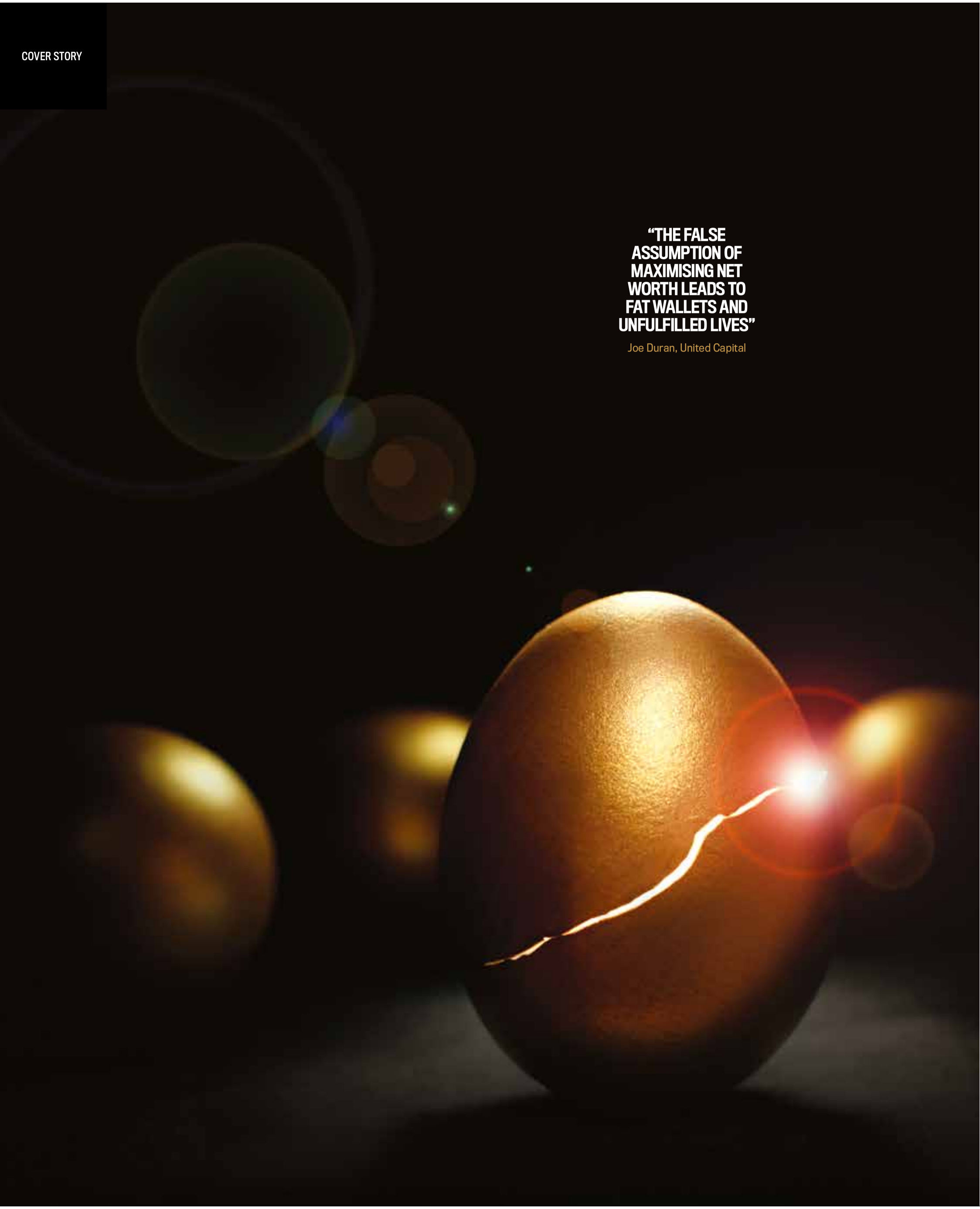

BEYOND WEALTH

Scepticism about traditional investment management and the advent of digital advice has given birth to a global 'financial life management' movement. Will Australia be next? Aleks Vickovich reports from the United States

FEW MIGRANTS personify the American Dream quite like Joe Duran. Having grown up with "literally nothing" in pre-Mugabe Zimbabwe, the CEO and founder of United Capital found himself on the receiving end of a US$120 million handshake with GE Financial at the age of just 34.

