# Ep37: Sterling Shea – Barron's Global Head of Wealth Management Discusses Industry Trends: Part 2

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PATTI BRENNAN: Hi, everybody. Welcome back to "The Patty Brennan" show. Hey, whether you have $20 or $20 million, this show is for all of you who want to protect, grow, and really use your assets to live your very best lives.

Coming back to join us is Sterling Shea. Sterling is the head of Global Wealth Management at Dow Jones and Barron's and boy, for those of you listen to the previous show, it was a terrific show, you know, we usually keep these about 20 minutes and then about 30, 35 minutes, we're still talking.

This is going to be a further conversation on the topic that we were discussing, not just from a market perspective or some of the mistakes that investors are making, but also the trends in what Barron's sees going forward over the next 10 or 20 years. Sterling, thank you so much for joining us.

STERLING SHEA: It's always a pleasure to spend time with you, Patti. Thank you for inviting me.

PATTI: It's a blast and it's so important for everybody to hear some of your thoughts as it relates to not just the advisory business, but the difference that advisors can make for their clients, and some of the mistakes that Barron's has been noticing in terms of what people are doing with their money.

STERLING: I think it's an important topic to discuss, particularly if this is in fact, a late stage of the investment capital market cycle. If you think about the way investors tend to behave and the decisions that they make, we think it's particularly important for people to get good counsel and good advice now.

Traditionally, in the American investment markets, bull markets, last on average seven years out. We're about 12 years, probably 11 years into this one at this point. Inevitably, you're going to see that capital market shift. That shift tends to happen with catharsis and a significant downturn that leads to shock, bad decisions, negativity, and fear, frankly.

Typically, the end stage before that is one that's about greed. We're not seeing that now. If you wanted to argue the inverse that this market will continue to go, historically, bull markets have ended in euphoria. I know about your friends, but not too many of mine are feeling euphoric right now.

That would argue that as long as there's a wall of worry to continue to climb. That the market can perpetuate its gains. At the same time, inevitably, markets are cyclical in nature. We will, it's not an if, it's a when, will you feel that sharp downturn, fear, and uncertainty.

Volatility is likely looking at the decade to come to be higher. Returns across all asset classes are likely to be lower.

Investors need good counsel, good advice to stay the course, stay diversified, not just in terms of their investments with their broader financial diversification and avoid concentrations.

PATTI: It's an excellent point. We were talking earlier and on break, I go in, we go into every day of every year, assuming that the next terrible bear market is starting today, especially for those people who are living on their portfolio, receiving income, they've got tuition payments or they're in retirement, we've got to make sure there's plenty of buffers so that they can weather that.

It's about managing those expectations. Just as you said, it's not an if, it's a when. Understand it's going to happen. We even quantify it.

Sterling will say, "Hey, if you have a $2 million portfolio and $1 million is in equities or stock funds, you should expect to lose anywhere from $300,000, $400,000. It could be that high. Understand that it can happen. It might happen, and you'll still be OK.

STERLING: Right. It's the idea of trying to avoid buying high and selling low. You want to see through market perturbations with a diversified portfolio, with the understanding it's going to cycle a bit.

I would also say that that one of the mistakes that investors make is often, sometimes, particularly among younger families, they're too conservative. They think, "I want to be very safe with my money. As a young family with a very long time horizon, I'm going to pick very conservative investments and make very conservative decisions."

In fact, you're not going to participate enough in market movement. That power of compounded interest over time, it can be such a tremendous builder of wealth. To do that, you have to participate fully in markets. You need to stay invested, and that they're being overly conservative.

PATTI: Financial security is often, people use that terminology to say, "I want to be super secure. I want to be super safe," and the opportunity costs. I often tell people, Sterling, don't confuse stable with safe.

Think about the next 20 or 30 years and retiring and not having that extra cushion, that extra million or $2 million that you could have had if you had just had a well balanced portfolio, tweaked it from time to time. We are not market timing, and that's important for everybody to understand.

Even though you and I both believe that there's going to be a bear market, we don't know when that's going to happen. Let's not pretend to know something that nobody can possibly know.

