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Wealth in the Time of COVID: Context and Conversations for Successful Transitions

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INVESTMENTS & WEALTH INSTITUTE®

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CONTEXT AND CONVERSATIONS FOR SUCCESSFUL TRANSITIONS

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Wealth experienced in any era changes a person's life. Wealth psychologist Stephen Goldbart explains: "When people come into money, it challenges everything. How much is the money going to drive my life—or am I going to drive my life?"¹ In other words, if the pace of wealth creation for a middle-class family is akin to riding a bike, experiencing significant wealth for the same family is like boarding a rocket. The recipient of that wealth must be in the driver's seat of the rocket and navigate a complex path to stay on course. The coronavirus pandemic has created an environment that can make this transition even more intense, especially for the population most likely to experience new wealth today: young founders and next-gen inheritors.

The purpose of this article is to help advisors guide clients who, in the era of COVID-19 and beyond, are experiencing significant wealth for the first time. First, it provides some context for the wealth growth of the past 30 years and discusses the pandemic's amplification of trends. A series of resources for guiding clients through this critical chapter in their lives follows, including a simple tool kit for the most crucial conversations.

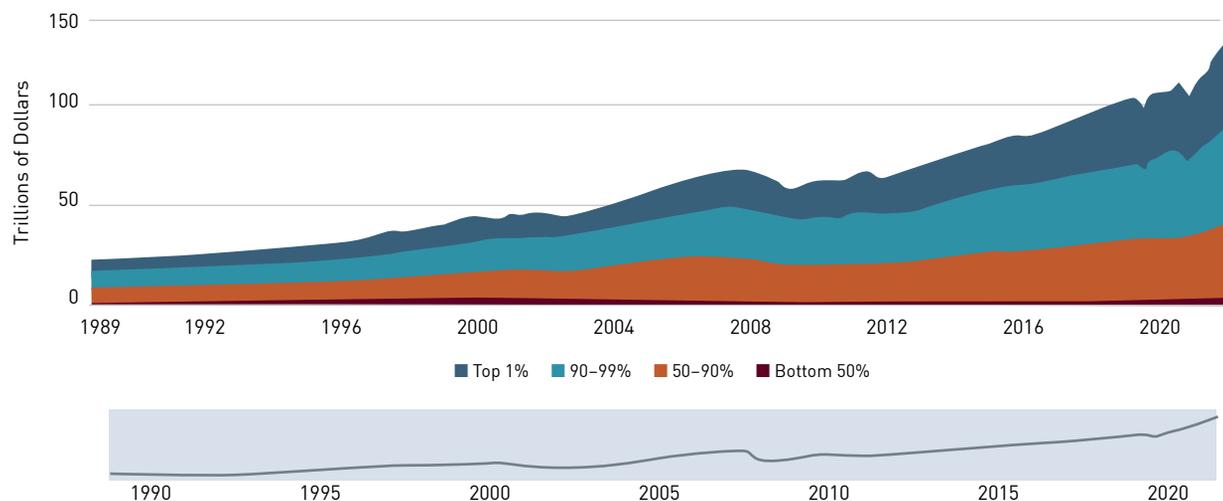
DESTRUCTIVE SOCIAL DISTANCE

We have increased awareness about the ways some individuals achieve success but others face systemic challenges, so it's important to confirm the data that describes the wealth gap and how it's grown over the past 30 years. Figure 1 shows the wealth by wealth percentile

groups in trillions of dollars from 1989 to the second quarter of 2021.² In the second quarter of 1991, the top 1 percent held more than six times the wealth of the bottom 50 percent of the population. But 30 years later, in the second quarter of 2021, the top 1 percent held more than 14 times the amount of wealth as the bottom 50 percent of the population.

After the pandemic started in 2020, more people died, the economy went into shock, and the world quickly had to adapt to a new reality. The wealth gap intensified and the economy became "K-shaped." Most of the top 50 percent was able to maintain employment, preserve assets, and grow personal wealth in the equity markets. But those in the bottom 50 percent were unable to

Figure 1
WEALTH BY WEALTH PERCENTILE GROUPS



Source: Survey of Consumer Finances and Financial Accounts of the United States.

grow their wealth significantly even with fiscal support. This economic inequality exacerbated by the pandemic has created even greater tension across classes and communities.

For people experiencing new wealth, the growing wealth gap may impact how they feel about themselves and their newfound status. Advisors must be prepared to address these challenges with their clients.

MORE IS BETTER, LESS IS WORSE—OR IS IT NOW THE REVERSE?

