Values-Centered, Value Creating Financial Planning

By Claire Gaudiani

Claire Gaudiani explains how introducing a new team member, a historic and creative figure, into the financial planning process of your wealthy clients will result in significant value for your client and your practice.

Financial planners have been hearing about the difference between transactional and values-based relationship-centered planning for several years now. Excellent work has brought the benefits of this more comprehensive approach to the attention of professionals[1] and values-based guidance has become the standard in many quality financial planning enterprises. I want to propose that the new demands of this approach require the expansion of the traditional advising team. The client, of course, sits in the key position with his family members, including multiple generations. The professional advisors generally include attorneys, planners, investment advisors and accountants. The missing team member is an historical personage whose life story and decision-making, even in a substantially different time, place and industry, enables the client to reach beyond the limitations of the imagination in the room. This person whom you, the financial planner, should introduce to the client will provide a source of inspiration, of curiosity, and of meaning with the power to shape your discussions and your client's "relationships."

The new demands made on you in relational financial planning still include addressing the asset accumulation drives of your clients. But financial outcomes are no longer your only goal. Your added value resides in your ability to introduce your clients to people they will admire, who can help them identify issues that need to be addressed in order to succeed at the hard work of family financial planning. You can attend to all of this more gracefully by bringing in this currently missing person to your interactions with clients. This person can often help you help the clients to see their own best solutions to these challenges. American history is full of these characters.

You are already using a version of this approach. Chances are you routinely introduce historic legal and financial precedents into the conversation because they come in with the lawyers and auditors and with you. Why not introduce an inspirational figure from American history as well? These figures are people who have faced challenges like your clients' challenges. They are still admired decades, sometimes centuries after their demise. You can explore reactions of your clients to the person's life and help them have deeper, more productive discussions on the values that your values-centered, relationship-based planning involves.

Selecting the right historical person takes some skill, but not more than financial planners bring to the rest of their tools for serving clients. Initial questions to clients will give you hints. What changes do you most wish to see in your family? In your community? Your country? Your world? What values, traditions do you most wish would persist in 100 years? When are you most gratified, happy in your current life? What two things are you most grateful for? Are there any parts of life you want to shape?

Answers will help you identify your additional (and newest) team member. The couple who are most

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grateful for health or for the cure of a once ill child should meet Albert and Mary Lasker. The man who is concerned about justice and the chance to get ahead needs to have Julius Rosenwald on his team. A woman may want her daughters to have opportunities, or may want to assure the future of the arts in her community. She will feel connected to Mary Garrett or to Isabella Gardner. What do these new team members do for your clients and you? They expand the universe. They improve the framework for decision-making. They stimulate conversation, even otherwise difficult dialogues among members of the client unit. These new team members will engage your clients in distinctively American thinking about investment risk and reward.

Let me explain. Those of us dealing with people of wealth usually know the utility theory first articulated by the Swiss mathematician Daniel Bernoulli in the 18th century: the value of increases in wealth is inversely proportional to the wealth previous possessed. That is, the more wealth I have the more I am averse to loss and proportionately less attracted to adding gain. In his classic 1996 book, AGAINST THE GODS,[2] Peter Bernstein tells of a client who lectured him early in his career: "Remember this, young man. You don't have to make me rich. I am rich already!" The hidden message is "Young man, you have to protect what I already have! I don't want to lose any of it!" Bernstein is illustrating one of the early, seminal principals of Bernoulli's utility theory. Many of your clients may feel as Bernstein's client did. They are conservative investors intent upon minimizing downside risk. They illustrate through their behavior the corollary which has become the backbone of modern behavioral economics: the disutility (perhaps we can simply say "unhappiness" in lay terms) caused by a loss will always exceed the positive utility provided by a gain of equal size. Bernoulli rules! Or does he? He reigns and accounts for the conservatism of increasing wealth only if we are playing a zero-sum game.[3] If we believe the assets can still grow, that life isn't "rich enough" yet, then we don't have the same calculus at all! If more is readily available to both of us, my gain is not your loss. We can all gain.

