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LAUREN FOSTER: Hello, and welcome to the "Take 15 Podcast" from CFA Institute. I'm Lauren Foster, and this is the show where we bring you an unbiased lens on investing and capital markets through short conversations with some of the world's most interesting and accomplished people. Today is the second episode in a three-part mini-series featuring authors of research foundation briefs.

In case you missed last week's episode on crypto-assets and the preamble, the CFA Institute Research Foundation publishes independent practitioner-focused research that is academically rigorous and easy to read, and its briefs are short papers intended to provide content that is easy to consume. The content is free, and you'll find links in the show notes.

This week on the show, Charlotte Beyer joins me to talk about relationship alpha, the emerging competitive advantage in wealth management. Charlotte is the founder of the Institute for Private Investors, and there is no one better positioned to talk about what clients are looking for from their advisors than Charlotte. She is deeply knowledgeable and, as you'll hear, an absolute delight to talk to. She explains what relationship alpha means, why it's so critical, and how one can measure it. If you're a financial advisor, you'll want to be sure to have a pen and paper handy.

Next week, I hope you'll join me again, when I sit down with Allison Schrager, author of the brief "Learning About Risk Management-- Insights From Unconventional Risk Takers." And now, on with today's show. Please, enjoy my conversation with Charlotte Beyer Charlotte Beyer, welcome to the show.

CHARLOTTE BEYER: Thank you. I'm delighted to be here, Lauren.

LAUREN FOSTER: Well, it's great to have you. Our paths have crossed a number of times over the years, and so this is just a tremendous pleasure to have you for our conversation today. So we're going to focus really most of our conversation on your 2019 Research Foundation brief on relationship alpha, but I think it's helpful context for the listeners to hear a bit more about your background and your journey to writing this brief.

So if you will, take us back to 1991. That's the year that you founded the Institute for Private Investors, or IPI. What led you to found IPI, and did it live up to what you had hoped it would become?

CHARLOTTE BEYER: Well, first of all, let me say, back in 1991, I was scared to death to go off and leave Wall Street and the comfortable commissions and sales environment I'd been in on Wall Street selling to high net worth investors. But what I learned was that the whole sales model seemed so broken, and I achieved quite a bit of success by doing it very differently, having more of a conversation with prospects and clients. So I created IPI, which is the nickname for Institute for Private Investors, to change the relationship between the investors and advisors for the benefit of both.

In other words, to make it educational, non-sales-y, safe for the investors, and it more than lived up to my wildest expectations. Nearly 1,500 investors later and the online community, the online community became vibrant, very early on, in '98, and those 20-plus years I spent running IPI were incredibly joyful. And it's what informed my book, *The Relationship Alpha Brief,* and virtually all that I did there.

LAUREN FOSTER: So you're very steeped in wealth management. We were chatting just beforehand. It's been four decades that you've spent listening to investors, speaking to advisors, and I'm wondering, over those four decades, what has changed? Have things changed?

CHARLOTTE BEYER: Well, my French is too horrible to use the French expression, but the more things change, the more they stay the same, in my view. Human nature doesn't change, and money and wealth is very, very personal. And the industry, sadly, gets mixed up, and it's hard. Wealth management is very, very hard for this financial services industry, asset management industry, to address.

It's almost as if you're looking at a CFA charter holder and saying, I know you're a cardiologist, but now you've got to become a psychiatrist. And that's simply not my view, but that's what some people might think, when they look at relationship alpha. And I do believe that I can show you why you don't have to turn from a cardiologist into a psychiatrist.

You start by just getting real, being more genuine, and you ask how it's different. I think probably, the access investors have, the fact that advisors have been playing catch up to really learn what's happening for the private investor. And maybe more most importantly, they're realizing interdependence of those eight components of wealth management that I describe in the brief and those eight components really are complicated.

They have a relationship with one another. And any money manager that doesn't recognize that, while investment management is one of eight pieces of that wealth management [INAUDIBLE] as I call it, so is tax planning-- so is trust administration. So is philanthropy. So is the next generation training. All of those things all have an impact on one another. And while no firm can do it all and be it all-- let's say that right at the outset here-- we need to be more aware of how they are interdependent, and they do need to be acknowledged and addressed.