One of the most important duties of financial advisors always has been to help their clients grow wealth. Empirically, the simple equation regarding wealth and advising about wealth has been “more is better, less is worse.” This paradigm still holds for many, but some of those now experiencing wealth for the first time believe this equation is flipped, particularly in the era of COVID-19.

Witnessing the acceleration of the wealth disparity, then finding yourself among the newly wealthy, can result in a complicated and uncomfortable experience. Wealth creation is more public now because peers easily can learn the true wealth of friends through online public disclosures and probates. So, it's not uncommon for many of the newly wealthy to feel that maybe “more is worse, less is better.” As young founders eye sales of their businesses, next-gen inheritors experience the passing of loved ones, or start-up executives suddenly become part of a unicorn growth story, they can feel serious discomfort about how their lives may change with so many zeros added to their balance sheets. These anxieties have existed in the past, but in the time of COVID-19 individuals experiencing wealth for the first time are stepping into the group that is statistically responsible for the widening wealth gap, and they are looking for guidance about how to live with this truth.

Questions that arise for these recently wealthy individuals include the following:

- How will this wealth change my relationship with my family?
- How will I raise my children so they are not spoiled?
- How can I maintain solid friendships and make new friends, especially if my wealth is public knowledge?
- How do I reconcile this wealth during a pandemic, when suffering abounds and wealth disparities are growing?
- How can I be sure my wealth is managed so it amplifies my values rather than becoming toxic and changing me—or the world—for the worse?

When clients are anxious about how new wealth may negatively affect their friendships, their children, or the passion they feel for their work, it's a pivotal moment in the client-advisor relationship. If advisors offer valued counsel at this time, they are likely to reap strong bonds, business growth, and more positive outcomes for their clients. Advisors will want to listen deeply with compassion and empathy, customize a financial plan that offers a road map for the new journey, align the assets with spoken values, and maintain a dialogue across generations. Ultimately, the conversations beyond the balance sheet are as vital as those about numbers, because they shape the fiduciary duty of the advisor. Through this ongoing partnership, advisors can help clients confidently take the driver seat, even with rocket fuel powering their journey.

CONVERSATIONS FOR SUCCESSFUL TRANSITION

Conversations that lead to successful transitions encompass the following concepts:

DISCLOSURE

Most financial professionals cringe when they hear the word disclosure. Disclosures, in an advisor's world, are the pages of legalese required when

communicating with a client. Ironically, sending more legal documents has little positive effect on the client relationship because it does not create greater safety or connection. Regrettably, some clients would say it works the opposite way. But the definition of disclosure is “the act of disclosing, uncovering, or revealing; bringing to light; exposure.”³ When advisors delve into challenging conversations with clients, the advisors who authentically can disclose their own experiences and emotions will have a clear advantage.

When advisors courageously and honestly reveal their own feelings and offer unfiltered accounts with clients, it has two effects. First, clients often will recognize the risk taken, and second, in most situations, they will honor this effort by reciprocating. To do this with authenticity, advisors must first do their own work.

The ability to empathize with a client's experience is only as effective as the depth of an advisor's own personal explorations. Simply put, if advisors have not intimately reflected on their own wealth perceptions and anxieties around abundance and scarcity, they will be the opposite of helpful. If advisors have not personally explored how to lead their best lives, discussing these concepts with clients could result in the blind leading the blind. Given the deep personal reflection and exploration required, advisors should consider making this meaningful investment.

BACKSTORY

Perceptions of wealth can have cultural, generational, and gender-amplified roots. To assist newly wealthy clients as they integrate new wealth, advisors must first listen deeply to these clients' backstories. Advisors will have to be open to sharing their clients' emotions without judgment, paying close attention to what is not said. This can be hard and sometimes uncomfortable, but it helps uncover the roots of fears, anxieties, and concerns.

Questions to ask your clients include the following:

- What has been your relationship with wealth?
- Have you experienced scarcity in your life?
- How has wealth or scarcity shaped your values, worldview, and your life's work?
- Did you grow up in a family that was considered wealthy?
- How did this experience shape your perceptions of wealth?
- How do you feel about suddenly having a lot more money?

Take note of key narratives, people, places, and values, because these will be helpful in aligning what matters to clients with relevant wealth management strategies.

TIME

New wealth, in any era, would have a disruptive effect on a person's life. The creation of wealth during a pandemic is more emotionally charged, requiring the advisor to trace chronology as well as content. Reflecting upon how recent and historic events have played out in the lives of clients is crucial to understanding their perceptions of wealth.

