



**NOT IF HE PAYS THEM BACK.**

**Private Wealth**

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PRIVATE WEALTH - December/January 2008/2009 Issue

**Preparing The Floodgates** - By [Gary S. Shunk](#) , [Megan Wells](#) - 12/4/2008

What if you had a client who was completely knocked off balance after inheriting \$60 million from his estranged father? Or say you had a client who knew he would inherit money when the family business was sold, but didn't expect it would be \$10 million. Or say there was a client who received \$400 million from the sale of family real estate she vaguely knew existed. It would be a shock to say the least.

People who find themselves overwhelmed by a sudden liquidity event express a similar mix of emotions: disbelief, elation and bewilderment—even grief, depending on their relationship with the person who left them the money. But people do not come out of this experience the same way and the outcome is not always positive. We've seen some clients careen off course before righting themselves and attempting a rational investment of what remains.

A wealth advisor who is savvy about the psychological challenges of these large transfers of wealth can best help clients anticipate and make the best use of these large influxes of money.

**A Flood**

Castle Peak is a 14,000-foot mountain in Colorado. This snow-capped destination is a favorite of altitude seekers. After a dense winter, the peak is blinding white with snow in the Colorado sun. Spring melts it away and water rushes pitching and plunging down. The water flows into gullies, streams and lakes carved by previous springs. When the melt is extraordinary, the water can loosen boulders and defy riverbeds, overflowing the areas around them.

Such a cataclysm is analogous to the financial and psychological impact a big liquidity event has on your clients. As new wealth floods in, a person's identity and old ideas of self are suddenly tested. They are faced with numerous questions. "Will this new money change who I am?"

"Will it change how I behave?" "Do I trust myself to remain true to my values or will I be tempted to pursue a lifestyle I previously disdained?" "How will my relationships change?"

No matter how stable and composed a client may seem, the new money will have a psychological impact. And the intensity of the emotional response is not entirely determined by the amount of wealth received. Rather, it depends on how well the client responds positively to the change. For some, new money brings exciting possibilities. For others, new money brings a downpour of disruption.

There are key emotional areas to watch and skills you will need to help steady your client during the rush of energy a liquidity event triggers.

**Excitement And Anxiety**

A liquidity event stirs both excitement and anxiety. On one hand, an heir thinks, "Wow, I can do more! Maybe I can start a contemporary art collection." But on the other side of the same coin, the client thinks, "Sigh! I'll have to do more. I don't know the first thing about art, do I?"

**What Can The Advisor Do?**

Listen attentively. Reinforce the client's enthusiasm for specific topics. Jot a few notes from each conversation. Are there any consistent topics your client keeps revisiting? Is the financial plan aiming the money toward the client's passionate areas of interest?

When the client expresses anxiety about a new influx of wealth, don't rush the conversation, because you can learn a great deal about a client's risk tolerance in such discussions. To be productive, the advisor must respond to that anxiety by making plan adjustments and clearing out the "autumn debris."

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### Trust And Fear

The stress created by a big financial gain can be difficult. Change can be frightening. Certainly it can be uncomfortable. You may notice your client calling you more or calling you less. They may be more snappish with you or demanding. Do they trust that the new money will not upset their relationships? Did the money come from someone with whom the client has an emotional bond? Sometimes money is imagined to carry the qualities of the person who bequeathed it. Money that comes from an estranged father, for instance, can intensify feelings of guilt and anger.

Consequently, the heirs might start furiously spending their inheritance—because they're trying to be rid of it.

### What Can The Advisor Do?

Remain calm, even if the client aims his or her feelings at you. When such a client retreats or criticizes, it is an opportunity to recreate the relationship. Remember, you are building a long-term reputation for yourself and your firm. You want your clients to tell others, "I trust my advisor completely."

As you witness your client's fear and mistrust, you gain clues about their emotional response to the inflow of money. Read a few books on how people handle change. Talk about it with your clients. Invite them to educate themselves. If you get a clear sense they are overwhelmed, you may consider encouraging them to seek professional psychological help—preferably a counselor or therapist who is familiar with money-related issues. But be careful not to move too far into the emotional struggles of the client. Clients need to trust the advisor will remain focused on financial tasks.

### Curiosity And Resistance

What kind of energy does your client have? What kind of ideas? What new priorities? What new possibilities is he or she seeking? Studies show that people with curiosity respond to change better. On the flip side, a person resistant to change may shut down. Just waiting for wealth can trigger purposelessness. In the case of an inheritance, many clients describe feeling a dampened motivation, as if they were hiding in the "murky depths." Their lives are "on hold" until the money comes. When it does finally arrive, the new wealth can stun their identity and derail their calling, as well as alter their character or cause it to disintegrate.

### What Can The Advisor Do?

Curiosity is the winning quality. Respond to questions from your client even if they seem strangely off-topic or inconsistent with his previous identity. Liquidity creates undercurrents. Answering a client's question does not commit you to an idea. Rather, you feed the curiosity with positive feedback. Once you get a sense of a topic area, ask open-ended questions like, "You taught scuba in your early teens? I'd like to hear about that."

Take for example, a woman we worked with who with her sister inherited \$400 million from the sale of family real estate. Because their advisor promoted curiosity, the two siblings came through the emotional stages of having new money and used it to start a scuba program for teenagers. The sisters grew closer. Their financial advisor earned trust, future business and referrals.

You may have to dive a little deeper to elicit curiosity in a resistant client. You may also have to wait. Sometimes it takes a long, long time for a personality to absorb change.

We recently consulted with a wealth manager whose client was a widow who refused to adjust a financial plan that would cause her to lose significant money. The widow's advisor nearly lost her business by trying to push for a better plan. But then the advisor started asking open-ended questions and gained a vital nugget of information: The widow felt it was an insult to her dead husband to change any of his financial decisions.

By continuing to ask questions, the advisor learned of the widow's interest in roses. At an appropriate time later, the advisor sent the widow a note containing a clipping from a gardening magazine. Using gardening language to talk to the widow, he wrote, "I understand that roses need pruning now and again to stimulate bigger blooms. Perhaps it's the same with your husband's financial plan. He planted a great rose bush, but it simply needs a bit of pruning."

The widow agreed.

Understanding the emotional experience of financial events equips the financial advisor to respond more effectively to clients. With careful adjustments in communication, an advisor can make this transition easier for both the client and the firm. The client gains a more meaningful relationship to their new money. The advisor and firm build a sterling reputation, gaining more business from existing clients as well as invaluable referrals.

Standing in the valley of snow-laden mountains, both client and advisor can rest assured they have prepared the floodgates for the coming financial spring.

Gary Shunk is a consultant to families of wealth and the advisors who serve them. His primary mission is to help integrate wealth, character and calling. He is based in Chicago. His Web site is [www.wealth-psychology.com](http://www.wealth-psychology.com).

Megan Wells is a writer and communications expert. She uses writing and storytelling for leadership, creativity and innovation. She works in Chicago. Her Web site is [www.meganwells.com](http://www.meganwells.com).





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