FIDELITY CONNECTS

The Decade of Generational Wealth

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Scott MacKenzie: Hello. I'm Scott Mackenzie, president of Fidelity Clearing Canada, an organization that provides brokerage services and platform solutions to some of Canada's leading broker dealers and investment managers. Today, I'm pleased to be joined by my colleague Tobias Donath for a discussion on the challenges and opportunities faced by advisors managing multi-generational family wealth. Tobias is the senior vice president and head of the Fidelity Center for Family Engagement. This organization leads the strategic development and delivery of content programs and the development of resources that create value for families and advisors working with Fidelity's US based advisory and institutional businesses. Fidelity Clearing Canada is fortunate to have access to the research and thought leadership that comes through. Tobias This team and I appreciate Tobias spending some time with me in real life to talk about the important work that the center does. Welcome, Tobias, to kick us off. Tell us a bit about yourself and let us know about the impetus and the inspiration for Fidelity to establish the Center for Family Engagement.

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Tobias Donath: I'm so thrilled to be here. This is only my second trip back into Toronto for for a few years here. As a Canadian, it's always great to come back and see the city and how much it's evolved. So thank you. So, you know, I've been at Fidelity just about ten years. And seven or eight years ago we started the Fidelity Center for Family Engagement, and it was born out of a really clear need that clients were sharing with us. The as the the the market evolved and families were growing. They were giving us feedback that they were outgrowing fidelity as their wealth grew. And there are opportunities for us to provide more services. But one of the areas we knew we were missing was the relationship we were building and the way we were currently at that time missing the connection to the family. And so the center was built really to provide resources and capabilities to financial advisors who want to build deeper relationships, not just with the primary decision maker, but with the family as a whole.

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Scott MacKenzie: In the work you've done over the last seven years, building out the center and then through some of the dialog you're having. What do you think the biggest challenge is for families and therefore the biggest opportunity for advisors in engaging in this dialog?

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Tobias Donath: So I think financial services in general and then, you know, the actors being the families and the advisors in that space have have found themselves in a space where we've gotten very linear in our decision making. And when I say that, I mean. We we, we get oriented around growth, around products, around solutions, around getting things done. We look for the nail and we try to become the biggest hammer that exists. Families are just not like that. Families are systems, and when we operate in a linear way, we often have unintended outcomes, right? And so when we think about the way we have set this industry up as it relates to generations, we set it up around this big story, around the greatest wealth transfer in history. Here's the thing about wealth transfers there single point in time events. Statistically, we're right, 93% of wealth transfers at death. But where families are today, it's not about that individual point in time transfer. It's about the journey, the transitions that families have to go through. The best analogy I can give you is imagine a family business that didn't do any succession planning, didn't do any dialog with the family, waited until the patriarch or matriarch passed away, and then the rest of the family was there to pick up the pieces and try to figure it out. Right. That's a recipe for a very challenging experience for the family and the advisors serving them.

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Scott MacKenzie: Well, I got to tell you that in my family, it doesn't always feel like there's a one time event. It feels like a continuous transition of wealth from my pocket to the pockets of my children. But kidding aside, are advisors and wealth managers finding value in this discussion? Are they starting to align themselves to the practices and the needs that your organization looks at in the research and what it's telling them?

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Tobias Donath: Yeah. So, you know, something I hear a lot is advisors who tell me I'm in relationship with my clients and I don't always know what that means. It's a really interesting question. You know, in some places I've heard people say, well, they're covered. They're in my book of business. That doesn't feel very intimate to me when we think about the relationships we have with our clients and their families. Transition is the opportunity to find that intimacy. So are they set up? Some are. The challenge that these families are facing is if I sit with you as your advisor and I hear your challenge with money walking out of your pocket to your children, you know, I may in a very linear way say, okay, let's think about how we're going to protect the money. Let's think about how we're going to structure it so that your children will be okay and that you can be all right. It's very rare for the advisor to say, Describe that to me. Talk to me about it. How does it make you feel? And then the step further might be, what would their perspective look like? And that's the conversation we actually want advisors to get into. It's a very uncomfortable conversation. And so that's the challenge. I hear you say that. And instead of going towards it as an advisor, I step away and say, Oh, that's a little bit spicy and I'm going to leave that. Instead, I'll go to what I know. I'm going to teach you how to educate them. I'm going to teach you how to put structures in place. And that's actually the opposite. We want and we want to build deeper relationships.

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Scott MacKenzie: It's fascinating. And you use the words, how does that make you feel? And I think historically our industry is one of doing and not one of feeling and often not one of reflection. So it sounds like that type of message is an important one for advisors to hear. I know you spent a lot of time working directly with advisors and firms, not just in sort of publishing and producing the research, but you'll actually spend time with them individually or in the moment. Can you share an example of an advisor, best practice or learnings that you've seen firsthand in working kind of in the field and in a in an advisor relationship where there's a transition or a discussion happening?

