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Wealth managers for Colorado's most affluent families are hiring a new type of professional: therapists

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After a holiday break, the 8-year-old daughter of one of Jill Shipley's wealth management clients walked into her office and burst into tears. The girl explained to Shipley that her teacher had asked all the students in her class to write down which airline they traveled on during the break. The girl and her family had traveled on a private jet.

"She wrote 'American' because she was so uncomfortable and didn't want to put 'private,' and immediately just started crying," Shipley said. "She said, 'I feel terrible that I lied… What should I have done?'"

As a specialist in how wealth impacts family dynamics, Shipley said she has dozens of similar stories from her nearly 20 years in the field. She recently moved to Denver as the senior managing director of family culture, impact and governance at Chicago-based investment advisory and wealth management firm Cresset Capital. Prior to that, she served as the managing director of family dynamics and education at Abbot Downing, Wells Fargo's (NYSE: WFC) ultra-highnet-worth wealth management division.

Eric Walters, managing partner, founder of SilverCrest Wealth Planning. Walters had an interior designer suggest calming colors, a round table, a focal point on the table (lemons) and art that features nature makes clients more comfortable.

Photo: Kathleen Lavine, Denver Business Journal

For the first portion of her career, Shipley said her niche within wealth management was unheard of. But now that's changing. More and more, investment advisors and wealth managers are realizing that family disagreements and psychological turmoil felt by future heirs like the child mentioned above can thwart even the best of investment strategies.

Judy Spalthoff, head of family advisory and philanthropy for the Americas for Switzerland-based investment bank and financial services firm UBS (NYSE: UBS), said more and more wealth management firms are now taking more seriously the old proverb "shirtsleeves to shirtsleeves in three generations" — meaning the wealth gained by the first generation will be lost by the third.

Denver Business Journal spoke with eight family dynamics experts and financial therapists employed by wealth management firms that advise some of Colorado's wealthiest families. They all agreed with Spalthoff.

"The 'shirtsleeves to shirtsleeves in three generations' curse is becoming more well-known in our industry. We truly believe that this is the future of wealth management," Spalthoff said. "We believe that it's not going to be enough to hire one or two therapists. We need to change from the inside out. We need to deliver scale."

Growing popularity

Spalthoff, of UBS, said the 2005 book "Philanthropy, Heirs & Values," published in 2005 by Roy Williams and Vic Preisser, first turned heads in the industry regarding the potentially destructive force of family disagreements. After extensive study, the authors found that 700 out of every 1,000 estate transitions fail.

Asset allocations and tax considerations only accounted for 15% of these failures. Rather, in 85% of cases, the authors found that the first generation's wealth failed to be enjoyed by the next due to communication breakdowns within the family.

Often, Shipley said, these communication breakdowns start with parents not being honest with their children about how wealthy they are.

"It's easier [for them] to talk about sex with their kids than it is to talk about money," Shipley said.

The top factor preventing wealth transfer planning in 2018 involved clients not being comfortable sharing financial information with their children, according to a Cerulli Associates Report provided to DBJ by UBS.

Eric Walters, founder and managing partner of the Greenwood Village-based wealth management firm SilverCrest Wealth Planning, said he has found that his clients, who typically have between $5 million and $50 million in assets, fear revealing their wealth to their children will make their children spoiled.

"Clients are putting money farther away I think in hopes that their kids will become more mature," Walters said. "Clients have more concerns about their kids becoming entitled."

For instance, in the past, many families gave their children access to trusts when the children were 25, but Walters now has heard of families not giving away such access until children are 45. Shipley said this approach often backfires and leads to resentment. Children feel betrayed that their parents have kept secrets from them.

"Kids are smart. They know they live in a bigger house than the kids they go to school with," Shipley said. "With the internet, they can find out so much information."

For this reason, Shipley and Arne Boudewyn, a managing director at Wells Fargo's ultra-high-net-worth wealth management division Abbot Downing and the head of Abbot Downing's Institute for Family Culture, recommended that parents start talking about wealth when their children turn 6.

"This level of wealth puts the magnifying glass on typical family issues that come up," Boudewyn said. "The more complex the wealth, we just find the more complex the navigation points are for families."

Boudewyn said Abbot Downing has clients in Denver, Vail, Aspen and Steamboat Springs.

"We've made a point of delivering value in Colorado and it has allowed us to work with some families for years," Boudewyn said.

