



What to Say When You've Said It All

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"I have no idea what the stock market will do next month or six months from now. I do know that, over a period of time, the American economy will do very well and investors who own a piece of it will do well."

Warren Buffet in an interview on CNBC on Friday, October 10

As an advisor, today you have two paramount goals – the first is to keep clients invested, the second to keep them invested with you. Everything you do and say has to be framed with those two objectives in mind.



In the face of recent market chaos, I got an email from an advisor who had a meeting scheduled with his biggest client the next day.

"Over the past year, I've worked hard at communicating with this client, at calming his nerves and at keeping him focused on the longer term," read the email. "My problem is that I've run out of things to say – and am concerned that my credibility will suffer if I simply recycle things I've talked about before."

This is a legitimate concern. While there is virtue to consistency, we don't want to sound like a broken record. A growing number of clients are tired of more of the same "stay the course" advice they've heard in the past.

Recently, I've had one on one conversations with some investors in their fifties and early sixties – to a person, these investors were struggling to assess the impact of the market downturn on their prospects for retirement. I asked for their reactions to a number of possible approaches that advisors could take in talking about today's markets.

In a few cases, investors are simply angry and their emotional state is such that nothing we can say will help. And advisors looking for "silver bullets" that will remove concerns entirely will have to look elsewhere.

However, two approaches got good marks from many investors I talked to as being candid, providing new information and leaving them at least somewhat reassured – today covers one of those, taking a macro, top down stance.



The other “winning” approach focused on a bottom up, stock specific conversation, with I will discuss in a future article. (If you find these commentaries valuable and haven’t registered to get notification of new posts at www.getkeepclients.com, you may want to do so – so you won’t miss upcoming posts such as that one.

There are four components to today’s approach:

1. Where appropriate, a personal update on where clients stand right now
2. A conversation about the short term issues hanging over the market
3. Putting today’s woes in perspective - including some fresh insights from a recent article in the Wall Street Journal
4. A conversation about reasons for optimism in the mid-term

Part One: Start with a personal update

It’s human nature to look first at what developments such as the recent stock market turmoil mean to us individually. Until we’ve addressed their hot button issues, some investors won’t really pay attention to anything else we say.

For most of the clients I talked to, their number one question and also the biggest source of anxiety is the impact of the market collapse on their ability to follow through on their retirement plans. In many cases, you need to deal with this issue before you’ll get clients to look beyond the current situation.

As a result, in some instances an effective conversation needs to start with an update of the client’s financial situation and the implications of recent market events on hitting their long term goals. These conversations can be difficult for clients close to and in retirement, who don’t have time working for them to the same extent as younger clients. And they can be tough indeed with investors whose investments have been especially hard hit.

Just because a conversation is difficult, however, doesn’t mean you don’t need to have it. With some clients, you can skip this stage and go directly to a broader discussion of the environment in which we find ourselves – in other cases, however, this conversation is essential. And having that conversation, you may find that even though your client’s ability to retire when they want to has suffered, their fears will often be worse than the reality of their situation.

Part Two: Where we are today



Effective conversations today need to have both a rational and an emotional dimension – we can't relate to clients and establish empathy by just focusing on the facts.

Going into conversations these days, we need to understand the magnitude of the stress that many clients are experiencing – exacerbated by the non-stop, 7-24 media coverage of "today's economic crisis." This is especially true among seniors, who have the time to spend their days glued to the television set, fixated on words like "meltdown" and "depression."

Start by acknowledging that recent market conditions are truly challenging, well beyond what any of us could have anticipated a year ago, six weeks ago or even last week, as the market re-approached its November 2008 lows.

You could begin by saying : "Virtually no one saw this coming – even the smartest and most experienced investors failed to anticipate the effect that unwinding the excesses of the past few years would have on financial institutions and on the financial system. As examples, we have no further to look than the veteran money managers at Bear Stearns, Lehman Brothers and Merrill Lynch who were caught completely off guard."

You might then continue: "And it looks almost certain that we're going to have to get used to continued high levels of volatility and ups and downs for the next while at least. Two economists at the University of Toronto captured today's reality when they released a report titled 'We don't have a clue and we won't pretend we do'; in a world where the dollar fluctuates by 5 cents and oil by \$10 in a day, anyone who claims they can make accurate short term forecasts on the economy or stock markets is kidding either themselves or you."

"The one piece of good news – offsetting all this uncertainty, there is strong evidence that valuations have reached the point where they are truly depressed."

It's important here to reinforce your credibility by introducing new information from a credible source, focusing on facts rather than opinion.

