

# InvestmentNews<sup>®</sup>

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The Leading Information Source for Financial Advisers

## FIFTY SHADES OF WHITE

The financial advice industry  
is among the least diverse  
in the country and is doing  
little to change its status

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**Gerald Loftin**  
Principal  
Proficient Wealth Counselors









## GAME CHANGERS/Diversity

# THE ADVICE INDUSTRY'S DIVERSITY PROBLEM

While people of color make up a growing portion of the U.S. population, financial advisers are still mostly white

By Elizabeth MacBride

**L**IKE MANY AMERICANS, Gerald Loftin remembers the day the O.J. Simpson verdict was announced. But for him, the memory has an even more painful cast: He almost quit his job as a financial adviser that day.

Mr. Loftin, 25 at the time, was working in Boston. About 35 to 40 co-workers crowded into a conference room to hear the verdict announced live on TV. It was a case that had riveted the nation — a famous former football star and African-American accused of stabbing his white ex-wife and her lover to death — and everyone was eager to learn the outcome.

“When the verdict came down,” he recalled, “you could hear the grunts and the ‘aahs.’”

Mr. Loftin was the only African-American person in the room, and the audible gasps and expressions of shock he heard over the not-guilty verdict created an undeniable “us versus them” atmosphere.

The heightened racial division that the announcement triggered nationally made Mr. Loftin even more apprehensive about being part of a business where no one looked like him.

“It was a low point in my career,” said Mr. Loftin. “There were no other people of color in the office. I felt ostracized. I recalled going home that night, thinking, ‘Do I want to go back to work the next day?’ I did, but it was a challenging time.”

Mr. Loftin, now 46, is principal at Proficient Wealth Counselors. When he travels to industry conferences, sometimes he is still the only person of color in the room.

### DOESN'T REFLECT AMERICA

The investment advice profession has a long way to go in reflecting the diversity of America. In a nation where the population of African-Americans, Hispanics, Asians and other people of color is growing, the financial advice industry remains overwhelming white.

More than 79% of the 434,000 financial advisers in the nation are white, even though whites make up only 63% of the U.S. population. African-Americans, Asians and Hispanics/Latinos make up 20% of financial advisers, even though they constitute 36% of the population. About 5.7% of advisers are Asian,

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# GAME CHANGERS / Diversity

## Diversity problem

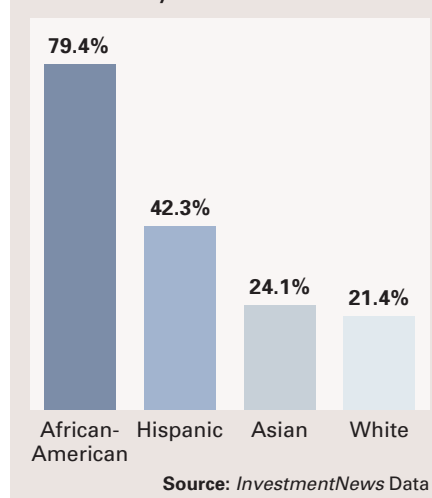
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8.1% are African-American and 7.1% are Hispanic.

Even within the historically white financial services industry as a whole, financial advice stands out for its lack of diversity. For instance, people of color represent 27.7% of financial analysts, 26.7% of accountants and 35.3% of tax preparers, according to U.S. Census data.

That lack of racial diversity among financial advisers has a growing cost for the

Advisers who agree the minority community is underserved



profession and the people it serves. Advisory firms that don't adapt may miss out.

Within the next 30 years, whites will no longer be a plurality in the United States. One in three Americans will be Hispanic; there will be more African-Americans; and the percentage of Asians in the population is expected to nearly double.

As the pool of whites shrinks, financial advisory firms will have to turn to people of color to replace those professionals, said Ed Gjertsen, president of the Financial Planning Association and an advocate for diversity. Market research firm Cerulli proj-

ects that approximately 25% of advisers plan to retire or leave the industry within the next 10 years.

### RISING DEMAND

Second, the industry is changing, and the demand for financial planning services — the high-touch parts of financial advice that require empathy and top-notch communication skills — is rising. Firms that adopt a mindset open enough to see opportunities in diverse communities that haven't traditionally used financial advisers will have an advantage.

