

Putting Clients' Cash to Work

By Dan Richards
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A central challenge advisors face are clients who need mid- to high-single-digit returns to achieve their long-term goals, but who have an overweight position in cash. A recent luncheon with a group of highly successful advisors highlighted this challenge and illuminated a way to overcome it.

Clients know that they're earning next to nothing in money market funds and savings accounts; locking up funds in five-year CDs or government bonds doesn't do much better. The issue is how to present alternatives in a fashion that motivates clients to act.



The advisors around the table shared four approaches they'd tried with little or no success:

- One advisor had sat down with clients to review their financial plans, in some cases updating them, to drive home how staying in cash is jeopardizing clients' financial futures.
- Another advisor showed clients charts and graphs demonstrating that stocks are reasonably valued by historical standards.
- Still another had used material from a fund company demonstrating how quickly markets could move once they began to bounce back – and the risks of missing that move if in cash.
- The last advisor had built an extensive case for owning a group of high-profile multinational consumer packaged goods and pharmaceutical stocks. He focused on the yield available from a diversified basket of these companies, pointing out that their dividend payout is comparable to owning a bond yielding almost 5%. He also emphasized the fact that most of these companies have not cut dividends in recent memory.



Connecting at the right level

While these advisors had modest success with a few clients, they reported that most clients nodded their head at the conversation and then typically said they wanted to think about it, the “kiss of death” in concluding these kinds of conversation.

The source of the problem is very simple: While these arguments were all reasoned and thought through, they were directed at the wrong place. In essence, they all targeted logic and “the head,” rather than emotions and “the heart.”

We all know what’s keeping clients on the sidelines. It’s fear –of volatility, of Europe imploding, of dysfunction and the fiscal cliff in the US, and media reports about a possible slowdown in China.

While logic always plays an important role in client conversations, logic alone isn’t enough to get client buy-in to our recommendations; we need to connect at an emotional level as well as an intellectual one.

Here are four ways to help clients move forward who need to get cash invested to achieve their goals:

1. Start with empathy

Clients need to know that you understand and can relate to their fears. There’s nothing wrong with saying: *“I absolutely understand your concern about market volatility. I’ve talked to people who’ve been in the financial industry for forty years and this is the most uncertain period they can recall.”*

Until clients feel that you’re on the same page and have really heard them, they will not really listen to anything else you say.

2. Take baby steps

It’s fine to suggest that clients increase their equity allocation to their target levels (assuming of course that you have a plan in place that sets asset allocation bands).

The issue often is how to do that. One solution is to recommend baby steps – perhaps move 20% or 25% of the amount that clients need to get invested to hit their minimum threshold now, with the suggestion that you revisit this in 90 days. It’s much easier to buy into an approach that tiptoes back into the market than making a bigger immediate commitment.

3. Stay away from the “s” word (stocks)



In some cases, clients have been so spooked by stocks that no amount of conversation about the safety of dividends from utilities or telecoms will persuade them. In those, cases look at alternative solutions such as short-term bond funds, floating-rate funds and investment-grade corporate bonds maturing within five years. Just be crystal clear, of course, on the risk that clients are taking to get slightly higher yields.

4. Get help from the Oracle of Omaha

I recently talked to an advisor whose largest client was fixated on owning government bonds, influenced by how well they'd held their value in 2008. At one meeting, he asked the client if he could play a video interview with Warren Buffett done at the time of the release of his annual letter to investors earlier this year, in which Buffett described bonds as among today's most dangerous asset classes.

That video opened the door to a conversation about diversifying part of the client's portfolio away from government bonds – what the advisor had been unsuccessful in achieving in a number of conversations, Buffett had achieved in two minutes. Don't hesitate to tap into credible expert sources to buttress your argument; in the meantime, here's a [link](#) to an article on Buffett's view on bonds.

As you think about clients who need to get cash invested, consider whether one of these approaches is worth trying. By all means marshal logical arguments, but never forget that to get client buy in, you have connect with their decision-making driver, not yours.

[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, go to www.clientinsights.ca. Use A555A for the rep and dealer code to register for website access.

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