There's one survey that the CFA Institute did that was fabulous, because it was I believe 2017, and they found that 90% of the 4,000 high net worth investors said that the core value of their investment management was having a goals-based plan. We all know that a plan is vital, but that coming out in the CFA survey of investors I think convinced most firms that this was really vital, and not necessarily to do the plan, but to know how critical it is.

LAUREN FOSTER: So I'm glad you brought up those eight components. We're definitely going to get to that question in a moment, and one more sort of broad question before we sort of delve much more deeply into the brief itself. Over four decades, you must have seen lots of great wealth managers and advisors, some terrible ones. You've been on the front lines of hearing investors talk about their advisors. Are there some threads you can pull out in terms of what you've seen that really does work well?

CHARLOTTE BEYER: I think the element of surprise and the courage that some advisors demonstrate by not being scripted, not just going page by page through that boring presentation book. And I learned that selling to ultra High net worth investors, and I watched it work so well with both investors and the advisors who dared go off script. And really not become like the prosecutor, not pepper them with loads of questions. What's your investment goal? But rather, come at it differently.

And there are several questions that I feel distinguish you in that prospect meeting. And just to give you an example of one, to say what's most important for you to hear about first? Our performance, the team, the process, our approach to taxes, and so on.

Another example would be how are you approaching the due diligence of hiring a new money manager? Are you talking to other people? That kind of question without becoming prosecutorial, and you have to look and gauge what the reaction is, that can work very well.

So the good advisors, Lauren, really go with the flow. They let things evolve. They take their queues from who they're talking to.

I'll never forget one investor saying to me, these advisors, they all sound alike, and what I really don't like is they come in and say, well, tell me your story. How did you make your money? And what they don't realize is that that particular individual, who I knew, he said, I'm not going to tell you my story. I want to hear why on Earth I'm sitting in this room even talking to you. Now that was rude, I grant you, but he wanted to hear first about the firm, and so you have to be prepared for the different personalities and how they might respond.

LAUREN FOSTER: Yeah. I'm glad you brought that up, because I think I mentioned this to you before. I'd seen a Twitter thread recently, where some advisors were asking what's your opening question to your prospective clients? What are your plans? And I know that the one thing that will make your blood boil is this idea that the wealthy client loves talking about themselves.

So note, any advisors out there, do not take that raft. That's not the way to go. So let's focus now on your brief, *Relationship Alpha.* Tell us what is relationship alpha, and why should advisees care more about it?

CHARLOTTE BEYER: I guess the best definition for relationship alpha is really the foundational pieces of the relationship. What is going to keep the relationship strong and make it much more difficult to be terminated and also make it much more easily done to engage in a dialogue, when things go awry, whether it's a market crash, or a particular loss? So it's a strong relationship based on candor and real conversations.

So an example of relationship alpha that shocked me as a young Wall Street salesperson was the CEO of my firm back in the '80s said to this couple in his office while I was sitting there as a newbie. He said, how much money can we lose before you'll fire us? And I remember thinking what kind of crazy question is that?

Now, today and later I realized, the question itself was awkward. However, he was getting at something very important. He was figuring out how do they feel about this relationship? What are their expectations? But he was doing it in a way without saying, well, what do you expect us to do?

LAUREN FOSTER: So when you say real conversations, are you alluding to what people would call authenticity?

CHARLOTTE BEYER: Absolutely, which is a buzz word a lot of people despise. I'm willing to admit that, because it's so overused today. And let me say my own personal definition of authenticity.

It's going into the meeting, or going onto the Zoom these days, and not hiding, not hiding who you are and what the process really is. And for starters, admitting and acknowledging something like I realize this is very awkward, where this is our first meeting. I want to make sure this meeting meets your goals for what you need to know about our firm, and that's in the case of the prospect.

