Podcast Transcript
Synergize: Unscripted Conversations to Help Guide Advisor Growth
Episode 20: Meir Statman: Moving Client Conversations Beyond Money to Life

INTRO:
Welcome to Synergize, unscripted conversations where we explore the evolving role of the financial advisor in an emerging AI-driven world. Join us as we bring together thought leaders across a range of disciplines and industry experts, sharing insights designed to help RIAs thrive in the industry of tomorrow.

BILL COPPEL:
Hi, I'm Bill Coppel, Chief Client Growth Officer at TradePMR.

RYAN NEAL:
And I'm Ryan Neal, Senior Editor at TradePMR, and welcome to the Synergize podcast.

BILL COPPEL:
Ryan, Synergize is all about helping firms grow. And so, when I think about what it takes to grow a business, I start with a simple question. “What does creating value as an advisor mean today?” To figure this out, I start by trying to identify two things.
First, what's changed over the decades? How are things changed? How are people living differently? What has new technology done to the way we make decisions and interact with one another as an example? And the second one is, why has the traditional way we have served clients may not be working as well as we go forward?

RYAN NEAL:
Yeah, based on what we're seeing at TradePMR, which I think is backed up by research across the industry as well as what the journalists are covering in the trade press, is clients are looking for three things, right? One, they're looking for a more personalized experience.

Two, they probably haven't thought much about the wealth transfer. And three, a lot of them probably view their financial advisor as primarily focused on managing their money. Then you add to that the fact that many financial advisors tend to focus on just one party in the household, so the husband or wife who is really more active in managing the finances and the advisor tends to not build a relationship with the other folks in the family, the spouse. And advisors often don't know the client's children at all.

I know my mother worked with a financial advisor. I've never once heard from him, and I think that's fairly common in our space still.

BILL COPPEL:
You're right and I can attest to this from my own personal experiences. I've had several advisors over the years, and it wasn't until my most recent advisor that they ever even asked me about what was important to my spouse or for that matter what was important to my children.

My current advisor did that when we met, we sat down, and we talked about it, and I was very impressed with the way he and she tried to bring the entire family into the conversation

RYAN NEAL:
We have that dynamic and then another thing that's changed is that just portfolio management, it's still important, it will always be important. Folks want to know how their money is growing, we want to make money, we want to do better for our future, but a lot of that can be replaced now with technology and your clients know that.

It's no secret. So, what it boils down to is clients are looking for help with things that they can't get or do on their own or that technology can do. They want to use technology but things that they can't just get from it and also what they're not sure of and oftentimes clients don't even know what they need from advisors. So how can advisors step in and kind of handle that stuff that they may not know that they even need?

BILL COPPEL:
I couldn't agree more, Ryan. In fact, they ought to take a page out of Steve Jobs' book, when he created the iPhone, and he really brought something to the market that we didn't even realize that we needed. I think that's really a big part of what's going on today, because I think as an industry, we have trained clients to have a very narrow view of what they can expect from an advisor.

So, when I think about that, I stop and ask a couple of really important questions. In light of the fact that we're going to see this enormous wealth transfer[1] over the next two decades, 70% of people receiving that money, the heirs to that money are going to fire their parents' advisor.[1]

And such a big portion of that group includes Gen Y and Gen Z, which we have very little contact with. In addition to that, 70% of women will replace their financial advisor upon the death of a spouse or perhaps a divorce.[2]

These are very telling facts. And I think it's really important that we step back for a moment, and we go back to that question I mentioned briefly a second ago, which is with this very narrow expectation clients have today, which we've successfully trained them in, as I said, we really need to stop and think about how we got here. And the basis of our business has primarily been product-driven.

Now, we can call it advice today and we can charge a fee for it, which many, many advisors do. But at the end of the day, we're having a challenge going from being product-based to really problem-solving.

So, to address this, we have a very special guest today, Meir Statman.

MEIR STATMAN CLIP:

It is really, really important to cross that boundary from money to life. Money and life are just intertwined and in fact separating them is what is artificial. It is awkward at first, but you have to do it. You must do it because the traditional skills of advisors are now done by robo advisors. Artificial intelligence will do it even better.

If you are going to compete in the coming environment or even today's environment, you have to be a well-being advisor, not just because this is the right thing to do, but also because it is the right thing to do for you as a professional who cares about his business.

BILL COPPEL:
Meir is a professor of finance at Santa Clara University, and more importantly, he's an author of a new book entitled "A Wealth of Wellbeing, a Holistic Approach to Behavioral Finance." To learn more about Meir's work, his research, and other books he's written, please visit our show notes. So, Meir, welcome to Synergize.

