

# From PAIN to GAIN

## How to Capitalize on the Opportunity of a Lifetime<sup>1</sup>

By Steve Saenz, March, 2009\*

If it is true that what does not kill us makes us stronger, there should be many a Hercules among us. Of course, that and \$2.97 will buy you a non-fat latte! We're not trying to make you feel better but the happy truth is that if you are still reading the *Investments & Wealth Monitor*, there is a good chance you are going to survive this "crisis." Is the worst over? Maybe. Will we see more blood in the streets? Probably. Will you lose some clients? Likely so.

In spite of the pain we have all felt this past year, most people in our industry would agree that this is an excellent opportunity to gain market share. The goal of this article is to help financial advisors\* regain their focus and share some actionable ideas that will help them capitalize on this opportunity of a lifetime.

In January 2009, we conducted a survey of IMCA members. The purpose of this survey was to determine how members are dealing with the recent dislocation in the financial markets and in the financial services industry itself. Our survey looked at four key areas including *Advisor Sentiment, Business Challenges, Strategic Initiatives and Future Plans*. Summarized below are the key findings of this survey. Under each focus area, you will find some business practices advisors can use to overcome their challenges and achieve their business goals in 2009 and beyond.

\* Please note that, in this article, the term "financial advisor" is used to describe all types of investment professionals, including investment management consultants, wealth advisors, etc.

### Survey Respondent Profile

Firm Type	Length of Service	Business Model
Wirehouse 47%	Less than 5 years 5%	Wealth Mgmt Consulting 56%
Independent RIA 14%	6 – 10 Years 16%	Inv Mgmt Consulting 18%
Independent B-D 14%	11 – 15 years 14%	Investment Advisory 20%
Bank Trust Department 12%	16 – 20 years 25%	Financial Planning 6%
Regional Brokerage 6%	21 – 25 years 25%	Family Office 0%
Bank Brokerage 6%	26 – 30 years 11%	
Insurance B-D 1%	More than 30 years 4%	

### Advisor Sentiment

#### Survey Findings

- Advisors were caught off guard by recent events. 85% of survey respondents said they were surprised or very surprised by the magnitude of dislocation they have witnessed in the financial markets. 83% said they were surprised or very surprised by the magnitude of dislocation they have witnessed in the financial services industry.
- Advisors firmly believe that their clients still have confidence in them; less so in their firms. Only 17% of survey respondents felt that recent events had eroded their clients' confidence in them while 42% felt that recent events had eroded their clients' confidence in their firms.

- 57% of advisors said that recent events have caused them to question the principles of modern portfolio theory and capital market assumptions.
- 64% believe that the financial markets will be better off as a result of the dislocation that has taken place in recent months. 66% believe that the financial services industry, itself, will be better off.
- Only 34% of advisors are optimistic or very optimistic about the financial markets in 2009.
- 82% of advisors believe that recent events have presented them with a significant opportunity to grow their businesses. 79% are confident that they know how to capitalize on that opportunity.

### *Prudent Business Practices*

Clearly, a large majority of advisors were caught off guard by the magnitude of dislocation that has taken place in the financial markets and the financial services industry itself. The good news is that client confidence in advisors has held up relatively well; arguably better than advisors' confidence in themselves. If you have been in the business for any length of time, this should not come as a surprise. As is often the case in difficult markets, clients are just as concerned (if not more so) about their advisors as advisors are about their clients. For the most part, clients *care* about their advisors. They view them as *humans* and connect with them at a level that transcends the advisor-client relationship. That is one of the great paradoxes about our business and one we all should take great comfort in.

The importance of communicating with clients during difficult markets has been well documented. Our position is that during extraordinary times, advisors should be taking extraordinary steps when it comes to managing client relationships. In addition to calling clients and meeting with them to discuss their portfolios, advisors should be making time to deepen their client relationships. This can be done by taking clients out for a non-working lunch or dinner. Another option is to invite a group of clients over for a nice (but understated) wine dinner. The key is to spend quality time with clients. The goal should be to get to know them and their families better. This one practice alone will have an extraordinary impact on your business; more than anything else you can do at this time. It will also lead to more referrals if you have the right conversation with your clients (see below).

While it is true that many advisors and clients have lost confidence in their firms, most are staying put; at least for the time being. The vast majority of investment professionals we talk to (who work at financial service organizations) have certainly considered moving firms. Many have also had serious conversations with the "competition" and looked into going out on their own. At the end of the day however, one of two statements usually sums up their no-go decision: "It's not a good time to move" and "Moving to another firm would be like jumping from the frying pan into the fire." Only time will tell what advisors will do but our guts tell us that the early predictions (about large numbers of advisors going out on their own) are probably overstated. That said, it has always been our position that advisors should do what is in the best interest of their clients and their businesses. If circumstances warrant, changing firms or going out on their own may make good business sense for some advisors. The key is to make sure they are making the move at the right time and for the right reasons, a discussion for another place and time.

A significant number of advisors are questioning the basic principles of modern portfolio theory and/or their capital market assumptions as a result of recent events. This is understandable given the unprecedented nature of the dislocation we have witnessed during the past year. But again, this is where having some wear and tear on your tires comes in handy. Anyone who experienced the 1973-74 water torture or the "Crash of 1987" probably knows what Yogi Berra meant when he said, "It feel like déjà vu all over again." We've been there folks before and this too shall pass!

Advisors, like clients, are susceptible to a host of behavioral biases that ultimately affect decision-making. On one hand, we could argue that it really is different this time; that the bizarre set of circumstances that led us into this mess are too unique to ignore. On the other hand, we could argue that we are merely suffering from a syndrome that leads us to (falsely) believe that recent events will become the norm.