Authenticity with a client can be something like people say, well, we don't really know how they view our client meetings and our client meeting books. Well, ask. What do you think of this? Are there ways we could make these meetings more productive? Are there ways that the client meeting book could be more useful to you?

Because I have heard countless complaints that the client meeting book is thrown together with a gazillion numbers and a gazillion rows and columns. And it makes no sense to most people, except the people who put it together. One investor called it I don't want a report where somebody looked at each tree in the forest and did this elaborate analysis. I'd rather have somebody who can show me the whole forest. Which is exactly what Professor Marston did at Wharton during that program that we ran together, where he would show, how can you look at the portfolio as a whole, given the risk and the return.

LAUREN FOSTER: So you mentioned, Zoom as client meetings today. We're meeting virtually today, and I must imagine that it's harder to be authentic and to have real conversations over a medium like this. Maybe we're all used to it now. It's been a year down the line. Have you given any thought to how advisors might be able to improve, I guess, their authenticity in a virtual setting?

CHARLOTTE BEYER: I have a couple of ideas. It's all new to all of us, and for me, it has to do with courage and self-awareness. And both my book and the relationship alpha brief talk about that pretty extensively. That self-awareness is the first step to being a really smart, good investor and also a smart, good advisor, if you are aware of your own little hot buttons, your own nervousness, or so on.

And then also, in terms of practice, I believe that role plays with colleagues can be very, very helpful. A lot of people dismiss role plays and say, oh, it's so fake. It's so awful, and I do so poorly on them. Well, of course we do poorly on a role play, because we're nervous, and we fail. So when it comes to the real show, suddenly, we're pretty good. Right?

LAUREN FOSTER: So Charlotte, a lot of our audience are I guess investors, number people, charter holders, and the question is measurement. So we know what relationship alpha is. You've just explained that to us, but how does one measure relationship alpha?

CHARLOTTE BEYER: I love that question, because most people say, oh, you can't measure how strong the relationship is. Yes, I believe you can, and I think there are three obvious ways you can do it. One is just client retention. Look at your client retention.

Secondly, I think if you do a survey personally on the phone, not Survey Monkey but do a few on the phone. And then also supplement it, perhaps, with a more quantitative survey and, then lastly, the closing ratio. What's the closing ratio of your firm and, obviously, by individual as well?

That's a real eye-opener not only for the salesperson but for the management of the firm. Most investors today, I do believe, are putting people in a competition, and the smartest advisors I know always encourage the prospects to do another interview. Because they feel confident enough that what they're talking about and how they're approaching it will make them look even better.

LAUREN FOSTER: So you say that you can measure relationship alpha. It makes me wonder whether you can train relationship alpha? So can you?

CHARLOTTE BEYER: Well, you can't become a psychiatrist if your first love is heart surgery. OK? So in that sense, no. You can't turn a portfolio manager who spends her or his days on that screen trading. However, what you can do is recognize in your firm those who have what I call high IQ and high EQ, and sometimes, it's not the same person. If you're lucky, lucky, lucky, it is.

So the kind of training you can do is you can have case studies. You can have each senior person in the firm bring a real dilemma to the table and have all the junior and senior people look at it and try to resolve it. You can do role plays, as I said, and then you can practice having those deeper conversations. Have people give an example of one.

Now, on the deeper conversations, there are a couple of things that you can do that are very specific with your client or even your prospect. You can ask, who will ultimately decide what's in your best interest when we don't agree? And that's a tricky one.

What if we don't agree on something else? How do we resolve it? Do we talk about it or not? Is the customer always right? Ask your prospect or your client that.

And the saddest story I heard was an advisor who said his client had stood the test of time through the crisis, did beautifully, didn't bail. And then came the pandemic, and he insisted on selling everything on March 10th. He totally got out of equity, and this advisor was almost desperate on the phone. He said, I just didn't know what to say after he'd been so smart earlier, and I couldn't convince him. But maybe if they had talked about it more, how can we figure out how to agree when we disagree?

