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By [Gary Shunk](#) | Published 02/13/2008 | [White Papers](#)

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Trust Equity: Critical Link Between Investors and Advisors

By [Gary Shunk, LCSW](#)

Trust builds equity between investors and the advisors who serve them. Wealth advisors today are giving more attention to what is being termed "life planning," or "client-centered planning." This effective evolution results from research on the importance of trust in the client-advisor relationship.

Dr. James Grubman, a psychologist and leader in the field of family wealth, encourages financial advisors to pay attention to "the personal issues that underlie one's relationship with money." In a special report published by State Street Global Advisors and The Wharton School at the University of Pennsylvania, [Bridging the Trust Divide: The Financial Advisor-Client Relationship](#), Dr. Grubman's bottom line for advisors: "Clients are more comfortable and more likely to continue their relationship with advisors who are able to integrate the financial and the personal into their financial advising practices."

Case History: Evolution of Life with a New Wealth Manager

The following case history illuminates the way in which trust creates the bridge from crisis to confidence. (Note: This case study contains names that have been changed to protect confidentiality).

Tom's father started a manufacturing business in the early 1970's. After college, and a three year sojourn into a parallel industry, Tom was invited to join the family business. In 1990, his father retired and Tom became president. His income and assets were substantial but when his parents died twelve years later, Tom's inheritance exceeded \$20 million in a combination of stocks, bonds, and other securities including a portfolio of real properties.

Tom contracted a large financial services firm and employed an investment manager. He did not hire a financial advisor because of a negative experience early in his career. As the new president of the family firm, a financial advisor led Tom into a variety of bad investments, adversely impacting the stability of his portfolio. Disappointed, Tom terminated his relationship with the advisor, and developed a skeptical caution. He shared little with anyone about his money, except his CPA at tax time, and buy/sell orders with the investment manager.

In 2006 Tom experienced a family crisis. Unable to keep an eye on his portfolio he took significant losses. Again, Tom suffered disappointment. Angry at his investment manager for not alerting him to market fluctuations, Tom moved his account to another firm.

Because of the risk he felt in his financial situation, Tom chose to confide in a colleague. Ray, a fellow member of a local CEO Roundtable, listened with attention. When Tom finished, Ray returned Tom's confidence and told a similar story. Several years earlier, Ray had experienced a crisis and engaged a financial advisor who successfully turned the situation. Tom was hesitant but mindful that his current actions were not working. Because of his trust in Ray, Tom decided to contact Ray's advisor, David. Trust equity between Tom and Ray motivated Tom to take a risk.

Much to Tom's surprise, in their first meeting, David did not ask about Tom's money or financial concerns. Nor did David offer any advice. Instead, David interviewed Tom on what mattered most to him, his family, and his future. David practiced the art of trust equity, investing conversation to build a solid foundation for a successful partnership. Tom relaxed and found himself looking forward to their next appointment.

Over the next few months, Tom and David rearranged Tom's portfolio in a manner congruent to Tom's values, goals and lifestyle. The new decisions led to excellent results. Tom and David continue to enjoy the benefits of the trust equity they built together.

Wharton Report: "Three Levels of Trust"

When anxiety gets the upper hand, investors hesitate and avoid situations. This avoidance perpetuates rather than resolves problems. Because of past negative experiences, Tom was operating in lone ranger status. With large investable assets, as well as the responsibility of running a company, Tom was anxious about approaching David. David's client-centered approach reconciled Tom's earlier experience. The SSgA Wharton Report states, "trust is the foundation of the advisor-client relationship."

For successful trust equity, investors need to select advisors carefully. Sometimes, an advisor appears to be

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Serving Wealth Managers and their investors



listening, yet after a meeting or two, what surfaces is the advisor's agenda about what should or should not be done with assets.

The SSgA Wharton Report delineates "Three Levels of Trust."

1. Trust in Technical Competence & Know How
2. Trust in Ethical Conduct and Character
3. Trust in Empathic Skills and Maturity

The first two levels are solved by studying past track record and securing references. Competent skills inspire trust. As Rachel Croson, professor of operations and information at Wharton states, "Do I trust you not to steal money from me?"

The third level focuses on the soft assets of the interpersonal relationship. Investors need to risk telling the private details of what matters most in life. A quality physician brings a good bedside manner: direct eye contact, considered listening, care and devotion to their patients' concerns. Similarly, investors should be looking for good "money-side manner."

When Tom experienced sincere interest from David, Tom relaxed and the creative potential of the collaboration blossomed. Ultimately, Tom conveyed to David, he was not looking to relinquish complete control of his investable assets. David honored this orientation and Tom set the pace of their partnership.

Some months later, in a conversation with Ray, Tom described his work with David. "There's a connection between money and investments as well as my family, my business, and where I want to go in life." Tom told Ray, "I had to learn how to trust someone with my money and my life."

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