MEIR STATMAN:
Well, I'm delighted to be with you, Bill and Ryan.

BILL COPPEL:
Well, it's great to have you with us. This is an important subject. You know, as a financial advisor for many years, I can relate to this. And, you know, we continue to try to do things the same way over and over again and wonder why we don't get different results.

So let me start with this question. A lot of your work and research has been around the notion of life well-being, and I talk a lot about well-being, and financial well-being. Share with us how these two connect.

MEIR STATMAN:
So when we talk about financial well-being, and of course advisors and people in finance focus on that, financial well-being is about balancing, saving and spending today and in the future such that you have enough, say, in retirement and enough to withstand a financial crisis.

Life well-being is much broader than that. Life well-being includes, of course, finances, but it also includes family and within that children and spouses and it includes friends, it includes health, it includes work and education and religion and society. So, we need financial well-being to enjoy life well-being. You cannot support a family without money, but it is life well-being that we ultimately seek.

RYAN NEAL:
So, with that in mind, how does that fit into the context of our listeners, those in the wealth management profession, especially independent financial advisors, and in your own thinking as an economist, researcher that whole area of wealth management. How does this concept fit into that?

MEIR STATMAN:
So let me begin with an example from my own life. It is interesting how my colleagues in finance, many of them are able to separate their own lives from their academic lives and research. So, for example, they know that trading more is going to be bad for your wealth and then they still trade.

I learned from my own life, I served myself as a laboratory, and I know that when I was done with my studies at the Hebrew University, I got a job as a financial analyst at a large company, and it provided financial well-being, that is, it paid enough to support my family, there was a pension at the end, what more do I need?

Well, of course, I needed a lot. It was boring. It was not providing me life well-being. And so, I took what, objectively speaking, is a big risk coming to the United States to get a PhD, having no idea what I will do next.

But I knew that aspirations mattered to me, and I knew that life well-being matters to me and so I connect that to all aspects of my research and in my research it's kind of interesting how of course I've been at Santa Clara University for more than 45 years now and so what am I doing?

Well, I'm doing is pushing the profession. I'm actually pushing myself and pushing my profession to do better. And my students, you know, that is when I teach my students, I teach them, of course, about portfolio theory and market efficiency and options and futures, but I also teach them about life well-being.

I, for example, give them a list of why is money important for you, that is financial security, helping my kids, and so on, and I ask them to arrange it according to what is most important to them, and explain why, and then each of them comments on the submissions of two others. And so, they get into a conversation, and it is just absolutely fascinating how they realize that, wait a minute, this is a course in investments, but investments is broader than I thought when I joined this course and how delightful it is.

BILL COPPEL:
So that begs the following question as I think about what you said and particularly that interaction that you must witness among students as they go through this process. It really humanizes it at some level. So, does money buy happiness?

I know that there's been a lot of research done around that. Great works by Daniel Kahneman and Angus Deaton and they kind of mathematically figured out what that number was. What is that connection between money and happiness? Because it sounds to me like part of that experience you created in the classroom begins to bring out the value of not just the investment, the impact on our lives.

MEIR STATMAN:
Absolutely. So, when you talk to scholars of well-being and ask them what they found

about what is most important in life, what's most in life well-being, they are likely to say what's important is family, what's important is relationships, what's important is marriage.

But of course, you need money for all of them. And money itself sometimes gets denigrated by people who study well-being, but of course money is really important and Kahneman and Deaton and others have noted that.

So, what Kahneman and Deaton found was that evaluative well-being that is the answer to the question of how do you assess your life as a whole? Is it a zero? Is it a two? Is it a nine? Is it a 10?

That increases without limit with income. The reason for that is, you know, you ask yourself why does somebody with wealth of a billion dollars wants two billion dollars? The answer is that he's competing with somebody who has three billion dollars. That is we judge ourselves by comparison to our comparison group.

But they also found that when you get to experience well-being that is how do you feel right now happy, sad, interested, boring? That kind of stops at $75,000 a year.[3] Now inflation has done its job since the publication of their paper, so now it is a bit more than $100,000. But subsequent work by Killingsworth found that it is not so, that even experience well-being increases with income.[4] So, income by itself really, really matters.

Wealth really, really matters. But what is even more important is that wealth is not everything. You need it for everything, but it is life well-being that we want to reach.