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Tobias Donath: Yeah. Good. So you hit it spot on, right? This idea that we we find reflection is really where we want to be as advisors. We actually don't have to be the experts of their lives. We don't have to be the experts in in how their family uniquely operates. But what we do have to accomplish is create the space for that. And advisors bring this unique perspective. They don't work with just you. They work with many families. And they get to bring all that wealth of experience together to help and advise a family with a sounding board. Hey, let's just talk about these things. Give me a sense for where you are, how you're thinking about it. And it's really important. If the advisor can start to say, I want to help you avoid the unintended consequences that can come when we're not in dialog as families. Right. Unintended consequences are, if you think about it, the families that don't speak at the holidays after, you know, a challenging transition, the families, you know, we were doing some work with a family and mom and dad said, hey, you know, we've got this wonderful cottage and our three kids aren't really using it. Our daughter is using it a little bit. So we've decided to give her that the the house she lives closest and we'll give the other two some monetary benefit of equal value. And then, of course, what happens when the kids find out, you know, there's conflict and the conflict exists because they never had a voice in it. You know, and there was no dialog around, how did we get there? What were we thinking? If I can get ahead of that, it's fascinating. I was sitting with the family just the other day in Arizona and and they said, gosh, I was telling them this exact story. And they said, gosh, we're just about to sell a lake house, you know, about an hour outside of the city. So we got to put that thing on hold. We have to talk to our kids about it. And and you might end up selling it. It might be the right choice for you. Our job, I think, as an advisor is to create the reflective space where your clients and their families learn to talk about things in a more normative way.

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Scott MacKenzie: Wow. I mean, just that's a very powerful message. And certainly for for us here in Canada that the idea of a transition of a cottage is something we hear about a lot, let alone the tax situation. But the discussion you need to have with a family that may not just include direct siblings, could include other family members, is just so critical. And as you said, it's not the transaction itself. It's what do you do leading up to to ensure there's alignment or understanding of that?

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Tobias Donath: Yeah, look, advisors are are experts and they bring something that most families, you know, we might pretend to be good investors or we might, as you know, individuals think we we can bring something to the investing and growing IT assets party but the advisor is the expert. When we lead with our expertize then then we drive the agenda. When we lead with the family and their thinking, their feelings, their experiences, and we apply our expertize into those spaces. We have a very different dialog, a dialog that creates generational engagement. That's where we want to be.

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Scott MacKenzie: So having having read the research, having heard you speak in past, Tobias, there's this really critical concept that I think you point out. And you you kind of make it very clear in the in the materials between the mindset and the skill set. And I think you were just touching on the idea of the skill set the advisor brings, but changing or enhancing the skill set with a bit of the mindset. Do you want to talk about those concepts and how important that part of the the learning and the discussion is to ensuring these these stronger relationships? Yeah.

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Tobias Donath: So. We have to start with the mindset. And the mindset is important because if you if you take any advisor in any field or any of us, we can teach individuals how to do something. Those with the right mindset will exceed even those who learn the best skills. Right. And the mindset shift that we want to promote in this space is, is that of dialog. And that's rooted in this concept. We do in our center a lot of work around family systems theory, and it's a psychological base, therapeutic base for families. And it talks about how families need to be in dialog for there to be some harmony and some intimacy through time. And that can only come if we find ourselves in a pure relationship. We call that pure ship. The opposite of pure ship is actually hierarchy. It's when and we like to put these together with our fingers. We say, this is hierarchy, this is pure ship, parent, child. Okay, if if I'm the parent to my child on all topics through all of life, then I'm not only in a structural hierarchy, but I'm in a behavioral hierarchy. And that's it's not a good thing. The way I can describe it is imagine how you feel if your mother in law tells you how to raise your children. That's a parent child hierarchy that's reinforced with bad parent child behavior in money, wealth and estate planning. We do that all the time. We actually are so good at it. We find ways to do it from the grave. Right. And what we actually want is for families to find a peer relationship around their money, wealth and estate planning and advisors have the ability to be the sounding board that gets that dialog started.

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Scott MacKenzie: Can you give us some examples of that? Because it's really fat. The visual is really powerful. And, you know, I can relate to the mother mother in law discussion. I think we all can. But in the advisory world, maybe give us some of your firsthand experiences with your own family or maybe through the different generations of wealth that you're dealing with. Sure.