There is plenty of money in minority communities, though it may not be obvious to advisers who have long focused their efforts elsewhere. The wealthiest fifth of African-Americans, more than 3 million households, has an average wealth of \$395,000. The wealthiest fifth of Asians, about 788,000 households, has average wealth of more than \$1 million, and the top fifth of Hispanics, more than 2.1 million households, has an average wealth of more than \$400,000.

"Diversity is good for business," said Mr. Gjertsen.

Advisers who have successfully tapped into these new communities say winning them over takes time and effort. Advisers need to be comfortable moving into the complex emotional territory inhabited by minority communities.

**D**AVID EDWARDS, president of New York City-based Heron Financial Group, said he's working on hiring a black adviser to pursue opportunities in the African-American market in New York City. "Go where there's no competition," he said with a laugh, of the business strategy. "But I have no traction in that community as an entitled white guy."

"You can't walk in being male, pale and stale," agreed Rick Kagawa, a Japanese-American financial adviser whose practice is about 50% Japanese-American and 10% Hawaiian. "I know which house to take my shoes off in. I know that Hawaiians' food is

*"I ... explained to her how I learned about 401(k)s in class and how everyone should have one."*

**Rianka Dorsainvil**  
Founder  
Your Greatest  
Contribution



a little different. And I know the question to ask the older generation [of Japanese Americans] is, 'What camp were you in?'" meaning what government internment camp during World War II.

The impact of a lily-white adviser community goes deeper than the potential for missed business opportunities, however. Financial advisers are a key conduit of financial knowledge, and one of the things that separate the hard-working poor from the middle class is a lack of financial knowledge.

Research from the Washington-based Global Financial Literacy Center shows that financial literacy is most strongly linked to socioeconomic background. If your parents are wealthy, most likely you're better

equipped to handle money. But because more African-American and Hispanic households are poor in the U.S., financial literacy takes on a racial cast.

For instance, a survey by mutual fund giant Vanguard Inc. found that blacks and Hispanics contribute at lower rates to company retirement plans and are more likely to take withdrawals, both of which result in lower account balances. Only 60% of the variation can be explained by factors such as lower compensation and less job tenure.

The personal tragedies that evolve from the lack of simple financial knowledge are profound. Rianka Dorsainvil, an African-American, is haunted and driven by a con-

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*"I know which house to take my shoes off in."*

**Rick Kagawa**  
Financial adviser  
Capital Resources & Insurance





# GAME CHANGERS/Diversity

## Diversity

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versation she had with her grandmother about a decade ago, before she died. Then in college, Ms. Dorsainvil was looking across the dimly lit family room. It was after 11 p.m.; "Nana" was still wearing her nursing uniform after a late-night shift.

"I asked her ... why she couldn't just stop working and explained to her how I learned about 401(k)s in class and how everyone should have one," Ms. Dorsainvil, now an independent financial adviser, remembered via email.

As Ms. Dorsainvil went on, talking about everything she had learned in a financial planning class at Virginia Tech, her grandmother started to cry. Ms. Dorsainvil couldn't even guess why for a long time, until she realized that talking about estate planning meant she was talking about death, and talking about 401(k)s was a reminder to her grandmother that she had not saved enough to retire. Her grandmother was about 69 at the time, and worked long after poor health should have kept her off her feet, Ms. Dorsainvil said. She died at 76, in debt and under financial stress.

Why does the industry's door remain closed to diversity, despite various well-meaning efforts by individuals, big companies and professional associations? One of the answers is that many of the white advisers who make up the profession don't see the lack of diversity as a problem.

In an *InvestmentNews* survey of more than 700 advisers, only 36% of whites agreed or strongly agreed that diversity was a problem in the industry. Among minority advisers, 65% thought the lack of diversity was a problem.

**S**OME WHITE ADVISERS, said Mr. Gjertsen and others, have never had the kinds of experiences — say, traveling to a community or country where they are in the minority — that allow them to understand what it feels like to be an outsider. Meanwhile, few advisers of color trust people outside their communities enough to speak up and explain it to them.

"Sometimes I'm out somewhere with colleagues and there's somebody a little bit



*"Everybody has their own flavor, Cubans, Mexicans, Colombians."*

**Ruben Vilorio**  
Financial planning student  
Utah Valley University

liquored up, and he'll say, 'Hey boy, how ya doin'?" said Lee Baker, the African-American owner of Atlanta-based Apex Financial Services Inc. "I think, 'Is he drunk and is he going there?' Or would he say that same thing, 'boy,' to Bill Clinton or George Bush? I've learned to just shrug it off," he said.

