



## The True Source of Client Capital

By Mitch Anthony | Published July 1, 2008

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Every advisor I know wants more of their clients' capital. We might be aided in this quest if we come to a better understanding of what capital truly is and how it gets created.

In *The Mystery of Capital*, Hernando De Soto offers the following analogy: It's of a pristine lake at the top of a mountain that has never been used for anything but fishing and leisure. It's then discovered by an industrialist. He envisions placing turbines and generators and pipeline to supply an energy source for the valley below.

Gravity turns placid water into tumbling water that produces kinetic energy. It then moves turbines that create electric energy, which is transported through wires to the bottom of the mountain. There, a craftsman turns on his saw and makes a door that will have a handle affixed to it that you may one day turn to enter your home.

The 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 by craftsmen?

All the above could be classified as capital resources but are not, in fact, the chief source of capital. It's the idea that an engineer envisioned about harnessing the power of this once latent force sitting atop a scenic mountain. This person saw exponential value in the water that could not be measured by the weight, volume or purity of the water itself. His thought and vision are the true capital resources, and should be yours as well.

Yet, we invest so little of it when it comes to our clients. Do you even know the answers to the following questions about your top clients?

- What was their first career?

- What did they study in school and why?
- What are the key decisions that caused their career to flourish?
- Why did they choose the business they are in?
- What insights into people and business they would point to as keys to their success?

Chances are you know the answers to these questions regarding Bill Gates and Warren Buffett, but not your own clients. Why? Because Gates's and Warren's stories have been broadly distributed. Knowing your clients story is left to you to gather. If Gates were your client you would want to know the answers to these questions. The answers tie to the money being managed. The same principle applies for all people -- their story is linked to their substance.

We can measure how much they have, but how much do we know about how it was created? Real value lies within the thoughts, visions and ideas within our clients. The better we get to know them, the more capital we discover.