"A recent Wall Street Journal had a feature called 'What History Tells Us About the Market,' detailing how almost four in ten stocks tracked by Standard & Poor's are trading at less than half of long term market valuations and one in ten are trading below their current holdings of cash."

Here's the link to this article – note it will only be available for a limited period of time:

[WSJ.com - What History Tells Us About the Market*](#)



Next, engage your client by talking about the current challenges facing the market. Take a piece of paper, write “Today” at the top and draw a line vertically down the middle, saying something like:

“Let’s talk about where we are right now.”

Go on to ask: “What are the issues that concern you about the market over the immediate period ahead?” - jot down their concerns on the left hand side of the page.

Once clients have told you what worries them, encourage them to continue by saying “What else is there? Anything else that concerns you?” Be sure to listen without interrupting – it’s critical that clients get a chance to vent their fears.

After they’ve aired their concerns, ask clients to identify what they’re most anxious about. Then say something like “Tell me more about why that worries you.”

Probe each of their concerns in turn – in some cases you may find that investors are worrying because of something they read or heard that they have misinterpreted. One advisor I talked to had a client come in late last week wanting to sell everything because he’d read that the credit crunch would devastate the economy – it turns out that this client didn’t really understand what a credit crunch is beyond that it’s a bad thing; a conversation about past lending crunches had the investor leaving the advisor’s office reassured and with his investments intact, at least for the present.

Then go on to say: “Those are certainly causes to be concerned. Let me mention a couple of other things that are hanging over the market right now.”

Some candidates for causes of short-term concern:

- The US housing crisis
- Falling confidence by the U.S. consumer
- The threat to financial institutions and the financial system
- A credit crunch and reduced access to capital for companies and consumers
- A deepening recession in the U.S. and globally



- The impact of the bailout on the US economy – and whether \$850 billion will be sufficient
- The impact of falling oil and commodity prices on the Canadian economy and stock market

At the end of this exercise, you and your client will have jointly created a list of reasons to be anxious in the short term. And by adding concerns beyond the ones that clients raise, you reinforce your position and credibility as providing balanced, objective advice, not just focusing on the positives.

Now it's time to shift your attention to the right hand side of the page and say: "Are there any offsetting positives in the short term?"

Given the fixation in the media and among many investors on bad news, clients are likely to need help identifying short-term positives. Among the candidates for the right side of the page:

- Central banks have intervened in a coordinated fashion to contain the financial crisis to prevent bank failures and provide liquidity to the system
- Banning short selling in financial institutions should help stabilize some of the extreme speculation
- Dropping oil prices have reduced concerns about inflation around the world – giving central banks the ability to cut interest rates to add stimulus to the economy and putting dollars into the hands of consumers
- The U.S. appears to have turned the corner in Iraq – the prospect of withdrawing will take away a big drain on the American budget
- We can gain some confidence from strong leadership from people like Henry Paulsen and Ben Bernanke in the U.S. and European leaders like Angela Merkel, Gordon Brown, Nicholas Sarkozy and Jean-Claude Trichet of the European Central Bank
- The market correction has created what appear to be real bargains for investors who are selective – witness the large investments in Goldman Sachs and General Electric by Warren Buffett. There's reason to believe we may look back upon this as an outstanding buying opportunity, particularly among some solid companies who have been beaten down and as a result are paying dividends of three, four or five percent.



Part Three: Putting current concerns in perspective

Once you've finalized that list, go on to say something like:

"At every given point in time, there are causes for optimism and causes for concern.

"If we had done this same exercise ten years ago in the fall of 1998, we would have listed threats from what was called the Asian contagion with the collapse in currencies in Asia and the Russian ruble and the implosion of Long Term Capital, a massive hedge fund that blew up and almost brought the global financial system to its knees.

"And if we'd done this exercise at the end of 1990, when the market was down sharply as well, we would have listed the recession in which the US found itself and the American S & L lending crisis (the last time the U.S. Government had to intervene), the broad slump in residential and commercial real estate and the huge uncertainty about the impending response to the invasion of Kuwait by Iraq that took place earlier that year."

On this topic, I received a recent email from Art Schooley at The Personal Coach in Kitchener Waterloo. Attached was a December 1990 article from the Knight Ridder with the headline "Bank crisis risks turning recession into depression." (If you want a copy of this article, Art can be reached at art@thepersonalcoach.ca.)

