

# From Pain to Gain

## How to Capitalize on the Opportunity of a Lifetime

By Steve Saenz, Irene Marom, and Kathleen Ferguson

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

In spite of the pain we have all felt this past year, most 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<sup>1</sup> regain their focus and share some actionable ideas that will help them capitalize on this opportunity of a lifetime.

### Background

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 three key areas including advisor sentiment, business challenges,

and strategic initiatives for 2009. Table 1 shows the demographics of the survey respondents. The survey's key findings are summarized below. Under each focus area you will find some business practices you can use to overcome challenges and achieve your business goals in 2009 and beyond.

### Advisor Sentiment Survey Findings

- 80 percent of survey respondents said they were surprised or very surprised by the magnitude of dislocation they have witnessed in the financial markets; 77 percent 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 personally but are less confident in their firms; 11 percent of survey respondents felt that recent events had eroded their clients' confidence in them while 36 percent felt that recent events had eroded their clients' confidence in their firms.
- 51 percent of advisors are questioning the principles of modern

portfolio theory and capital market assumptions in the wake of recent events; 27 percent report that their faith is unshaken.

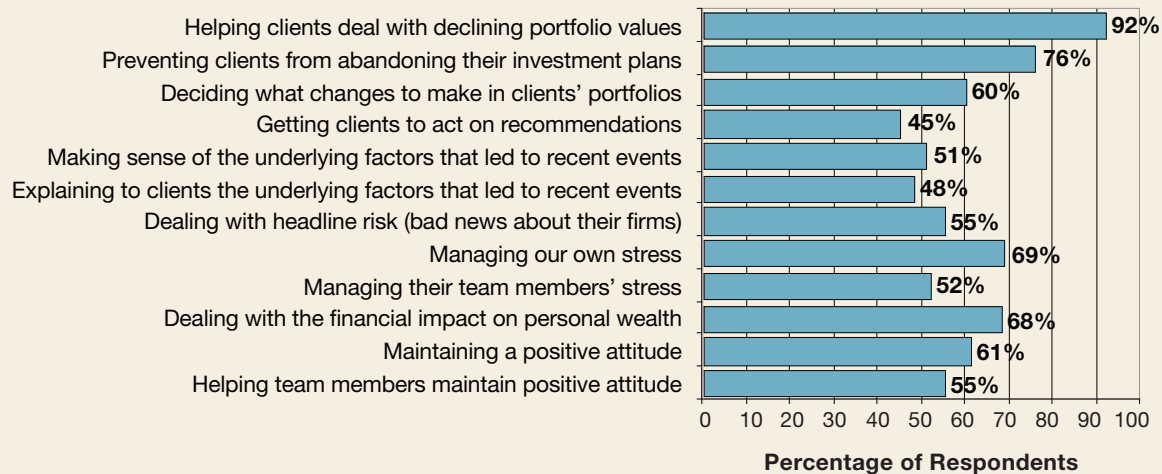
- 60 percent believe that the financial markets will be better off as a result of the dislocation that has taken place in recent months; 56 percent believe that the financial services industry itself will be better off.
- Only 20 percent of advisors are optimistic or very optimistic about the financial markets in 2009 and 42 percent were less than sanguine; 74 percent of advisors believe that recent events have presented them with a significant opportunity to grow their businesses; 68 percent are confident that they know how to capitalize on that opportunity.

### Prudent Business Practices

Clearly a 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. 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

TABLE 1: ABOUT THE SURVEY RESPONDENTS

Firm Type		Length of Service		Business Model	
Wirehouse	47%	Less than 5 years	5%	Wealth Management Consulting	56%
Independent registered investment advisor	14%	6–10 years	16%	Investment Management Consulting	18%
Independent broker–dealer	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 broker–dealer	1%	More than 30 years	4%		


**FIGURE 1: SURVEY'S KEY FINDINGS — BUSINESS CHALLENGES**


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 of our business and one that should give us great comfort.

The importance of communicating with clients during difficult markets has been well-documented. During extraordinary times, advisors should take extraordinary steps to manage client relationships. In addition to phoning clients and meeting with them to discuss their portfolios, advisors should be making time to deepen client relationships. This can be done by taking clients out for a nonworking 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 also will lead to more referrals if you have the right conversation with your clients (see below).