And then lastly-- and this is the simplest question for training-- is how can we improve our relationship? And listen to what they say. Listen to what those clients tell you. But the training, I've seen it work, but I've seen more success when a firm says, look, Jane's not so great with people, and John is wonderful, but let's make it complementary team, or vice versa. There's so few people who have both, and therefore, it's pretty smart to have a complementary team that has both the relationship alpha skills and the real alpha skills.

LAUREN FOSTER: So your brief talks about marketing to prospects and to clients, and I'm wondering if you can just give a key point for each of those different segments.

CHARLOTTE BEYER: Well, I think probably the way to distinguish yourself with a prospect is, as I said, to have a series of ideas that you might begin with and let the context and the framework with which you're having that meeting dictated. So those are the questions. You're not controlling the presentation as much as you're making sure the presentation meets the needs of what they want to hear, no prosecutor in sheep's clothing. And then just remember that, for some prospect's, information asymmetry is a horribly uncomfortable feeling, and that's when the person selling you has a lot more information than the person buying. You'd be surprised, no matter what level of wealth, there are going to be people who will be intimidated and upset by that information asymmetry who are then all the more likely to be caught off guard and even snowed by a smooth, slick salesperson.

Now, when it comes to clients, I think the most distinctive way you can show your clients that you're different and that you have relationship alpha is talking about the balance that's needed between the investor, their expectations, perhaps their unrealistic expectations, with the advisor's need for profitability and some kind of scale. I used to talk about this all the time at IPI, and investors would scratch their head and say, oh, you're right. I'd say things like, well, if you're demanding seven different Excel reports that nobody else asked for and take hours to do, what makes you think that your firm is going to be profitable and be able to stay in business?

But if the truth be known, many investors will say, especially the ultra high net worth family offices and so on, they'll say, well, I am the most important client. I want to be the most important client. Unfortunately, if you are the most important client, and you're unrealistic and your expectations, you're probably driving the firm out of business and/or driving them into the arms of a merger partner, which is what happened to one investor who was so proud. He said, oh, I hired this firm, and we were the biggest client they'd ever had, and they're going to treat us like gold. Well, they did for about nine months, then they sold their firm.

LAUREN FOSTER: Oh, boy. So I want to go back to something you raised maybe a few minutes ago. It's that there's eight components of wealth management, and actually, I have the brief next to me here. And I'm looking at it, and it's this terrific illustration, or charts, of wealth management in the center.

I should just tell listeners and viewers that in the show notes, there'll be a link to the Research Foundation brief, and I would encourage everyone to click on that link, open the PDF, and take a look at this illustration. If I'm remembering this correctly, Charlotte, when we were chatting off-mic before, this is something that when you show high net worth investors, they find it extremely compelling. And I'm wondering if you could talk a little bit about why that graphic is so resonant and also perhaps a bit about the work that you've done at Wharton, because I think that pulls it all together.

CHARLOTTE BEYER: Exactly. What makes it so compelling is many of the very, very high net worth investors who have attended Wharton-- and it's over 1,000 now. This is billionaire and so on-- the principles, not the gatekeepers, those individuals are just overwhelmed by the chaotic way it's described, everything from family offices to the different components. And so it's almost by accident that they end up focusing on one of the eight components, because of who they hired to be their family office exec or what their level of comfort is, and that's quite dangerous. So they look at that chart, and they go, oh, it's eight components, and they're actually equal, and I need to focus on other--

I've used the term-- when you are very wealthy, you become automatically the CEO of My Wealth Incorporated. The job you cannot abdicate. Well, think of a CEO having eight functional groups and having to hire someone for each or knowing that each of the eight are covered.

So where that comes in with Wharton is there's another chart that's in the brief that Ashvin Chhabra, in his book *The Aspirational Investor,* he shows the class at Wharton, and they go, oh, this is how I think about my wealth. Because what he talks about, as you probably remember, is he talks about the market risk, the aspirational risk, and also the keeping my lifestyle risk. The Armageddon I call it, the personal risk, and it's three so-called buckets. It drove some of the charter holders crazy, because they said we were taught all along never to put things in buckets, but for an ultra high net worth investor, for them to be able to think of their wealth that way is very helpful.

