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Hand-holding in the pandemic: Wealth managers grapple with new reality

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NEW YORK/HONG KONG/LONDON (Reuters) - During the early days of March, Jill Fopiano was having trouble sleeping, waking up at 3 o'clock in the morning, maybe 4 o'clock. She'd been watching news of a virus in China, first out the corner of her eye – was this like swine flu? – then more squarely, as headlines rushed in about outbreaks on the west coast of America. Fopiano wondered, in the darkness, if she should shut down her office in Boston's upscale Back Bay neighborhood.

Jill Fopiano, President and CEO of O'Brien Wealth Partners, poses for a photo in this undated handout image. Jan Hunter/Handout via REUTERS

The chief executive officer at O'Brien Wealth Partners, a firm overseeing $700 million in assets at the beginning of the year, Fopiano is used to being in charge. She began trading securities in 1992, a time that Fopiano notes "really was a very male dominated world." Two decades later, she joined O'Brien Wealth, and today she owns the place.

But with the new coronavirus spreading from across the ocean and now bearing down on her, Fopiano no longer felt in control. "I was thinking, there's no precedent for this," said Fopiano, the firm's majority owner. "I didn't want to be responsible for making people or their families sick."

She announced on March 11 that O'Brien Wealth would temporarily close its doors, while keeping her team of 12 on the payroll.

That was five weeks ago.

Today, Fopiano does not walk across the floors of her offices to get a coffee or to pause at views that stretch across Boston down to the harbor. As the world's stock markets have crashed and spiked during the economic seizures brought on by the COVID-19 pandemic, Fopiano and others who manage money for the wealthy have found themselves, like so many other white-collar professionals, working from home. They are far outside their comfort zone of lunches, meetings and handshakes as they guide their clients through the chaos.

Interviews with more than a dozen wealth managers whose firms collectively oversee tens of billions of dollars in assets across the United States, Europe and Asia, reveal how these financiers have adapted to the new reality of virtual hand-holding. They listen to concerns, execute instructions and dispense advice to clients - but never while in the same room.

Meanwhile, indexes have ricocheted wildly – down 31% for the year in late March, then rebounding 27% from the lows by mid-April. More than 20 million Americans have filed for unemployment benefits. The International Monetary Fund warned of the worst economic downturn since the Great Depression of the 1930s. Client conversations now veer into shades of risk that wealth managers aren't typically trained for, like epidemiology.

Investors understand the current market chaos wasn't presaged by fundamental economic issues, like the U.S. mortgage crisis in the recession of 2008, said Rob Weeber, chief executive officer at Zurich-based Tiedemann Constantia, a European joint venture with Tiedemann Advisors, which oversees about $22 billion in assets. But the uncertainty about what turns the coronavirus might take, and the implications that could have for the economy and markets, have left the moneyed class jittery. A Bank of America survey of global fund managers during the first week of April found "extreme investor pessimism," with levels of cash in their portfolios - a sign that investors are sitting on the sidelines - at the highest point since the September 2001 terrorist attacks.

Fopiano recounted one client, who's invested about $1.5 million with her firm, calling to discuss whether or not he should cancel a credit card that just raised its annual fee. The markets were down about 20% at the time, and that clearly was not what he really wanted to discuss, Fopiano said.

"Rarely do we get a call from someone who says, 'Oh, my God, what's going on in the markets,'" she said. "It's usually couched in another question."

Another client, with over $5 million in his account, started off by chatting about a home loan. By the time they hung up, both clients decided to keep their investments. For now.

“Each market pullback has its own flavor,” Fopiano said, during a series of telephone conversations from her brownstone home in the Boston suburbs, where she now works out of a nook off the kitchen. “And this one is particularly frightening to people in a lot of ways, because [the cause] is potentially harmful to their physical health as well as their economic health.”

She paused to acknowledge a noise in the background. “There goes the dog,” she said. Her two kids, both teenagers, are home as well. She has learned to give a standard disclaimer at the beginning of a call: there may be outbursts of barking or videogame noise.

A MONTH LIKE NO OTHER

All across the globe, it’s been a strange ride.

A senior Asia-based banker for Julius Baer, a Swiss firm that refers to itself as the “international reference in private banking,” said the past month has been like nothing else he’s encountered during a decade of wealth management. As markets cascaded down the week of March 16, the banker holed up in a study room in his flat. He fielded one call after the next from frenzied clients.

“For the first couple of days, I didn’t have time to take a loo break or have a proper meal,” said the banker, who spoke on condition of anonymity, citing his bank’s tradition of discretion. A Julius Baer spokeswoman declined to comment. “My wife was worried that I may have a nervous breakdown.”

A businessman in Hong Kong called, wanting to discuss the money he’d borrowed against a portfolio of stocks. That day, March 16, the businessman was in a panic after watching his shares fall between 15% and 40% in the last couple of trading sessions.

“I just had to talk to him for 10 minutes to calm him down and tell him it’s not the end of the world,” said the Julius Baer banker. The client wondered aloud if he should sell down his investments to avoid coming up short on margin calls – demands to deposit more money in an account to cover outstanding loans taken to invest in securities.