RYAN NEAL:
Yeah, I can definitely attest to that living in one of the most expensive places in the world. I can tell you that as my salary has gone up, my enjoyment of New York City has gone along with it.

You're right, it's not everything, but I'd love to bring the conversation back to our audience, financial advisors. So as Bill laid out in the intro, a lot of financial advisors haven't really shifted their thinking in a long time just around portfolio management.

So, in light of this, when we’re talking about well-being and we’re talking about that overall picture that includes finances, how can advisors start to evolve their thinking, evolve how they serve their clients in order to capture finance as part of this more holistic well-being approach that you are talking about?

MEIR STATMAN:
I think of financial advisors as well-being advisors rather than financial advisors. And I think about them also as financial physicians. And so, if you think about this analogy, you want a physician who is at the frontier of knowledge in medicine, and you want, of course, a financial advisor who is on the frontier of knowledge of finance. But you also want bedside manner, you also want hand holding.

If you think about it, and I can tell you stories from our own life about differences between physicians, some physicians really listen to you. Some physicians listen between the lines. Some people, some physicians ask questions that lead them to disclose, that leads you to disclose things that really are painful for you to disclose.

And if you ask yourself, what is it that causes somebody to refer a friend to a particular physician, it is not so much the knowledge of medicine, but it is really that sense that this physician really listens to me. This physician really cares about me. The same I think applies to financial advisors.

And so, it is really important for financial advisors to know that and to cross the line to that personal. As you said, especially with AI, the traditional work of financial advisors is really getting to be generic.

I heard a financial advisor speak to other financial advisors about estate planning in those states that have community property or not. And if it's not community property, then you have to guess. Who is going to die first in this couple? And it goes complicated from there. Well, you know, that's the kind of stuff that surely, I did not get. But AI can do that really very quickly. But AI cannot be a well-being advisor, a financial advisor who also cares about you as a person.

BILL COPPEL:
So this is very insightful, Meir, and I think that this is the subtlety that we as an industry are struggling to embrace. You know, it's how do we do that? As you pointed out, and using the parallel with medicine, I think clients today expect advisors to be competent, expect that they have the skills and their credentials to do it, like you would expect a physician to be appropriately educated. But what I want to do is I want to take it down another level and begin to align sort of the thinking you're sharing with us with actual skills that an advisor should consider adopting or certainly exploring to learn more about it.

Let's think about this at that level for a moment and as you've observed students in your classrooms and how they've interacted with one another, share with our audience a couple of the skills you think advisors should begin to consider adopting to make this, let's call it this bridge to curating well-being in addition to managing wealth?

MEIR STATMAN:
So, what is really important is to cross from the financial to life and that is really difficult. It is sometimes I liken it to the difference between having a friend who you think of romantically and getting to the first kiss. What if she recoils instead of moving closer to you?
So, it is scary to move from being a financial advisor speaking about what the Fed is going to do and whether you have enough for retirement and so on to talk about your family, talk about your marriage, talk about your children. And you mentioned family, you

mentioned wives, husbands, children. It is really important, one, because if you are going to serve clients well, you have to serve their families.

And second, it's important for you as a financial advisor because as was noted before, the vast majority of spouses leave their advisor who is speaking to the other person in the marriage and the vast majority of them don't know the kids and so it is important for advisors when they speak to a couple to really speak to each of them as equals and it is important for them to know the kids and to know the circumstances.

You know, think about the simple things. I like to say, “It is better to give with a warm hand than a cold one.”

Money, of course is nice when you get it when you're 65 and your parents die at 95. But surely it would have been nicer if you got it in your 20s when you can pay college loans and have a down payment for a house and so it is really important to ask clients about those issues and perhaps kind of give them some examples from the lives of others.

I tell in my book, for example, my own story of when I got married. I was 22 and my bride was 21. And our parents sat together and they, without us, they sent us for a walk, and they talked about how much each set of parents is going to give to the young couple to get them going in that beginning of their lives as a couple establishing a family.

These are really important both as serving clients well as well-being advisors and also the side benefit is that it is more likely under those circumstances that a spouse or children will not leave you as an advisor once parents or spouses are gone.

RYAN NEAL:
Yeah, I love that. Can you actually say it again for me? Giving with a cold hand, or giving with a warm hand rather than a cold hand?

MEIR STATMAN:
Yeah, this really is, you know, in some way it is obvious, but it is not obvious to all. That is people are really afraid, parents, that kids are going to be spoiled if you give them money when they are young.

