



The Difference between Goals and Dreams

Is life planning the next phase of wealth management?

BY ED MCCARTHY

If wealth hasn't satisfied your private clients, perhaps it's time to try "life planning." Life planning as a distinct process has been gaining acceptance among advisers since financial planners' conferences began offering presentations with titles like "Money and the Human Experience" in the early 1990s. Elizabeth Miller, CFA, a principal with Trevor Stewart Burton & Jacobsen Inc. in New York, NY, USA, believes there is a growing recognition that purely quantitative measures of investment performance and goal achievement can overlook the client's needs. "We reached the clients' quantitative goals but that often didn't satisfy the clients because we didn't embrace the issues that made them contented," she says.

What Is Life Planning?

George Kinder, founder of the Kinder Institute of Life Planning in Pleasant Hill, Calif., USA, started using life-planning techniques with his wealth-advisory clients in the early 1980s. His book *The Seven Stages of Money Maturity: Understanding the Spirit and Value of Money in Your Life* is regarded as the seminal text for life planners. Kinder defines life planning as "the process by which an adviser identifies the clients' most profound goals. Then, using both technical and relationship skills, the adviser guides clients to achieve their deepest goals in the most efficient manner and shortest possible time."

How does Kinder's approach differ from traditional goals-oriented planning? Kinder gives the example of a 50-year-old journalist who wants to retire at age 62. An adviser following standard planning practices would accept the goal at face value and review the

client's relevant quantitative factors. He would then develop a plan for accumulating sufficient wealth to meet her projected financial needs at age 62.

With life planning, the adviser wants to understand the client's deeper motivations. In this example, Kinder would probe to learn that the client's true passion in life is to write a novel. He would use that information to develop additional strategies. "We would certainly consider the age 62 target, but we want to accomplish her deeper goal as soon as possible because any number of things could happen between 50 and 62," he says. "That is a time and money issue: How does she find the time and the money that allows her to do it before 62? That priority becomes what is most profound to the client rather than the standard numerical goal."

But how does an adviser uncover these unspoken goals? Kinder follows structured techniques for drawing the clients out, such as the method he calls the "Three Questions":

1. If you had all the money you would ever need, how would you live your life?
2. Your doctor has told you that you will feel healthy for 5–10 years but you will die suddenly at some point within those 5–10 years. How would you live your life differently with that knowledge?
3. Imagine you have only 24 hours to live. What did you not get to do in life? "This is where the poignant answers — the secret sorrows — come out," Kinder says. "These questions help show what is most profound in a person's life."

The Kinder Institute of Life Planning provides life-planning training for advisers, but a lack of formal training

KEY POINTS

- Uncovering unspoken attitudes can provide valuable insights into a client's motivations.
- Some firms use a "life planning" approach to probe client attitudes toward wealth, enabling them to deal with qualitative factors that might be missed by traditional goals-oriented planning.
- Life-planning advocates believe that failing to uncover a client's underlying attitudes and goals can lead to inappropriate portfolios.
- Advisers should be aware, however, that life-planning techniques are inappropriate for some advisers and clients.

hasn't hampered advisers from exploring these issues with clients. For example, Miller starts conversations that allow prospects and clients to open up. "I try to help them take the time to congratulate themselves for the great success they have had in their careers so they can think about what they want to do next and how they will define themselves," she says. "Sometimes they've had those thoughts but haven't been able to share them with another person, so starting that conversation is liberating. I don't try to answer the questions for them; instead, I start a dialog so they feel free to ask and answer those questions."

Uncovering unspoken attitudes can also provide valuable insights into the client's financial history. Leslie Carlisle is director of philanthropy for Charles Haines, LLC, a wealth management firm in Birmingham, Ala., USA, that maintains a full-time, accredited counselor on staff. Carlisle tells of a wealthy client who was very frugal and extremely conservative with his investments. His family didn't understand his behavior until a meeting at Haines, in which the client said he "just wanted to be sure there would be food on the table for his family."

This remark puzzled the Haines' staff and the man's family. The Haines' counselor probed the client, whose response was illuminating. "He dis-

closed that he had grown up much poorer than he had previously told his family,” Carlisle says. “There were many days when he and his siblings did not have enough to eat, and those circumstances continued to influence his attitudes. Once he realized that his thoughts about money were related to past circumstances that weren’t as relevant to his current situation, he began to open up and we were able to develop a more appropriate portfolio.”