How do we explain America's wealthy people's remarkable and relentless willingness to take extraordinary, some would say, irrational, risks in the hope of contributing to the greater good of others? How does this risk tolerance to build benefit into our society contribute to the dynamism in our economy? How do they actually decide to lower their holdings (lose) and find more satisfaction (gain) by making a philanthropic contribution? Well, your CEO client is worried about some of the social issues in the country. His wife is very worried. Every year they give the recommended amount to the local United Way. Fine. Then you introduce them to Julius Rosenwald.

Julius Rosenwald, son of very poor immigrant German Jewish parents, born in 1862, grew up to be president of Sears, Roebuck. He became increasingly concerned that African American children in the rural south were not being taught to read. He believed this would not bode well for the future of the nation. He also believed in respecting the dignity of recipients of donations by inviting them to participate in the effort to get to the next level. Rosenwald worked with African American leaders to make entrepreneurial investments in the education of African American children in the rural South. He started his effort in 1912.

He made his gifts in a partnership way that solicited matching gift donations from African American communities, engaged the public school systems and got some funds from the federal government. "By 1928, one in every five rural schools for African American students in the South was a Rosenwald school, and these schools housed one third of the region's rural African American schoolchildren and teachers. At the program's conclusion in 1932, it had produced 4,977 new schools, 217 teachers' homes, and 163 shop buildings, constructed at a total cost of $28,408,520 to serve 663,615 students in 883 counties of 15 states."[4]

Rosenwald transformed the future of millions of Americans, black and white. His name is more known for the way he did his giving than for how he made his living! He gave money to Jewish causes, and to the well-being of fellow citizens in Chicago, too. Certain of your clients will remember and appreciate that you made an introduction to Mr. Rosenwald. In my experience, it is an introduction they can make to other people they care about. You have conveyed Rosenwald's story so thoroughly that your clients see his clear business agenda and discipline, as well as his enormous gratitude to the nation where he was able to create a life his immigrant parents could scarcely have dreamed of. Julius Rosenwald gave out of his wealth, not just his annual earnings. He is remembered all over the country for the good he did fully 80 years after his death. His grandchildren and great grandchildren remember his generosity and remain people of wealth too!

Of course, you could simply talk to your clients about doing some more good with some more of their assets. Rosenwald permits you to introduce a character to the table who offers a concrete, colorful, memorable, inspirational role model. Someone you have chosen because he is a bit like your client. They can't help but be flattered. We know that people will favor a choice that offers more detail and precision, over one that is abstract and ambiguous. You are building new relationships in a big way.

Well, Julius Rosenwald and the rest of 370 years of American philanthropy confirm that American wealth has a surprising attribute: it often does not see its own holdings as the whole story—all that they want to protect, all they wanted to "make." These are people who wanted to make a difference, leave a financial and a human endowment. They often see themselves in the context of the greater good, the needs of others in their society. They see faults, deficits in the lives of others. They continue lives that, despite the wealth, remain more open to making more investments and taking more risks. They continue acting like people on the way up in wealth, even though they are no longer focused solely on making money for themselves. They are equally aggressively pursuing making other people better off. These wealthy people become less tightly protective of their riches and more willing to invest in others, to offer a hand up. Somewhere in the brain of so many wealthy people in America's history, there is the notion of gratitude for having gotten a hand up from someone and wanting to offer it to others.