And there is still overt racism as well.

One African-American adviser remembers a potential client with \$8 million in assets using the N-word in conversation. She objected to the firm continuing its pursuit of the client and resigned when the firm kept trying to bring him on board.

"What hurt was that they didn't back me up," said the adviser, who declined to be identified.

One explanation for the lack of diversity is the human, often unconscious tendency to hire and associate with people who are in our networks, who tend to look like us.

"Concerns about shared culture were highly salient to employers and often outweighed concerns about productivity alone," Lauren Rivera, a researcher at Kellogg School of Management at Northwestern University, wrote in a 2012 study.

It is a phenomenon that exists in many

industries and cuts across races. Consider a 2007 study on racial discrimination and referees in the National Basketball Association. Researchers at the University of Pennsylvania and Cornell University found that white referees called fewer fouls on white players, and African-American referees called fewer fouls on African-American players. According to the study, "Players earn up to 4% fewer fouls ... when they are the recipients of a positive own-race bias, rather than a negative opposite-race effect."

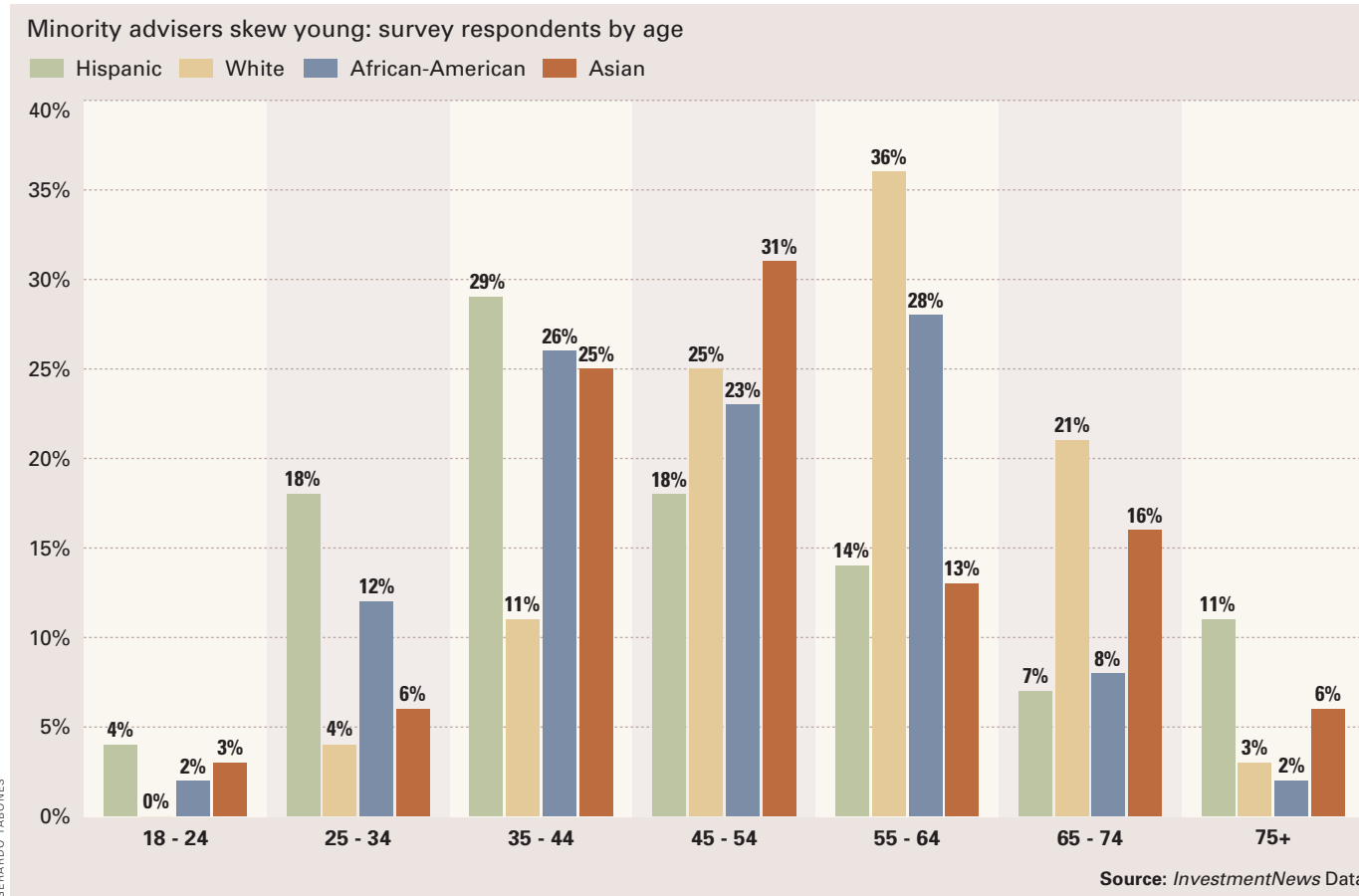
### WORKING THEIR WAY UP

The *InvestmentNews* survey suggests the industry is changing, albeit slowly; 79% of advisers 54 and younger in our survey were white, versus 88% of advisers 55 and older; 45% said their firm has a minority in a client-facing role, suggesting that there may be junior team members working their way up through the ranks.

Wirehouses, large broker-dealers, banks, trust companies and insurance companies seem to have a better track record of diversity. At those employers, 67% of respondents said that there is a minority group member in a client-facing role in their branch or department. At independent advisory firms (RIA- and/or IBD-affiliated firms), 39% of respondents said that there is a minority group member in a client-facing role.

Big firms have more resources to recruit among minority communities, and many have appointed chief diversity officers. The numbers may reflect a real desire to change — and also the danger of lawsuits if big firms don't show a commitment to do so. For instance, 700 African-American financial advisers who worked for Merrill Lynch reached a record \$160 million settlement for racial discrimination in 2013. Morgan Stanley had settled a much smaller case brought by black and Hispanic advisers, for \$16 million, in 2008.

