

The Freedom of Advice

Findings on the Value
of an Advisor

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About the Author

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Prior to Zoe Financial, Garcia-Amaya was an EVP at JP Morgan Asset Management (JPAM) which oversees \$1.3 trillion in assets under management. At JPAM, in his role as Emerging Markets Quantamental Macro Research Analyst, Andres created innovative tools to measure country economic risk, as well as long-term economic forecasts which were incorporated into the team's investment process. Prior to that role, he was a global macro strategist providing insights to top financial advisors around the country.

Prior to JPAM, Garcia-Amaya worked in Morgan Stanley's Institutional Equity division where he developed investment ideas and conveyed equity market insights to institutional clients. As a credit to his excellent performance, he was awarded the Morgan Stanley MBA Fellowship.

Andres is a CFA charter holder and obtained an MBA from the Wharton School at the University of Pennsylvania, where he received both the Joseph Wharton Fellowship for outstanding record of academic and professional achievement, and the Robert A. Toigo Foundation Fellowship. He obtained a BS in Finance from Villanova University where he received the Goizueta Foundation Scholars' Fund Merit Scholarship. He is also a Toigo Foundation Fellow and a Management Leaders for Tomorrow (MLT) Fellow.

Garcia-Amaya is consistently ranked as a top speaker at major industry conferences. He is often quoted in the financial press and is a regular guest at CNBC and Bloomberg. He was recognized in Toigo's 40 Under 40 as a rising star in finance.

He is married with three children and lives in New York. His hobbies include reading biographies and coaching his daughter's soccer team.

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Zoe Financial conducted research that ties financial freedom closely with increased quality of life. Studies reveal hiring a financial advisor increases **financial freedom.**



Introduction

In **Cannibals and Kings**, anthropologist Marvin Harris details the arrival of Marc Lescarbot, a French lawyer-ethnographer, to the Americas in 1609. Lescarbot recognized a particular nobility among the Native Americans he visited: "in most band and village societies before the evolution of the state, the average human being enjoyed economic and political freedoms which only a privileged minority enjoy today. Men decide for themselves how long they would work on a particular day, what they would work at - or if they would work at all... Neither rent, taxes, nor tribute kept people from doing what they wanted to do."⁴ The Native's wealth, measured in their perceived freedom and safety, was free-flowing. In Europe, only nobility enjoyed such wealth.

Little has changed in our yearning for abstract economic freedom, as observed by Lescarbot more than four centuries ago. Instead, our lives are now more complexly tied to our relationships with money. The relationship between each person and their money is tremendously unique. It is also inherently similar to our other relationships. We desire the freedom believed to belong only to the privileged, whether that be the lucky few who choose their significant other "right" or those who managed to achieve enough wealth to land them in the nobility Lescarbot describes. This idealization occurs because it can be tough to nail down the specific actions and attitudes we attribute to that privileged minority. To do so, we have to understand how their perceptions of economic freedom shape their decisions.

