

Weathering the Investment Storm

In today's turbulent markets, top investment advisors are allaying their clients' fears by serving them with the best tool in their toolbox: sound individual advice.

By Lynn Vincent

In early January, Dallas advisor Adam Prewett got a phone call. It was a client, a doctor who was 10 years from retirement and earning \$200,000 a year.

"So what's the deal with this stock market?" the doctor wanted to know.

Prewett recognized the edge of concern in his client's voice. He'd received many similar calls in recent months, calls triggered by a stock market—and, indeed, a national economy—that on good days can't seem to find its footing, and on bad days seems poised for a catastrophic dive.

In December 2007, the Dow Jones Industrial Average closed at about 13,600, but by early January, had slid 900 points before bottoming out at 12,500. A big hit in a small window, but these days, fairly routine. Still, combined with the mortgage crisis, bailouts of U.S. institutions by foreign investors and governments, spiraling oil prices, a presidential election, and talk of both inflation and recession, turbulence on Wall Street is rattling investors. *Advisor Today* spoke with five advisors about how to help clients weather the storm.

Prewett, an insurance and financial planner with ING Financial Advisers, notes that concern among investors is widespread. "No matter the income or the size of their portfolio, the thoughts clients are thinking are similar," Prewett says. That's why he takes the time to take those phone calls, trying to separate fact from hype while allaying his clients' fears. When the doctor called, for example, Prewett acknowledged

that the economy is slowing down, and also explained the technical details of what constitutes a recession. But he also told him that every recession is not created equal: While a two-quarter stint of negative growth might make good campaign fodder for some politicians this year, it doesn't mean the end of the world for investors. And neither does a down market for someone with time on his side.

In fact, Prewett told the doctor, "It's a good time to buy things cheaper, especially through a systematic purchase program." The doctor thanked him and hung up reassured, showing that financial phone therapy can be effective.

Reassure and comfort

More clients now need that simple reassurance, Prewett says, as well as those who do not use financial advisors to manage their investments. In fact, he has an uptick in the number of people who have managed their own accounts in the past now calling him for guidance: "They're throwing up their hands and yelling, 'Help!'"

MetLife senior financial planner Kenneth Steele agrees. Contrasted with the 1990s when many consumers thought they could do it themselves, people today are more receptive to getting professional help, says Steele, who is based in Waltham, Mass.

"When I get talking with people now about their financial plans, their 401(k)s or their children's college savings, they're not so readily shooting off their answers and saying, 'Oh, I've got that taken care of,'" Steele points out.

"Instead it's, 'How can you help us with this?'"

Of course, having a little gray hair helps. Today, Steele is able to share with jittery clients the story of "Black Monday"—Oct. 19, 1987, when the Dow was down by more than 22 percent in a single trading session, making it the largest one-day percentage decline in stockmarket history.

"The absolute floor fell out, and it looked like the world was going to hell in a hand basket," Steele recalls. But by December 1987, the market had stabilized and the Dow closed out the year higher than it began. "By the following July, everything was back to normal," Steele says now. "Nobody would have lost anything if they had just stayed put."

Stress a comprehensive approach

In helping investors weather tough times, Steele stresses that there is no such thing as a Band-Aid. The answer is comprehensive financial planning, rather than a quick fix or a one-product strategy. To explain what that means, his firm employs a one-page fact-sheet that defines the six areas of financial planning: estate planning, financial positioning, taxes, insurance, investing and retirement planning. Under each subject heading, there is a list of subtopics. Under insurance, for example, listings include life coverage, long-term care insurance, liability and property and casualty.

"I put that in front of clients and ask them: Who does your taxes? Who manages your investments? Who handles your insurance?" Steele

explains. Then he asks the money question: “When’s the last time you had these people talk to each other?”

Most of the time, the answer that comes is, “Never.”

The concept of financial planning for Main Street investors has been around for about three decades. Still, Steele says, people are only just now getting it and understanding the necessity of a holistic approach that goes beyond reaction to proactivity. It’s a strategy that asks not only the down-market question, “Is it time to reallocate?” but also the any-market question, “How can I fit all of these life and financial events into my financial future?”

Amid the constellation of financial services professionals—CPAs, brokers, attorneys and so forth—insurance advisors are arguably the most well-positioned to keep a client’s financial plan on target during tough times. Lawyers and CPAs may have a handle on the estate and portfolio portions, but most are not licensed to make product changes that can shelter clients’ assets at appropriate times.

Help clients take a new view

With bad financial news pouring in from the radio, television and the internet, you may also have to help your clients adopt a new perspective. Imagine a market report in which a sunny anchorwoman appears and chirps, “The Dow remained steady today, the price of a barrel of oil didn’t budge and there was no change in any important interest rate.”

You can imagine all you wish, but it’s not going to happen. That is because the “news” is always about changes or new developments. And it’s the negative changes that often make for sexier headlines.

“People sit at home and listen to that, but they need to remember

that the financial media are just reporting what they hear,” says Jim Coleman, president of Coleman Financial Advisory Group in Waterbury, Conn. “Reporters don’t necessarily know how they should be interpreting what they hear. Clients hear that and it scares them.”

The ROI factor

This is particularly true of people who lost a mint between 2000 and 2003. That’s why Coleman tries to get nervous clients to focus on what he calls the “New ROI”—not return on investment, but reliability of income.

“People accumulate assets for a certain purpose,” Coleman says. “They do it not just to have a big pile of assets but to create or maintain a certain lifestyle. A lot of what I do is geared toward getting people to understand that the ability to maintain their lifestyle is more important than asset value.”