While many advisors and clients have lost confidence in their firms, most are staying put, at least for now. Most investment professionals we talk with (who work at financial services organizations) have considered changing firms. Many have had serious conversations with the “competition” and looked into going out on their own. At the end of the day, however, they say they find “it’s not a good time to move,” and/or “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 may be overstated. That said, it has always been our position that advisors should do what is in the best interest of clients and their businesses. Under the right set of circumstances, changing firms or going out on their own may make good business sense. The key is for advisors to make sure they are making the move at the right time and for the right reasons.

Many advisors are questioning the basic principles of modern portfolio theory and/or capital market assumptions in light 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 bear market or the “Crash of 1987” probably knows what Yogi Berra meant when he said, “It feels like déjà vu all over again.” We’ve been there 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 is indeed unique and requires a new rubric. 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 “new” normal.

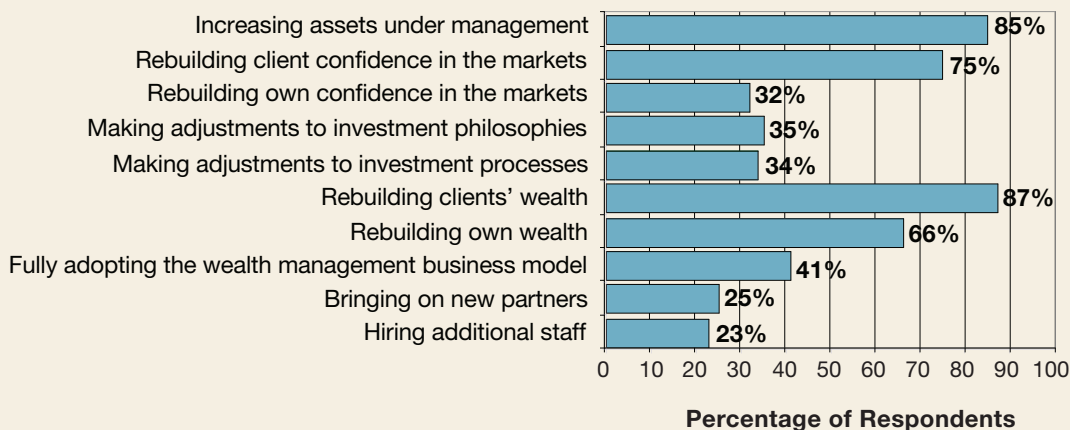
In the long run, the basic tenets of modern portfolio theory will prevail. That said, we encourage advisors to look hard at their investment philosophies and make sure they are aligned with sound investment principles. We urge them to carefully review their investment processes to make sure that they lead to sound decisions when formulating investment strategies for clients.

#### Business Challenges Prudent Business Practices

The survey results confirm that advisors have been tested during the past year like never before (see figure 1). The level



**FIGURE 2: SURVEY'S KEY FINDINGS — STRATEGIC INITIATIVES FOR 2009**



of stress is palpable and many advisors remain uncertain about the future. Advisor challenges seem to center on two basic themes. The first is helping clients deal with declining portfolio values (client relationship management). The second is managing their own stress and that of their team (practice/self management).

When dealing with challenges of this magnitude and duration, remember that most of us tap deeply into our personal energy reserves to get through these times. Consider the potential post-traumatic effects that could result. We encourage advisors to consider the following steps to mitigate these negative effects:

**Communicate more with everyone, 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 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 still are 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 investment choices you have made on behalf of your clients; make sure they still are the best ones. Taking action shows clients that you are 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).** Stephen Covey<sup>2</sup> was right about the need for self-renewal, and there never has 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 Prudent Business Practices**

Advisors need and want to rebuild their businesses (see figure 2). They also want

to help clients regain confidence and rebuild wealth. Listed below are some 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 two-thirds of high-net-worth clients are thinking of doing just that. For this reason, we encourage advisors to survey their clients on a regular basis. Surveys are most effective when conducted by a third party and responses are anonymous. They also should 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 things. 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

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with 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.** It moves advisors and clients away from an investment-centric relationship (which often is performance-driven) to one that considers all 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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### Endnote

- <sup>1</sup> We use the term "financial advisor" here to describe all types of investment professionals, including investment management consultants, wealth advisors, etc.
- <sup>2</sup> See Stephen R. Covey, *The 7 Habits of Highly Effective People* (New York: Free Press, 1989, 2004).