Questions to ask may include the following:

- How old were you during the financial crisis?
- How did the financial crisis affect your family?
- How did that the financial crisis affect your thoughts about the financial system?

Many events of the new millennium have been foundational for clients. Millennials were in their formative years during the financial crisis. They witnessed the economy crumble in their childhood and then take years to rebuild. For some, the Occupy Wall Street movement left a lasting impression, resulting in significant distrust of

the financial system. Advisors must let go of ego and be prepared to hear the fear that still may exist. Once clients have had a chance to vent, many are interested in hearing how advisors helped their clients navigate the financial crisis. The point is to remove all assumptions and expectations and listen first in order to help with healing and integration during this critical time. Often simply talking through fears, anxieties, and perceptions of wealth gives clients the opportunity to write a new narrative.

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Questions to ask clients include the following:

- What events have affected your family's well-being over the past decade or so?
- Which specific events shaped your perception of wealth? How?
- Who were you with when these events took place?
- Have there been any milestones or major pivots in your life?
- What did you learn from these milestones or major pivots?

Take note not only of the chronology of memories shared but also the people, places, and experiences that existed during these important times.

EXPLORING PRIVILEGE

Privilege means different things to different people. To some it's about race. For others it's about class or status. When exploring the concept of privilege, prepare for anything. Always listen

first, and if a prompt is needed, offer analogies regarding privilege rather than letting clients automatically relate money with privilege.

In these conversations, advisors must continually suspend judgment and come from a place of curiosity. Where appropriate, an advisor who discloses personal accounts of privilege may make it easier for a client to share.

Consider the following questions:

- What does privilege mean to you?
- In what ways did you experience privilege in your life?
- How has the privilege of others affected your life in a positive or negative way?
- How do you talk to your kids about privilege?
- In what ways have you helped them to understand their privilege and live with compassion?
- In what ways does wealth relate to privilege?

It's important when guiding this conversation to already have experienced a thoughtful dialogue regarding personal privilege. Before asking clients to explore this sensitive topic, advisors will benefit from exploring their own relationships with privilege with a trusted professional who is adept in the topic. Most advisors have access to DEI (diversity, equity, inclusion) specialists, therapists, counselors, and community members who would welcome this conversation. Advisors should enlist the help of others to get started.

PURPOSE, NOT ACCUMULATION

As the old adage goes, money cannot buy happiness. Instead, the key to happiness, according to countless studies,⁴ is to live with purpose. For founders who sold their companies, perhaps the answer lies in continuing to create or helping others to create. For the person who has inherited wealth, perhaps revisiting the family's purpose or core family values offers guidance on the best way

TOOLBOX: CONNECTION

Here are some tips to create more meaningful connections, all of which involve developing greater interpersonal competence. The tools and practical activities to develop these skills are detailed at www.connectandrelate.com.

Relationships exist on a continuum.

The continuum runs from nonexistent or dysfunctional to exceptional. Though it is impractical and unnecessary to turn every relationship into something exceptional, the same skills and competencies can be useful in developing strong, robust relationships. This is especially important in business because people do business with people—not products, ideas, plans, or even money. The ability to develop functional relationships is a proven determinant of both personal and professional success.

Strong relationships are based on trust.

Developing trust requires self-disclosure and that requires vulnerability. Self-disclosure is key to building functional relationships. If people are willing to tell you a bit more about themselves, you are likely to reciprocate and vice versa. In the process both of you will discover more points of connection and shared experience. Unless we are willing to allow ourselves to be known by each

other, there is a limit to how much we will trust each other. This is just as true in business as it is in our personal relationships. But how much should you share? Disclosure can be risky. A useful heuristic is the 15-percent rule, that is, stepping only a bit outside your comfort zone. That small risk is unlikely to end in disaster, and often we discover that our comfort zone gets a bit bigger with that person, leading us to step 15 percent beyond that. That is how relationships grow and deepen.

Honesty builds stronger relationships.

If someone is doing something that bothers you, consider that both parties might both be better off if you say something. Next time you hear yourself say “it’s not worth it” to raise an issue, substitute the pronoun “it” with “you,” “I,” or “we” and then ask yourself again whether to raise it.

Robust relationships require willingness to share feelings/emotions.

Feelings are a key element of disclosure and giving feedback effectively can bring you closer together.

The ‘three realities’ model is useful for honing feedback skills.

