d like investors to perceive us as trusted advisors—not just transaction-oriented brokers or traders, or simply money managers executing trades on their behalf. What do clients who take that greater leap of faith need from us? How does our behavior affect their success?

Below is a letter. Think of it as an open request from clients—mine, yours, our colleagues’ and competitors’. These admonitions are not the product of a scientific study on behavioral impulses of investors; they are common-sense requests to an industry that has drifted from common sense. Sure, there always will be investors that seek the Madoff Promise—consistently high, positive returns with no risk. But what do clients who take that greater leap of faith need from us? How does our behavior affect their success?

A Client Letter to Investment Advisors

Dear Investment Advisor,

I have been thinking about you over the past few months as I have tried to process all the startling information about the economy and the financial markets. When I hired you, I understood (I think) that you could not work miracles. I have tried to remain patient and calm through all this turmoil.

At the same time, the past year has forced me to learn a lot about myself that was not so clear previously. A critical lesson has been to consider more thoughtfully my relationship with you, my advisor. Don’t worry, I’m not firing you right now; I’m not so sure someone else would be any more effective than you have been. However, if we are going to continue working together, then I need you to be aware of some issues and factors that have become increasingly important to me.

I trust you; be worthy of my trust. I realize that you have many clients and that I probably fall somewhere in the middle of your clientele in terms of revenues I generate for you and resources I consume. I’m sure that you feel the pressure to respond promptly and appropriately to everyone. But while you may have 50 or 100 or even more clients, I only have one advisor. You are it. And I think you like it that way.

But that means that I need you to understand how critical your role is in my life. Sometimes I get the sense that maybe I’m just another business deal to you; that if I went elsewhere for advice you would feel the pinch financially and take a hit to your pride, but that losing our business may not mean that much to you personally. I want the kind of relationship that does mean something to you personally. I don’t mean that I want you to be my best friend or to be part of my personal life; however, I do want you to be personally invested in serving me. As this letter unfolds, I will share with you how you might demonstrate your worthiness.

I am not a squeaky wheel, but I still need (and deserve) your attention. I am not the type of client to bother you repeatedly or to be overly demanding. I’m certainly not the belligerent type who will threaten and rage, nor the petty type who sees every conversation as a power play. That’s the good news. The bad news is that if you don’t give me the attention I need, one day I will simply move on. I’ll write you a note or forward you instructions to move my assets and you will be confused because I never made a big stink. I just left. I’m sure I am not the only client like that; indeed, I imagine you have many that fit this description.

Many friends tell me that their advisors don’t pay them enough attention; that they get stock responses to hard questions, generic portfolios, and confusing statistics that are supposed to convince them that something upsetting is actually not that bad. If someone a bit more caring came along, then poof, they would change advisors. I’m like that as well.

While you may feel stressed, I need you to be calm and grounded. I am sure that many times over the past year you have felt like a doctor amid a massive, unrelenting, undiagnosed epidemic. People want to know with confidence and conviction how to stay healthy and prevent death and destruction. It must be frustrating, especially given that...
much of the advice you have given over the years has been good, but recent events have been very hard to anticipate and plan for. I am sure that this has placed all kinds of pressure—including financial—on you, your colleagues, and your family.

I sympathize to a certain degree with the pressures you face, but understand that this is when I really need you to step up with courage, confidence, and clarity. I want to know that your head is still in the game, that you are still wrestling with the intellectual challenges of the day, that you are staying informed and doing your absolute best to make sense of the macro-economic situation and what it means for me.

I also want to know that your heart is still in this business, that your personal frustrations are not so overwhelming as to diminish the passion and conviction that you displayed when we first began working together. I want personalized guidance from you, comments and observations that transcend cynicism and resignation, and regular contact. If you are so discouraged or depressed that I cannot rely on you to be my go-to person, then let me know and we can shake hands and part company respectfully. If you still are engaged and eager to serve me, then let me know by being the proactive advisor I require.

I want to understand your fundamental methodology. It seems as though a lot of advisors are saying that everything is different now, while others are convinced that the economy and the markets soon will be back to what was “normal” over the past 20 years. Still other advisors are fairly silent on the matter. I don’t know who is right; I am not the investment expert. But I certainly have questions and opinions on the matter. Still, you are the expert. I want to know what you believe.

