



A Five-part Conversation to Rebuild Market Confidence

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February 17, 2009

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The events of 2008 damaged investors' psyches in two important respects. Many investors lost confidence and trust in their advisors and financial institutions. Moreover, those investors grew skeptical of the long term merits of investing in the stock market.



The top priority for advisors is to rebuild confidence and trust, both in them and in the markets.

After the tech wreck earlier this decade, many Americans took a skeptical view towards high tech stocks, especially start-ups.

Today, investors are looking skeptically at *all* stocks.

This is understandable to an extent, given last year's dramatic sell-off, the continued unraveling of financial institutions and ongoing market turmoil.

But shying away from investing in equities will make it impossible for many investors to achieve their long-term goals. The primary job for many advisors today is to help their clients understand that.

Here are five elements of a conversation you may want to have with clients to help rebuild confidence:

1. Start by addressing soft issues

Having a productive conversation about markets often means starting with a client's emotional response to the decline in their portfolio. Until you deal with a client's "soft issues," they will likely avoid the hard issues — their plan and the make-up of their portfolio.

"Many people lost sleep as a result of the markets last fall," you might begin. "How did you find last fall's market affecting you?" Sit back and patiently hear



the client out — the time you spend on this first stage is essential. Clients need to feel that you're listening.

And don't forget to let clients know that you understand how tough they found this — clients also want to feel that their advisor empathizes with their situation.

2. Go back to client objectives

The next step is to revisit the client's objectives and their plan for achieving them.

If your client can still hit their long-term goals with a return of 4% or 5% per year, then staying away from stocks can be a rational response.

But the hard reality is that most clients will need a significantly better return than that to achieve their retirement objectives.

It may be worth explaining the specific implications of lower returns: the need to save more, work longer or accept a lower standard of living in retirement — in some cases, all of the above. The essence of financial planning is understanding tradeoffs, and there's no better time than right now to talk with clients about the tradeoffs involved in rejecting equities.

3. Point out the extent to which last year was an aberration

Last year's decline was one of the most extreme on record; you have to go back to the thirties to find an equivalent drop in the markets. You might want to start by walking clients through a commonly available chart that shows the distribution of long-term returns. [Ed. Note: See [here](#) for example.]

Going back to 1925, these charts show that stocks return an average of 10% and make money in 70% of all years.

In some instances, be prepared to get a skeptical response — some particularly cynical clients cast a jaundiced eye on these charts, seeing them as a "sales pitch" on the part of their advisor. Try to avoid charts that have the logo of a money manager or fund company — these can be red flags for some clients.

4. Talk about today's opportunities

The next step is to discuss the opportunities in today's market.

There are two ways to do this. One is to have a macro, top down conversation, discussing market valuations and price earnings multiples. This can work in some cases, but it will not be persuasive in others. In some cases, clients won't



understand; in others, they will have heard the same lines in the past. And having a rational conversation about valuations may not address the real issue for many clients — their fear and emotional response to last year's events.

A better approach might be to focus on individual stocks that clients are familiar with. Consider companies like Microsoft, McDonalds, Walmart, Procter & Gamble, Johnson & Johnson, Pepsi and Coke. These are all household names for which you can make a compelling mid-term case, either as an individual stock or as a top holding in a mutual fund you recommend, in spite of immediate uncertainty. And all pay solid dividends with good coverage levels.

In today's environment, a bottom-up, company-specific conversation will often engage and reassure clients in a way that top-down, valuation-focused conversations won't.

Another key point in a discussion about investing opportunities relates to focusing on the right timeframe. A conversation about what markets are going to do this year risks getting bogged down. Providing that it's a fit with a client's time horizon and risk tolerance, it's much easier to build a compelling case for stocks out three or five years.

5. Discuss the best way to reenter the market

It's always important to talk about the possibility of markets declining in the short term, but it is especially crucial today.

If clients have bought your argument so far, you still need to make clear how impossible it is to predict short-term market fluctuations. You can point to data showing how markets have bounced back after huge declines like we saw last year, but you also need to acknowledge the possibility of continued tough times in the period immediately ahead.

Given those uncertainties, it's important to talk about how to enter the markets. In some cases, clients will be prepared to commit fully now, but in others they may want to wait until there are clear signs of a market recovery. They may be willing to give up a gain of 20% or more to do that. (The other problem with waiting for a run-up to reenter the market is that markets never move up in a straight line, meaning a 20% gain can be immediately followed by a 10% pullback.)

For many clients, the best solution might be a staged approach, investing in phases over a period of 12 or 18 months.

This conversation won't always be —easy, and in some cases rebuilding long-term confidence in markets will be a tough task, requiring repeated discussions.



But the fact that a conversation is difficult doesn't mean it shouldn't take place. In many cases, this is the most important message that Americans need to hear from their advisors today, and it is one way that advisors will prove their worth and deliver real value to clients going forward.

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