Grit with Grace

Emotional Rescue: Why Emotional Intelligence (EQ) Matters, in Wealth Advising and in Life

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with research assistance from Dustin Lowman

What is a wealth advisor's greatest asset?

To the uninitiated, it might seem like the answer is raw intelligence — IQ. To many people, a wealth advisor's primary objective should be to structure an investment portfolio that achieves an optimal risk-adjusted return. More is more, more is better, and mastery of the stock market trumps all.

IQ certainly has a place in wealth management. Portfolio management is a big part of what we do for clients, and serves as the foundation of all financial plans.

But I've learned over the decades that the goal of wealth advising is not to help clients get *more* for *more*'s sake. The true goal, in my estimation, is to help clients use their money *purposefully*: to understand what truly matters to clients, and to help put their money to work in service of those meaningful people, values, causes, and goals.

In order to wrap our minds around a client's purpose, wealth advisors must go below the surface, beyond the realm of technical issues such as alpha, beta, and standard deviations, into what matters most: the land of emotional intelligence — EQ.

Emotional Intelligence in Wealth Advising

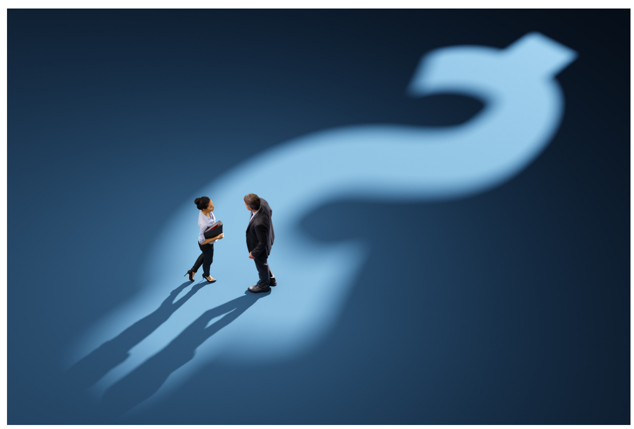
My early foray into wealth management illustrates what I mean. In 1998, I was offered a new job — one I knew little about, and had little desire to take: Founder of Fleet Bank's Wealth Strategies group, which would advise Fleet's high net worth prospects in an integrated fashion. But, feeling stuck in my present role and eager to make a change, I took a leap of faith and accepted the role.

The world of wealth advising was new to me, but the world of finance was not. I'd spent the prior eight years at J.P. Morgan, first handling mergers and acquisitions, followed by stints in emerging markets and structured derivatives, doing some of the most technical work you could do in the finance world. The values of the J.P. Morgan job were technical accuracy and structural integrity — "hard" skills, as they're commonly termed, and skills which, if I just devoted enough brainpower and elbow grease, I could master. And so I did.

I assumed the Fleet Bank job would be more of the same. A new realm of finance to wrap my head around, a new clientele, a new challenge — all of which whetted my professional appetite.

Cut to: my first meeting, with the Vice Chairman of a well-known publicly traded company in the Boston area on a snowy Friday afternoon. We'd scheduled a one-hour meeting, in which I expected to answer a raft of technical questions related to his financial portfolio and estate plan. I expected to arrive home by 6:30, as usual.

Instead, I was served a three-hour conversation that barely touched on his financial portfolio. Our conversation wandered to his psychiatrist, to his marriage, his children, his dreams and hopes, and beyond.



I was aghast — not just at the content of the conversation, but its *length*. Why was he telling me all this? Why did he seem to feel it was necessary to take up this much time, this much energy, and this much air with these topics that seemed so unrelated to the topic at hand?

I wrote it off as a likely anomaly.

I couldn't have been more wrong.

Meeting after meeting started in familiar financial territory, then touched on topics I never dreamed I'd touch in the workplace. As a lawyer, an investment banker, and an architect of financial instruments, time was money — there was little to no place for any thinking (or, God forbid, feeling) that didn't substantiate an argument, advance a deal toward its close, or in some way grow my employer's bottom line. These unstructured conversations that constantly deviated from financial topics and overran their supposed endings confounded me.

And yet, uncomfortable as they were, they recurred so frequently that I knew I couldn't ignore them — or worse, try to steer people away from the topics they wanted to talk about. As I grew as a wealth advisor, I gradually learned why all this was happening: Wealth advising starts with understanding what lies beneath. In a nutshell, answering *why* before you answer *how*.

Why are you working as hard as you're working when you don't need any more money?

Why are you generating this level of income — for what and for whom?

Why are you comfortable with your own money, but inherited money provokes fear and anxiety?

