Podcast Transcript
Synergize: Unscripted Conversations to Help Guide Advisor Growth
Episode 6: Dr. Lamar Pierce: Capitalizing on the Power of Human Interaction

INTROS
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. And now, here's your host, Bill Coppel.

BILL COPPEL:
Hi, this is Bill Coppel, and welcome to Synergize. The TradePMR team was in Las Vegas recently to host our 2024 SYNERGY Conference - Limitless. It was well attended. In addition to representation from the RIA community, industry thought leaders as well as subject-matter experts were present to provide insights aimed at helping RIAs capitalize on the growth opportunity that lies ahead.

While I wasn't able to attend, my colleague Ryan Neal, Senior Editor at TradePMR, caught up with a number of notable conference attendees to capture their thinking.

There was a lot of activity on the conference floor, so you may hear a bit of background noise. That said, you won't want to miss what this guest had to say.

Enjoy the conversation.

RYAN NEAL:
Welcome to the TradePMR Synergize podcast. I'm TradePMR's Senior Editor, Ryan Neal, and I'm filling in today for Chief Client Growth Officer, Bill Coppel, who is unable to be here with us this week.

My guest today is Lamar Pierce, a professor of organization and strategy at the Olin Business School at Washington University in St. Louis. I had a chance to meet Lamar at our SYNERGY24 conference and he shared some practical ways that RIAs can start leveraging behavioral finance into their practice today. Here's what he had to say.

Lamar, as a researcher and behavioral strategist, how have you seen the impact of technology change client sentiments and expectations over the last decade or so, particularly as it pertains to the wealth management space?

LAMAR PIERCE:
Yeah, so I think one thing that technology has done in this space is it's basically created a firehose of information for people. So basically, any client or investor is likely to have an unlimited amount of information that they can look at or see or read, and that includes not just pure information but also advice.

So, part of the big challenge with technology is it's not about how do you get the information or how do you get the advice, but where do you get it from? What's your information architecture and how do you decide what you're going to listen to and what you're not going to listen to?

And so, in the old days, it used to be that it was hard for a client to go out and understand how to analyze an investment. Now the problem is it's not hard for them to find that. The question is, how do they find it in a way that's actually productive for them?

And so that's been one thing, and I think another thing has been that so much of the products that people use online, the services particularly, are now customized. And they're customized in ways where people get customized advertising to them, customized recommendation engines.

So, this has really sort of ramped up the expectation among clients that they're going to get a customized experience and not just a standard process. And so, I think this really creates, not only creates a requirement, but also creates a real opportunity for advisors to basically serve clients with what they really want, which is first of all, this customization. But second of all, what they really need, which is somebody that they can trust, that they know, and they have a relationship with, to help them deal with this massive amount of information they're getting, much of which is very bad.

RYAN NEAL: Gotcha, so changing client expectations and demands, but an opportunity for advisors if they can rise to that and meet that challenge.

LAMAR PIERCE:
Yeah, it's totally an opportunity because I think certainly, you know, for someone like me who studies strategy, you're always thinking about how can we differentiate, you know, and what challenges create. If everything was easy to do, it would be impossible to differentiate. But this challenge gives the opportunity that with the right tools an advisor can basically have an advantage over others in sort of really making people feel comfortable, helping them make good decisions, even when they're faced with lots of external information that might be bad for them.

RYAN NEAL:
Right, really differentiate their practice by being that modern provider they don't get elsewhere. Yeah. So, as RIAs deal with today's environment and plan for the future of their business, how should they be evolving their approach? So how do we solve this challenge that we just kind of laid out?

LAMAR PIERCE:
Yeah, so I think one of the real key things is for advisors to understand who their clients are, but also understand that not all their clients are the same. So, I think one of the mistakes that's happened in the past with behavioral science and trying to apply that to the financial advising world is this idea that humans all have the same biases, and so we're just going to try to be aware of those biases. And humans do tend to have the same biases, but they have them in very different ways and at different levels.

And so, I think one of the real focuses needs to be is to understand that everybody's different, that everybody thinks and feels differently about money. And that what's really key for advisors to do is to understand precisely who their portfolio of clients is, to understand how each and every one of them thinks and feels about money, and even within a given account, how the different members of that family do.

Because as everybody knows, they don't always agree. Even if they say they agree, they don't necessarily agree. And so, I think what we're really focused on and what we're excited about is this opportunity to help advisors have ways to document and understand and have actionable items that really take advantage of these differences in people in ways that are helpful for them.

