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Clients With A Capital "C" By Mitch Anthony

Do you understand the intrinsic value of the people with whom you work?

I was enthralled reading the book *The Mystery of Capital* by the brilliant Chilean economist Hernando de Soto, and realized how little we know about the creation of capital and of the essence of our clients. As so aptly communicated in the opening quotes, money and capital are easily confused. Money only represents or helps to circulate real capital—and it is critical for the personal money manager to understand this distinction.

Do we pay more attention to our clients' money or to the capital essence that produced the money? Do we understand the individual genius, understanding, opportunities and vicissitudes of life that produced the wealth at hand, or do we just know the numbers? Put simply, do we know more about our clients or their account balances?

For further clarification, I will quote the master of capital mysteries. De Soto writes:

"Much of the mystery of capital dissipates as soon as you stop thinking of capital as a synonym for 'money saved and invested.' The misapprehension that it is money that fixes capital comes about, I suspect, because modern business expresses the value of capital in terms of money. In fact, it is hard to estimate the total value of a collection of assets of very different types, such as machinery, buildings and land, without resorting to money. After all, that is why money was invented; it provides a standard index to measure the value of things so that we can exchange dissimilar assets. But as useful as it is, money cannot fix in any way the abstract potential of a particular asset in order to convert it into capital."

It is this phrase, "the abstract potential of a particular asset," that especially intrigues me—especially in terms of the client as the asset instead of the client's money. What do you know about each client's abstract potential?

"Money is the great wheel of circulation ... the gold and silver which circulates in any country, may very properly be compared to a highway, which while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either."

—Adam Smith

"Capital is now confused with money, which is only one of the many forms [in] which it travels. It is always easier to remember a difficult concept in one of its tangible manifestations than in its essence."

—Hernando de Soto

The Source Of Capital

In *The Mystery of Capital*, de Soto offers the analogy of the discovery by an industrialist of a pristine lake at the top of a mountain that has never been used for anything but fishing and leisure. He envisions placing turbines and generators and pipeline to supply an energy source for the valley below. Money is secured, machinery is installed, electricity flows and craftsmen in the valley utilize the energy to run their own machines and to produce new goods for the marketplace.

When unleashed, the force of gravity converts the normally placid water into a force that turns out energy. Gravity turns placid water into tumbling water that turns out a kinetic energy that then turns turbines that then turn electromagnets that now turn out an electric energy, which is transported through wires to the bottom of the mountain where a craftsman turns on his saw by plugging into this force, which turns the blade of his machine as he turns it over a raw piece of wood that he will turn into a door that will have a handle affixed that you may one day turn to enter your home.

This analogy is followed with the Aesop-like question, "What is the chief source of capital in the

story?" Is it the water on top of the mountain? Is it the money that mobilized the effort? Is it the machinery that moved the water? Is it the electricity itself or the materials used in the craftsmen productions?

All the above could be classified as "capital resources" but are not, in fact, the chief capital in the story. For all of the forces that turned in this story would be brought to a screeching halt, actually would never turn at all, if not for the idea turning in the brain of the engineer who envisioned harnessing the power of this once-latent force sitting atop a scenic mountain. This person saw exponential value in that water that could not be measured by the weight or volume or purity of the water itself. There is a transcendent value educed from the measurable resource (material in nature) by the application of the immeasurable resource (invisible to the eye) that is known as thought and vision. It is these immeasurable resources of thought and vision that are the true capital resources in our society and business. Yet, we know so little of it individually among our client bases.

If you agree that the chief form of capital that keeps the money flowing is within your client, the following inquiry might help you to measure this knowledge. Do you know the following about your top clients?

- 1) What was his/her first career?
- 2) What did he/she study in college, and why?
- 3) What key decisions were made to cause his/her career to flourish?
- 4) Why did he/she choose the business he/she is in?
- 5) What insights into people and business would he/she point to as keys to his/her success?

There is a very good chance that you are more likely to know the answers to these questions if they were regarding Bill Gates and Warren Buffett instead of some of your own clients. Why? Because the stories of Bill and Warren have been broadly distributed. Knowing your client's story is left to you. If Bill Gates were your client (dream on!), you would want to know the answers to these questions because the answers have an umbilical tie to the money being managed. The same principle applies for all people—their "story" is the link to their substance.

We can measure how much they have, but how much do we know of how it was created? Jean-Baptiste Say, the French economist, once said, "Capital is always immaterial by nature since it is not matter which makes capital but the value of that matter; value has nothing corporeal about it." This insight tells us that we need to better understand the capital that funds our business, and that capital is immaterial in nature. The real value lies within the thoughts and visions and ideas that live within our clients—and that's "Clients" with a capital C.

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