There are too many factors that influence that, but we just have to understand the fundamentals of why stocks go up. Those fundamentals may not be the same today as they were 12 years ago. Let's be realistic about this and make decisions that are right for you and your family.

STERLING: Absolutely. That's the key point, that you have a talented financial advisor that's deeply understanding the individual nuances, needs, risks, and investment objective for a given client family. It has to be anchored in that comprehensive financial planning.

The best portfolios as we see them are inclusive of alpha, beta, non correlated asset classes, including alternatives, a wide range of different investments. But that mix should be dependent upon the individual nuanced needs of that given client family and their investment objective and risk tolerance.

PATTI: To me, the most important thing is to be able to explain it in words that clients can understand, "Gee, if the market went up 20 percent how come I didn't get 20 percent."

Well, here's why. Here's what we believe. Over time you get that compounding and that works in your favor that you want to build upon that base as much as you possibly can each and every year, rather than experiencing the massive ups and downs. It's a matter of education, right?

STERLING: Absolutely. A smarter client's a better client. Anything the advisor can do to help empower clients to better understand what's happening, what is the machinery of that investment output, it's in everyone's best interest.

PATTI: For those of you who are listening today, probably as you meet with your advisors, Sterling and I both agree there are a lot of good advisors out there. That as things are occurring, it's so important not necessarily to react, not necessarily to make a judgment about the advisor. Understand that it's about the environment.

The key here is to make sure that you have a good understanding of not only what's happening and why it might be happening, but what anybody should be doing about it or maybe not doing about it, right?

STERLING: Yeah, trust is vital. You have to have someone who you feel very comfortable completely opening up on your family situation. If you're holding things back from your advisor, it's like holding things back from your doctor. It's not going to have a good outcome.

To be a better client, you want to be empowered. You want to have your advisor help you understand with full clarity what's happening in money, why it's happening, but there has to be that trust. There that has to be that clear line of communication. It should be a multi generational engagement with the advisor.

It should be the entire family, both spouses coming together to give the advisor as much information, as much opinion, as much feeling, everything that can be wrapped into their comprehensive financial situation.

It's the advisor's job, not just to manage simply the investment portfolio, but to weigh in on estate planning, multi generational wealth transfer issues, philanthropic planning, all of these different aspects of your financial life.

The more information that you can provide that advisor, the greater the likelihood that they'll be able to craft the ideal solution to lead to the highest probability for a good outcome.

PATTI: Your point is such an important one because family dynamics are so unique to each individual family, and to understand those family dynamics and to take the time to listen and understand and meet with the kids.

Boy, Thanksgiving and Christmas is the busiest time of year because we're meeting with these kids, whether they're in college or they've got some time off so that they understand that if something happens to mom and dad, we're going to be here, it's going to be seamless and we're looking out for everybody.

STERLING: That's also an interesting trend we've seen in the wealth management industry. Those teams that are attracting a greater number of clients and client assets, have diversity within them. There's gender diversity, there's age diversity. It's a team of advisors meeting with multiple multi generational engagements with the clients.

PATTI: There's a lot to be said for that because I could meet with a young couple who just got married and give them advice, but it's quite another thing for Michael or Eric to meet with them. They're the same age, they're in the same boat, and they can relate on a one on one basis to the things that they might be going through.

STERLING: Yeah. The more information they get, the more they can better analyze what is the intent of that wealth, what is the investment objective, what goals are they trying to meet. The better informed the advisor can be, the more information they have to craft a better solution set.

PATTI: I think that ultimately, we literally can craft our solutions based on the demographics of the clients, their kids, etc. Speaking of which, let's talk about demographics in the industry because as I just alluded to, we've got different people here on the team who are experts in different areas and we try to pair up accordingly.

Tell me, a little bit more about what's happening in the industry in general?

STERLING: Yeah. It's a concern of ours that there's a dearth of young talent coming into the industry for a multitude of reasons. Even right now if there was an upswing of young people wanting to come into wealth management, there'd still be an hourglass effect. The average age of a financial advisor in this country is around 57.

