Human-Centric Investing Podcast

Episode 2 - The Future of Advice

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Featured Guest: Dr. Joseph Coughlin, Director, MIT AgeLab

Intro: This is the Human-centric investing podcast with John Diehl where we look at the world of investing though the eyes of clients. Take it away, John!

John Diehl: Hello, financial advisors. This is John Diehl, senior vice president of strategic markets at Hartford Funds. And welcome to our second episode of the Human-centric investing podcast. You know, I think it was an ancient Greek philosopher who once said, "The only thing that is constant is change." As a financial advisor, have you ever wondered if the value you're providing your clients is keeping pace with their changing expectations? Face it, today's retirees are more educated, more tech-savvy and more demanding than any previous generation. On today's podcast, we're going to talk about the concept of advice, how it's changing, and how also it changes the expectations of those who provide advice. Joining me today is Dr. Joe Coughlin, founder and director of the MIT AgeLab. Joe, welcome to the podcast.

Joe Coughlin: John, great to be here again. Thank you for having me.

John Diehl: Absolutely.

So, Joe, on today's episode, I wanted to take a look at something you and I have discussed for quite a while, and that's the evolving role of the financial advisor as we move to what some would say is, if you look at the American economy, we moved from the agrarian society to the industrial society to the service society and now we're moving into the experience society. That coupled with longevity, I know in your mind, is changing the role that the financial advisor plays. And so can you just give us some of your introductory thought into the evolving role of the financial advisor and how you think of that?

Joe Coughlin: Sure. Well, you know, John, what we've spoken about before is that living longer is certainly a gift but it's also very different. Very few people in previous generations had the pleasure, if you will, of living, as we discussed before, the 8,000 days of retirement. As a result, the advisor is no longer helping us plan for a relatively short period of life. They're actually preparing us for nearly 20 or 25 percent of a lifetime.

And as a result, part of the new role of the advisor is not just the promise of security and independence through financial planning and preparation. But rather rolling out to us a story that we could actually understand as to what we are saving for, what we are likely to confront, and in many cases inventing new ideas and solutions and, indeed, experiences that our parents or grandparents could never imagined. So, the advisor now is as much a navigator into our future as they are in advisor on our security.

John Diehl: So, Joe, I know you've created a diagram which we use in some of the presentations that we give that kind of puts a picture to your thoughts around this topic. We are going to include this diagram in our show notes. So, if you pull it up, you can actually walk through it along with Joe's comments. Could you kind of walk us through that diagram and what you see as the kind of the map of increasing advisory value to clients as we move through these phases?

Joe Coughlin: Sure. The diagram we're presenting is trying to show the continuum of value for advisors and in the lower left-hand corner it is basically based upon the depth of the relationship you have with your client or how you define your client and their circle of other influencers, like their spouse, partners, family, and other people they trust with what is it that you're providing, what is the action that they you're engendering?

So the lower left-hand quadrant, if you will, on this diagram, says look, if you have a good relationship with your client, that is great. Being client centric is ever so important, but if it's only with a client, and it's pretty much based upon transactions, that's a limited value proposition. In many ways, this is where the robo advisor, if you will, has the greatest opportunity for eroding the value of the advisor and frankly the value of that advice not just to the client, but eventually to their family. So, it's transaction based, and it's singular based. So, if you speak about having your relationship, or a good relationship with your client, and it doesn't include their spouse, partner, family, I would suggest that there is a bit of an issue.

The next level is the classic client objective. This is where the advisor is planner, very important to think about our objectives and what might be to identify those one to a dozen ideas of how I want to live life tomorrow and having the advisor's input on what is realistic and what needs to be done to achieve those objectives. And quite often when we start talking in terms of objectives and planning, the relationship is pretty much with a client but is expanded to their spouse or to their partner.

So, when there's a visit, there may be a visit of two that are at the table, and while this is valuable, and far more value added in the mind of the client and the client household, it's still pretty much narrowed. It's about the client's objectives and essentially your product, your value as an advisor is that of the plan. The plan',s not just a tangible product but it's a symbol of your expertise and a symbol of your collaboration.

Valuable, but not necessarily something that the client can't look at and say, "Gee, yes, some of my ideas are here, your's are here but there's an algorithm behind it that pretty much is planning out what we think I'm going to be doing in the future. There's really no surprises, it's about my housing, it's about my health, there's not shall we say much originality or imagination necessarily going into it."

The third level, and hopefully for this point, the ultimate level is having a much broader discussion, not just on my retirement, not just my objectives, or the transactions of my finances, but on my longevity. Helping me anticipate and remain flexible for those things that I have thought about and that I'm planning for and those things I had not even considered. And ask where the advisor now moves into, shall we say, being a role of a navigator or being prepared to help me navigate my longevity. And by the way, the depth of the relationship goes beyond the client, goes beyond the spouse. It actually finds conversations that are integral to integrating discussions with the family members or other trusted members of client's social network.