Another issue he sees frequently in wealthy families is a lack of financial literacy among younger members. This lack of literacy can leave children dependent on their parents well into adulthood, which can lead to resentment from both parties. For example, Boudewyn said he's had the children of clients not be able to get an apartment on their own once they graduate college because they have no credit history.

"A lot of kids of our clients don't know what a credit score is," Boudewyn said.

A New York Times story earlier this year noted that 1 in 5 American high school students lacked even basic financial skills — such as the ability to interpret a pay stub. And wealthy families assume, Boudewyn said, their children will be taught financial skills in school despite the fact that as of 2018, only 17 states required high school students to complete a course in personal finance.

"There is a financial literacy crisis in the U.S. People wait way too long and don't get to it until college and that's way too late," Boudewyn said.

Different approaches

Wealth management firms are trying a number of tactics and trainings in order to combat these issues before they begin to threaten investments. Shipley, of Cresset Capital, likes to teach her clients' younger children about money through games such as scavenger hunts. She also uses children's toys at family meetings in order to encourage open dialogue. At these meetings, Shipley said each family member must pick a toy to explain how they are feeling in the family, which can lead to breakthroughs.

"The patriarch of one family picked a dinosaur and said, 'I feel like I'm an old dinosaur and I'm just like trotting along,'" Shipley said.

Through the interaction, the family realized the patriarch felt left out. UBS also recently piloted a program in several cities in Denver which involved training its financial advisors on how to design and facilitate family meetings.

"It provides a neutrality to the experience and gives the conversation some professionalism," Spalthoff said.

Walters, of SilverCrest Wealth Planning, now has clients fill out a questionnaire with questions about what lesson they learned about money from their parents and how money impacted their childhood. Walters recalled some clients who grew up poor often are less compliant when it comes to taking investment advice.

"There was a business owner who grew up poor and has a scarcity mindset who I'd make recommendations to," Walters said. "He would nod politely and then never do a thing I said."

Whitney Kenter, a Denver-based partner and managing member of St. Louis-based Matter Family Office, which works with ultra-high net worth families in 25 states, manages $2.43 billion in assets and advises families on more than $6 billion in net worth, also has clients fill out a questionnaire. These clients then discuss their answers with Matter Family Office staff and Courtney Pullen, a former psychology professor who now runs a consulting group.

"In our process, Courtney helps facilitate sessions related to laying the groundwork for effective communication in the family, and clarifying the family's goals and values," Kenter said. "Using a questionnaire we developed with Courtney, families spend time reflecting on their family history, what is important to them, where they want to go as a family, and the role money has played in their lives up to this point."

Financial psychologists

More and more wealth management firms are hiring financial psychologists and family dynamics experts, Sarah Swantner, a financial therapist and financial planner for the South Dakota-based Kahler Financial Group and board member of the national nonprofit the Financial Therapy Association, said. The group began after a meeting amongst about 30 professionals in 2008 and the nonprofit officially received its credentials in 2009. There are now 328 academics, experts and therapists who are members, including nine based in Colorado.

She said there is a lot of variability in how often she sees her clients. Some she meets with only a couple of times, while others she has met with regularly for years.

"Often, a person is struggling with their cash flow," Swantner said. "On the other extreme, frugality to the point where it is not necessary can lead to conflict in a marriage."

Royce Zimmerman, founder of Denver-based wealth management firm Royce Zimmerman and Associates, a subsidiary of Milwaukee-based financial services mutual organization Northwestern Mutual, said he sees many clients whose marriages are impacted by wealth.

He specializes in wealth management for "emerging affluent" couples and individuals between the ages of 35 and 50 who have annual household incomes of more than $500,000. In order to help clients resolve these disagreements, he has clients create a "vision board" with pictures about what matters most to them and how they want to use their wealth.

"I want to go deep and understand what they visualize their first 60 days of retirement looks like," Zimmerman said.

Zimmerman also does his own extensive research on his clients. He frequently goes onto his clients' Facebook pages and takes screenshots of their cover photos to discuss at their meetings. He said these images often help spark conversations about what matters most to clients and has yet to receive any complaints from clients about doing this.

"They love it," Zimmerman said.

Zimmerman said the growing focus on the "softer" side of wealth management in the end might save the field from growing automation.

"It's how we will beat the computer algorithms," Zimmerman said. "People still want the human touch."

Monica Vendituoli Reporter
Denver Business Journal