There are more CFP, Certified Financial Planners over 70 than there are under 30.

PATTI: OK, everybody, I am not one of them FYI.

STERLING: Yeah, but it's a problem. There's only about 16 percent of the industry that are women. Ethnic diversity is sorely lacking as well, while new pools of capital and wealth creation are happening in ethnic communities.

You're seeing these emerging pools that are going to matter deeply to the American economy moving forward that aren't being adequately addressed within the industry. There's a need for greater diversity.

There's a greater need for young people coming in. We're seeing pockets of that happen across the industry, but by and large it's not. It's going to create an environment where they'll be far greater need than there are a number of advisors.

That'll be a good thing for a small number of forward thinking advisors who have built scalability into their business which will allow them to service and provide meaningful advice to a larger number of clients, but that's a smaller number of advisors that are practicing now versus the bulk of the industry.

PATTI: That's interesting. Why do you think that is? Sterling, why aren't young people coming into the industry?

STERLING: I've talked about this before. There's a couple of different reasons. Either they incorrectly perceive it to be a sales business or they believe somehow incorrectly that financial services is in some way corrupt or they had zero exposure to financial literacy.

I think those factors over time, with more education, with more knowledge, with more exposure, it's a great business. You can make a great living, you can help people, and you can build a great business at the same time. I think over time it will correct, but right now the industry is facing that demographic crunch.

PATTI: You weren't involved in this conversation at the Hall of Fame reception, but we were having a conversation with a group of us and it was telling to me that the observation is that the young people want to go in to investment banking versus financial services. What they don't realize is, there are a lot of similarities between the two.

Just the words that we use and how we explain what different career paths they're all about, it can influence these young minds who may be much better served and have a greater career potential and just a wonderful life doing one versus the other.

STERLING: Absolutely. There are so many facets of wealth management. It's hard to pigeonhole it around one particular type of business or type of activity. The functions within a business like yours include financial planning.

They include capital markets and investment management, portfolio construction that also includes business fundamentals, the ability for you to market, grow your business, allows you to have the opportunity to strategically reinvest in at higher better people, create better client outcomes. It's a vital function.

No matter what you're into as long as you like the idea of being involved in financial services, there's a role or a function for you related to wealth management. A particular area that I think there's going to be huge growth moving forward is around technology.

As more FinTech, Financial Technology, becomes available for advisors to implement within their business, the importance of people who understand technology and how that can overlay with human advisors to merge the digital and analog experience, that will be profound.

There's a huge opportunity there as well where we just need to get the word out, and so more young people can understand all these different facets. Being an advisor doesn't mean one thing. It could mean a whole lot of things.

PATTI: That's such an important point, the technology aspect of this business. One of the headwinds in any business, especially, this business, it's labor intensive.

Sterling, if we are going to do this right, you need bodies and you need smart people who understand not only how to a read a tax return, but also strategic ideas that can make a difference there versus portfolios construction versus estate planning, and helping a business owner transition their business to the next generation or to their employees.

There's so many different things that we all have to know. Those pockets of opportunity exist in any firm that's looking at providing real financial management, wealth Management on an ongoing basis.

STERLING: Yeah. That's what we tell advisors. The advice that we give to advisors is, you have to find ways to drive efficiencies in your business. You have to create scalability. If in the future as an advisor, your business is going to be predicated on your ability to have deeper, more meaningful conversations with clients, you have to create efficiencies and processes across the business.

Technology can be a huge lever there. As you're applying technology both to the back of the house solution so to speak, portfolio construction, tax planning, all of these multitude of different functions that exist and in the front of the house, to create mobily, served, client communications, digital aggregation of client assets, all of these different facets to enrich the client experience.

It takes someone who is cognizant on the way that technology can be built into a business.

PATTI: It's a great point. 10 years ago, 15 years ago, when we wanted to update a financial plan, we were basically starting over, re entering all the data, etc. I made the investment years ago to invest in a platform where all of the assets are being updated every single night.