Every interaction between two individuals involves three realities: intent, behavior, and impact on others. But only

two of these realities are known to each person. You know your intent and your behavior, but you don’t know the impact of your behavior. The other individual knows your behavior and its impact, but not your intent. Good feedback skills reveal all three realities to both parties. Sticking to the two realities you know makes your feedback more effective. “I feel you don’t care” imputes the other person’s motives. “I’ve sent you three urgent messages without hearing back from you, which makes me concerned” is feedback describing the impact of the other person’s lack of response. Including inquiry and your intent—as opposed to judgment—in your feedback invites problem-solving (which is the purpose of constructive feedback).

Functional relationships require balanced influence. Research shows that influence is reciprocal—the less open you are to others’ influence the less likely they will be open to yours.

Every interaction is an opportunity to learn. You can learn more about the other person, yourself, your relationship, and how to strengthen it. The more genuinely curious you can be, the more likely you are to move along the relationship continuum.

to steward the wealth. An exploration of purpose is key to creating a central framework for the new reality of wealth.

Here are a few questions to get started:

- What has been your life’s work?
- What gives you the most joy in your day?
- What are you passionate about?
- Do you enjoy dedicating your energy to these passions?

- What does a meaningful life look like to you?
- How do you expect to teach your children about living a meaningful life?

Again, exploring this concept personally is key to having effective conversations with clients.

CHARTING A COURSE

There’s no way to accomplish a goal without first articulating it and then

charting a path to achieve it. As fiduciaries, advisors must account for a long list of variables: every detail of a client’s estate, expected cash flow, upcoming expenses, tax considerations, inflation, market outlook, and much more. Dedicating time to this process allows everyone engaged in the wealth management process to know their roles and how to stay on course. Establishing guardrails increases the probability of success for clients because it puts to rest

many of the more analytical concerns. Returning to the rocket analogy, setting a detailed course in advance allows clients to feel confident about the direction the journey is taking. However, it does not help clients feel comfortable with the speed at which they are going.

IMPACT INVESTING

The holy grail for an advisor is having a client who appreciates and adheres to the plan while living a meaningful integrated life. Recent studies have shown client interest in adopting impact investing to align wealth and values.⁵ By channeling their capital toward investment solutions that work to help relieve the wealth gap, combat the climate crisis, and promote equity in the workplace, many feel their wealth is making a difference. Essentially, they can feel better about the speed of the rocket knowing some of their investments are improving society.

CONNECTION

Isolation and separation lead to anxiety and depression, but connections and relationships lead to fulfillment and longevity. Maintaining established connections throughout this transition to wealth is vital.

Consider the following questions for this conversation:

- How has accumulation of wealth impacted your relationships?
- How much of your own experience and feelings about suddenly having more money have you shared with the people you are closest to? What has held you back from sharing or sharing more?
- How can you create more meaningful connection with the most important people in your life?
- What do you need from your closest relationships and what might they need from you?

NEW COMMUNITIES

In the United States, a growing number of communities are focused on helping members activate capital to meet

philanthropic and personal impact goals. Advisors can help clients by learning about these groups and offering introductions.

For example, Toniic is a global community of asset owners seeking positive net impact across the spectrum of capital.⁶ Founders Pledge requires members to make a binding pledge to donate a portion of their personal proceeds upon liquidity to charity.⁷ To address the wealth disparity directly, organizations such as Resource Generation are gaining popularity with the youngest of the 1-percent community. Its mission is to be a multiracial membership community of young people (ages 18-35) with wealth and/or class privilege who are committed to the equitable distribution of wealth, land, and power.⁸ A group called Donors of Color Network seeks to build a cohort of passionate philanthropists who identify as people of color and can charitably give at least \$50,000 each year.⁹ By introducing clients to new communities, advisors can help clients feel connected to other folks with similar experiences, and therefore, feel more integrated in their wealth identity.

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Questions that may be helpful are the following:

- How do we as a family identify?
- Is it important to us to share ideas with other families like ourselves?
- Which communities offer resources to help us achieve our personal and philanthropic goals?
- Are there opportunities to collaborate and are these helpful for us (and our children)?

- Who are “our people” and what communities do they belong to?
- What introductions might be helpful?

CONCLUSION

Clients will experience wealth in their own unique ways. Amid a pandemic, feelings about wealth likely will be amplified. This is a time in which advisors could help founders, families, and newly wealthy individuals prepare for wealth in a way that focuses on their relationships with people, planet, and community. Advisors who follow the status quo will miss the opportunity to understand fully how clients define what is in their own best interest. But when advisors take time to understand their own privilege, purpose, connection, and community, they can elevate their abilities professionally and potentially gain benefits in their own relationships and well-being. ●

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