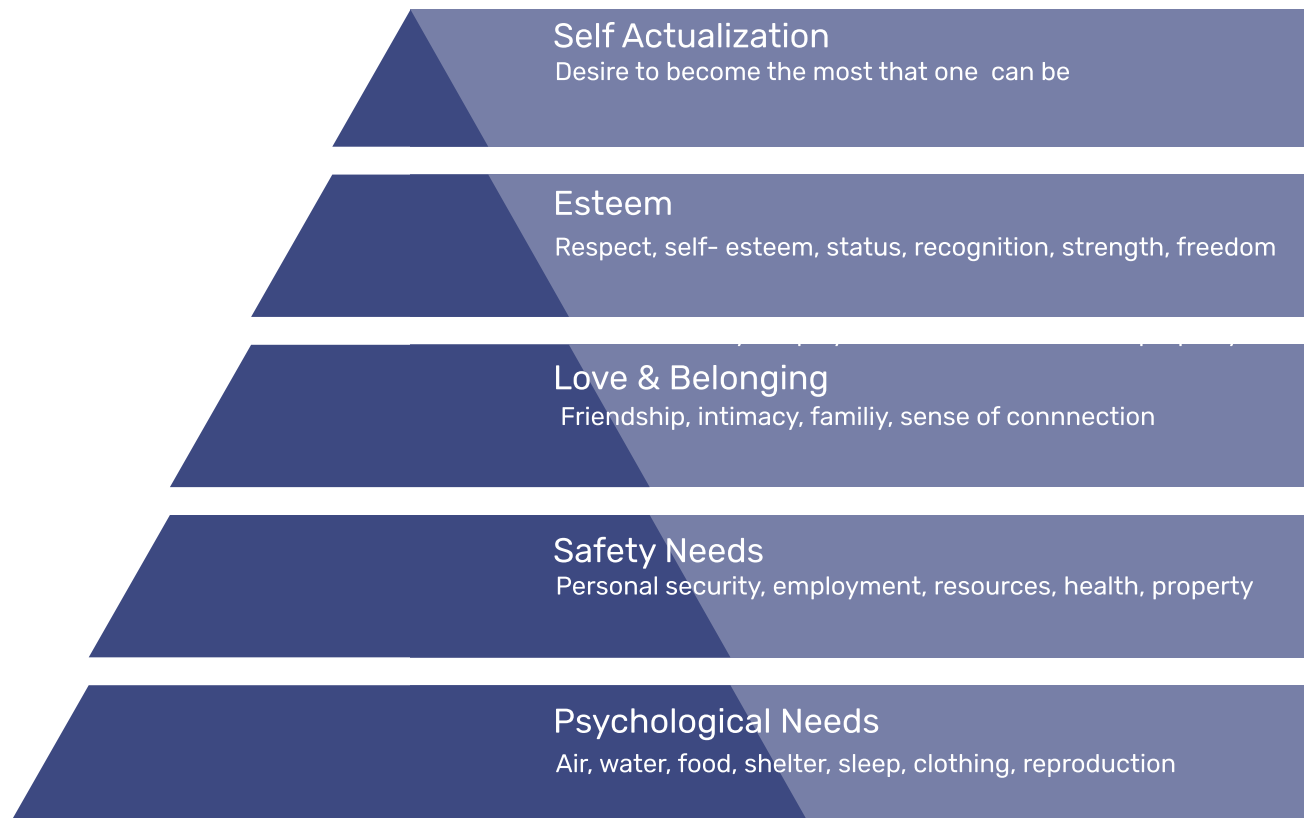
Defining Economic Freedom

Economic freedom in the broadest sense refers to "the fundamental right of every human to control his or her labor and property."⁶ As with most abstract terms, the definition of freedom may vary. We define economic freedom as the financial freedom individuals can experience through the feeling of control and empowerment of their finances.

"Freedom and control" are among the most significant predictors of quality of life. Italian economist Paolo Verme's 2010 study, *Life Satisfaction and Income Inequality*, found that despite how subjective well-being can be to evaluate, there are particular attributes that people seek in defining their quality of life. The feeling of being in control of one's financial reality, namely due to reduced worry, greatly improved how much freedom the person felt.¹⁰

Once you feel in control of your reality, you're more likely to feel increased quality of life and freedom. As with our imagined perception of nobles, who can wake up in palazzos around noon and lounge mimosa in hand on a Wednesday, we yearn not for the experience but the capacity of control they have over their lives. Maslow's hierarchy of needs is relevant here. The capacity to meet these needs speaks to the individual's quality of life. For some, feeling in control might be having basic physiological needs like food, clothes, and shelter. Once those are met the person strives to meet the next rung of the pyramid, safety.⁹

Maslow Hierarchy of Needs



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The Polyvagal theory states that humans feel safe when they're not experiencing fear. More control means you reduce the fear that your needs may not be met. You feel safer. Feelings of losing control result in increased fear which thereby diminishes your quality of life.⁷ If you didn't have to stress about your mortgage, your 401k, and if you'll retire comfortably, would you feel financially safe and in control? When you achieve the "freedom and control" of worrying less, quality of life improves.

Impact of Advice on Quality of Life



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Now, that all sounds simple enough, right? Humans ultimately measure wealth as freedom and control. You feel control when you're not scared and feel safe, which in turn makes you feel like you have high quality of life. Therefore, when you're safe and in control of your economic freedom, you feel wealthier. The mystery lies in how one achieves the happiness we yearn for in our relationship with wealth.



Your Relationship with Money

Just like any relationship, our relationship with money is complex. The way we perceive ourselves within a relationship is a big part of how comfortable (safe) we feel. If you aren't worried about how long a relationship will last, how valuable it is, or how it compares to others, you are more likely to feel safe, happy and comfortable. You are satisfied with your place in the relationship. Whereas, if the questions above begin to crowd your mind, it suddenly feels like the relationship is controlling you. Preoccupation dominates your headspace. The lack of safety means no control or freedom, which in turn significantly reduces the quality of life. At some point in life, most people find themselves in a situation where the relationship controls them despite originally believing they would be safe within it.