What is your discipline, your strategy? What is the basis for the advice that you intend to give me? When we first met, you had all kinds of interesting charts and diagrams that illustrated your approach. It sounded pretty convincing. Of course, most of it has not worked out quite the way that you or I intended. So do you believe now in what you believed then? Is my portfolio still stuck in your “old” approach? Does it represent your best thinking currently?

If you still believe now what you believed then, help me understand why. I may not be the savviest investor, but I need to understand the basis for your recommendations. If you are suggesting that I hold steady strategically, then help me comprehend the factors that justify that position.

Be straight with me—proactively. Every week it seems that we receive new information about flaws or dislocations in the investment industry. A market stops trading; products that seemed terribly safe now appear to be terribly risky; guarantees are not as guaranteed as most of us thought; and the expectations that you helped set have proven way off the mark.

I understand that some of this information may be just as surprising to you as it has been to me. Indeed, you might have been caught even more off-guard than I have been. Even so, I want you to be straight with me. Tell me which of these market dislocations may affect me, however remotely. Which of the old assumptions no longer hold true?

Don’t wait for me to ask you. If you do, then it’s way too late. Half the time I don’t know which questions to ask. And I don’t want to bother you at every little news report, talking-head commentary, or volatile day in the markets. Your candor—especially with difficult news—will give me the confidence I need to be able to trust our partnership.

Tell me who gets paid and how. I have to tell you, how money is made in the investment industry is very confusing. Every day it seems that the press reveals yet another conflict of interest related to investment bankers, private bankers, insurance companies, brokers—it is just overwhelming. I imagine that much of this information has nothing to do with how you do business, but my ignorance on the topic still undermines my confidence in our professional relationship.

So help me out. Draw up a little spreadsheet or something that shows me who gets paid and how on the various investments that you have recommended. What do you make? What does your firm make? Do you get paid differently depending on the recommendations that you make? What if I want to be more conservative? Will that cause you to get paid less?

Again, I’m okay that you make money; I certainly don’t expect you to do so. But if I can trust you to be candid about fees and expenses, then I can make informed decisions accordingly. Also, you will definitely set yourself apart from the other folks who call on me. As soon as I ask them about fees, it’s like they start speaking another language. I want to know what I am paying for and how much.

Assume that I am scared, uncertain, and confused. Sometimes, I sense that you feel the need to impress me with your intelligence. Sometimes you bombard me with justifications about past investments that have not worked out, while other times you inundate me with analytics and commentary that I do not have time to digest or the skill to fully comprehend.

So, assume that I think you are intelligent. If I didn’t, I would find another advisor. Instead of trying to impress me, reach out to me and learn more about my greatest concerns. Ask about my fears, what keeps me up at night, why it keeps me up. I don’t want you playing psychologist, but I would feel a lot better if I knew your advice was grounded in a genuine understanding of my needs rather than your need to prove yourself to me.

I hope that this point makes sense. I realize that the investment industry is really competitive and high-pressure. But even so, it would mean a lot to me if you slowed down...
enough to ask important questions and really help me think through important decisions. I don’t see how you can give me good advice otherwise.

Tell me why you do this for a living. Everyone knows that investment professionals can make wonderful money, but I bet that it is a lot harder now and probably less lucrative for the same amount of work. That being the case, tell me why you continue to work as an investment advisor. What motivates you to do this work? In short, why should I trust you? With that in hand, then I can figure out how I fit into your life as a client.

I look forward to hearing from you.

Sincerely,
Your Client

Postscript
Wouldn’t it be nice if all clients and advisors (in any field) could align their expectations with clarity and objectivity from the outset? We as advisors must take responsibility for any such lack of clarity, for we are the ones entrusted with—and compensated for—providing guidance and direction. The dramatic market dislocations of 2008–09 provide an opening to develop new relationships built on our best intentions. Even more importantly, times like these challenge us to make sure we understand the needs and expectations of our current clients, that they feel our engagement and concern for their welfare.

If our clients told the truth about our relationships with them, what would they say? How would we react? How would we respond? This is an excellent time for us to face those hard questions and allow ourselves to grow stronger relationships with those who trust our guidance.

Benjamin Valore-Caplan, CIMA®, is managing partner and senior adviser with Syntrinsic Investment Counsel, LLC, in Denver, CO. He earned a BA from Brown University and an MBA from the University of Denver. Contact him at ben.valorecaplan@syntrinsic.com.