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Tobias Donath: So poor Shipp is about mutuality, about respect, about voice. We all know what it feels like. You can be my boss and I can still feel like we're peers. That doesn't mean I don't recognize that you control my bonus, you control my pay. It's just no different that my mom is always going to be my mom. My dad's always going to be my dad. But if we choose to behave this way, that's the problem. So I'll give you an example. I'll start. I have three kids, ten, 12 and 14. And I was recently in in a in a golf store. My son is a reasonably good golfer. He tells me he's very good golfer. But we got into the golf story. He says, I need some new shoes, Dad. And I go straight for the clearance rack in the back corner of the PGA Store and I find some waterproof. Athletic looking shoes that seem to fit the bill. And, and I start really good on the pier ship and I start with, hey, what do you think of these? How might this fit? That's me getting voice from the system. And he says. I'm not sure I really like them. I don't like the way they looked at. And so then I go, listen, you know, you golf every day, you're in the rain, you don't take care of them. You're going to need a new pair because your feet are growing. You really should get shoes like this. Okay, so this conversation continues and my I'm able to go back to PR. I said, hey, listen, I'm willing to spend $80 on this pair of shoes for you. The rest. If you want to buy a different pair, you got to make up on your own, from your allowance, from your work, whatever. We end up leaving the store with $160 pair of shoes. Of which he paid 18. I paid 80. We got in the car and he said to me, You know, we've been working on this for a while, he said. I asked him. How is that experience? And he said, Dad, if you want the honest answer, it really didn't feel good. And I said, okay, talk me through that. So I know you don't value the same things I do, but I really enjoy the golf and I'm golfing every day. And I not only want to look good when I'm golfing, but I want shoes that are really comfortable. And when you tell me how stupid of a decision it is to buy 160 pair, I just don't feel good about myself. You crushed as a parent just crushed. And and that's where I fail. As money, wealth and estate planning from a pure shit point of view, I'm not finding the way to get here. You know, I keep coming back up, and in my goal, if I'd done it right, I would've just said, Hey, it's your choice. You have $80 for me, the other 80. You need to learn to make your own tradeoff decisions.

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Scott MacKenzie: What a great example. I could have used it 20 years ago when my children were younger. As a as a parent with three adult children, bring me up a couple of decades. Talk about that decision in the twenties and thirties and how that might play out.

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Tobias Donath: So keep them shorter. Imagine for a minute, I get this a lot from parents. They'll say, well, how much should I give my college age child for spending money in in school? And if you're a practicing peer ship, the answer is ask them. How often will child actually give you the answer that's inappropriate, whether it's to do with alcohol or, you know, eating out late or, you know, spending it frivolously. They're going to have to think about it. They're gonna have to join you in the process. Another practice we often talk to families about is. How does a family find a social contract? An advisor can be a really interesting play there. You know, when do I stop paying for your phone? How much of your rent will I pay? Until when? How much will I contribute to your first home? Who pays for your wedding? These are all things that you shouldn't make the decision on your own. You can actually ask them, and you co-create that contract. And then as you as you continue, you start to ask yourself other questions like, hey, you know, Mom and Dad have more than we need, and we're thinking about how to pass that wealth on through time. How do you want to participate? What role should you play? What do you even think about getting money from us? How much and when? That's the type of conversation that a family isn't thinking about. We have to always remember you didn't grow up that way. It would be my guess. I didn't grow up that way. I didn't have wealth growing up, and so I didn't watch my mom and dad model. Perfect behavior. So we're all trying to figure this out. And the advisor is the one who can bring you that sounding board that that shifts the conversation.

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Scott MacKenzie: Love those examples as well. And certainly it's a conversation I don't think historically a generation like ours is used to, and it does require thoughtful reflection and effort to to make it happen. I want to ask you a question about advisor practices in general. And I'm just thinking about, again, people that my generation and advisors broadly. Do you find the message that you're delivering the content, the research lands as well in a sole practitioner practice, or does it land better in teams? Is there a diversity of the advisor practice that is ready to to listen and work with you? Or is it across the board anybody that wants to become more enlightened or better serve their clients?

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Tobias Donath: It's really interesting. The advisors who take to it most are the ones who are self reflecting on their own families, no matter what type of situation they're. And big, big groups, small groups, you know, individuals versus teams. The ones who are saying I'm I'm experiencing the challenge of having built a little bit of wealth and not knowing what it would mean to ruin my children or create entitlement or, you know, somebody once put it take away their hero's journey. Right. Hero's journey requires a little bit of a struggle. Yes. To all that. So those who are who are feeling that are the ones that seem to be taking it on the most in a very reflective way. The challenge I would put forward for advisors generally, though, is if we choose not to do this the opposite. We actually call that the co-parenting trap. You actually can't be a generational advisor if you're not practicing some of these things, because the flip side of it is your joining dad usually being stereotypical in his views. So Dad says, you know, gosh, my my daughter in law is just a spendthrift and I have to protect the money. And I say, Oh, I know what those are like. Let me let me help you with that. Or my son is this or my daughter is this or my wife is this. And we start to help them build versus how do we just step out a little bit and change the dialog? Because when the other members of the family feel like you're joining dad and doing things to us, very unlikely you're ever going to be my advisor. So when we think about generational advisor, you have to you have to shift your mindset to focus on the system. There's this great line. I may be the fiduciary, you may be my fiduciary requirement, but my commitment is to the whole. And we have to learn to separate those two things.