Why do you want that boat, that car, that apartment, that house?

Why, when you spend $500,000 a year with a $2 million portfolio, do you not understand that this draw rate is dangerous? Why do you fail to reduce spending to a safer level?

Why, when you're a thrifty spender with $20 million in the bank, do you sweep the floors yourself, refusing to hire help to manage a small apartment building?

And on it goes.

As I paid attention to the "softer" parts of these conversations — which I now know are the harder parts — I realized that, as David Caruso wisely said, "It is very important to understand that emotional intelligence is not the opposite of intelligence, it is not the triumph of heart over head — it is the unique intersection of both."

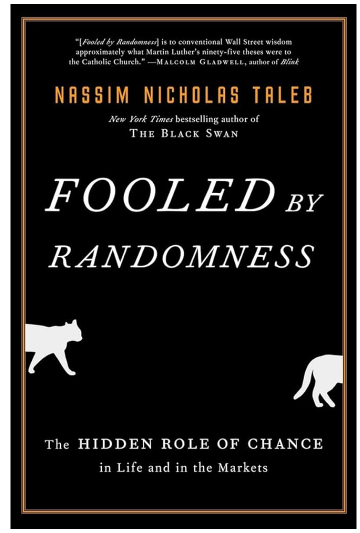
Understanding people is not as cut-and-dry as creating structured derivatives. I always try to get inside of a client's head — and it's not always a pretty picture. Each person, each couple, each family is different, and moreover, each person responds to a different method of engagement. You can't tell someone what their purpose is, but you can help them unearth it — to identify clues and notice patterns and use them as the basis for decision-making. This, this personalized search for purpose, depends not on knowing lots of financial acronyms, but empathy, active listening, and the wisdom to know when to challenge — in a term, **EQ.**

EQ leads you to the *why*, the client's purpose. Only when you know the *why* should you proceed to the *how*: investment planning, estate planning, family governance, tax optimization, philanthropy, and all the rest.

3 Useful Tools For Developing EQ

1. **Ask, "Why?" and don't judge.** When confronted with a confounding situation, it's many people's impulse to turn away from it and stick with what's familiar — far too often, they revert back to asset allocation, alpha, beta, and all of the standard gobbledygook of investing. But it was

meeting these situations — like those early conversations where wealth advising clients talked at length about non-financial matters — head-on that let me nurture my natural empathy into a more developed EQ.



2. **Read, read, read.** I've never been shy about how much I've learned from books. In a world where digital media predominates, it's easy to forget the power of great books. The best books are compiled with care, research, experience, and art, and contain the author's most cherished, curated thinking on life. Reading has expanded my heart and my mind, and made me a better sounding board — emotionally and intellectually — for my clients.

   For an abundance of valuable literature, check out my Infinite Library.

3. **Treat perceived "irrationality" with empathy — not judgment.** This is the most important, and probably the hardest, of all three steps. Often, when we see seemingly irrational behavior in someone we know (or don't know) we judge them — to put distance between ourselves and them, averring that we would never act that irrationally. Yet, I've oft said, we are all "irrational" in our own little ways.

   This judgment does us a disservice. Number one: To be human is to act irrationally — each of us is guilty of it eventually. Number two: Judging what you deem to be someone's irrationality only hurts, it doesn't help. People need to express their instincts in order to wrestle with them, to understand the different options they have, and finally to pick the best course of action. Remember, it is due to these very behaviors that seem irrational in a modern world, that we all survived the plains of Africa.

What Matters Most

Learnings from one client perhaps best sum up the importance of EQ in wealth advising. During one of our semiannual portfolio reviews — standard for wealth advising clients — she stopped me, and said, "Randy, I couldn't care less about the vicissitudes of the stock market. Just answer me one question: Are my children and I okay?"

Different clients like different levels of technical detail. But this client's question gets to the heart of EQ in wealth advising. My job is to give my clients peace of mind — and of heart — that they and their loved ones can live in freedom from financial anxiety.

ABOUT THE AUTHOR

Randy Kaufman, formerly a corporate tax attorney and investment banker, is now a wealth advisor who prides herself on focusing on what matterss most: clients' peace of mind, family dynamics, and getting *enough*, not *more*. Randy is a passionate student of impact investing, strategic philanthropy, and behavioral psychology (while not a psychologist, she occasionally plays one in the boardroom). She is dedicated to helping the underprivileged, and is a proud member of global venture fund Acumen's advisory board. A thinker, learner, and pursuer of overarching truths, she is always eager to discuss big ideas about money, and its off-and-on associate, happiness.