There were no colleagues for the banker to huddle with in the office. And instead of being able to holler over to his team to unload a stock, the banker had to reach his traders at home, which became increasingly difficult to do. “It’s crazy, the trading desk was completely jammed and the relationship managers were cooped up in their homes and trying to figure out how to minimize risk for the client as well as the bank,” he said.

In the end, the businessman sold off assets other than stocks. And now, said the banker, that same client is in touch about “whether it’s a good time to come back to the equity markets.”

Instead of counseling clients on how to build wealth as they did during the roar of the past decade of stock gains, the advisors say, the focus for now is helping them preserve what they have. “The problem is that the days where the market is very beaten down and the days where it recovers, in a big way, tend to be very close together,” Fopiano said.

It’s a bit of a gambler’s dilemma.

A DEEP BREATH

Making a hasty exit could mean taking a loss, and then the bitter experience of watching stocks rise the next day. But there is, too, the danger of grabbing the “falling knife”: thinking a stock price has hit its low, scooping it up and then watching it plummet further.

“Even if the research guys are saying that the markets have hit the bottom, we are not conveying that message to the clients ourselves,” said a banker in Hong Kong, whose firm manages more than $250 billion in client assets globally. It’s too soon, he said, to be confident the worst is over.

He detailed an intense two-hour video call with a Chinese billionaire client who’d gotten tempted to sell, as his mainland companies sagged with lower consumer demand and his personal net worth dipped with markets. “These days, I just tell my team to take a deep breath before getting on a call with a client, and allow the clients to vent as much as they want.” After the billionaire client got a promise the bank would extend him a fresh line of credit if needed, he decided to hold tight.

In Los Angeles, Todd Morgan, chairman of Bel Air Investment Advisors, said he’s at times felt more like a therapist than a financial advisor. “People are calling me up and saying they’re hearing bad things and what does it mean for them,” said Morgan, who instead of a sprawling, artwork-filled office with views of the Pacific Ocean and the Los Angeles skyline now has the constant presence of his labradoodle, who is trained to ring a bell when it’s time to go outside. “It’s clear that some people just want to talk and want to make sure we’re thinking about them.”

On the evening of March 31, Morgan got a call. A client of his firm, which handles nearly $9 billion in assets, had watched U.S. President Donald Trump say on national TV that some 200,000 Americans might die from the virus. The client, whose holdings Morgan described as “substantial,” instructed: sell off the entire equity portfolio. All of it. “They just couldn’t take it anymore and wanted out,” said Morgan.

Dominic Epton is a managing director for the United Kingdom wealth management business of Rothschild & Co, which oversaw more than $80 billion in its wealth and asset management arm at the end of last year. He suddenly found a commute to his London offices re-routed to a room that usually belongs to his children. Water cooler chat turned into discussion about the fact that he gets to work on three computer screens while his son only gets one for video games.

“I’ve become adept at persuading - read ‘bribing’ - the children to vacate ‘work HQ’ when I jump on client or other confidential calls,” Epton said.

Epton said he spent “an unhealthy amount of time” trying to figure out whether to wear a suit and tie or just a jacket for a video call with eight members of a wealthy family who’re spread across the globe. In the end, it didn’t matter. After the call finished, Epton realized he’d accidentally turned the camera off the whole time.

“It has been an ‘interesting’ few weeks,” he said, but “all our systems are fully operational.”

At the most basic level, being able to sit in person with clients, especially when large amounts of money are swapping between accounts, is fundamental. It’s also impossible, for now.

“When you want to do a transaction on euro-dollar or buy some ETFs” – exchange-traded fund, a basket of securities – “fine, you do it on your iPad or your iPhone,” said Remi Frank, the Paris-based head of the key client group at BNP Paribas Wealth Management. Frank typically deals with people whose assets are in the hundreds of millions of dollars. “But when you are negotiating a credit of 20, 30, 50 or 100 million … even if you could do it technically on your iPhone, that’s not where you want to do it.”

At the end of March, Fopiano’s firm in Boston invited clients to join an update on the market. She stuck with an old-fashioned teleconference call because, on top of everything else, there’ve been widespread reports of video conferences getting hacked recently. The clients - about 140 signed up - received a small slide deck of information beforehand but it was difficult to do much preparation in advance, said Fopiano.

“The situation is changing so rapidly, honestly, that we didn’t even really do a practice run-through because we didn’t know what we were going to say until about the morning of the call,” she said. “Right? Because things with the markets have just changed so radically.”

On the call, there were questions about the economy. And many queries on the implications of the U.S. Federal Reserve stimulus package. But one that stayed with Fopiano was from a client who’s been with the firm for decades. What if the government decided to free up movement for younger people first and require the elderly, who've been harder hit by the virus, to self-quarantine for longer? The man asking the question lives in a retirement community.

At home, Fopiano is a single mother in her early 50s with two sons. They've got online schoolwork to do, but it's not turned out to be particularly well-structured.

"I just decided that I really can't add being a teacher to my job as a CEO," she said. "I have to trust at some point that it's just going to work out because I just cannot be the homework police."

And her firm's performance? When she joined in 2012, it managed about $300 million in assets. At the beginning of this year, that figure was around $700 million. Since March, "it's down somewhat," she said, pausing. "Down somewhat from there."

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