



Frances Aldrich Sevilla-Sacasa on Restoring Investor Confidence

Investors and wealth managers will need to adapt to a new world of lower profits and slower growth, refocusing on basic principles of sound management, Frances Aldrich Sevilla-Sacasa told the audience at the concluding plenary session of the University of Miami Global Business Forum Jan. 15 - 16, 2009.



Sevilla-Sacasa (AB '77), a UM alumna and the former president of U.S. Trust, Bank of America Private Wealth

Management, has 30 years of experience in financial services, 25 of them in global wealth management. She described how the economic crisis and a new generation of wealthy individuals are changing the business of wealth management.

Perhaps nothing has affected the wealthy more than globalization, she said. They have access to more investment opportunities than ever and, consequently, have taken on more risk than in the past. The downside is that their losses have been more far-reaching, and wealthy families all over the world have seen their portfolios decline in value. But the interconnectedness of the modern world has also made them more aware of and interested in the social impact of their investments and the importance of their philanthropy.

At the same time, the interconnectedness of world economies has caused crises to spread faster and further. "What happens on Wall Street is felt thousands of miles away in real time," Sevilla-Sacasa said. "What happens in Japan or in China or in Germany or Iceland affects all of us. It affects our pocketbooks, our savings, our confidence and our intentions for the future."

The upheaval in the markets has even the wealthiest families experiencing financial distress. "Global investors are looking for indicators that will give them hope for the future, and restoring their confidence is at least as important as restoring consumers' confidence," she said.

But to understand how to build that confidence for the future, it helps to understand how wealth has changed over the past two decades. Whereas 20 years ago most global wealthy families

either inherited their wealth or built it up over many years, more recently wealth creation tended to come from entrepreneurs able to execute a great idea and rapidly access global capital markets. Small businesses created strategic partnerships, merged or sold their companies, often leading to vast creation of liquidity. A further surge of wealth came from highly compensated corporate executives, athletes and entertainers.

A change in wealth creation patterns has led to changes in wealth management. Once, families were mostly concerned with wealth preservation, the safety of their assets and an orderly transition of wealth to the next generation. “These families typically took their risks in their business,” and were generally content with consistent and steady returns to hedge reasonably against inflation, Sevilla-Sacasa explained. But access to more investment opportunities and information, as well as the rapid development of global capital markets, has led many wealthy families to take on more risk for the prospect of better returns. While this has injected a tremendous amount of capital into global markets, “in recent years we all grew accustomed to instant gratification for quick and easy profits,” she noted.

Today’s climate is different. Investors of all stripes have experienced tremendous and far-reaching losses. Increased regulation, greater transparency and disclosure regarding complex financial instruments, less use of leverage and less complex securities will all temper the growth of profits for at least the near future.

“All of us must become more accustomed to reasonable rates of growth and returns,” Sevilla-Sacasa said. Everyone will have to adjust their expectations about making money, and wealth managers are responsible for educating their clients about this shift.

Despite the global downturn, there will be plenty of wealth to manage. Estimates indicate that the total global wealth available for investment may reach \$50 trillion in the next three years. While nearly half of that is in the United States, Europe and Asia are producing new ultra-high-net-worth individuals more rapidly. And it’s likely that only half of the wealthy have professional management.

What will families look for in their wealth management advisors in the future? “Many of the same attributes that were important a decade ago — wealth preservation, safety of assets, diversification and appropriate planning strategies,” she said, adding that many of the basics of wealth management had been overlooked during the “exuberant” times.

Sevilla-Sacasa believes clients will look for experienced leadership, intellectual capital and customization from their wealth managers. And they will demand sound risk-management controls, transparency and the highest level of ethics from both their wealth managers and from the investments where those managers put their clients’ money.

Successful firms will also be sensitive to a variety of cultures and effectively communicate with

multiple generations — from grandparents to parents, grandchildren and even great-grandchildren, Sevilla-Sacasa said. This means far more than giving financial advice. She explained that in most of the family meetings she attends, “only a fraction of time is spent reviewing the investment portfolio.” Conversation quickly turns to “softer” issues about the next generation’s readiness to carry on the family legacy, how the family is governing itself and philanthropic goals.

The wealthy are more inclined than ever to give money to charity, she added, but they take a much more active role in their philanthropic endeavors. Inspired by Bill and Melinda Gates, they want to make sure the money is used appropriately, see metrics on the charities’ success and generally treat philanthropy like a business.

In many cases, advisors will be breaking new ground as they learn to communicate with younger people, who often have more formal education than their parents, are generally well traveled and well informed, are technologically savvy and are connected with the world at large. Along with a global perspective, they value innovation, speed and access to information. It’s not enough to merely inform them of facts; they also value access to thought leadership.

Wealth managers can deepen their relationships with their clients by using creative new programs to communicate with their clients’ children. For instance, Sevilla-Sacasa initiated a multiweek program for Latin American clients who brought their adult children (ages 21 to 29) to her firm in New York. They received training and spent time with the firm’s top leadership. “It was a very dynamic way to build relationships with the next generation of clients, but also a way to enhance relationships with their parents and grandparents,” she said. It also resulted in the merger of two family empires and a marriage between children of families from two different countries.

This young generation will influence their parents and grandparents. Pushed in part by them, wealthy families will look to invest in companies with strong corporate governance, a commitment to social responsibility and sustainable business strategies that produce consistent, reliable and reasonable profits. Restoring these basic principles, said Sevilla-Sacasa, “will help restore investor confidence.”

By Rochelle Broder-Singer

www.umglobalforum.com