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Wealthy investors turn away from advisers

Shock of losses, scandal lead high-net-worth clients to question advice

By **Charles Paikert**
January 11, 2009, 6:01 AM EST
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Financial scandals and decimated investments are changing the behavior of wealthy investors in ways that may reshape the wealth management business.



"Before [Bernard] Madoff, wealthy investors diversified their portfolio, but didn't think about hedging their bets in terms of advisers," said Dan Ariely, a professor of behavioral economics at Duke University in Durham, N.C., and the author of "Predictably Irrational" (HarperCollins, 2008).

"Now they may be more inclined to have many more advisers — and more people managing smaller amounts of money could be

devastating to the industry," he said, noting that the scandal involving Mr. Madoff, who is accused of running a \$50 billion Ponzi scheme, has "proved to be incredibly devastating to their trust."

Psychiatrists who specialize in wealthy clients say a number of them now don't want to deal with advisers at all.

"I've seen many of my patients catastrophizing recent events," said Dr. Kenneth Mueller, a psychiatrist in New York. "The market may be down 35%, but they feel as if they've lost everything. Madoff can't be trusted; therefore my adviser can't be trusted. Instead of a healthy skepticism of markets and advisers, what develops is a paranoid or delusional mistrust. And that leads to a Depression-era mentality of putting money in a bank or under the mattress."

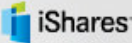
To retain trust, advisers must demonstrate transparency, accessibility and honesty, said Szifra Birke, a licensed therapist and president of Birke Consulting of

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Chelmsford, Mass., which specializes in working with wealthy clients and wealth managers.

Last month, Ms. Birke was one of several speakers at a luncheon sponsored by Lexington (Mass.) Wealth Management Inc.



Dan Ariely: "More people managing smaller amounts of money could be devastating to the industry."

"People loved the seminar-like question-and-answer format," she said. "No one from Lexington pretended they had all the answers, but they made clear they were doing everything they could to help clients and be available for them. One wealth manager told me later that the firm got a new client who they had been talking to for over a year as a result of the event," Ms. Birke said.

"They were impressed by what they saw, especially the fact that the advisers weren't disappearing in turbulent times."

Advisers should now expect to be challenged by wealthy clients, said James Grubman, a psychologist who is president of FamilyWealth Consulting of Turners Falls, Mass.

While on a conference call with advisers from State Street Global Advisors of Boston last week, Mr. Grubman said he told them to be patient and not to get defensive when clients grill them on their knowledge or recommendations.

"Advisers need to respond calmly when making their case about their advice," he said.

Advisers also should be prepared to deal with clients who have suffered severe disappointments and show signs of anxiety or depression.

"Many clients are walking on eggshells right now," said Gary Shunk, a psychotherapist and president of Wealth Psychology in Chicago. He said he is urging advisers to empathize with their shell-shocked clients.

"The adviser has to walk in their shoes and enter their world," Mr. Shunk said.

Until last year, many wealthy investors felt omnipotent, said Dr. Vatsal Thakkar, a psychiatrist with a private practice in New York and a professor at the New York University School of Medicine.

"But what happened last year called into question their abilities, even their own identity, and has led to feelings of disillusionment, guilt and shame, especially if they were responsible for other people's money," he said.

In the wake of the Madoff scandal, advisers also may have to rethink the concept of marketing their businesses as exclusive clubs providing privileged access to clients.

"Wealthy individuals expected that they would have access that others could not, and Madoff played into this perfectly," Dr. Grubman said.

"What I'm seeing now with clients is that their exemption status has been revoked, that they're now just as vulnerable to bad things happening as everybody else."

Mass marketer Kenneth Fisher, chairman and chief executive of Woodside, Calif.-

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based Fisher Investments, which manages about \$30 billion in assets, argues that marketing exclusivity is now "no more important than convincing clients you know how to use a slide rule."

"In my mind, those who market exclusivity, which isn't uncommon in our industry, lead with their chin," he said. "Exclusivity isn't very important to clients because overall they're rationally much more concerned about the overall value proposition of what they're going to get or not get from the service."

After the events of last year, wealth managers say they are in fact concentrating on working more closely with their clients and emphasizing fundamentals such as preservation of capital and understanding risk.

New clients who had been entrepreneurs and recently sold their businesses pose the biggest challenge, said Rob Elliott, senior managing director of New York-based Bessemer Trust, noting their extreme skepticism.

"They are the most uncomfortable with the current situation," Mr. Elliott said. "They say their business had never gone down so much. They're new to the market, and they have to understand real risk tolerance. We're focusing on the long-term view, and one of the things we tell them is that they don't have to look at CNBC all day."

Many clients of Laura Calhoun, managing director of Bank of New York Mellon Corp.'s New York family office, are also entrepreneurs.

"A lot of them are happy with zero returns right now," she said. "They're not asking what they can make this year. They're asking if we are comfortable with an investment. They're not listening for a number. They're listening to the tone of our voice."

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