We have alerts and alarms so that any issues bubble up to us, so that we're always aware of both the risks and opportunities for every individual client and their family. That's made a huge difference because, again, ultimately, it's about the client experience and their outcomes.

Not only are their outcomes improving because of this software and this major investment, but also our ability to help more people is greater as well because it takes less time, it's less manpower. Yes, I have a lot of employees, but it just allows us to serve those people and it's the technology that ultimately makes the difference.

I think for advisors who may be listening, to also share that with the clients so that they can see it. That's where the client experience really comes into play.

To say, "Hey, on my phone I've got this app that Patti put together for me. I can log in anytime day or night, see where I stand, and see how I'm tracking". It's just a wonderful thing to be able to provide to our clients that we didn't have 10 years ago.

The technology is just getting better and better and better.

STERLING: Yeah, absolutely. There's going to be more and more need for that.

Also, another area where we're seeing growing interest in applying technology is around cybersecurity. Huge area of importance for advisors to think about, but there's great technology emerging for advisors to utilize to help reduce the risk.

PATTI: Well, Vince happens to be in this room right now. He is my cybersecurity guru. Believe me, every computer, every phone, everything has his software on it that really keeps and protects us.

The firewalls. I don't know. With Vince, I think we probably have 10 firewalls, but that's important because it's important for me to know that a client's information is secure and it's important to the clients too. It's a weird world out there, isn't it?

STERLING: Well, it gets back to this notion of growth. The importance of growth for an advisor's business because it affords you the opportunity to reinvest in processes. To hire someone like Vince to look after cybersecurity.

To have a chief technology officer that's implementing the software and systems that can drive those efficiencies in your business. To hire better people, better technology, growth is necessary for that.

PATTI: What it does, at least for me, Sterling, and hopefully this is...ultimately at the end of the day, is how does the client benefit? How does the client benefit? There's more transparency. They always know where they stand and to be perfectly honest with you, it frees my time up.

Where I have more time to do what is the most important thing and that is talking with everybody, meeting with clients and really making a difference on an ongoing basis all the time. A lot of the work that we do – and I think you've seen this in your research – a lot of the work that we do, clients will never see, but that's the point, isn't it?

STERLING: Yes. It's the multitude of things you're doing behind the scenes to make sure that they're having an optimal position for their investments from a tax standpoint, from estate planning standpoint, wealth transfer. All of that requires so much work in the background that often clients don't see, but it's necessary work to create that positive outcome.

PATTI: What I think is terrific, if I may say, and this is not anything you're expecting me to say. What I have noticed over the years that I've been fortunate enough to be involved with Barron's is what you guys have done to elevate the standards for the industry.

Just by talking the way you're talking now and for giving those speeches that you give at your conferences, the people in the audience and the industry is listening because you have that vision. You have access to all the data, the algorithms, and you have this way of articulating it, such that you create this image of something that we all want to be.

It's just inspiring, Sterling. I know that you didn't expect me to say that, but I appreciate all the hard work. You travel all over the place, you're meeting with advisors and their firms and just saying, "Hey, here's what we're noticing and here's not only the people that are growing but here's why," so that we can craft our businesses.

I often tell the story of one conversation I had in Florida with another advisor. It was just when I was getting involved with Barron's. She shared something with me that has made all the difference in my business.

It was something in terms of how she measures her own progress, and the way that she measured her own progress was new money. Folks, I want you to know, I don't care about that. What I care about is, are we taking care of our existing clients? I always was hyper focused on retention, take care of our existing clients.

As you know, Sterling, I closed our doors in 2009. We did not accept new clients because I just wanted to make sure that our existing clients were OK. We needed to get them through it.

In this conversation, the new money idea was like, "Wow." She told me, "I brought in so much new money, what have you." I said, "Well, how was retention?" She said, "Our retention was still really great." Those two metrics are something that I have been measuring ever since.

When you leave today, remind me to show you our board. There's a number on it. It's the new money. The reason why I think it's relevant is because if we're doing a good job, then people are going to feel comfortable when they retire.

If they've got money to invest, they're going to add to their existing portfolios. Then that says something. If they are happy and they're telling other people, then they're referring their friends and colleagues. The most important number that I measure will always be retention.

