



10 Tips: Crisis Management and Client Relationships

Robert Huebscher

October 14, 2008

In this unprecedented financial climate, rife with uncertainty and fear, enormous pressures mount on advisors and their clients. We offer our advice for managing the difficult client relationship during today's complex times.

Our advice is predicated on the assumption that you generally believe in "staying the course" with regard to asset allocations and you are not advocating dramatic changes for your clients' portfolios – specifically, you are not suggesting that they reduce exposure to equities in a significant way. If you believe now is the time to take your clients' money "off the table" – and we do not assert that this would be unwise - then much of our advice does not apply.

Forecasts range from an impending global economic collapse to a market that is now vastly undervalued. At one extreme, you can [read](#) what Nouriel Roubini has to say. Roubini earned the moniker Dr. Doom for his predictions two years ago of the current crisis, and he is living up to his reputation today. He says we are at the brink of another Great Depression. Sadly, he is not alone. But there are many on other end of the spectrum in terms of sentiment. Foremost among them is Warren Buffett, whose recent investments in General Electric and Goldman Sachs came after a long period of *inactivity* in his investing, and express his belief that today represents a terrific buying opportunity. Our [interview] this week with Michael Aronstein further illustrates the optimistic line of reasoning.

Given the diversity of market sentiment, both advisors and clients face what might seem to be enormously difficult investment decisions. It is not easy to stay the course. You may be making adjustments, which is fine. But there are a number to things you must do to safeguard client relationships. These are the times that stress test portfolios as well as client-advisor relationships. How well you perform in the current market as an advisor – and not just an investment manager – will make a big difference in building client relationships over the long term.

We offer the following 10 recommendations for working with your clients:

1. **Be Proactive** – In times of stress and uncertainty, err to the side of over-communicating. A combination of written communication and phone conversations works best. If you haven't heard from your clients, don't assume they are coping with the daily onslaught of bad news. A simple phone call asking if they have any questions, or if they would like a more



complete explanation of current events, is entirely appropriate. Of course, be prepared to answer the inevitable question – “should we take our money out now?” Your written communications should demonstrate confidence in your asset allocation over the long term, and should explain the structural problems the economy and the market faces, using some of the points below.

2. **Address the Unprecedented Nature of Today’s Circumstances** – From the unregulated market in credit default swaps to the near-total seizure of the credit markets, many of the factors and events are new to even the most seasoned market experts. This makes forecasts more uncertain, and is probably what lies at the heart of many client concerns. You need to acknowledge this in your communications and emphasize that it is being met with an unprecedented response from policy makers – the TARP and other “bailout” measures, monetary policy, a fiscal stimulus, and behind-the-scenes maneuvers. Behind-the-scenes deals, such as the orchestrated sales of WaMu and Wachovia, are vastly underappreciated by the general public. Substantial uncertainty remains, particularly as the unregulated credit default swap (CDS) market is sorted out. But policy makers understand the scope of the challenge and are taking every appropriate measure to fix things.
3. **Separate the Temporary from the Permanent** – Some changes we are seeing will clearly be permanent – some Wall Street institutions have failed and others will be vastly restructured. Other changes are temporary – the credit markets have stopped working and global markets have become highly correlated, decreasing the value of diversification. Good asset allocation adjusts for the permanent changes and does not over-react to the temporary ones.
4. **Reframe the Question** – When clients ask if they should take money out of the market now, ask them how they would behave under different circumstances. If they had just inherited a large amount of money, would they invest it very conservatively? Or would they follow in Buffett’s and others’ footsteps and seek out what are potentially once-in-a-lifetime bargains in the market? Many of the most respected value managers have recently re-opened their funds for this very reason. See our [article](#) today by one such value manager, who views today’s markets as extremely attractive.



5. **Explain the Details** – When communicating with clients, don't assume they understand how the credit markets operate and their importance in global commerce. Just as it is important to over-communicate, it is equally important to explain the details – without going overboard – that underlie the crisis. Clients should understand how the TARP plan will work and why it was implemented, and they should understand why banks are facing solvency issues. They should understand why this is important to the health of the market and how the steps taken will ultimately benefit their portfolios.
6. **Put the Media in its Place** – It is not wise – nor would it be effective – to tell clients to turn off the TV and disregard the media. But the media has an incentive to build an audience and they can accomplish this more easily by taking an extreme position. Today, this means emphasizing the bad news – of which, unfortunately, there is no shortage. But there is plenty of good balanced commentary (hopefully we are one of these) your clients can read. As long as they understand that mainstream media is filled with a lot of hype – in particular, when it comes to financial news – they will be well-served.
7. **“Staying the Course” is Not for Everyone** – Some clients cannot cope with the emotional roller coaster that comes with market volatility. Others may have immediate cash needs, or may face unemployment risk as a result of the deteriorating economy. Your role is to identify those circumstances that are red flags – and make sure these clients have appropriate asset allocations.
8. **Identify Opportunities** – Now may be a good time to think about loss harvesting, especially given the potential for tax increases next year. If clients have legacy positions with large capital gains, use losses from the last couple of months to offset those gains.
9. **Set Reasonable Expectations** – The economy is in for a rough time. We may see flat or negative growth through most of next year. It will take time to restart the credit markets. Some banks still face solvency issues, although the banking system as a whole is very strong. Some corporations will struggle; that is the nature of capitalism. Some may go bankrupt and others will merge. Your goal is to set realistic expectations with clients. If you set the bar too low with doomsday predictions, clients will panic (see next bullet point). On the other hand, if you paint too rosy a picture, you will set yourself up for disappointment. Be realistic and provide data to back up your forecast. But your communication should stress that the market is a discounting mechanism and historically the market bottoms well-before the end of a recession.



10. **Don't Let Your Clients Panic** – Above all, the worst thing that can happen is for your clients to panic. That will inevitably lead to bad decisions, on top of the emotional turmoil that is the very nature of panic. Avoiding panic requires addressing your clients' financial plans: that they are spending within their means and have taken reasonable steps to safeguard their long term financial needs. You need to reassure them that this is the case. If you can accomplish this, the other nine points should be relatively easy.

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>