But change is hard and slow at any size: Only about 27% of the advisers who



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# GAME CHANGERS / Diversity

## Diversity problem

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responded to *InvestmentNews*' survey, from firms of all sizes, reported their firms attempt to foster a racially diverse staff.

In the Asian community, diversity doesn't seem to be a problem — at least not on a statistical basis. About 5.7% of financial advisers are Asian-Americans, almost evenly reflecting their 6% makeup in the population as of 2011, according to the U.S. Census.

One reason may be that the industry is following the money — quite literally. Median household wealth — the sum of assets minus debts — for Asian Americans was \$83,500 in 2010, compared with \$68,529 for all for all U.S. households, according to the Pew Research Center.

The wealth in minority communities isn't always obvious. Mr. Kagawa, 63, got into the business through his father, who served in World War II. When the elder Kagawa came home from the war, no one would hire him and eventually, after working in produce for 10 years, he founded his

firm for financial advice when he worked as a bank teller, then took a couple of years off to work in construction. His wife, a schoolteacher, now supports the family while he goes to school.

"Last week, a family came into the firm where I work," said Mr. Vilorio, who is interning with a wealth planning firm. "They [seemed like they] wanted to invest, but weren't sure. The adviser that I was talking to was being very professional. But this family, their body language, made me realize they were saying: 'Just tell me what I need to know.'"

"When Hispanics are getting impatient, they'll cut you off, and they'll ask the question in a different way," he said. Mr. Vilorio, translating, helped the firm win the account.

None of this is simple, he said with a laugh. "Everybody has their own flavor, Cubans, Mexicans, Colombians. If you say 'fresco' in Honduras, it means a drink. In Mexico, it means somebody who is disrespectful."



*"Sometimes ... there's somebody a little bit liquored up, and he'll say, 'Hey boy, how ya doin'?'"*

**Lee Baker**  
Owner  
Apex Financial Services

own firm. That firm became one of the largest Transamerica insurance agencies on the West Coast, according to Mr. Kagawa.

### STRONG SAVERS

The younger Mr. Kagawa gradually transformed the insurance business into an asset management practice, Capital Resources & Insurance Inc., focused on 60 to 70 families. Along the way, he discovered an astonishing fact about his dad's clientele: Though they had lower-middle-class jobs, they were rich.