The causes for concern in this gloomy article could be used verbatim today:

- U.S. banks going under at a level not seen since the 1930's
- A resulting credit crunch and pull back on lending
- Plunging U.S. consumer confidence
- A 50% decline in stocks of leading banks like Citicorp

You could go on to tell clients: "Psychologists tell us that the human brain is unable to recall pain accurately – if we were able to do so, many fewer women would have a second child. As a result, we overestimate the level of pain we're feeling today compared to the past; whenever we enter these kinds of market conditions, it always feels like it's much worse than ever before.

"The tech bubble in 2000 was rationalized by investors who said 'It's different this time'. Today, we're hearing people using the same words, saying today's downturn can't be compared to those of the past.



The aftermath of the tech crash reminded us why the words “It’s different this time” are considered so dangerous and costly for investors. It wasn’t different in 2000 and a strong case can be made that it’s not fundamentally different today, in fact that when it comes to market cycles, it’s never really different.”

Part Four: Looking to the future

Now turn over the piece of paper in front of you and write “Five years from now at the top,” drawing the same line down the middle.

Say to clients: “Let’s shift our thinking out five years – what are the things that concern you about the market in five years time?”

Clients may talk about the lingering after-effects of the current financial crisis and the budget challenges faced by the U.S. and other developed countries, especially in light of an aging population – both legitimate concerns.

Once you have identified mid-term causes for concern, shift your attention to the right hand side of the page and ask clients about reasons to be optimistic in the mid-term.

In the spring, I recorded a video titled “The case for long-term optimism” – you can view it in the archive of videos on my site.

Among the reasons for optimism I identified at the time that still apply today:

- The positive effect of technological innovation on productivity, economic growth and corporate profits. Despite the economic crisis, we’re still seeing more investment in r & d around the world than ever before – and the internet is helping disseminate new discoveries more quickly so that we get a bigger bang from every research dollar invested
- A continued expansion in global trade and a trend towards reducing trade barriers – a hugely positive development for markets
- No reason for concerns about inflation and the ability to keep interest rates low as a result, a big positive for markets
- Good news economically and politically from most of Eastern Europe and Latin America
- The continued opening up of economies in China, India and throughout Asia and the resulting rapid growth of the middle class in those markets



At the end of this exercise, you might wrap up by referring to Warren Buffet's quote at the top of this commentary, saying: "When it comes to the stock market, it's impossible to forecast what's going to happen in the next six minutes, six days, six weeks or even six months with any confidence. And that's especially true these days."

"What we can be confident about is the positive outlook for the next five or six years - that positive mid term outlook is the reason we're invested.

"If you decide that you want to pull back as a result of the current uncertainty in the markets we can certainly talk about that. Remember though, that all the bad news that we're aware of is already reflected in stock prices."

Go on to tell clients: "That doesn't mean that the market won't continue to be volatile and that there's not a chance we could see more declines over the next while - nobody can predict short term movements and stocks can stay undervalued for long periods, just as they can stay overvalued for a long time.

"Over time, however, stocks revert to their true value. And the risk we run if we go to cash is that we'll miss out on a dramatic turnaround - history shows that when markets come back, they often do so faster than anyone anticipates. Yes, there will almost certainly be continued volatility along the way - but there is a strong case to be made to be very optimistic about the mid and long term."

At this point, you may want to refer to some of the broadly available material on how quickly markets have recovered from downturns in the past - most fund companies have excellent tools on their website that address this.

I talked to one advisor who disagreed with warning clients about the possibility of continued declines - "Why cause concern?" was his view. Remember - if you don't talk about the possibility of further declines, you risk your credibility down the road and also risk being seen by clients as a "market cheerleader" rather than a source of objective advice.

In Closing: Making this approach yours

For this approach to be effective, you have to incorporate your own philosophy and point of view. Modify the examples I've used to reflect your own opinion. Use only the examples that you're comfortable with - this is not an exam, where you have to memorize all the instances I've listed above.

And you may want to adjust the time frame. I've used five years as the point in time to get clients to focus out - depending on your point of view, this may be too



long (and there's no question some clients may struggle at thinking out five years) – or if you take a truly long-term view, five years may not be long enough.

Be sure to practice this a few times before trying it on an actual client, so that you are comfortable with the flow of the argument outlined here. Note that for this to work, it really has to be done one on one – for mid-sized clients, consider doing it in small groups, perhaps over sandwiches in your boardroom.

For many advisors, the biggest task is getting clients focused beyond the immediate challenges we find ourselves dealing with. Consider using this structure to get clients engaged in thinking beyond the near term - or develop your own method.

However you do it, bringing fresh perspectives and finding something new to say when you've said it all should be a top priority for most advisors.

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