And for this reason, think about the aspirational bucket or what he calls the aspirational risk. Many, many high net worth investors made their wealth, as I did, through my company. I wasn't going to diversify away from my company. I was putting every drop of blood and dollar I had into that company.

Now, it paid off big time, but as Ashvin said when he was working for an institutional money manager, he'd say, all these people were coming in far richer than I am, and they broke every single rule of modern portfolio theory. But the investors saw his wealth allocation framework, and they immediately said, now I can begin to figure out where I put what. And how much diversification I need, and where do I need to be more cautious, and what can I put in this aspirational risk.

LAUREN FOSTER: So when I was doing some preparation ahead of our conversation today, I was looking at some data about how quickly people make up their minds about people, and it's very fast. It's anything from milliseconds to two literally seconds. So I'm thinking, if I'm an advisor, and I've got a prospect coming in, you really only have maybe just seconds, maybe minutes to distinguish yourself. So for any advisors who may be listening, how do advisors distinguish themselves? They all sound the same, so what's the secret there?

CHARLOTTE BEYER: Well, I'm not sure it's a secret, but it's candor. In one sense, it's saying, I realize that this is our first meeting, and I want to make sure we cover what you want to hear about. And then stop, and silence can be very, very effective. Just that 10 seconds of silence, and they go, oh, this is the first time anyone's told me that I get to say what I want to hear about first. But sometimes, they may need a little help, so you go to another question, like would it be helpful to hear about our team, and how we work with families like you?

The other very effective tool to distinguish yourself early on is, if you have a little bit of information, and you can use a story from a current client that might resonate. Where perhaps a newly liquid entrepreneur had just hired your firm, and you're saying, well, here is how he approached it. He looked at the wealth allocation framework, and he realized he had this, this, and this. Does that make sense to you? How are you approaching it, as you're looking at your newly liquid assets?

LAUREN FOSTER: I just want to echo your point about silence and pauses, and I come from a journalistic background. And there's nothing more powerful really than asking a question and then stepping back and waiting, because the void will get filled. Right? It always happens.

CHARLOTTE BEYER: It always does.

[INTERPOSING VOICES]

LAUREN FOSTER: Candor is one of the keys to, I guess, to distinguishing yourself. How can the advisor know if the client meeting is actually being successful?

CHARLOTTE BEYER: If the client meetings?

LAUREN FOSTER: Yes, have been successful.

CHARLOTTE BEYER: I think, again asking, we want these meetings to be the best use of your time and ours, again, that balance. And then perhaps, if you've got a new more abbreviated report that many clients are embracing, and this client's still working with horrible things that take loads of hours, you might show them and say, would you be willing to try this? Another way to ask, and I do not agree that you ask if they have another client to refer to you.

Because remember, most investors don't want you to grow. They want to remain boutique and get all the attention they get. It's like having a sibling come into your family. You don't want a younger sibling. Are you kidding me? I want to be the only child, but I think that's one way to know if your client meetings are successful and, of course, client retention and assets.

On the other hand, if someone is making a huge gift, and they're looking around of who to take the assets from to make this gigantic cash gift to their Alma mater, guess what. They may come to the one that they feel most comfortable with or they're happiest with. And that's a real dilemma, because you don't want to say no to your client. You can't take money, because you're going to ruin our asset-based fee model by doing that. But on the other hand, you might have ways to talk to them about it, might have other ways they could make that gift.

LAUREN FOSTER: So the brief is a terrific read, and one thing I really appreciated at the end was the book list, and I don't think that's a standard practice. I think it's wonderful that you included this list, and I should encourage listeners and viewers to really go download the brief, go look at the book list. I'm wondering, did you have some newly minted charter holders in mind and trying to give them some ideas about what to put in their library? What was the thinking behind that, and perhaps what, if you had to pick one or two books that you would say really these are your two homework books for the next few months, what would they be?

