

A Quarter-End Letter to Send Clients

By Dan Richards

October 6, 2009

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Last fall I began posting quarter-end letters that advisors could adapt for their own use. Many advisors have told me that they have received an outstanding response to the letters they sent as a result.

There are five qualities to an effective client letter. A good client letter needs to be:

1. Substantive
2. Candid
3. Backed up by facts
4. Clear and easy to read
5. Tailored to each advisor's personality and views

Below is a template that you can use as a starting point for your own third-quarter client letter – summarizing where we've been, where we are today and the outlook for the period ahead. Remember, this letter is only designed as a starting point – be sure to take the time to inject it with your own point of view and personality.



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October 1, 2009

To my clients

As I write this letter, the third quarter has ended in what continues to be a most eventful year for the stock markets and the economy.

It's also one year since the weekend that shook the foundations of Wall Street and of the global financial system – when Lehman Brothers collapsed, Merrill Lynch vanished as an independent entity and AIG was taken over by the U.S. government.

In light of that, I believe it is important to briefly summarize where we've been this year, where we are today and the prospects for the period ahead – and also to highlight some lessons from last year's financial collapse.

Where we've been

Six months ago, in early March, it truly did feel like the world might be coming to an end – talk of a return to a Great Depression-like economy dominated the media. Understandably, fear was rampant – and stocks responded to these nightmarish scenarios by hitting the lowest levels in years, with financials especially hard hit.

Although no one knew it at the time, that turned out to be the bottom. Since then, the economy has moved back from the precipice – there is a growing consensus that we'll return to economic growth in the second half of this year. The Economist recently ran a cover story discussing the extent to which the economic recovery is being led by Asia.

As a result, we've had a strong recovery in markets – from their bottom in the beginning of March, stock markets are up over 50%, retracing a good portion of the losses since last fall.

Here are six lessons from the last twelve months:

1. *We were reminded of just how volatile stocks can be.*
2. *And of the importance of true diversification.*
3. *Many investors discovered that they're less comfortable with risk and volatility in their portfolio than they had believed.*
4. *Investors were also reminded of the need to focus on what they can control – understanding their cash needs and thinking through how much risk they can tolerate to fund those needs.*
5. *In some cases, investors began rethinking retirement plans as a result.*
6. *Finally, we were reminded that in today's world, we need to expect the unexpected.*



Where we are today

Two years ago, the market was characterized by rampant optimism. The U.S. market had hit a new high in November of 2008 and any concerns were set aside as minor annoyances.

By contrast, six months ago the market was overwhelmed by absolute pessimism – there was no sign of hope anywhere.

Today, the market is somewhere between those two extremes and many investors can be characterized as extremely nervous.

As a general rule, a certain level of healthy anxiety is positive – what gets investors in trouble is an excess of either optimism or pessimism. While today's mood may be a bit too pessimistic, being cautious in the current market makes sense ... provided that prudent caution doesn't cross the line into panicked inertia or hasty decisions.

The good news is that there are still excellent opportunities for investors who are prepared for short term volatility. I spend a lot of time listening to the best market minds and to managers who have lived through multiple cycles. I am reassured that most say that they are still finding very good value – not to the extent that they did earlier this year, but still well ahead of what they would have seen a year ago.

The outlook going forward

In August, Business Week ran a cover story called "The case for optimism."

The premise was simple: Beyond the issues facing the global economy, there are many underlying positives that give cause for optimism if we look out two or three years or beyond.

Powerful forces under the surface will drive economic growth ... and that economic growth will drive stock prices. Examples include the positive impact of technology, the recovering US housing market, the revitalization of economies and the incredible energy from the developing world's educated youth and emerging middle class

Click [here](#) to access the Business Week stories on The Case for Optimism.

And [here](#) to view a three-minute video with interviews with CEOs of Dow Corning, Eastman Kodak and Intuit.

Volatility

Let me close by talking about market volatility.



In 1907, U.S. financier J. Pierpoint Morgan single-handedly averted a banking panic among U.S. investors.

Later in life, someone asked him his best guess as to the direction of markets. His answer: "They will go up and they will go down."

One hundred years later, that's still the best answer to someone looking for a short-term market forecast. No one can predict market movements in the immediate period ahead – all we can do is understand clearly how much short term volatility we can live with, adjust our portfolios accordingly and stay focused on the horizon as we deal with the rough waters. No one likes volatility ... but for most of us it's the necessary price to arrive at our ultimate destination.

Direction of portfolios

This section needs to be customized to each advisor

In the meantime, my team and I are constantly looking for opportunities to realign portfolios to give our clients the best tradeoff between risk and return. Given the current uncertainty and volatility, we are continuing to focus on higher quality companies in both stock and bond portfolios and are maintaining a healthy fixed income weighting, with particular emphasis on quality corporate issues.

Over the past while, I've talked to most clients about their portfolios. If I missed you for some reason or you would like to discuss your investments in more detail, I am always delighted to have that conversation.

Thank you for the continued opportunity to work together – remember, my team and I are always here should you have any questions or wish to talk about anything related to your portfolio or your finances.

Name of advisor

** Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries and to reach him, go to www.strategicimperatives.ca.*

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