Arriving in the US with a thick Rhodesian accent, a wide-eyed optimism and just $600 to his name, a young Mr Duran built his first investment management business and sold it in what he readily admits was a "great transaction for a person of that age".

"I won the lottery basically," he says over the phone from Newport Beach, California, where United Capital – his second business and arguably the US independent advice revolution's biggest success story – is headquartered.

But the entrepreneur and now-prolific industry commentator was to discover a hard truth: "After that experience [of the sale] and leaving GE, I was completely miserable and it made me realise that money, while crucial, is not the answer," he says.

He remained unsure of his next step, but then a phone call from his mother-in-law planted a seed. Having received an inheritance from a relative, she called her daughter's financial adviser husband with an intriguing proposition.

"Joe, I need you to help me realise what this money means to me," she said.

Mr Duran was hit by the profundity of the request. His mother-in-law didn't need assistance with investing or saving or building additional wealth, but advice on how best to spend this money in a way that was in line with her goals and ideals.

"I realised there was a need for this [kind of advice in the market] and I was stupid enough to not know how hard it was going to be but tough enough to get it done," he said.

Fast forward 10 years and Mr Duran sits at the helm of a registered investment advisor (RIA) firm with US$16 billion in funds under advice, 81 offices across the country and more than 500 staff.

Following the discussion with his mother-in-law, and his own soul-searching in the aftermath of the GE deal, he went about developing a new discipline within financial advice, one that is gathering traction both with advisers and consumers.

For Mr Duran, the provision of 'financial life management' – in contrast to wealth management – at United Capital is indisputably the secret to the firm's success.

Perhaps understandably, given that he coined the term, he describes the philosophy of 'FinLife' eloquently.

"For the overwhelming majority of the history of our industry, advisers have believed that their job is to build their clients' net worth," he says. "[For financial life managers], our goal is not to maximise net worth but to maximise people's lives.

"The false assumption of maximising net worth leads to fat wallets and unfulfilled lives. And that's not something to be necessarily proud of."

Meanwhile, on the other side of the world, the executive director of non-aligned advice firm Treysta Financial Life Management, Mark Nagle, has heard Mr Duran's call.

Sydney-based Mr Nagle describes the process of financial life management in technical terms: "The FinLife process takes a client's value sets and their financial position and monetises them based on the value sets as a primary," he explains.

In recent years, Mr Nagle has been outspoken about the advice industry needing to embrace behavioural economics and the 'human side' of advice if it is going to be competitive in the long term.

On one of his journeys to the US with managed account provider Implemented Portfolios, he was exposed to financial life management and found a kindred spirit in United Capital. He underwent 'boot camp training' with UC advisers in Dallas, Texas, and has subsequently started taking steps to cement a FinLife movement in Australia, including rebranding his own business and website.

Judging by the number of advisers in the US seeking to join United Capital's ranks, and the fact that advisers abroad are catching on, there is every indication the FinLife movement is here to stay, emerging both as an influencer of financial advice practice and as a professional discipline in its own right.

And for the more cynical who see this as little more than a marketing ploy, it is relevant to note that financial life management is backed not just by wishy-washy theory but sound qualitative research.

Let them eat cake

Psychologist and anthropologist Barnaby Riedel says the birth of the financial life management movement is long overdue.

"There is huge demand now for more research on the human side of finance," Dr Riedel says. "I would say this is just a natural response to society taking more interest in the non-rational and psychological sphere.

"This has taken root in other industries long ago and really now finance is catching up. Typically the financial sector is about 10 years behind."

With a PhD in 'comparative human development' from the University of Chicago, Dr Riedel runs research firm Riedel Strategy with his wife Alyssa, a marketing professional, out of Lake Forest, California.