A New York Times study of highly successful people in Silicon Valley (2007) evaluated how individuals perceived their relationships with wealth. In his million-dollar house overlooking the Pacific Ocean, Hal Steger worked twelve hours per day and an extra ten on weekends. Steger and his wife were in the top 2% of wealth in the United States, with a net worth of around \$3.5 million. When considering the future, with an assumed return of 5%, the couple was technically positioned to cash out, invest and enjoy an early retirement with a comfortable passive income of \$175,000 per year. So, why work so gruelingly? Steger noted that "a few million doesn't go as far as it used to." The fear that his money wouldn't be enough took away the control and safety he was constantly working so hard to achieve.⁸

It turns out that working-class millionaires are "a dime a dozen." According to the study, there is a tremendous amount of people who, despite their financial accomplishments and success, feel stuck in the 'hard-working' class. Interviewing the Silicon Valley sample of executives led the author, Gary Rivlin, to conclude that "those with a few million dollars often see their accumulated wealth as puny, a reflection of their modest status in the new Gilded Age when hundreds of thousands of people have accumulated much vaster fortunes."⁸

Another member of the 'hard-working class' was Gary Kremen, the founder of Match.com. Kremen's net worth of around \$10 million did little to ease his feelings of insecurity. "Everyone around here looks at the people above them," he said. "You're nobody here at \$10 million."

He felt unhappy due to the imbalance of control and lack of perceived stability within his relationship with money.⁸ When answering the questions of relationship value (How much is my money worth), relationship duration (How long my money will last) and relationship compared to others (How does my wealth compare to others,) the fear that it wasn't enough resulted in significant unhappiness.

It seems that in this day and age, even the privileged nobility is "stuck" living the lives Lescarbot described belonging to the European working classes of the 1600s.

If a person with \$10 million lacks direction, it is likely the affluent would benefit from digging deeper into their relationship with money. By doing so, more feelings of safety and freedom may emerge versus fear and overwhelming loss of control.

What brings happiness is the control that you feel knowing that you are owning your wealth versus your wealth owning you. Some can find the answers solely on their own, while some seek guidance by hiring a financial advisor.¹ But does speaking to a financial advisor about your goals to achieve control of your wealth help?



Fear of Incompetence

When you visit your primary doctor, the weight comes off your shoulders knowing that an ailment, like a rough cough that just won't budge, can be pinpointed, managed, and even cured.. Why then, don't people see a visit to their financial advisor as routine as a check-up? The difference between asking for medical advice and money goes back to fear and lack of control.

A joint 2015 study by Wharton and Harvard Business School (HBS) found that people are reticent to seek advice for fear of appearing incompetent.¹² While most of us don't fashion ourselves medical experts, we are also socially aware that it's normal to ask for advice when we feel sick. You trust the doctor because you aren't scared it will reflect poorly on you. Plus, you feel safe and know they're likely to have more expertise than what you've derived from your Google search. Ultimately, you feel freedom about your health because you choose your doctor and are in control from start to finish.

On the other hand, if you're already among the affluent, it is assumed you are extremely competent and have control over your wealth. If there happens to be an ailment, worry takes over because you are stuck between two fears. As seen in the "working-class millionaires," feeling fear over how long it will last, how valuable it is, or how it compares to others, creates a lack of control and freedom. Yet, the concern that you may appear incompetent and will also lose control makes asking for money advice feel like a catch-22.

Luckily, according to HBS, the fear that asking for advice will make us appear incompetent is misplaced. Their research showed that individuals perceive those who seek advice as more competent than those who do not.¹² Removing the fear of seeming incompetent, we may still be left wondering what economic freedom can be derived from a financial advisor relationship.

Gaining Control

Since our relationship with wealth is so complex, it can be challenging to understand how allowing someone else to provide guidance or the ability to manage the details of our "financial lives can yield higher control, freedom, and happiness. The HBS study also concluded that seeking advice enables individuals to attain higher levels of satisfaction and even achieve better outcomes".¹²

The much-sought freedom is "finally attainable because you're safe and in control. Whenever fear comes up, you have a trusted expert that can facilitate those better outcomes by helping you see the bigger picture, provide accountability, validate your financial goals, and remove potential biases. Not to mention you don't have to worry about what happened to the stock market while sitting at your daughter's high school graduation.



Freedom of the Right Advice

How does one achieve the "nobility" of the worry-free, the truly privileged minority? The wealth evidence in Native Americans by Lescarbot is clear: they were more self-aware of what made them feel in control. Our capacity to meet our hierarchy of needs has certainly changed. Yet, despite the 400 years of human progress, the similarities are striking. Today, even the privileged nobility feel stuck living the lives Lescarbot ascribed to working classes of the 1600s.

As Verme's research indicates, we feel we have a higher quality of life when we feel freedom, which we derive from the capacity to control our role in our relationships. If we feel unsafe, our needs aren't being met and we feel scared. With wealth, in particular, control can feel fleeting and oft-unattainable. Even if you have \$10 million in the bank, worries can take over. You might end up feeling controlled rather than in control. Feelings of happiness and control can arise from having experts on your team.

It's not that you'll simply feel happier by hiring an expert accountant to do your taxes, but having an expert accountant can help reduce your fears about filing taxes incorrectly. By giving discretion to a financial advisor, we worry less and ultimately attain higher levels of satisfaction. The value that comes from advice is the worry-free nobility's little secret.



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