Well, perhaps not giving them money for a trip around the world, but if it is money for a down payment or the money for a wedding or money to pay off college loans, this is really a wonderful thing.

And in a way, we say invest in your children. It's kind of odd, you know, children are not stocks and bonds, but in some way there is a reciprocal relationship and someday we are all going to be old and decrepit and we hope that our kids love us and hope that they remember that we were kind to them when they were little and needy and they will reciprocate when we are old and needy. And you say what if they don't?

Well, what if your stocks go down? Every investment has risk, but I think that it still makes sense to invest in your children and family.

RYAN NEAL:
I can empathize with that so much because I think back to my own mother who taught me so much. But I worked through college. I took student loans to go to grad school, paid off my own. I really never took anything from my mom other than she helped me pay for some of the college.

But after 10 years of paying off my student loan debt, I think she had an annuity that came up or something and was able to help me pay off the balance. I think we split it, I paid half of it, and she paid half of the balance and was able to get out of student loan debt completely and, oh my God, it was a life changer, it absolutely changed everything that I could do with my life.

So, I can empathize a lot with what you're saying, it really kind of reminds me of that.

MEIR STATMAN:
It is important to realize that parents are not necessarily wealthy. And so it might well be a hardship for them. And you cannot expect more than can be reasonably expected. I asked my father when I was contemplating coming to the United States and I didn't know if my finances are going to be okay, I asked him for a loan.

And he said, you know Meir I would have loved to give you a loan. But you have a younger brother and sister, and they will want to marry someday, and I would like to help them as I helped you.

It was painful, but that was so. But still, when my parents gave us money when we got married, they were in their 40s, they surely were not financially set. But they stretched out. They said, you know, we'll be fine, we hope, but the kids need it now, not when we are fully set. And so, it makes sense to do what is necessary to do right now.

Again, family is indeed really, really important. Most care for older people is given by family members. And it is done with a warm hand. It is done with kindness. As I say, don't piss your kids off. You know, you really want to hold them close. You really want to have a family that is as close as possible.

BILL COPPEL:
One of the things that I'm hearing you say, Meir, which I think is very, very important, is the fact that there really are no sacred places we can't go with a client today. For years, you didn't talk about their relationship with their spouse, perhaps. You didn't talk about health, perhaps. People were reluctant to volunteer information.

I'm on the other end of sort of the age continuum. So, Ryan is on one end and I'm on the other end. And growing up that we just didn't talk about money. There was food on the table, you had clean clothing, and you had a roof over your head, and that defined happiness, a little bit going back to Kahneman’s findings and so forth. But the reality of it is, today it's a very different world we live in.

What I hear you say relative to advice and guidance to advisors is, there really isn't a subject you should not be in a position or have a comfort level…you may not be comfortable…but you should not broach with your client because most of us as advisors are experiencing the same things that our clients are. You had mentioned a little bit about sharing personal experiences or sharing experiences that you've witnessed through other relationships. Perhaps one of the things that you would endorse, based on your research, is don't be afraid to really go and talk about anything that's associated with their life.

MEIR STATMAN:
Exactly.

BILL COPPEL:
The way in which you do it is going to be important.

MEIR STATMAN:
It is really, really important to cross that boundary from money to life. We don't speak about money to our friends. We don't speak necessarily about our health to our friends, but when we go to a doctor and the doctor says, lift your shirt, you know that it is not because he's curious about your chest. He wants probably to listen to your heart and find out if everything is okay with it.

Well, the same applies here. When you speak with a financial advisor, you expect them to know the intimate details of your money. And what I'm saying is cross over when you are an advisor to the intimate details of their lives. I know it is awkward, but here is what I do when I speak with people.

We have two daughters, the older one, we love them both and they love us. But the older one, Barbara, lives with bipolar illness. Now, when I tell people about that, their response is always empathy. And usually, they trade me a story about their own lives because every life has points of pain and when you disclose yours, you prompt others to disclose theirs and then you move from being acquaintances or colleagues to being friends. And the same applies to financial advisors.

They don't have to be psychologists. I'm not a psychologist. They just have to behave like a good friend and friends know some things about you that you might think private that you don't disclose necessarily to other people.

And once you begin to tell stories and listen to stories, people are going to be more likely to reciprocate by telling you about their stories and their lives. And now, your financial plan is going to be a better financial plan because you know what the issues are.