He points to retail sales for evidence that more emotional triggers are now commonplace in business.

"Ten years ago you would open a Sears catalogue and it would talk about the functional features and benefits of a product," he explains. "These days it is more about the identity and emotive benefits of a product. Financial service and product providers are realising that they too need to focus on these non-functional, emotive motivators."

Mr Duran and his colleagues contracted Riedel Strategy to conduct research to test the FinLife approach with consumers and to investigate basic human truths that would be instrumental in developing United Capital's advice provision systems and processes.

Following the psychoanalytical maxim that "if you want to know something, ask people to tell a story", Dr Riedel carried out a qualitative research study of consumers' financial lives so that he could perform a subsequent systematic analysis.

The research – carried out on a sample of 30 single and coupled investors, both clients and non-advised – unearthed four findings that lie at the heart of the FinLife proposition.

"The first is that when we asked people to tell us their financial life story, they told us their entire life story," he explains. In other words, the study revealed that a vast majority of

81
is the number of United Capital offices

people do not view their financial lives in terms of assets held or investments made but as indistinguishable from their broader aspirations and ideals.

"The next finding was that working and spending accounted for much more of peoples' financial lives than saving and investing," he continues. While the professional investment industry tends to focus on these last two pursuits, like Joe Duran's mother-in-law, many consumers need advice on how to spend and enjoy their lives rather than on ways to invest to build more wealth, the research suggests.

"That kind of advice would be very helpful to consumers and is very different to the way the industry traditionally thinks about financial lives," he adds.

The third finding was that financial lives are made up of a "series of trade-offs" and the fourth, a related finding, was that "financial decisions turn us towards or away from our ideal selves".

Reflecting on the research, Joe Duran says one of the key goals of financial life management is to "understand those ideals and help [clients] live lives that are closer to those ideals". This may mean working less, leaving less inheritance to the kids or spending more, he says – a statement that is tantamount to sacrilege in some corners of the advice industry.

Viewed through this prism, financial life management is a form of financial advice that truly gives consumers what they deeply want. Some critics in the industry may bristle, arguing this comes at the expense of the advice they need, but they would be well-advised to reserve judgment until they have heard the commercial case for FinLife.

Dollars and sense

While FinLife has created some buzz among advisers (and trade journalists) of late, perhaps the roots of the movement lie in a related discipline of some standing. Massachusetts financial adviser George Kinder founded the Life Planning movement more than 20 years ago and the Kinder Institute a decade ago in a bid to help his peers move more into the realm of life coaching.

Goals- or objectives-based advice is now mainstream in the US advice industry, but Mr Kinder says his life planning movement goes a lot further.

"What we are committed to is essentially the client's dreams and freedom," he says. "Who do they want to be and what do they want to achieve? This is our first preoccupation."

Kinder has undeniably been a pioneer in moving the industry towards the 'human side' and his movement has grown exponentially since the late '90s, with 2,500-odd life planners around the world and 350 officially registered through the institute.

But some onlookers have questioned whether the life planning movement's commitment to client 'dreams and freedoms' has come at the expense of sound commercial models.

"The life planning industry is interesting and has really gone the whole way in terms of linking financial advice to wellbeing, and even incorporating Buddhist teachings into their process," says Mark Nagle, who has studied the US advice landscape closely on numerous trips and study tours over many years.

FinLife facts

Research conducted by Riedel Strategy on behalf of United Capital resulted in the following four insights that form the academic basis of financial life management:

1. A financial life is not about money. It's about one's entire life
When people were asked to tell their financial life story, 93 per cent told their entire life story

2 Working and spending are more central to our financial lives than saving and investing
When people were asked to tell their financial life story, working and spending accounted for more than 90 per cent of what was heard

3. Life is a series of trade-offs – more of one thing usually means less of another
83 per cent of the turning points described in people's financial life stories involved a trade-off of one kind or another.

