

Navigating Post-Financial Meltdown Reviews

By Dan Richards
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Recently, an advisor emailed me asking for suggestions on how to deal with clients who sold some or all of their portfolio near the 2008 lows.

More specifically, he wanted to know if it's worthwhile educating these clients on where they would be had they not sold out. Should he risk further damaging their ego and what remains of the relationship?



He also asked for my thoughts on dealing with three types of fears he's seen emerge among his clients:

1. Almost a permanent "pessimism" about the world – that markets will crash again (and he's not sure he wants to keep these clients)
2. Acknowledgement that it was not a good time to sell and considering reentry in the markets (these clients make him slightly nervous since there will be drops in the market in the future)
3. Frustration and near paralysis ... and uncertainty as to what to do, especially given low interest rates.

Clients who sold at the bottom

For clients who bailed out in late 2008 or early 2009, it's worth approaching them about sitting down and revisiting where they stand.

The key is to make this conversation forward-looking, focusing on the opportunities today – there's nothing to be gained by going back over missed opportunities.

So it comes down to making an assessment of today's valuations, clients' time frames and their ability to withstand market downturns – and also the rate-of-return they need to achieve their goals.



As for clients who are still apprehensive, many investors are spooked by all the negative headlines in the media.

Here you need third-party support. I have posted [articles](#) referring to positive comments about prospects for the period ahead by Warren Buffett, Steve Ballmer and Jeff Immelt at a conference in mid September.

And I also have an [interview](#) with Jeremy Siegel of Wharton, considered today's leading stock market historian, that I recorded in July – "The case for undervalued markets" – that is still relevant today.

When talking to clients about reentering the market, assuming you are as modestly positive in the mid term as I am, you could recommend phasing in their shift from cash to equity over a 12-month period, investing the funds in two or three stages

This will be less risky and more comfortable for many clients and also sends the positive signal that you're not in a rush to get their money invested and generating revenue for you.

Three troublesome client profiles

For clients who are "almost permanently pessimistic" about the world and markets will crash again, I agree that it's generally not productive keeping "permanently pessimistic" clients – they're unlikely to change and will likely sap your own energy with limited return.

I wouldn't be as hard on clients who acknowledge that it was not a good time to sell and are considering re-entry in the markets, but make you slightly nervous since there will be drops in the future.

Lots of people (including advisors) got spooked in 2008 and early 2009; it truly did feel like we might be looking into the abyss. In these cases, you need to have a candid conversation about the certainty of continued volatility – and have a discussion about their ability to withstand this.

Finally, for clients who are frustrated and almost paralyzed... and unsure what to do especially given low interest rates, you need to acknowledge that those rates are obviously a huge issue, especially for seniors.

In some of these cases, advisors are going to have to broaden their horizons, and look at moving out on the risk curve, putting part of client portfolios in solutions like investment-grade corporate bond funds, emerging-market bond funds (currently yielding 6%), REITs and other higher yielding asset classes.



Talk to clients about the greater risk of these alternatives compared to Government bonds – but even if it takes more time to have these conversations, they're still going to be essential in many cases.

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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