ADVISOR.CA

This article is courtesy of www.advisor.ca

Contact, consistency key for younger advisors

October 27, 2008 | Mark Noble

Younger advisors are fighting for survival right now, and, unlike bear market veterans, they can't draw on their personal experience to convince clients to stay invested in what is arguably the worst market downturn this generation has ever seen. There are some strategies younger advisors are employing, the most important of which is being consistent with the advice they give.

The industry has put significant resources into recruiting new talent to the industry over the past decade, and the current market downturn threatens to greatly erode those efforts. Advisors with less than a 10-year track record are going to have a hard time convincing their clients they have added much value to their portfolios — and it only becomes more difficult the fewer years' experience they have. It's quite feasible that advisors with less than five years' experience have not been able to produce positive returns for their clients.

"Not only have I not personally been through a market crisis like this myself, it's hard for me to gauge what advisors' reactions have been at other times like this," says Preet Banerjee, a wealth advisor with ScotiaMcLeod, who's been in the business for just four years. "The response from older advisors is a bit dichotomous right now. I've noticed one group of advisors is saying their client base is more prepared for this after going through the tech boom and bust — clients are not as worried as they thought they would be. On the other hand, I'm seeing some advisors who are very uncomfortable — it almost seems like advisors are more panicked than investors right now."

The one bright spot is if you landed these clients in the first place, chances are you can convince them to stick with you, assuming you haven't changed the way you offer advice during the downturn. You made a believer out of them. If you now demonstrate that you no longer have faith in your initial advice, why should your clients?

Banerjee hasn't lost a single client during the downturn. He credits this to staying consistent in the advice he's offered clients from the get-go. Banerjee is in constant communication with his clients on both his blog and through regular newsletters. Rather than being updates, the newsletters are more educational in nature. He now has an archive of more than 400 articles that he can pull tidbits from and use in the newsletter.

Most importantly, he says, his tone and advice always remain consistent as he relates the latest information and research he's learned. Even though the markets have gone sour, his clients know his advice remains the same.

"I think I'm pretty lucky. I've only had one client call who's asked if we could change something. I referred them to some of the items I've written in the newsletter, and they have decided to stick to the game plan, which is what I will always preach," he says. "In the monthly newsletters, I don't focus on market commentary as much as I focus on providing information on history in the markets so that when stuff does happen, they have an idea of what my approach is before we get to it. I've always had the same tone and message from day one, and I always will."

Jason Pereira, an advisor with Woodgate Financial Partners, an IPC affiliate, credits the expectations he sets with clients in their first meeting as the glue that keeps the relationship together down the road.

Pereira's been an independent advisor for about six years. Prior to that, he was at a large brokerage advisor firm. He says the negative experience he had there, which included never meeting most of the clients he served, was motivation to help co-found his own firm, where client interaction would be a priority.

"Our business now is a manifestation of our experience — we never got to meet clients face to face. That type of firm was more of a machine. There was no intimacy and no real understanding of client needs," he says. "We basically run this place the way we want to be treated ourselves."

Pereira says managing client expectations from the start is vital. He stresses to clients that they should expect downturns, and their portfolio is structured to account for these.

"The entire concept of risk is instilled in that conversation," he says. "Part of the investment policy statement process includes a volatility graph, where we explain that downturns like this are rare, but it will happen eventually. The long-term performance is the average, and if they sit still, they look at those from a mean return perspective."

Part of managing client expectations is also keeping in contact with clients on a regular basis regardless of what's happening with their portfolio.

"I think the key is client intimacy. We know them pretty well. We talk to them on a regular basis regardless of whether conditions are up or down," Pereira says. "We talk at least every two months.

"It's not a perfect process. I've noticed clients are more nervous and are asking more questions. There is a reason for it. We keep holding true to the teachings of [Harry] Markowitz and making sure our clients are on the efficient frontier," he says. "In fact, a lot of clients have asked, 'Is this an opportunity to get back into the market?'"

Again, maintaining consistency in managing expectations, Pereira tells these clients that by setting up regular contributions from the get-go, they are already taking advantage of the opportunities in the marketplace.

"I tell them, 'You're already making regular contributions, taking advantage of this environment,'" he says. "'Your portfolio is automatically rebalancing out of the bonds and buying at a low level.'"

Having a system in place that incrementally invests the clients' money, like dollar-cost averaging, is a way to spin a crisis into an opportunity for clients," says Alim Dhanji, a Vancouver-based CFP with Assante who's been an advisor for only four years.

"If my client goals were short term, the money would be conservatively invested. For money invested in the long run, say in an RRSP, I have them on a monthly savings plan. I tell my clients they are actually being able to add units while the markets are cheaper right now," he says.

Dhanji credits the education he received while completing his CFP as an asset in this type of market. He has created a comprehensive financial plan for all of his clients with extensive goals and aspirations and risk tolerance objectives. He says it's a powerful tool he can pull out to use with nervous clients who can see they are either still on track or that their risk tolerance wasn't what they thought it was. Either way, he says, it opens the door for more conversations about the type of planning that can be done to create a plan the client is content with.

"Consistency is huge, and constant communication is very important," Dhanji says. "If their risk tolerance isn't what they thought it was, you can talk about rebalancing and maybe moving assets into something that is more conservative if that is what is warranted. If they are a long-term investor, I stress they are actually picking up more units at a discount right now."

Banerjee pays close attention to what more experienced advisors in his office are saying, particularly strategies they have used in the past to turn crises into opportunities.

"I'm a voracious reader and I try to study the markets and listen to as many perspectives as I can," he says. "You certainly have to rely on some of the more experienced advisors in the office who can give advice on not only how you manage client expectations but also the opportunities that are out there for an advisor in this type of environment.

"For example, right now, advisors with experience in the office are coming over to the younger people and saying, 'Listen, you need to be calling not only your clients but everyone else's clients.'"

Banerjee believes that as much as his newsletter and blog are a way to retain clients, they have also turned into a prospecting tool, drawing potential clients who don't have advisors or who haven't heard from their advisors.

"I probably have more people who are non-clients on that newsletter [list] than are actual clients. They get everything I'm telling my clients. They get to see exactly what I'm doing with my clients, which includes providing timely updates whenever something happens they are going to have questions about," he says. "It might not result in any business right away, but it's sowing the seeds for other people to listen and consider you as a potential advisor. Right now, people are willing to listen to advisors — which historically hasn't always been the case."

Filed by Mark Noble, Advisor.ca, mark.noble@advisor.rogers.com

(10/27/08)