4. Our financial decisions move us either towards or away from our ideal selves
The research found that people evaluate their financial lives on the basis of whether they are in alignment with their ideal self, not in terms of money

"But they are not big, commercial, successful businesses. They are almost more focused on the social outcomes than the commercial," he adds.

While there is undoubtedly strong overlap between the theories that underpin the two schools of financial advice, financial life managers, it seems, are outwardly more commercially-minded.

Joe Duran, for example, doesn't flinch in outlining the commercial outlook for his advisers: "Our advisers, within 18 months of joining us, have a 30 to 70 per cent raise in revenues regardless of the markets," he says.

He lists three potential sources of profitability open to his financial life managers in comparison to their wealth manager peers.

First, there is "increased wallet share from the client because you are dealing with their entire financial life". Most US advisers are remunerated via a percentage-based fee. Financial life managers charge a percentage based on total assets held – rather than investments made – which opens up new revenue sources.

Second, they can charge an additional fee for "financial guidance" akin to a fee-for-service in Australia.

And finally, says Mr Duran, an adviser's net promoter score is certain to increase after embarking on a FinLife strategy, thereby resulting in growth in new business.

In fairness, George Kinder maintains that his advisers and his own businesses have seen success – in particular, he points to increased referrals. He describes a "client relationship dividend" awarded to successful life planners that results in a number of commercial benefits, albeit perhaps not the $16 billion growth enjoyed by United Capital.

The enablers

For Mr Nagle, financial life management only represents a feasible model in an Australian context when used in conjunction with and taking into account other industry trends.

First is the use of managed accounts, which he describes as being almost a prerequisite for the effective provision of financial life management.

The second is digital advice solutions, or 'robo-advisers' as they are often termed. While in their infancy in Australia, like managed accounts, automated investment tools provide an efficiency benefit that can be used to cost-effectively provide more labour- and time-intensive financial life management services.

"If you're not using digital advice and managed accounts then you're not getting rid of the investment costs and workload in your business, which will make financial life management too expensive and time consuming to deliver," he says.

"If you are spending all your time picking stocks and following markets then you are not in the right headspace to be delivering FinLife. I now spend my research time consuming information on cognitive science and behavioural economics, not reading the Fin Review or sitting in front of a Bloomberg terminal.

"For me it is much more important to understand my client's investment personality deeply than it is for me to give them great stock tips, because frankly that is a flawed value proposition," Mr Nagle says.

The primacy of digital advice for the FinLife process is somewhat ironic, given that in part the movement is a reaction to the advent of direct-to-consumer robo products.

In fact, Dr Riedel listed robo-advisers specifically when asked what has led to the rise of FinLife.

"There is now an increased scepticism of what the value of having an adviser is in the first place, with the emergence of passive strategies and robo-advisers," he says. "I think there is an identity crisis in the financial advice industry around what value they actually add, given that so many of the services they once provided are being automated.

"This has opened the industry's eyes up to the relational importance of what they do. Having an adviser is not just about having a brainiac in charge of your money; it is about having someone help you make decisions and not make poor decisions," Dr Riedel says.

The emergence of robo-advisers, he says, represents a potential turning point, anticipating that they will either be embraced across the spectrum, giving rise to a "new type of financial planning altogether", or they will fall flat. Either way, it seems Dr Riedel is convinced there will be strong demand for those advisers who focus on their clients' whole financial lives – as is confirmed by his research.

The inhibitors

Unfortunately, the signs are not all positive for Australian advisers who are feeling inspired by the story of financial life management. Many innovative ideas have seen Australian businesspeople struggle to implement them, either due to slower-moving management, outdated technology, more restrictive regulation or all of the above.

Mr Nagle admits that while he is fully committed to FinLife, his business currently can only dream of an industrialised process akin to the one United Capital has built up over a decade – and at a cost of more than US$10 million.

While managed accounts have undoubtedly helped, few Australian advice businesses – if any – have developed a truly consistent, tech-enabled back-end and client engagement process that allows client-centric advice to thrive.