RYAN NEAL:
Yeah, that makes sense. So, when you're talking about how RIAs need to gain insights about their clients that are impactful and significant, can you give some examples of the types of insights that you're talking about here? Some of the things you just laid out, do you have any specifics you can give us?

LAMAR PIERCE:
Yeah, so one of the examples we often use is how people respond to what we think of as crisis or unexpected bad events. So, suppose that the stock market crashes 4% in one day, which certainly we've seen in recent years. What's the response going to be? And some clients, when that happens, they want to immediately take action. And this is often the case where it's like, we need to do something. A client might call an advisor and say, "Do something". And of course, the classic failing there is that the asset prices just fell a bunch and then you're going to sell.

But that's only some clients, right? Other clients are going to be the ones who stick their head in the sand. And part of the problem with that is that there are some portfolio adjustments you want to make when relative asset prices change. They aren't as dramatic as a lot of people think, but there are some changes you want to make.

And some people just don't want to deal with the fact that now their portfolio looks different, and so they kind of stick their head in the sand. There's not one better or one worse approach to this. I think we all have our own failings. We all have our own blind spots. It's really about understanding who are the types of people that we need to worry about with this.

I think one thing that we're really focused on is this idea of how do you help advisors understand who are the people they need to worry about when something like this happens? Because if the stock market crashes 4%, they only have a certain amount of time and they need to figure out who should I worry about? Who are the clients that I think are going to be most upset? Who's going to potentially blame me? Who's going to not answer my phone calls to adjust a portfolio?

RYAN NEAL:
And I imagine that's a big part of this, right? It's not just getting that information about which of the clients you have to worry about, which are likely to react a certain way, but then amongst that cohort, how do you talk to those individuals in the way that's going to impact them? Because you can have four people that are worried about that downturn, but then those four people might need to be communicated about that downturn in very different ways, on their biases or their portfolios or whatever it may be. So, customizing that message after-the-fact.

LAMAR PIERCE:
Yeah, that's exactly right. And I think what's important to note here, and you really hit it on the head there, is this idea of, it's not just about the knowledge you have but the actionable items. And the tools and the guides on how to have those conversations. Because ultimately, particularly the more that technology progresses, the more that technology is sort of making advice on portfolio allocations, this is a business about relationships. And it's not just a business about relationships in terms of what you're doing with a given account. It's about relationships that help you retain accounts, that help you build them. And that's really what this is about, is about how do you build trust, how do you retain that trust, and how do you communicate into a way that not only they will understand, but that they'll truly believe.

RYAN NEAL:
Yeah. Is there anything, kind of broader strokes, more that advisors can do to take these insights and enact them out there to better work with clients and get to this next stage of advice that we've been talking about?

LAMAR PIERCE:
Yeah, so I think one thing is how we think about approaching households.

RYAN NEAL:
Oh, okay, yeah.

LAMAR PIERCE:
And I think traditionally a lot of couples and sort of broader households have had interactions between one member of the household and the advisor. And that works fine in most cases. But in the end, there's always this risk that if there's some loss of life or perhaps a separation, that whoever in that household is still around to manage the money is not going to have any relationship with the advisor.

And so, I think a key thing of this is understanding who those less vocal members of the household are because you want to make sure that you have a relationship with them too if they're the ones who then start controlling the assets. And there's just this tremendous risk after an event like a divorce or someone passing away that that business walks out the door. And you want to make sure that you aren't putting all your eggs in the basket of one member of the family.

RYAN NEAL:
Yeah, that makes a lot of sense. I know that's something that Robb Baldwin spoke about earlier. And now, I guess maybe on that same note, not putting all your eggs in one basket of one person in the family, but also not on your advisory team, right? Spreading that relationship, getting other people in your team to also build those relationships with multiple people in the family so that if something happens to the advisor, the clients don't leave.

Probably the same idea, right?

LAMAR PIERCE:
Yeah, no, I think that's right.

And I think also having a way - because oftentimes advisors know their clients well or often very, very well, but not in ways that are easily codified or written down or documented such that if something happens to them or they're not able to communicate that or share that in a way that others would be able to understand, other members of their firm.

And so having a way in which we can characterize and lay out exactly what communications work how people think and feel about money is a great way to make sure that an entire organization knows how to have a relationship with those people and not just the one person who's interacted with them.

RYAN NEAL:
Well, Lamar, thanks again for joining me. As we wrap up our conversation, what are three things that you think leaders of firms out there or advisors can start working on today to put a greater value on human interaction in the delivery of financial advice and guidance?