For example, if there is a disabled child in the family, when you have to have a trust, then you have to have planning as to what will happen when you, the parents are gone and so on. In other words, this is not idle curiosity that leads you to cross the line from money to life. It is because money and life are just intertwined and in fact separating them is what is artificial. It is awkward at first, but it works. If you overcome it and there is the first kiss, maybe it would lead to a happy marriage.

And so, it's always awkward, but you have to do it. And as was mentioned before, you must do it because the traditional skills of advisors are now done by robo advisors. Artificial intelligence will do it even better.

If you are going to compete in the coming environment or even today's environment, you have to be a well-being advisor, not just because this is the right thing to do, but also because it is the right thing to do for you as a professional who cares about his business or her business.

RYAN NEAL:
Well, that's excellent. The big takeaway hearing is it's almost like a shift from that ABC mentality or the "always be closing" mentality to just be a human mentality, always be a human.

But I'd love to ask you maybe to wrap this conversation up for our listeners out there who are firm leaders or financial advisors, what are three skills that you think they could start doing or things they could embrace to start making the shift that we've been talking about?

MEIR STATMAN:
So, I talked about becoming a well-being advisor and I will not repeat that. Let me just use those three items to talk about the three generations of behavioral finance and the skills that they involve.

So, in the first generation, what he said is people are not rational. People commit all kinds of cognitive and emotional errors. One service that advisors can provide is teach people about them, about framing, about hindsight, about regret. And it is really very important for all of us, advisors or teachers, to begin by saying, hey, I know that from my own experience. Here is what I have that I am conveying to you.

I have knowledge that you don't yet have, and I am your teacher. And so, you can teach them about the traditional stuff that we think of as behavioral finance, teaching them about those errors and how to avoid them.

In the second generation, what I did was to move from irrational people to normal people, people like you and me.

And I said, look, people want utilitarian benefits, that is money. When you buy a car, you want to have good gas mileage and safety and so on but you also want to have expressive and emotional benefits. The car in some way says who you are, and it makes you feel proud or adventurous. The same applies here. That is people have ambitions, people have aspirations. Explore them, see if you can help them.

And then in the third generation, we really kind of expand that circle of finance and the circle of services that financial advisors can do to go straight to what matters most which is life well-being.

And now you can talk about life well-being as a portfolio. Financial advisors, of course, know portfolios. The portfolio of life well-being includes finances, includes family, includes children, it includes health and so on.

Not everything can be perfect. Not every stock in your portfolio is going to go up. But what you learn to do and what you try to teach your clients is to look at the portfolio as a whole. Yes, international stock stunk for the last 10 years or more, but diversification is still important because you don't really know what comes next. Yes, you have a disabled child. What are the things that compensate for it?

Well, if you have enough wealth, then at least you can help the child without constraining your own budget. What are other things, whether it's religion or education or other things that compensate for those areas that are not perfect? You cannot make everything perfect, but you can compensate for what is not perfect.

And so again, the most important thing for advisors to take out of my book and share with their clients is that I am here as a well-being advisor. I know and I teach you the science of finance.

You expect that, but I do more than that. I cross the boundary to life. I care about you as a person, and I will do my very best to enhance not just your financial well-being, but also your life well-being.

RYAN NEAL:
Great.

BILL COPPEL:
Well said, well said.

RYAN NEAL:
Yeah, thanks, Meir, I appreciate that.

We hope you enjoyed today's conversation. If you like what you heard, please take a moment wherever you're getting this podcast to subscribe, like, follow us on social media, all those great things. And, Meir, thanks for joining us.

MEIR STATMAN:
Oh, I'm delighted to be with the two of you.

BILL COPPEL:
Well, Meir, I want to also extend my thanks. Very enlightening. I want to call it a crusade that I've been on personally for a number of years. I think we're completely aligned in all of our thinking. And what you've pointed out is so important for advisors to remember is that don't do for clients what they can do on their own and what they can't do on their

own is really identify what matters most to them and your help as an advisor can really make that difference. So, thank you for joining us.

And to our listeners I thank you as well. Listen and watch for our next episode where we'll bring even more insights and actionable ideas to help you grow your business. And remember, the challenge is yours to capitalize on what the future offers.

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[1] Aging Boomers Bring Intergenerational Planning to the Forefront, Cerulli Associates, Published July 19, 2021.

[2] The Future of Wealth is Female, Transamerica, Published February 2021.

[3] Kahneman-Treisman Center for Behavioral Science & Public Policy, Princeton University, Published March 2023.

[4] Experience Well-Being Rises with Income, Even Above $75,000 Per Year, Matthew A. Killingsworth, Published January 2021