CHARLOTTE BEYER: Well, I'm very biased knowing that the CFA Institute's a little bit male-dominated. So therefore, Lauren, I would suggest that newly minted charter holders who really want to get stronger in relationship alpha should first focus on the way they look at and think about women, both as team colleagues as well as clients, and so I'm going to recommend two books. One is Joanne Lipman's book, *That's What She Said, What Men Need to Know and Women Need to Tell Them About Working Together.* I also think Ellen Perry's book,*A Wealth of Possibilities, Navigating Family, Money, and Legacy,* is very, very fine.

She's the one who came up with that wonderful expression, values are caught not taught. And in her mind-- she's been in the industry for as long as I have, I think-- what she would tell you is that people will talk about the money and the investments and whether they beat the S&P. But in the final analysis, it's about human capital, the family, and are we doing OK, and are people growing to their potential?

I cannot tell you how many IPI members would share with me dilemmas, problems, and so on, and it was never, well, I don't think this manager's diversified enough. It was typically about a problem with a family member or a family meeting or conflicts around the family foundation, hoping to resolve that. So if a CFA charter holder can recognize that they can't solve every problem, they can't fix everything, but we need to address the erosion of trust that has happened in our industry.

And I think one way to do that is to acknowledge a larger playing field that these ultra high net worth investors are on. They have to deal with it every day. And I believe that if they can focus on that balance between the investor and the advisor for the benefit of both, I think they have many years of success ahead. And the younger ones are going to have a wonderful opportunity, because they're going to have different, newer skills.

LAUREN FOSTER: Right. So, Charlotte, in the last few minutes, we get to do a few closing questions. They're the same questions I ask every guest, and the first one is what I call the ray of sunshine question, and this really came about because of the pandemic. Initially, I just asked one question, and it was to try and end every episode with something positive. So the first question really is what one positive, long-term change that you hope to see as a result of the pandemic?

CHARLOTTE BEYER: I would probably say the gender roles get modified and redefined. I know my own son-in-law and son have both incredibly renewed respect for how complicated it is to keep the home fires burning, how child care is not a walk in the park. And so that I think is the ray of light I see, that men and women are beginning to say, wait a minute, I think we can do this a little differently.

LAUREN FOSTER: Great. I hope so. So the second question is what we call, what I call, the NASA question, and it's you're about to go on a long duration space flight, and you can take with you one object. What do you take?

CHARLOTTE BEYER: Gosh. I'm a very visual person, and I almost was going to say my iPhone with the 10,984 photos that I look at, but probably not. I probably would take-- and I can't take a person. Right?

LAUREN FOSTER: Well, you're the first person to ask me that.

[INTERPOSING VOICES]

CHARLOTTE BEYER: My husband, my beloved, and I probably would take a book of poetry. Mary Oliver's poetry called *Devotions* has something for almost every one of us

LAUREN FOSTER: OK. Wonderful, and then the final question, and this is something I added fairly recently. And it was because I listened to an episode of *This American Life* from many, many years ago, and it's the question of super powers, and it's flight or invisibility. So you can choose either of the superpowers, but whichever you choose, you're the only one who has that superpower. So which do you choose, and what do you do with it?

CHARLOTTE BEYER: I would probably choose flight, because I think the missing ingredient in so many people today, men and women, is courage and willingness to be bold. The pandemic frightened the heck out of all of us, but those who were brave enough to try to pivot and try it out and see how it went, those of us who were willing to fail and stumble and fall on our face-- in my own career, that has made all the difference. So if I could take flight and just sprinkle the courage dust all around the planet, that would be something I could wish for.

LAUREN FOSTER: So a bit of pixie dust for everyone. Well, on that note, Charlotte, it's been an absolute delight to have you today. Thank you so much for joining me.

CHARLOTTE BEYER: Well, thank you, Lauren, and I love that accent, that South African accent. It was one of our favorite trips. Thank you.

LAUREN FOSTER: Great. You're welcome. You've been listening to the *Take 15 Podcast* from CFA Institute. If you haven't yet subscribed, you can do so on our YouTube channel or wherever you listen to the show. That way, you never miss an episode. And if you enjoyed today's show, we'd appreciate a rating and review, or if you'd simply tell a friend about the show, that would help us too.

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