Our position is that, in the long run, the basic tenants of modern portfolio theory will continue to hold true. That said, we would encourage advisors to take a hard look at their investment philosophies and make sure they are aligned with sound investment principles. We would urge them to carefully review their investment processes to make sure that they lead to sound decisions when it comes to formulating investment strategies for clients.

# Business Challenges

## *Survey Findings*

- 92% found it challenging to help their clients deal with declining portfolio values.
- 76% found it challenging to prevent their clients from abandoning their investment plans.
- 60% found it challenging to decide what changes to make in clients' portfolios.
- 45% found it challenging to get their clients to act on their recommendations.
- 51% found it challenging to make sense of the underlying factors that led to recent events.
- 48% found it challenging to explain to clients the underlying factors that led to recent events.
- 55% found it challenging to deal with headline risk (bad news about their firms).
- 69% found it challenging to manage their own stress.
- 52% found it challenging to manage their team members' stress.
- 68% found it challenging to deal with the financial impact on their personal wealth.
- 61% found it challenging to maintain a positive attitude.
- 55% found it challenging to help their team members maintain a positive attitude.

## *Prudent Business Practices*

The survey results above confirm that advisors have been tested like they have never been tested before. The level of stress is palpable and many advisors remain uncertain about what the future will bring. Advisor challenges seem to be centered around two basic themes. The first has to do with helping clients deal with declining portfolio values (client relationship management). The second has to do with managing their own stress and that of their team members (practice / self-management).

When it comes to dealing with challenges of this magnitude and duration it is important to remember that most of us tap deep into our personal energy reserves to get us through these times. Again, if you are reading this article, there is a good chance you are going to make it through the fire. That said, you should consider post-traumatic effects that could manifest themselves as a result of running on adrenaline for this long. To mitigate these potentially negative effects, we would encourage advisors to consider these steps:

- ✓ COMMUNICATE with *everyone* more; not just clients. Make time to talk to friends, family and co-workers. Ask people how they are doing. Tell them how you are doing and be honest. If you are feeling overwhelmed or hopeless, seek help. Asking for help is a sign of strength; not weakness.
- ✓ ACKNOWLEDGE the fact that you were surprised by the magnitude of dislocation that has taken place. Doing so reminds people you are only human. Remember that your clients care about you and do not hold you personally responsible for their losses.
- ✓ Convey CONFIDENCE in every conversation you have. Let people know that you believe in our economic system and in our financial markets. Assure them that their investment policies are still sound. If you have lost your confidence, talk to your colleagues and see if you can regain it. If not, it may be time to get out of the business.
- ✓ RE-EVALUATE your investment philosophy and process. Take a hard look at the investments choices you have made on behalf of your clients; make sure they are still the best ones. Taking action shows clients that you are being proactive.
- ✓ Make time to HAVE FUN. Be creative here; create a memorable experience for those who support you including your team, family and friends. Reconnect with something you enjoy but have not done in a while; a childhood hobby perhaps?
- ✓ SHARPEN THE SAW (Habit #7 of Highly Effective People). Covey was right and there has never been a more important time to take care of yourself physically, emotionally, spiritually and intellectually. Remember that you cannot take care of others if you do not take care of yourself.

# Strategic Initiatives for 2009

## Survey Findings

- 91% of advisors said that increasing their assets under management was a strategic initiative for 2009.
- 87% of advisors said that rebuilding client confidence in the markets was a strategic initiative for 2009.
- 44% of advisors said that rebuilding their own confidence in the markets was a strategic initiative for 2009.
- 48% of advisors said that making adjustments to their investment philosophies was a strategic initiative for 2009.
- 44% of advisors said that making adjustments to their investment processes was a strategic initiative for 2009.
- 92% of advisors said that rebuilding their clients' wealth was a strategic initiative for 2009.
- 73% of advisors said that rebuilding their own wealth was a strategic initiative for 2009.
- 56% of advisors said that fully adopting the wealth management business model was a strategic initiative for 2009.
- 30% of advisors said that bringing on new partners was a strategic initiative for 2009.
- 27% of advisors said that hiring additional staff was a strategic initiative for 2009.

## Prudent Business Practices

Clearly, advisors need and want to rebuild their businesses. They also want to help clients regain confidence and rebuild wealth. Listed below are some actionable steps that advisors can take to achieve these objectives:

- ✓ **SURVEY YOUR CLIENTS.** Just because your clients like you and are confident in you does not preclude them from *thinking* about leaving you and/or your firm. In fact, recent studies show that as many as 2/3 of high net worth clients are thinking of doing just that. For this reason, we would encourage advisors to survey their clients on a regular basis. Surveys are most effective when conducted anonymously and by a third-party. They should also be comprehensive enough to assess all aspects of your business including your levels of advice, service and operational excellence.
- ✓ **PLANT THE REFERRAL SEED.** If it is true that a large number of clients are thinking about moving their business, it stands to reason that advisors can get new clients if they do and say the right thing. If your relationships are solid, have this discussion when meeting with clients. Let them know that recent events have caused some investors to rethink their current investment plans and advisor relationships. Offer to help any friends, family or business associates who might find themselves in this situation. Have this same conversation you're your centers of influence. It is very likely that *their* clients are seeking *their* advice on what to do with their money.
- ✓ **Adopt the WEALTH MANAGEMENT BUSINESS MODEL.** One of the best reasons to adopt the wealth management business model is that it moves advisors and their clients away from an investment-centric relationship (which is often performance-driven) to one that considers all of the factors that can affect a client's wealth. A properly structured wealth management practice places advisors at the center of their clients' professional network and makes them more indispensable to their clients.

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<sup>1</sup> This article appeared in the May – June issue of the IMCA Monitor

(\*) The chart below shows puts the timing of this article and the survey into perspective. The survey was conducted in February 2009 and the article was written on May 15, 2009...