Life-planning advocates believe that failing to uncover a client’s underlying attitudes and goals can lead to inappropriate portfolios. In the example of the journalist whose stated goal is to retire at age 62, an adviser who accepted the client’s goal without probing probably would have invested her funds primarily in growth equities held in qualified retirement plans on the assumption she wouldn’t retire until age 62. This approach would have missed the clients’ true objective.

Going Global

Advisers outside the United States have also expressed interest in life-planning techniques. Kinder and his business partner have addressed hundreds of advisers in the UK and Australia and have trained several dozen advisers in both countries. Nick Cann, chief executive of the Institute of Financial Planning (IFP), a financial advisers’ professional organization in Bristol, UK, says life planning is “indeed taking off in the UK.”

Julie Lord, former president and managing director of Cavendish Financial Management in Cardiff, Wales, UK, agrees that life-planning techniques are gaining acceptance, but she points out that many UK-based advisers have long used a similar approach. For example, she has focused on the clients’ underlying goals and passions since her firm’s founding in 1991. “Many of these techniques are commonsensical,” she says.

Advisers in other countries, however, have been slower to adopt the techniques. Suzue Sato, the Denver-based chief representative for the Japanese Association for Financial Planners in the United States, believes very few

Japanese advisers are using life-planning techniques largely because their clients and the financial news media have shown little interest in the topic.

Doubts

Some advisers have doubts about life planning. Kinder admits that several advisers walked out of a presentation in 1999 when he first started to promote his book. Stanley Lee, CFA, principal and portfolio manager with David J. Greene & Company in New York, NY, USA, believes that very wealthy clients are less likely to have an interest in life planning. “For most of my clients, I’m managing their excess capital,” he says. “They just want it to grow at a reasonable rate: it’s the stay-rich mode as opposed to the get-rich mode. So we’re not talking about hopes and dreams — they are already there financially.”

Life-planning advocates dispute the notion that greater wealth typically results in greater life satisfaction. Miller points out that wealthy private clients have hired counselors to assist with family counseling and governance issues for years. Kinder says that his ultra-high-net-worth clients have been just as disconnected from their profoundest dreams as anybody else.

The combination of wealth and dissatisfaction is not limited to US clients. Lord says that for some of her UK clients, money is more of a problem than a solution. “I’ve known lots of people with loads of money whom I wouldn’t say were happy,” Lord says.

There’s also a risk that life-planning techniques are inappropriate for some advisers and clients. An adviser might lack the skills or temperament needed for dealing with potentially emotionally charged subjects. In those circumstances, introducing clients to a professional counselor who has experience with wealth-related issues or to a life planner that isn’t a competitor can be a solution.

Some clients might prefer to focus solely on financial advice as well. “We tend to be more reserved here in the UK than you are in the US,” says Lord. “There is a genuine risk of upsetting the client if the adviser tries to be too

‘touchy-feely’ early in the relationship.”

Strengthening the Adviser–Client Bond

Advocates of life planning recognize the potential drawbacks in probing clients’ feelings, but they point to offsetting benefits. Miller believes that clients stayed with her during the bear market because both she and her clients were focused on the clients’ real goals, not the stock market’s ups and downs.

Kinder also claims that life planning helps build long-term relationships with clients. “Clients of life planners are typically clients for life,” he says. “They bring all of their assets to that adviser because the adviser knows what they really want in life.”

So is it time to replace your office computer with a psychiatrist’s couch? Hardly. But there is a strong case for considering some degree of life planning with your private clients, either on your own or through arrangements with qualified counselors or life planners. “Historically, we and our clients measured our success completely on a quantitative basis that didn’t capture the client’s real goals,” Miller says. “That’s where I think we’re starting to understand as professionals that we can and should do a lot more for clients. For example, as wealth counselors, we are learning to ask better questions and better understand what the wealth means to the individual. What are they really trying to accomplish and how can we help them?” ■

Ed McCarthy is a freelance financial writer in Warwick, RI, USA.

RECOMMENDED RESOURCES

“Issues in Comprehensive Personal Financial Planning”
Abstracted in *The CFA Digest* (November 2002)
(cfapubs.org)

The Seven Stages of Money Maturity: Understanding the Spirit and Value of Money in Your Life
By George Kinder
(Dell, 2000)