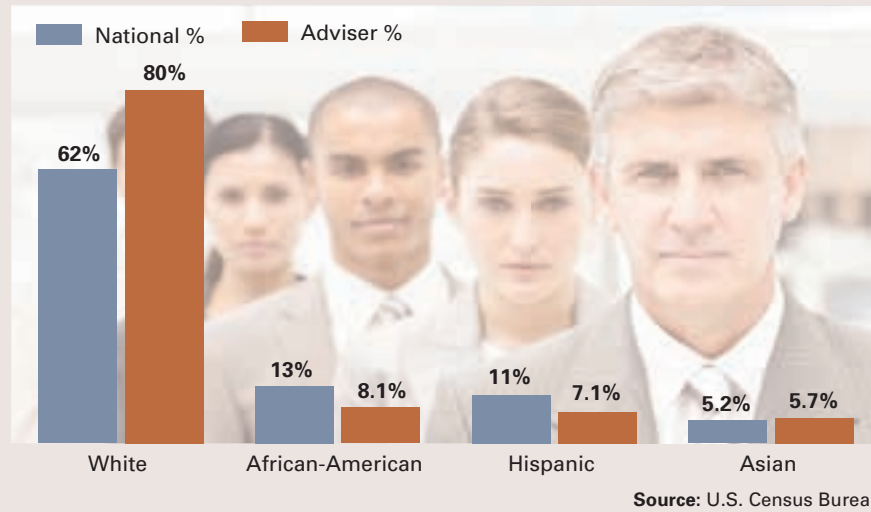
"I have had a librarian worth \$1.7 million. I have a gardener, and a mom who worked as a clerk, who have \$500,000 in their 90s," said Mr. Kagawa, who noted that the saving rate among Japanese-Americans is six to 10 times that of the general population.

**O**UTSIDE THE Asian-American community, where there are clear economic incentives for change, progress on diversity is likely to be slow. There are very few advisers of color coming up through the ranks, said Luke Dean, the director of the financial planning program at Utah Valley University, the largest in the country.

Mr. Dean said less than 10% of the 237 students at his school are minorities. He taught at another big program, at New Jersey's William Paterson University, where the ratios were the same or worse. Racially diverse advisers are an endangered species," he said.

People like Ruben Vilorio are rare. Mr. Vilorio, a financial planning student at Utah Valley University, emigrated from Honduras with his family when he was about 15. Mr. Vilorio, now 28, discovered his pas-

Most financial advisers in the nation are white



including the chair; an African-American man, and an Asian man. This year, the FPA's annual conference had a workshop for African-American advisers.

Meanwhile, the Certified Financial Planner Board of Standards Inc. announced last month the launch of a new center designed to support workforce development among advisers. Among other things, the center will focus on increasing racial diversity in the profession.

"As we look at how the profession continues to grow, CFP Board sees a need for a more diverse and sustainable supply of financial advisers and financial planners," CFP Board CEO Kevin Keller said at the time of the announcement.

### COMPANY EFFORTS

Some diversity efforts at companies are proceeding, too. MetLife, for instance, matches new advisers, including those of color, to existing teams to create diversity. The company says a number of studies suggest diverse adviser teams, specifically those with women, perform better in terms of client satisfaction and longevity of client relationships.

"We know that to be a successful channel now and in the future, it is important for us to diversify our adviser focus to continue to meet the needs of a changing demographic," said Meagan Soffera, spokeswoman for MetLife.

Mr. Dean believes one of the challenges is that students of all races aren't exposed to the profession enough to know it exists. And when he does have minority students, they sometimes lack confidence; some who are interested in the field don't graduate or

never get jobs. He thinks some of those problems could be solved with mentorship.

Mr. Loftin believes things will finally change in the financial advisory industry when the business dictates. In other words, as in the Asian community, when there are enough people of wealth in black and Hispanic communities, advisers will emerge from those communities to serve them.

For the time being however, many advisers of color will continue to walk a harder path, like the one he did.

Mr. Loftin, the son of a state worker and truck driver, made it into Boston Latin and Northeastern University on the strength of his math skills and didn't have the network that white advisers did, back in that Boston insurance agent's office where the O.J. Simpson verdict came on TV. He built himself up in another way, though.

"I was poor, hungry and determined," he said.

He cold-called African-American-owned shops and restaurants, from 8 a.m. to 8 p.m. every day and often longer, for more than six months. He got the names out of a free weekly called the Black Pages of New England.

Today, as principal of Proficient Wealth Counselors, he sees himself, not first and foremost as an African-American adviser, but as an adviser. His wife and another associate also work at the firm, which focuses on clients with at least \$350,000 — most of whom happen to be white.

"In terms of me choosing this profession," he said, "perhaps I was a little ahead of the curve."

Elizabeth McBride is a freelance writer.

Are advisers who do not specifically target minority communities missing out on a growth opportunity?

