Harold Evensky - Nine Key Communication Points

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Advisors should put their mouths where their money is, according to Harold Evensky. Educating and preparing clients for what advisors will ultimately deliver must be a core principle of every practice. In a recent presentation, Evensky described nine key ways that advisors should interact with clients, the media and their peers.

Evensky is a Certified Financial Planner and chairman and co-founder of Florida-based Evensky & Katz, one of the most prestigious fee-only financial planning firms in the country. He is also a professor in the personal financial planning department at Texas Tech University.

Evensky spoke on January 19 at the AICPA advanced personal financial planning conference in Las Vegas. A copy of the slides from his presentation is available here.

Though Evensky focused on how he employs these principles in his practice, his presentation can be adapted and used as a template. Let's look at the nine ways better communication skills can improve your practice.

1. **The "what" of your practice**

   A practice consists of three "Ps" – philosophy, process and people – and Evensky explained how he articulates these elements for his own firm.

   Evensky identified nine core aspects of his philosophy:

   - A total-return approach that is indifferent as to whether cash flow comes from capital appreciation, dividends, income or other sources;
   - Realistic (not conservative) assumptions in planning exercises and an acknowledgement that future returns from capital markets will be modest by historical standards;
   - Goals-based planning – helping clients achieve a desired financial outcome instead of attempting to achieve certain investment results;
   - Tax-efficient investment vehicles and optimizing asset location whenever appropriate;
   - A belief in the weak form of the efficient-market hypothesis – specifically, that there is no benefit to market timing;
   - A belief in factor-based investing based on the research of Fama and French, including overweighting portfolios toward value securities;
   - An agnostic position in the active-passive debate and a willingness to use either approach for asset classes or sub-classes;
   - A belief that asset allocation is the single most important determinant of investment performance and overall volatility;
   - A written investment policy statement.

   Similarly, Evensky said his process consists of three elements:

   - A fee-only structure;

- A team-based approach to client management;
- A distinction between risk tolerance (the level of risk a client can withstand before wanting to go to cash), risk capacity (how much risk clients can afford to take) and risk need (how much risk clients must take to achieve their goals);

Evensky spoke of four critical elements that relate to the people who work for his firm:

- Credentials are important – all planners must have a CFP certificate;
- Adherence to a code of ethics;
- Adherence to the fiduciary standard;
- Staying current with academic research.

2. **Establishing value**

Evensky discussed how he articulates the value he provides to clients.

He acknowledges that he cannot beat the market. Unfortunately, an AUM-based fee is not aligned with that belief; AUM-based fees increase with better investment returns. So, Evensky often tells clients that sometimes he is paid for "the good sense not to do anything," and keeping clients from making mistakes at times of market stress.

To illustrate this, Evensky told a story of someone who hired a carpenter to fix a floor that creaked in one spot. The carpenter spent a lot of time examining the floor joists and support mechanism, and then hammered a single nail that fixed the problem. His bill was $127. When the client complained, the carpenter said that $7 was for the hammer and nail, and $120 was for knowing where to put it.

"We spend a lot of time explaining our value to clients in those terms," Evensky said.

3. **The "who" – the public**

Evensky is widely quoted in the financial media and he identified some of the characteristics of a good public-relations program:

- Be aware – Read *Barron's, The Wall Street Journal* and all the things that your clients read like *Smart Money* and *Kiplinger*. Evensky said this allows him to be responsive to the issues that matter most to clients.
- Be available – "If you want to be quoted, you need to be there when the media wants you," Evensky said. Evensky bought a pager a long time ago (before the cell-phone era) for the sole reason to be there when media calls. "If you don't immediately respond," he said, "they will go to the next name."
- Be interesting and controversial – "You need to stick your neck out and have an opinion," he said, "assuming you have one."
- Be dependable – Follow-up within your promised timeframe. If you don't, you won't hear from them again, he said.
- Be professional, not arrogant – "Reporters know their business very well," Evensky said. He is very rarely misquoted, and said "don't lecture down; treat the media as professionals."
- Be a resource – Evensky said he is quoted only about one-tenth of the time he talks to a reporter and will often provide them with the name of an expert. He is more than happy to refer experts on various topics.
- Be proactive – He reads articles that are written by reporters he follows. If it's an area that resonates, he will send a note to the reporter to say, "If you address this issue again, here are issues you may want to consider." Don't hesitate to challenge – not the writer, but a source quoted in the article, Evensky said.
- Be patient – Don't expect quick results. It takes quite a bit of effort and work, he said.

4. **The “who” – The prospect**

Evensky reviewed a number of tactics he uses when working with prospects.

“The key is to have them do more talking than we do,” Evensky said. He typically begins a meeting with a prospect by saying, “Tell me why you made an appointment,” and, “Tell me about yourself.”

Once a client commits, then the data gathering begins. Don’t attempt to gather data before someone becomes a client, Evensky suggested. However, it is useful to understand someone’s goals while they are still a prospect.

The key, he said, is that goals need to be time- and dollar-specific, and they must be prioritized. You might want to determine, for example, when a prospect plans to retire and their standard of living.

Rather than capturing this through a data-gathering questionnaire, Evensky uses a “powerful” tool: a deck of cards. His was provided by Money Guide Pro, but he said advisors could easily create one themselves. He has 20 cards with pictures of hypothetical goals, such as cars, yachts, vacations and higher education.