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Scott MacKenzie: Yeah. And I think that's such an important concept because we talk a lot about outcomes Advisor four from an advisory perspective and what you're saying, it, it is the family outcome that's most critical in a multi gen family relationship, in a wealth transition relationship, not an individual. And that that's a mind shift for for advisors. I want to close with a couple of quick questions, and I'm imagining somebody's going to watch this podcast. You and I are going to leave. You're going to get in an elevator with an advisor and they're going to see you. And you've got about 30 seconds on that elevator ride. And they're going to say, Tobias, what's the first thing or the only thing or the most important thing I need to do? Help me before I walk into that next meeting. To to start to practice some of the ideas that that the Center for Family Engagement is working on.

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Tobias Donath: We have to find a reflective space for ourselves. Way too often. This is not a knock. Way too often. We are overconfident in our abilities to be generational and to the degree to which we believe we've built those relationships. I would challenge an advisor to take that reflective step and say, You know, if if I was sitting on the other side of a two way mirror and they brought the spouse and they brought the kids in and and they were asked the question, is so-and-so your advisor? Is it the families adviser? Would they authentically answer? Yes. Would they know who you are? Would they know your beliefs in your views? Would you have shaped their decision making as part of the whole? Do they feel like you drew them in? And if the answer isn't yes, then you're not a generational advisor. You may be doing generational things. And I and that's very important, very valuable. But you won't be a generational advisor until the other family members consider the same.

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Scott MacKenzie: It feels like without that authentic connection. You're not really fulfilling the whole the whole capability, and you've got to reflect on that. You can't just say, of course they do. You have to really put yourself in that position. Would they say yes to that question?

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Tobias Donath: I had I had I was working with a family and they brought me in and they had this challenge and they said, look, we've got a trust. It's coming. Do you know our 35 year old is going to get $1,000,000? And it's and it's happening in 60 days and it needed to occur based on the documents, which is always fascinating that we waited until 60 days before. And that's can tell you the anxiety we have families have. We push those out as far as we can go. And what happened, which created more pain was mom and dad talked to the advisor and said, look, there's not much you can do about it. And they said, Well, how do we protect it, keep it in the bloodline? And they actually ended up having their their lawyer call the daughter and say, hey, listen, you know, this money's coming your way. I'm here to talk to you about how to protect it. And she's on the other end of the phone and she says protected protect from what you helped me understand and the advice as well from your husband. Imagine what you're setting up with. Just that one call. She knows who's behind it. Mom and dad. What relationship are we setting up with the son in law to the parents? Because that's going to come out. And what is that daughter going to feel? Are you as an adviser, her adviser or you mom and dad? When there's no dialog, it just creates distance. And we want money and wealth and estate planning to create closeness. We don't build all this wealth to create distance. Unfortunately, we get distance way too often.

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Scott MacKenzie: What a great example. And now let's just go back to that elevator elevator ride again. And you're not in the elevator with the adviser, but you're in the elevator with the president of the advisory firm, the president of the Wealth Management Practice that has advisors across the country. They've seen the webcast and they're thinking twice, what do I do as a head office executive, as a leader of a of a firm to help this take hold? How do I assess whether I'm ready for this?

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Tobias Donath: We need some intentionality. And and that is all around skill building. This is a skill based sport. Relationships, though they may be a part of our everyday lives, we are not good at building relationships that are hard. I recently saw a study in the US by Imani Advisors and they describe the gap between the expectation of an investor at is expectations of having a personal difficult conversation with their advisor versus an advisor. The gap was double. In other words, advisors, as much as they may say they're in relationship, they shy away from the uncomfortable and we have to step in it's skill based. We have to put the investment in with the teams to build those skills.

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Scott MacKenzie: And our clients, these investors are ready for it. If I'm running a firm, I've just got to make sure my advisors are ready and skilled to do that.

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Tobias Donath: You bet. I mean, all that all the data shows the the the clients of the future next gen and women all expect more authentic deeper connection. They expect advice that isn't just transaction and function oriented and and that's for us to be successful in the future in that transition. If we want to parlay the relationship we have built with the building generation, we have to be able to do both of these things well. And so we've just got to practice that skill a little bit.

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Scott MacKenzie: Well, I'm going to tell you what, this was both intentional and really valuable. There was stuff that you shared here that was even more expansive than some of the research I know your team has put together. I appreciate you taking the time to to spend it with me and to share some perspective that I'm sure all of our clients and advisors can take advantage of. Thank you very much, Tobias, for your time.

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Tobias Donath: Thanks for having me.

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Scott MacKenzie: It's great.

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