LAMAR PIERCE:
Yeah, so I think one of the key focuses that everyone needs to have are these generational differences. And I think they need to start thinking about what does it mean in the long term to retain this book of business?

Because that book of business might be with the current controller of the funds, but a lot of that money, a lot of the wealth in the United States is in people who are in their 70s and 80s. And that money is going to get passed down. It might get passed down to a widow or widower. It might get passed down to their children.

And those people are very likely to think and feel about money in a different way than the long-term client has been. Obviously, there's the issue within partners, between spouses. But I think the other thing, too, is a lot of this wealth is going to get passed on to a next generation, and they're from a very, very different background. They grew up in very different financial circumstances, different times.

They've oftentimes had their first investments in an era of crypto or meme stocks, and so they've also not really experienced recessions. I mean other than just the blip that was the pandemic. They've seen these long-sustained periods of growth and so for many of them, they might have a very different attitude toward the possibility of a downturn and so it might come as a complete shock.

So, I think a lot about it is thinking about as my clientele ages, how do I think about what I'm going to do as that money gets passed on to the next generation? I think a second thing that's really important to consider is this idea of succession planning. Because certainly the advisors themselves are, as a population, aging, and a lot of them are looking for ways to pass down their business along to successors. And that's oftentimes a very difficult transition.

But certainly, I think in terms of smoothing out that transition, but also in terms of increasing the value of their book of business, this plays a really important role. And what it does is it basically helps somebody who might be taking over that book of business really understand how valuable it is.

Because if I'm acquiring a book of business, what I want to understand is not just the assets under management, it's not just what the sort of statistical profile of these people are, what I want to understand is if I take over this business, what is the likelihood that they're going to leave? What is the likelihood I'm going to lose them during this transition?

And I have to figure that out really fast because that's the biggest risk time is when you go through that succession planning, people are like, oh, I think I want to go find somebody new. And so, part of what this does is it gives the advisor who is basically passing this along, who already has this, it gives them an ability to lay out for a potential successor, here's who my clients are. I have them well documented, and here's how, if you become my successor, here's how you will be able to retain these people, talk to these.

And if I were a successor, it would give me much more confidence in my ability to succeed on that. And, you know, subsequently also, I think, a much stronger willingness to pay for the opportunity to take over that book of business.

RYAN NEAL:
Yeah.

LAMAR PIERCE:
So, I think the third piece of advice is really trying to decide and understand which parts of their business are going to be technology-driven and which parts are going to be personally-driven.

RYAN NEAL:
Oh, okay.

LAMAR PIERCE:
Because I think certainly a lot of us view technology as a tool that works best when it's integrated with actual human advising and human expertise. I think there's this false

belief out there in some circles that technology can necessarily replace humans. There are just these really important relationship sides that technology can't.

I think for an advisor, I think what they need to think carefully about is what are the key interpersonal relationship things. What are the things that strengthen those relationships between me and my clients that are going to make them want to stay with me, to trust me, and make sure that those remain personal and interpersonal between them and their client.

Technology is a tool. It's not a replacement for who they are as a person. We know this because humans tend to have something called “algorithm aversion” which is they tend to naturally be afraid of things that are generated by algorithms, even if the data might show that it's actually a really good thing.

And so, understanding that and remembering that these people, ultimately in the end, they want somebody they can trust. They want somebody they can call and somebody they like. And those things can't be replaced by technology.

RYAN NEAL:
Interesting. That algorithm aversion, is that something akin to the artistic concept of uncanny valley? You see something that you know is fake, but it looks sort of realistic, so you feel averse to it? Maybe?

LAMAR PIERCE:
Maybe (laughs).

RYAN NEAL:
All right. Just kind of curious.

Well, great. So, to recap, here's what advisors and firm leaders in the RIA space today may want to think about as they position themselves for the growth opportunities that lie ahead.

First, we talked about generational changes, and then second, succession planning, and understanding the differences in those for when we're going forward, how having advisors think about those generational changes along with their succession planning, understanding who everyone is in that thought process, and third, when advisors are thinking about the technology they're bringing into their practice, which parts of it are interpersonal, which parts can tech do, and making sure we're not looking at tech to replace the human advisor, but to help them build deeper, more connected relationships.

LAMAR PIERCE:
Yep, that's a good summary.

RYAN NEAL:
Once again, thank you to everyone who took time to join us here from the SYNERGY24 conference.

If you enjoyed this special edition of Synergize, hit subscribe wherever you get your podcasts, and be on the lookout for the next episode with actionable insights for how you can grow your business.

And remember, the challenge is yours to capitalize on what the future offers.

OUTRO:
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