So, what am I talking about? Yes, it's money but it's also about, where do you want live? What are the trade offs of moving to that beach property or to that golf course or frankly, aging in a community where you've been for 20, 30 years? Having discussions about gee, where you going to live that's going to provide you the access to the things you love, as well as the access to the things you need. Transportation related issues These types of discussions are not just something that one can have a client or even their partner, in many cases it is an opportunity, in many cases a necessity to bring in the family members that are likely to be there as your client and client's spouse are aging.

So, this is an opportunity to go across the generations to develop a relationship with a family and a household not just a singular client. In terms of value, at this point, this is the highest point of the client's perceived value because you're protecting my money, you're helping me ensure my security, you've asked for my plans and objectives, but you're doing something else that is really important. You are exciting and delighting me with things that I had not anticipated and helping me achieve those in older age.

John Diehl: So, Joe, often times when I talk to advisors who aren't quite there yet at this horizon or the longevity solution advisor that you just kind of described. And sometimes advisors feel a little ill-equipped for this step. I mean it seems like just yesterday we began using all the tools to develop financial plans and so on and so forth. Can you talk a little, I know one of the tools we talk often about is the power of developing stories, maybe stories of other people like me, in terms of the advisor's toolbox and things that, and maybe talk a little bit about how those stories can help facilitate that kind of trust that you just mentioned.

Joe Coughlin: Exactly, you know John, as we've discussed the story, frankly, we don't think of it as such, but the story is the oldest and perhaps most effective technology that humankind has ever had. Stories help us organize our thoughts, explain cause and effect, and if you will, give us a short hand as to how to address those things that we don't understand or need to confront.

And would suggest that the advisor has essentially three resources that they can draw up on. The first one is something that the advisor has to feel comfortable with, and by the way, if they're not comfortable, get comfortable. And that is stories from their own lives. Do not be afraid of being able to relate the pain and anguish of having to pick senior housing for an older loved one, a parent, or a loved one who's confronting Alzheimer's disease. This not only provides grist for a powerful emotional relationship with your client, but as important as that is, it shows your client that you get them, that you truly understand what they are going through. You have been there.

But more importantly as an advisor, you can now provide them with information, resources, and the financing strategies to be able to address those issues. The second resource, which most advisors should draw upon very heavily are other people, other stories that they have heard that, not just from other people they know, but quite powerfully other client stories, certainly not using their names, but using the story of, "Yes, I have another client who is trying to decide, 'Should I stay or should I go? Do I downsize to be near my grandchildren, who have moved several town or several states over, or do I stay in my home that I love and is financially perhaps easier to manage?' "

These stories actually provide just an illustration, if you will, for clients as to what their choices are and how other people like them have dealt with it. Finally, the third resource is that advisors experience and collaborations in the community. Being able to say that you visited a senior housing center, being able to say that you know a certain neighborhood, that you've used Uber or Lyft or countless other sharing economy resources and you actually know people that provide those services, that you can refer your client gives you not just the story but equally powerful, gives you a solution to put on the table for your client, their loved one, and their families to consider. So, those three levels stories, John, not only provide us with meaning, provide you with engagement and empathy, but to the best extent also provides you with a solution to give to your client.

John Diehl: So, Joe, to summarize, it sounds, like you know, for advisors who think that they have all kinds of external resources lined up to become the longevity advisor, that maybe the first step is really taking a look at your own internal resources, taking stock of your relationships and experiences and beginning to think about how you might be able to leverage those experiences to help others and to put your financial efforts in context of the lives of the people that you're trying to help.

And I guess along those lines, Joe, what do you think are the risks to the advisors who are kind of staying down in the lower-left-hand corner, if you will, of your diagram? What is the risk to the advisor that says, "Look, I'm the investment person. It's worked pretty well for me over the years, and I am just going to keep doing this. Thank you."? What, in your mind, are the risks to that kind of approach, given kind of some of the things we've talked about?

Joe Coughlin: The greatest risk to that area is essentially being disrupted, not just by another advisor, but by the algorithms that are being developed out there the underlying easier the robo advisor trend and technology. If you're basing your relationship entirely on transaction, and frankly even a boilerplate like plan, essentially, you're creating a product, not a conversation. You are creating the promise of security, not a relationship.

And so the biggest problem that those those advisors are likely to find is that that very basic relationship is going to be replaced by technology and replaced by another advisor who shows through their stories, through the look on their face, and their empathy that, "I get you. I understand you. You can trust me." And so while algorithms make terrible conversationalists, they're a lot cheaper, quite often, than visiting an advisor who does not much different than a computer.

