

The Four Spheres

For William Horton, Jr., CFA, serving clients includes much more than helping them with financial matters

BY CHRISTINE MARTIN

Ask William Horton, Jr., CFA, to comment on investing, client relationships, behavioral finance, success, happiness—well, really on just about anything—and he'll surely share a favorite quote or two. Take this Wayne Gretzky remark, which Horton likens to being a good, or great, investment adviser: "A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be."

It's not that Horton relies on the words of others to express his own ideas; he's very articulate and easy to talk to. Nor is he an erudite theorist with a need to impress. Rather, Horton is a well-read, independent thinker who smartly draws upon the wisdom and insightfulness of others—even "the Great One"—in his approach to managing private client wealth and to life in general.

As president of Horton Financial in Toronto, Horton provides independent investment consulting services to affluent families, their family offices, and foundations. Since 1993, he has worked exclusively with high-net-worth private clients. In this role, Horton sees himself as an "enabler," making it possible for his clients "to be where the puck is going to be." And that's a value to them, he says, not because they might make more money but because they might fulfill "aspirations."

Horton's outlook is deep. It goes way beyond his fiduciary responsibility. "My goal," explains Horton, "is to develop and enhance the approach families take to developing intellectual, social, human, as well as financial capital—in the process, to help answer the question 'why' as well as the question 'how.' Capital, in this sense, represents a form of wealth, or capability, that enables the creation of future benefit in each of the four spheres."

To serve his clients in this way, Horton, who has been influenced in this line of thinking by Harvard philanthropic adviser and author Charles Collier, says he draws upon an ability to understand both the big picture and the details. He gives this analogy: "An architect's designs must be aesthetically pleasing and also highly functional. But an architect who doesn't bear in mind the foundation, the materials used, and so forth, ultimately won't create something of either functional or aesthetic value. Of course, I'm not creating art with investment portfolios; but by 'aesthetics,' I mean 'aspirations,' or put another way, what it is that my client really

wants." And, notes Horton, the aspirations of wealthy investors often are more complex and difficult to achieve than mere capital growth.

For Horton, whose financial career began in the mid-1980s as a stockbroker, the CFA Program provided the technical expertise necessary to begin managing private client wealth. Shortly after earning the CFA designation in 1992, Horton was hired as a portfolio manager for Royal Trust Investment Counsel, at which point his career took off. By the late 1990s, Horton was a managing director of CT Private Investment Counsel, which at that time managed over \$8 billion. In 1999, Horton joined a boutique wealth management firm, where he founded, registered, and served as president of CAP Investment Management, the firm's investment counsel arm, which grew to \$180 million in assets under management. In 2001, he founded Horton Financial.

Horton contends that the biggest difference between himself and an investment counselor who simply goes through the motions is an ambition to understand the family dynamics and the psychological drivers influencing his clients. "Relationship management is not about merely having a client data-

base that tells you what kind of wine your clients like and where they like to go on vacation," he says.

Rather, Horton soaks up and puts into practice every tidbit of insightfulness he reads or comes across that might help him in his efforts to understand and serve his clients. He shared this principle from best-selling author Stephen Covey: "Seek first to understand, then to be understood."

"That's a powerful statement," says Horton. "It's not listening to hear what you want to hear or for what's the next smart thing to say. It's about listening to hear what message your client is communicating. And it's often not in the words but in the subtext." Horton also cites linguistics researcher Deborah Tannen with helping him to avoid communication pitfalls that might jeopardize the interpersonal relations so important in his line of work.

Another point that Horton tries to keep in mind is this one by organizational psychologist Ian Percy: "We judge others by their behavior. We judge ourselves by our intentions."

"This insight isn't blinding," acknowledges Horton, "but it's a concise way of saying there's a trap in judging clients on their behaviors alone. If I do that I'm going to miss a lot of what's going on, and potentially fail the client."

Ultimately, such practical guidance helps Horton to

"My goal is to develop and enhance the approach families take to developing intellectual, social, human, as well as financial capital."

establish openness and trust with his clients as well as transparency of process, which ultimately leads to good decision making. “More and more,” he says, “the families I’m working with are not looking to make the most money possible, but rather for appropriate stewardship of their family assets. This whole concept of stewardship implies a process. It’s not about getting a hot tip from somebody; it’s about helping the family identify aspirations and having a solid and prudent investment decision-making process that family members can understand and be comfortable with.”

Horton points out that when working with private clients, a manager must become acutely aware of the fact that portfolio management isn’t simply a numbers game. “I find a lot of resonance in Peter Bernstein’s work because he writes with a great deal of humanity.” Here’s one of his favorite Bernstein truisms: “Consequences, not probabilities, determine the decisions that matter.”

“Consequences affect people in the here and now,” says Horton. “They are myopic about the future, and as a result, they often don’t act in a way that is beneficial to them in the long run.” In his view, private client advisers must be skillful at working around the fact that many times investors don’t behave rationally.

“Sometimes, I make a recommendation that my client won’t accept. So, I need to know when I have permission to push beyond just saying, ‘Okay, I’m just a consultant. This is my advice, and I’m going to walk away.’ And that point isn’t written down anywhere.” Horton’s reasoning is that urging the client to move outside his comfort zone, albeit in an effort to act in his best interest, sometimes puts the relationship at risk, but the risk of doing so can be minimized by knowing the client very well and understanding the client’s behavioral biases.

Not surprisingly, Horton believes that behavioral finance holds a lot of promise for private client consultants such as himself, as well as for the investment industry as a whole. But, he says, “I don’t see behavioral finance as a replacement for modern portfolio theory and the efficient market hypothesis. I don’t think they are at all mutually exclusive, although they often are painted that way. In fact, I think they build on each other.”

“I talk about always looking out for where the puck is going to be, and I believe that will be captured in an inte-



grated theory that reflects both the solid, fundamental ideas of standard finance and also the rules of thumb behaviorists use to describe how people make decisions,” says Horton. Still, he’s not holding out for an investor’s panacea, however. Already, he finds practical relevance in the work of Tversky, Kahneman, and Thaler, as well as recent theories by Andrew Lo of MIT and by Mordecai Kurz of Stanford.

Ultimately, Horton feels he would be doing his clients a disservice by not being open to new ways of thinking and different perspectives. He credits his undergraduate experience at Harvard and several subsequent years spent in Europe playing professional hockey with broadening his awareness of people, different cultures, and different viewpoints. And later, in his work as a broker and investment adviser, he developed “an appreciation for the realities of investing and the powerful effect money has on people.” Collectively, these experiences have positioned Horton to be able to fulfill his clients’ aspirations.

For Horton, success is “having time to do other things that bring me happiness and a sense of achievement and significance,” in particular, spending time with his wife and two children, coaching youth hockey, pursuing interests in golf and opera, and serving presently as a board member of the Harvard Alumni Association. Again, Horton draws sage advice from the words of others; this time from Harvard Business School professors Howard Stevenson and Laura Nash in their book *Just Enough*, which contends that success isn’t measured by money alone but rather “involves four pillars of professional and personal life: happiness, achievement, significance, and legacy.” They write, “Success is not a one-liner or a headline, it’s a novel you write over time.”

“I think about this personally, but I also think about it in context of my clients. Some of them are struggling with feeling satisfied. Even though they are financially set and have achieved extraordinary things, some haven’t achieved what they think success ought to be,” says Horton, who, speaking from experience, shares some words of wisdom of his own: “It’s possible for people to achieve what they aspire to, and usually they find they can achieve more than they think they can.”

Christine Martin is a freelance journalist who writes for a variety of professional and trade publications.