This was because, in my judgment, America's Declaration of Independence had been preceded by a well-developed appreciation of inter-dependence, a 140-year tradition of practicing generosity, that laid the groundwork of citizen mutuality so crucial to the Declaration of 1776. Governor Winthrop told the shareholders in the newly hatching Massachusetts Bay Colony corporation that "Wee must be knit together in this worke as one man, we must entertaine each other in brotherly Affeccion, we must be willing to abridge ourselves of our superfluities, for the supply of other's necessities … We must delight in each other, make other's conditions our own ... always having before our eyes our community as members of the same body."[5]

Perhaps Americans grasped early the negative implications of Bernoulli's thinking. To compete head to head for limited resources in a new nation was a losing game. The expected value in a zero sum game is always the same for both players, but inevitably the loss is more painful than the gain is pleasurable. Thus, it makes the most sense and is more rational to refuse the gambit entirely. We became, ironically in this bastion of capitalism, a young nation of collaborators, investing in each other and the future as well as investing for ourselves. We remain, 370 years later, a dynamic, engaged country where value creation and innovation define economic growth—ask any hedge fund manager but ask any philanthropic entrepreneur as well.

American capitalism, in its most powerful times, has not been a zero sum game. Our tradition supports growing the pie, to mix a metaphor. From the start, the American way has been to view others as assets in waiting rather than as asset-consuming competitors for limited resources. The distinctive feature of America's economy is this optimism, general optimism, and specific optimism about each individual's potential. It energizes the economy by infusing society with a fundamental optimism about human beings' ability to solve problems, build assets, craft a better life.

In cycles, we lose our connection to this optimism. For instance, it is more intellectually fashionable today to focus on uncertainty, isolationism and the limits of reason, but our founding fathers shared a faith in human reason. They set out an agenda in our Constitution that was brimming with optimism. One that called on fellow citizens to work on behalf of others as the surest path to their own freedom and happiness. "We, the people" are supposed to guarantee each other's rights, even if we don't agree with each other. The last words of the Declaration of Independence are: "… we pledge each other our lives , our fortunes, and our sacred honor." Talk about optimism that citizens in a new nation, many without advanced formal education, could and would grasp, indeed, embrace this delicate and complex line of reasoning. Today's spirit needs the attention of the historical characters and the wisdom you can bring to your clients. You will become a memorable part of their deliberations when you bring these forces to your own side as an advisor to your clients.

New levels of optimism result from adding this historical person to the team around your client. The stories you share on these heroes and heroines design a creative and energetic space around your clients. The people you are advising have substantial funds. Now they are meeting people with substantial funds who made a lasting difference in the lives of family members and the rest of America through the decisions they made in their business and investment lives and in their American citizen lives. Suddenly, the profit and loss calculation changes. You are in a position to help your clients build wealth and meaning, wealth and the future they may never have realized their wealth could offer them (and might not have experienced had your imaginative, relation-based financial planning not brought a new member to their team).

Historical characters enable you to do one other important task for your clients. They enable you to connect them to America's historic appetite for solid risk-taking. Philanthropic tradition inspired our early economic thinking and our appetite for risk. America is built on generous risk-takers, investors who focused on the enormous upside of their long-shot investments, rather than on the high probability of failure and loss. Time and again, individual benefactors invested in solutions to social, economic and cultural problems when neither the government nor the private sector were prepared to take on the risk involved.

The first scholarship in America, given by Anne Radcliffe in 1643, enabled the sons of farmers and artisans to engage studies their family's finances would never have permitted—talk about risk! They served the greater good of the Massachusetts Bay Colony in its most trying early times. The investments by Rockefeller in a British doctor's guess that he had a breakthrough medication in his Petri dish, or that the young German scientists had scoped out a new way of "seeing" were very high risks. But scholarships have enabled millions of gifted people to emerge to serve the rest of us. Penicillin and the electron microscope hatched in America because of Rockefeller's willingness to risk in order to gain. Their development in America and not in England or Germany helped to launch the pharmaceutical industry in the United States. The energy in this optimism and risk taking in the philanthropic realm will resonate with your clients who made or maintain wealth because of these very attributes.