John Diehl: Joe, it reminds me of the conversation that you and I had with the CEO of a startup tech company when we were talking about tech's role in managing lifestyles as we go forward, and I'll never forget what he said. What he said was, "You know people can never lose sight of--tech should be used for what tech does best and that is ordering and sorting of data. Human beings should be utilized for what they do best, which is empathy and emotion." And I think tying back to many of the things that we just talked about in terms of this progression, we're all going to be using robo-assistants in one way or another. In fact, many advisors are probably already using them. I think it's all in the manner in which we use them, right? So, if our product is the output of a financial plan or some fancy output of financial analysis, although supportive of the main thing, it's not really the main thing, is it?

Joe Coughlin: No. In fact, I would even add to your idea of what's important in terms of empathy and understanding and the like. But meaning. Only through conversation with another person can we start to understand what is the meaning or what is the priority of any given objective that a client has put down there. You can prioritize to a certain extent using an algorithm or a planning piece of software as to what's most important, but only through the client eyes and conversation with their loved ones can you understand just how important it is and to whom and why.

John Diehl: And so, Joe, as I think about many of the advisors I talk to, oftentimes people have a leaning in one direction or another. They're more the softer emotional, empathetic side, or they're people that say, "You know what? I got into this business because I really do love investing and analysis and things like that." Can you talk a little bit about the importance of assembling a team approach to perhaps communicating with the client? Is that important? Or is it necessary, if we're more analytical, to develop those more empathetic sides? How do you view that?

Joe Coughlin: I think that we all need to develop more of, shall we say, our empathetic side. But let's be clear, not all of us have that capability, and frankly, for some of us, we don't even want to. What I would suggest, as you mentioned, is a team approach to ensure that you have the resources and not just in stories, but of the teams, if you will around you.

So having someone who can engender those conversations, who can show the empathy, but perhaps whether it's you or another that comes in and says look we get you, we understand what your priorities are, but now we also have the wherewithal, the technology, and the expertise to execute. The bottom line is the client experience and value of the future is how do you excite and delight the client mind, body, and soul. The physical experience doesn't make sense mentally, and frankly, is the decision making being done in an environment that get me to share with you what is important to me and to make some hard decisions when necessary.

John Diehl: And so, Joe, in the couple of minutes that we have left. I just have kind of a final perspective question for you. Obviously, all this is not taking place in a vacuum. 've heard you talk before about the concept of a longevity economy. That in addition to kind of marrying that to this concept of the experience economy. Can you just tell us a little bit about your vision of what this longevity economy is and how financial services is not just stand alone but actually fits into that puzzle?

Joe Coughlin: Well the longevity economy, which I also might add is the title of my new book coming out later this year, really focuses on the fact that we have never had this many people of older age, and we've never had this many older adults with the education, the income, and the experience to believe that they can live longer and better. The longevity economy represents 70 percent, seven zero, of the discretionary disposable income of the population over age 50 in the United States alone.

In fact, if you were to go global, this would be the third largest economy in the world. That said, the longevity economy is generating new products, new services, new experiences that excite and delight the 50-plus consumer. Advisors are now going to have to either run faster just to stay in place, or to run even faster to catch up to other experiences that the client is having everywhere else.

We are seeing retailers, leisure brands, auto manufactures, and the like now creating better products, better experiences, and better services to reward the loyalty and the dollars, if you will, of that 50-plus consumer who is benchmarking advisors, not off another advisor, not off an algorithm, but how they're being treated in the longevity economy that is beginning to wake up to realize that this in not your grandfathers old age. That this is an entirely new market space that expects to be excited about life tomorrow.

John Diehl: So, in summary, we move out the advisor continuum, and what we're really talking about is not just marketing financial ideas and financial strategies. It's really taking advice beyond those boundaries and helping the client put together concepts about longevity and about their life ahead.

And, one thing, Joe, I always laugh when I think about you reflecting on it, is that statement that the internet would have not been invented by focus group. Sometimes, it's professionals, sometimes it's people that know a little bit that have to start shaping the thoughts of people that are thinking about what life ahead looks like. Wouldn't you agree?

Joe Coughlin: Absolutely, and one of the things I want advisors that are listening to know. This is hard stuff and there is no playbook yet. We're trying to write it. Folks in my lab are trying to write it. Advisors out there, one at a time are innovators. The metaphor I want advisors and all of us to think about is frontier--the new frontier. And, life on the frontier, when the United States was being settled was exceedingly awkward. There were no tools on how to conquer the west. There were no tools on how we're going to do this alone. Old age, longer life, living well in life tomorrow is an entirely new frontier with new products and new services and experiences that have yet to be created. Advisors today, that are willing to be creative and willing to be innovative are not just providing value to their clients. Not just ensuring revenue to their firms. In fairness, this is hard because you are inventing an entirely new profession.

So, yes. The frontier of longevity is awkward. And just like settling the United States and moving west. We will get it one experiment, one trip, one story at a time.

John Diehl: Well, Joe, thanks. That's about all the time that we have for this week's podcast and thanks for your insight and for all of you listening, we thank you for your time and look forward to the next time we share with you on the Human-centric investing podcast. Thanks.

Joe Coughlin: Thank you.

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