Coleman works with clients on this question: How do we put you in a position to have a very reliable way to preserve your lifestyle that doesn’t tie you to daily fluctuations in the markets, while enabling growth to hedge for inflation over a lifetime?

According to Coleman, the new ROI seems to be very attractive to retirees who typically do not want anything more than certainty. When they realize they don’t need to worry about every dip and spike in their assets so long as their income plan remains intact, “it’s like this enormous light bulb goes off,” Coleman says. “You can see stress melt off their faces.”

Get them to act

Churning markets generate many clients who fret that it’s time to pull out. But there’s another kind of skittish investor—the one who is scared of everything in the market and wants zero risk.

Coleman has developed a simple way to explain the cost of such an attitude, and again it is related to the New ROI: “What they’re really doing is guaranteeing that they won’t be able to maintain the lifestyle they want in the future,” he says. “I try to help them understand that they don’t have to risk everything in the marketplace, but they have to take enough risk to make sure they can maintain their lifestyle.”

Coleman spends a lot of time educating clients on emotional and intellectual responses to risk: A client’s investment strategy must allow him to sleep at night now while also ensuring that he meets his goals for the future. Coleman repeats his risk analysis annually, since fat times can affect a client’s view of risk as easily as lean ones. For example, when investments are perking along better than anticipated, he may counsel a client against “letting it ride” and might suggest, instead, that he trim some money off the top and set it aside for tougher times.

Give individual advice

Many of today’s near-retirees have seen no times tougher than the years following the dot-com collapse. The spectacular growth of new web-based companies (fueled by a seemingly endless river of venture capital) served to bloat stock prices, spur speculation and day-trading, and discourage allegiance to standard business models. But on March 10, 2000, the slide began when the tech-heavy NASDAQ peaked at 5,048 points, double its value for the same time the previous year. The following week, a large batch of sell orders for key tech stocks triggered a massive sell-off that snowballed as investors, money managers, and institutions liquidated positions. Over the next 18 months, the dot-com bubble rapidly deflated and by October 2002, the crash had erased \$5 trillion in market value.

The dot-com crash served for many investors as a sort of graduate school of hardknocks. Since then, the internet has come of age, shedding its illusory Golden Goose image and becoming, instead, a rich source of investment information. Paradoxically, this information can be a problem for advisors, says Luis Strohmeier, a CFP with AXA Advisors in Dayton, Ohio. One trend he sees among his clients in rocky markets is uncertainty. "It isn't that they don't want to invest or that they don't trust market cycles or long-term returns," he points out. "Sometimes, it's information overload that makes them uncertain."

The information-glutted client is different from the one who wants to yank out his money at the first hint of trouble, or the one who is afraid to invest at all. This client is paralyzed by a storm of questions: What about the strength of the dollar? What about the mortgage crisis? What about inflation? What about the upcoming recession and soaring oil prices? Should I wait another week to move my money? Another month?

Strohmeier says this is where the best advisors serve their clients with the best tool in their box: sound individual advice—a tool that is not available on the internet.

"Back when I started, the advantage that one advisor had over the other was more product knowledge and applications," Strohmeier says. "Advice was almost inconsequential because the client already had been told to purchase something, and now he was shopping among different products. Based on product knowledge and application, he would choose his advisor."

Now, products are similar across the industry, and the agency system as it was then does not exist. "Today, clients are not looking for products, they are

looking for solutions, and what a solution is, is a collection of advice," Strohmeier says. As a member of AXA's Paramount Planning Group, Strohmeier accesses the services of an advance planning team with credentials in law, taxation and financial services. The team is trained to run illustrations and produce personalized material for client presentations in the areas of estate-, succession-, charitable- and executive- benefit planning.

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"The valuable commodity is advice, but the nature of the advice has changed," Strohmeier says. "Today, it means coming down to processes, interpreting information and creating a methodology." Strohmeier's group strives for finely tuned advice that causes clients, in good times and bad, to ask themselves, "Why would we go anywhere else?"

Find out what drives them

The time to help clients see the wisdom of hanging tough in rough investment seas is not after the storm starts. "We spend an incredible amount of time educating our clients on risk tolerance and asset allocation so that we're not doing control work when the market fluctuates," says Patricia Nowak, a New York Life agent who has been a registered representative with New York Life Securities Corp. for more than 28 years.

Nowak says it's also important to learn what makes a client tick before the bumps begin. Before a client invests with her firm, he must complete an in-depth factfinder that covers not only his assets,

liabilities, investment philosophy, current strategies and investment goals, but also his family circumstances projected out to multiple generations, including any parents or siblings who might later become dependents and affect the client's financial plan.

In addition, Nowak probes clients about where they previously held their assets and if they inherited their money or made it on their own. The answers to such

questions can be revealing. If they inherited their money, it's possible they have very little investing experience and may respond differently to market fluctuations than clients who grew their own nest eggs over time.

"It is especially important during down market cycles to meet with clients to determine whether their risk tolerance has changed," Nowak adds. "If they have concerns, can we alleviate them? We want to deal quickly with any speculation, anything they've heard through the grapevine."

Balance is everything

Nowak's bottom line on shepherding clients through tough times comes down to following a sound investment philosophy: "We don't believe anyone should try to time the market," she says. "We believe if our clients have a well-balanced portfolio, they can ride through almost anything. Over time, they're going to do well."

Lynn Vincent is a frequent contributor to *Advisor Today*.