Treysta is taking steps to remedy the technological stupor, but innovation in Australia takes time and, in addition, Australian consumers may be less eager to jump on board when it comes to new ideas.

"A lot of our revenue is still in the old world; a lot of our clients are septuagenarians and not necessarily looking for major changes to the advice method and style they have been receiving for years," says Mr Nagle.

THE LIFE PLANNING PROBE

George Kinder of the Kinder Institute begins client relationships with these three foundational questions:

1. If you had all the money you needed in life, what would you do differently?

2. If you went to the doctor and discovered you only had 5-10 years of life left, what would you change?

3. If you went to the doctor and discovered you only had 24 hours left, reflecting on your life, what did you miss out on?

$16bn is United Capital's funds under advice

"I don't necessarily want to go into my existing client base and shake it up with financial life management. We already do have a good business; we just want to future-proof it."

And for advice businesses more focused on succession planning than future-proofing, building a process for the provision of financial life management is almost certainly not worth the hassle.

A move to FinLife is a forward-thinking move, according to Mr Nagle, aimed at capturing the next wave of high-net-worth clients and providing advice that is more in line with their needs.

"The next generation of clients, those that are in their 30s and 40s, will have an absolutely mind-boggling array of direct investment options at their disposal and they will use this instead if advisers are only offering investment management," he predicts.

"But if you are providing financial literacy education and you are there to help them make financial and life decisions, help with their relationships and with things that may or may not have anything to do with money, then when they do accumulate a million and a half dollars, then of course they will trust you to manage it."

For Joe Duran, corporate culture is the potentially significant obstacle to the provision of financial life management.

"You can do it anywhere if the people are the right people, but having said that, we built United Capital from the ground up to be this. It would be very hard for a wire-house or institution to suddenly change their mission," he says.

"You would need a leader that was willing to commit 100 per cent to the mission."

Another potential obstacle lies in the adviser's motivation, says George Kinder. If 'life planning' or 'financial life management' is seen as simply a strategic marketing gimmick to differentiate a business from the pack, then it is doomed to fail, he says.

"Ultimately, this kind of advice won't work unless there is authenticity – clients will see through that," Mr Kinder warns. "We are interested in developing an authentic relationship where sharing occurs naturally."

Future movement

As befits an entrepreneur who has enjoyed considerable success, Joe Duran is convinced his way is the right way for the industry to develop and to shake off the reputational damage of recent years.

"This is the future and we know this is the future because we have the big institutions coming to us quietly saying, 'This is the future'," he reveals.

United Capital has now started white-labelling its platform for third-party clients – including some of the biggest names on Wall Street – in a sign that FinLife's popularity is eclipsing its traditional home in the independent RIA space.

Mr Duran says he is interested to see whether similar demand lies in overseas jurisdictions such as Australia.

Though perhaps a little less loud and proud about its success, the life planning movement has also seen increased traction more recently. "The demand for this type of advice has increased," says Mr Kinder. "We have attracted around 4,000 to 5,000 customers over a period of eight months to our [direct-to-consumer life planning service] without any advertising."

For his part, Dr Riedel adds there is a profound sociological reason why the future of financial life management looks bright.

"One of the things I have noticed is a shift in the nature of trust," he says. "You used to earn trust by performing well, but given 2008-09, investors now want to know who the people are that are managing their money and where the money is going.

"It has moved from a calculative trust, based on figures, to a relational trust based on the people who are helping them with their money and what sort of character they have and what their motivations are."

For those advisers who still ply a successful trade in investment management, and believe this is where their value lies and that they can outsmart the robo, FinLife will likely be another buzz term of which to be sceptical.

Certainly, financial life management is not a guarantor of success, nor is it necessarily the only future-proof model. However, the commercial success of United Capital within a relatively small period – and in the face of competition from the world's most formidable investment houses – speaks for itself.

In addition, the research underpinning FinLife's rise is hard to argue with, given it depicts a version of professional advice in line with the innermost wants of clients.

They are, after all, only human. ●

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