He then invites prospects to “play cards.” Evensky divides the cards into two piles: goals that resonate with the prospect, which need to be funded; and the “forget that” pile. Prospects – typically a husband and wife – organize the cards according to their goals. “This is a very powerful way to capture the single most important aspect of information we need to develop a plan for our clients,” Evensky said.

5. **The “who” – The client**

Evensky discussed three principles that guide his client-management process:

- Be proactive – “Call the client before they call you,” Evensky said, “particularly when things look bleak or bad.” Evensky mentioned a client who had a substantial amount invested with a prestigious trust company. The client lost $1 million, which he could afford, but never got a call from the company. “They were just like brokers,” Evensky said, “and didn’t know what to do. When things are really bad, we hit the phones.”

- Be responsive – “If a client calls, don’t hide,” Evensky said. “Lean into it. That’s how we keep clients when things are going wrong.”

- Reinforce through frequent but not overwhelming communication – Evensky said his goal is to have frequent contact and understand clients’ preferred mode of communication.

6. **The “how” – Behavioral finance techniques**

Behavioral finance is the single most powerful tool for working with clients, according to Evensky. Classical finance is based on rationality, he said, but behavioral finance says clients don’t act that way.

Clients use heuristics – mental shortcuts – he said, which can cause problems like overconfidence. Evensky asked the audience how many thought they were above-average advisors. More than half raised their hands, but Evensky said “a lot of you are cheating because I know everyone would like to raise their hands.”

“We want to educate clients up front about the dangers of overconfidence,” he said.

Evensky also cautions clients about biases based in representativeness. This happens, for example, when clients see a pattern – such as a series of consecutive “heads” in coin flips – and infer that the pattern will continue, even though the underlying dynamic is random. Evensky said relying on Morningstar star ratings is an example of such a bias. “We want to educate our clients to be sensitive to these kinds of problems,” he said.

Clients make “dumb mistakes” by using mental accounting, Evensky said. For example, a client may want to invest in a company mentioned by a friend. The client believes the probability of success is higher than it is. Evensky has found that he is able to illustrate that the probability of success is lower than the client believes by explaining that the company must pass a series of interconnected tests for it to succeed, such as market research, government approval, beta testing and promotion. By assigning probabilities to the individual steps, Evensky can show the final probability is the product of the individual probabilities, which is typically much lower than the client originally believed.

7. ## The “how” - Framing

“The way something is presented has a big impact on how we behave,” Evensky said. Chinese gooseberry was a marketing failure until it was renamed “kiwi fruit,” he said. The same was true when prunes were renamed dried plums.

Evensky uses this concept when discussing whether a client should sell a particular investment. He reframes the question to ask, “Would you buy it now at its current price?” Clients are typically more likely to sell an overpriced asset when the question is posed this way.

When clients believe they can time the market or select managers, Evensky asks them to name the top 10 musicians, baseball players or dress designers. Clients can typically do this. Then he asks them to name the top 10 asset managers, and clients can rarely name more than one or two. “If there were lots of people who could do it, we’d argue about who belonged there,” he said, “not that there are no names to put on the list.”

Clients often fall victim to “contagious enthusiasm,” Evensky said, believing that nothing can go wrong with a particular idea or investment. If Evensky tries to explain to clients what he thinks might go wrong, clients often ignore him. But by reframing the question – using a technique originally employed by Louis Rukeyser – he can persuade clients. He says to them, “I don’t know much about this idea… what might go wrong with it?” By letting clients frame what might go wrong, he can substantially reduce the amount clients will invest in their hot new idea.

Evensky mentioned another technique, which he credited to his partner, Deena Katz. If clients have an idea about an uncertain activity or investment, he will re-run their financial plan and look at scenarios where it works and where it doesn’t. When it doesn’t, he conveys this by saying, “you will have to work three more years.” Clients are able to absorb the impact more effectively than if he merely called it a financial loss. “We have stopped clients from doing some pretty crazy things,” he said.

8. ## The “how” – Education and empowerment

Evensky discussed the techniques he uses to examine whether clients consider certain attributes of investments important.

He tells clients to assume the money they will invest will be okay over the long term. He asks clients to rank how important certain attributes of those investments are: capital preservation, growth, low principal volatility, inflation protection and current cash-flow protection.

Evensky then presents a series of simulations based on the priorities clients have placed on those attributes. Clients can see the range of outcomes, which Evensky presents over a 10-year time horizon. He said this reinforces clients’ understanding that any money they want to invest is long term.

“We see our job as empowering our clients to make good decisions,” Evensky said. He allows them to see the effect of changes in assumptions by stress testing their plan. The assumptions can be inflation, longevity, Social Security income or a number of other variables.

Evensky constructs portfolios using what he calls a “five-year mantra.” He sets aside funds to support a client’s needs for five years, which are invested in safe, liquid vehicles. This account can be set up so that clients get a monthly check. “Clients know where their grocery money is coming from,” he said. The remaining funds are invested according to the client’s longer-term financial goals.

9. ## The “how” – Acknowledge the elephant

The last element Evensky discussed was the need to put good and bad news in proper perspective for clients. He provided examples of letters he sent to clients after markets were down 36.5% after two years, and after a six-month 26.4% gain. Those examples are in his presentation slides.

“When things are bad, we’ll write something positive,” Evensky said. “When things are great, we want to control clients’ enthusiasm.”