What your wealthy clients cannot afford today in America is the loss of these traditions of optimism and generous risk-taking. None of us can allow fear, driven by a focus on uncertainty, to cause investors to settle into a self-centered conservatism. We need to challenge our investors to examine the levels of risk tolerance that built their fortunes, and to mobilize their entrepreneurial acumen for the greater good. Happily, there has never been a time in our history when it was more evident that we must expand opportunities for all citizens. America is not and has never been a zero sum game that a prudent investor should choose to reject. It is a win-win experiment that all of us must engage and contribute to in order to build the portfolio of the future.

America is unique in the world in building its capital market's energy on its tradition of individual citizens investing in the greater good. Many wealthy Americans have become and continue to become, moral entrepreneurs. They are prepared to risk large sums on behalf of their fellow citizens. They remain risk tolerant in a world where they see this vital energy as creating a bigger pie. Your clients know this at some level and understand (or you will show them) that their children and grandchildren will live with more important and immediate assets than just the financial endowments set aside for them. They will live with fellow citizens, fellow parents, fellow patients, clients, just like Julius Rosenwald, the Laskers and Mary Garrett knew their progeny would.

Preservation of capital is job one. This is the precise job your historical philanthropist on the team can advance for your client. If the idea is to sustain and build the family holdings, then they and their progeny will only prosper in the long term if the American economy remains robust, innovative and invested in highly productive value creation. As America develops more billionaires and many, many more millionaires, the tendency to conservative investing, preferring no losses even if it means no real gain is a recipe for stagnation if carried deeply into the economy. This is how some of the other G-7 countries molder in almost no-growth environments. You can see your role as helping clients to re-balance their portfolios by responding to their conservative financial leanings and opening them to some marginally more risk-tolerant social and moral investment with a pre-determined portion of their wealth.

Now, I mean you can help them consider giving more than they are accustomed to give and making these gifts investments in the development of human capital, physical capital, or intellectual capital—investing in the future of their community or the nation. You can help them see that someone did this for them, for the nation they and their children enjoy. They and we all are recipients of philanthropy, risk tolerant investments in fellow citizens, our health, civic assets and new ideas. (We don't get polio because other Americans collected and gave dimes to fund the research on the vaccine and train the microbiologists.)

America is the place it is because generations of people have tried to give back more than they received. And this generosity is working—for almost everyone, but certainly for the wealthy. In fact, America is not generous because we are rich. We have become rich because of our generosity. The energy that American history's philanthropists offer your client's deliberations far exceed the tedious and predictable discussions of tax deductions for charitable contributions. They incite imagination, raise optimism, increase expectations that the next generation will respond with equally generous aspirations for a better life even beyond the immediate family. When historical characters join your clients' teams, you lock arms with the people who made America the land of prosperity. Those great men and women help your clients avoid the smallness and fear of loss that Bernoulli's utility theory describes as the cage awaiting those more fearful of loss than happy for gain. Today Bernouilli's thinking has been refined by modern behavioral economists. They have demonstrated that the "point of reference" affects our economic decision-making , more than simple fear of loss. So offer your clients a new point of reference!

They can invest in others and win every time. They win even if every dollar doesn't achieve its full expectation in the scholarship, or medical donation made. They win because they receive admiration for having courage to hope in a future with more capacity in it than could have been the case without their generosity. They win because they lock their memory to America's history of transformation through gift-giving—the hand up beats the tight fist every time. Give your clients a gift and give them a new member of their financial planning team. Watch values-centered, relationship planning really work for your clients and for you.

ENDNOTES

[1] Howard M. Lang and S. Keala Timko, *Family Business Governance, Transition, Transformation and Succession: Gaining Competitive Advantage*, J. PRAC. EST. PLANNING, Aug.–Sept. 2005, at 37.

[2] PETER BERNSTEIN, AGAINST THE GODS (1996).

[3] *Id.,* at 112–13.

[4] National Historic Preservation Trust, *www.rosenwaldschools.com/history.html*.

[5] John Winthrop, Sermon on the Arabella, 1630, available online at *www.history.hanover.edu/texts/winthmod.html.*