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GRANT PATTERSON

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Grant Patterson

Successful investing starts with understanding the emotion behind the decisions

Jonathan Jackson speaks with Providence Investment Advisory founder **Grant Patterson** about the emotion behind a successful wealth management plan.

Many articles have been written about wealth management and the disconnect between rational and emotional decision-making. Age-old questions of how to invest and create wealth are indeed based around whether you enter a wealth-building situation with a cool heart and sharp mind, or if other motivating factors are involved.

Of course, neither emotion nor rationality are mutually exclusive.

In real terms, asset management will always have an emotional foundation based on personal requirements relating to estate management, family dynamics, or even something as basic as a desire to travel to Italy or some exotic location far away from the global eye.

It is in discovering these emotional ties where Providence makes its most significant impact.

Founded in October 2000 by Grant Patterson, who has enjoyed over thirty five years in investment markets including senior positions with ABN Amro Investment Bank,

Providence is more than just a fund manager.

Patterson founded Providence as an independent investment advisory business that caters for individuals, families and not for profit organisations with offices in Sydney, Melbourne and London.

“Although the industry has evolved, there were not enough truly independent investment advisories when I started Providence,” Grant says. “I wanted to create a company that did not manufacture product, was not owned by any institution and would rebate fees and commissions back to clients.”

In Providence, Grant has built a business that he says is totally aligned to the best interests of the company’s clients.

“The key for us is to understand the purpose of their wealth,” Grant says.

In doing this, Providence has remained a boutique operation with a team of loyal staff looking after client’s needs by focusing on best practice.

This is at odds with most

***"I can't change the direction of the wind,
but I can adjust my sails to always
reach my destination."***

**Independent expert advice for high net worth
individuals, families and non-profit organisations.**

Safe Passage

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mainstream practice where a single advisor looks to amass clients and may be the sole point of contact for the client.

The benefits of this model are readily apparent.

The client and family has a relationship with a team who know and understand a family's needs across various functions.

It is important to note here that Providence offer comprehensive wealth management and investment strategies to high net worth individuals, families and non-profit organisations.

While we've focused predominantly on families for the purpose of this article, the same principles apply across each of its target markets: long-term relationship building, independent advice without the conflict of financial product sales, honest, professional, and unbiased advice and a high level of personal service.

By following these principles, strong investment performance generally ensues which is aligned to a client's needs, because it is easier to manage a client's wealth when you know their motivations and understand the emotion behind their investment decisions.

It really all comes down to tight-knit relationships, which only a boutique operation can provide.

"When you entrust someone to look after your wealth, you develop a close relationship," Grant says.

"It takes a number of years to build up trust, but through our model if an advisor happened to leave, the team based approach sustains the relationship and essentially clients become a part of the Providence family.

Indeed, Providence is modelled around a prototypical family business; it is not just about the financial aspect, but a much broader approach to understand what lies behind a family's issues and intentions.

"We invest a lot of time up front to understand a family's motivations. If someone comes to us initially with a certain amount of wealth and asks us what we will invest in, we tell them we won't know until we take the time to understand the purpose of the



wealth to them and their family. What to invest in is the last thing we look at."

It is a very human approach to wealth management, designed to understand the emotion behind a wealth management decision.

For instance, Grant says his team must understand how a client's wealth has been created, what are the family dynamics, what is the purpose of the wealth and is there a testamentary or philanthropic motivation.

Through this discovery, it is evident there is no one size fits all solution because everyone's motivations and emotions are different.

"Wealth can have a burden attached to it: it's about how to make decisions and the emotion behind those decisions, how do I treat the kids without spoiling them, how to retain family cohesion, and who inherits what without fighting. For those who inherit wealth, there is the pressure of not losing it or destroying the family legacy.

The bottom line here is that

different experiences, traits, professional biases all impact how people emotionally invest.

Take the experience of a surgeon for instance.

"Surgeons study their craft for many years and when they make an incision they know what the potential outcomes will be with a reasonable level of certainty. It is a logical approach to their profession, but when it comes to investing and wealth management they don't understand why markets aren't logical or why there is so much volatility."

Of other professions and what drives them, Grant says lawyers who earn a lot of income focus very much on tax when investing, whilst property developers tend to take higher risk and have more leverage than what may be necessary in a balanced portfolio. SMEs who have made a lot of money have a sometimes inflated view of their own ability and that could prove dangerous in investment markets.

So again, it comes down to understanding, which builds

trust that creates long-term relationships and thus better portfolio management.

What we do is go through a process to understand the true motivation behind a client's wealth goals. We believe there are five issues for consideration:

1. Aspirational goals.
2. Income requirements.
3. Security. Maximum drawdown acceptable
4. What do you want your legacy to be?
5. The fun bucket – what you will spend the money on.

“We go through those buckets and see if the expectations match up. If someone wants a 12% return, 6% income, is able to leave capital for the kids and have 5% for fun, we put that model through its paces and discover whether it is achievable, or if any trade offs are required.

“We have a conversation about how we should structure a family's wealth and what it is attempting to achieve in the long-term. So we invest a lot of time up front to understand a family's motivations and emotional ties and once we do that we can look at investment strategies.”

What also sets Providence apart is its immersion in family affairs.

“We invest a lot of time and capital in educating the kids and spending time with couples and individuals about emotional motivations such as retirement and how it will affect other family members.”

According to Grant, wealth is also about how you manage your money emotionally, it's not just financial.

There is no point having wealth that worries you to your grave, wealth should give you options. It shouldn't be a burden. If we have an honest conversation, people will be prepared for guidance and that is when a relationship is formed.

Grant offers the following example of how Providence builds trust and relationships.

“We had a client who passed away tragically. He had six adult children and a spouse of many years and they had no concept of his wealth. We were concerned about the dynamics of how the family would cope and how they would manage the estate. I took the family away for a week to a health retreat and we went through the education process of what the wealth was and how everyone was going to communicate, how the wealth may be managed and what role everyone wanted to play in that. We discussed how they would interrelate, how to cope emotionally and how his wife and the mother of his children was going to be protected. That went for a week. We did everything from horse whispering, drawing, and counselling, to financial education. I am pleased to say a few years on, the family is successfully running the funds and the spouse is secure. In fact the family are as close as they have ever been and we played a fairly big part in that. Despite the tough time the family was going through the mother commented to us that it was the most extraordinary thing the family has done together.”

To Grant, those relationships are more important than the financial return. Clients are greeted by their first names, deep relationships have been developed and this is what differentiates the boutique ‘family-like’ model from the product focused big business models that still dominate.

“Investments are investments, but our focus is not only the protection and preservation of our clients' wealth but also in depth personal relationships that lead to better wealth management and intergenerational longevity.” **BFM**

PROVIDENCE GIVES BACK

The Providence Philanthropic Foundation is also based on relationships and facilitates planned giving for clients to give back to the community.

The Foundation and the sub-funds created by its clients have supported several charities since inception in 2015.

“We do have a focus on mentoring youth and this extends to not only the families of our clients but also supporting other youth based charities including with the Reach Foundation the Duke of Ed Award and The Smith Family Learning for Life. This is part of our commitment to future generations and the clients we serve.”