We are almost 100 percent, we've had a couple people pass away...but we don't lose clients because to me, our clients are the most important thing, and that's something that you guys look at too.

STERLING: It's great that you do that. Thank you for the nice words. I appreciate that. It makes me feel proud about what we're trying to accomplish at Barron's. It's not growth for growth's sake, it's growth for the sake that it affords you the opportunity to strategically reinvest in your business, hire better people, get better technology.

It's a robust business that's attracting the best talent in the community, as well to come and work for you. It's a vital barometer of the vitality of your business and your ability to continue to drive better client outcomes and to provide good advice. It has to be a robust, thriving, growing business.

One metric managing it as a CEO is around, that net new inflows and it speaks to the businesses' ability to attract, win and retain long term client assets. That's a key facet that we look at in our ranking methodology, that organic growth component that advisor's able to exhibit over a long period of time.

We don't want to reward salesmanship because if money's coming in the front door, but it's going out the back door, there's an empirical tell to that as well. What we want is advisors who are organically attracting, winning and retaining long term client assets.

PATTI: You know the one thing we don't measure? Is the money that is being distributed out. I don't care. That's what we're here for. My goal is when clients invest money that when we return it to them, we're giving them more. Period. End of discussion.

How much is going out doesn't matter. That's our business model. That's what we're supposed to do. It is important to your point though, that as a company we do attract new assets because we do need that scale.

If we don't have that, then I can't hire the attorney that I just hired, so that I can talk to him about this trust that I'm reviewing to make sure that what I'm reading is what is the case, and how the kids would be affected by the words that are in this paragraph. It's wonderful to be in a position to be able to do that.

I've always believed real financial planning is very labor intensive, and honestly, it's quite expensive. A lot of people might not realize everything that goes into this business. You mentioned in the previous podcasts, the cost of regulation and what we have to do to maintain compliance.

I think compliance is good business because it forces us, not that I need to be forced, but it forces us to have good business operations, good checks, and balances, and run a good clean business with full transparency, etc. That's what the regulators ultimately want.

Again, this is an aside, but we go through audits. I have an attorney, we go through mock audits every year, but we were audited by the SEC.

STERLING: As all advisors are.

PATTI: Exactly. It was a very interesting experience because it was much more of a collaborative. They were surprised how much I was interested in, "Tell us what we're doing right. If you see anything we need to improve, just let me know and we'll do it."

They gave us a couple of ideas in terms of systems that make that process of the daily, weekly, monthly, and annual compliance protocols much easier, and I appreciated that.

STERLING: Think about record keeping as one example of an area where technology can greatly help that regulatory compliance factor. A record keeping's grown enormously complex in the digital age. Just having insight and getting guidance on how to manage that in a less time consuming way is vital.

PATTI: Sterling, I just want to thank you so much for everything that you have done. I want to thank you for being on this podcast today and for making the trip down from New York. All I can say to you is, please keep up the good work because you're making such a difference for Americans by giving them access to great advice.

Whether it be with Barron's digital or the Barron's in education, or for letting them know that there are great advisors in their state that they can help and make a difference, a good advisor will pay for themselves. I believe that.

It doesn't always happen, but a really good advisor could really make a difference and help Americans accomplish their goals at a time, going forward, that it might be much harder than it has been in the past.

STERLING: Patti, we still believe good advice can save the world.

PATTI: Absolutely.

STERLING: Thank you. It's always a pleasure being here.

PATTI: Let's go save the world together, Sterling.

STERLING: [laughs]

PATTI: Thank you so much for joining us. For all of you, thanks so much for being with us today. I hope you've enjoyed it as much as I have. Any questions, go to our website at keyfinancialinc.com.

Until next time, I am Patti Brennan. Thank you so much for joining us. Thank you so much for telling other people about this podcast. We're here. Literally, my goal is to make a difference in your life and the lives of the people that you care about most.

If you liked what you heard, share it with others, share it with your advisor. We're here to make Americans financially secure. Thank you so much. Have a great day.