



Dealing with the market crisis: give clients a reason to stay

It's no secret that the past year has been a rough one for clients and advisors alike. As a result, dealing with the market crisis, and strategies for helping and retaining clients were key topics on the agenda of the *Canadian Institute of Financial Planners (CIFPs)* conference held in Halifax, Nova Scotia, this past June.

Right off the top, **Mark Johannessen**, National Chair of the *Financial Planning Association (FPA)* in the U.S., covered the impact of the crisis on U.S.-based planners in Monday's opening session. Mr. Johannessen reported that, according to a study done by **Charles Schwab**, 80% of brokerage clients and 30% of clients of private advisors are likely to change advisors in the coming year.

There could be trouble looming in Canada too. **David Richardson**, Vice President, Enterprise Sales and Group Financial Services with **RBC Asset Management**, reported that, so far, retention rates have remained stable, but only because "clients are so confused, they don't know what to do."

Dan Richards, President of **Strategic Imperatives**, quoted a recent **Ipsos Reid** study that claimed that 87% of clients say they will continue to work with their current advisor, but commented that "it's not because they're happy, they're just not sure it's better anywhere else."

In his presentation, *New Realities, New Approaches: Fresh Thinking for Today's Marketplace*, Mr. Richards explained that investors today are less patient, trusting and loyal than they were 20 years ago. In 1989, it was "I'll stay unless you give me a reason

to go," but in 2009, it's "I'll go unless you give me a reason to stay."

So what can advisors do to give their clients a reason to stay? One key element is to focus on the provision of holistic financial planning services. **Keith Costello**, President and Chief Executive Officer of CIFPs, believes that the market crisis has had far less impact on those planners who are offering holistic planning. Their clients tend to be well-informed and well-educated, and therefore are much less likely to jump ship when markets nosedive.

Although there will always be people who switch from advisor to advisor, in good times and bad, Mr. Costello feels that the predominant trend today is for clients to go the self-service route by switching to discount brokers. "I can do it myself because I can do just as good a job as you've been doing." Once again, however, this tends to happen where the advisor has been providing investment services only, and is far less likely to happen if the advisor is providing real financial planning services to the client.

Another key theme that emerged from the conference is the importance of client communication. Mr. Richards pointed out that, while the quantity of communication from advisors to clients has increased, investors are looking for more than just a barrage of

information. They want more depth and better quality – just sending a form letter doesn't cut it anymore.

Neither does what Mr. Richards referred to as "the Bobby McFerrin approach: don't worry, be happy." While it's true that investors are looking for an optimistic tone, they need more substance to back it up. It's not enough to tell clients to "stay the course," advisors have to work harder today to get investors to buy into that approach.

For example, Mr. Richards suggested that advisors could start by reassuring a client that their portfolio is on the right track, but then say something like: "I attended the CIFPs conference recently, and I picked up a couple of ideas that might help us adjust your portfolio to meet current requirements." Clients understand from this type of comment that their advisor is on the case, actively searching out ideas and strategies that will help the clients reach their goals.

Taking this approach one step further, clients who are invested in mutual funds may not be aware that the fund manager is making adjustments to the fund's portfolio to accommodate the current economic climate. If their advisor continues to hold the same funds in the same proportion, clients may conclude that it's business as usual with the advisor, and assume that everything is staying the same. "If they don't see change, they don't know it's happening."

Advisors need to make sure their clients understand that changes within funds are

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made from time to time as shifts in the economy occur, and this may be all the retooling that's required.

Some of the basics of client communication haven't changed over the years, but bear revisiting in the current environment. For example, investors won't listen to you unless you listen to them first. Mr. Richards advises that the best way to start a meeting with a client is to say something like: "Recently, many of my clients have lost sleep over the market turmoil. How has it affected you?" Then, establish empathy by saying: "Tell me more about it." Let them know that you understand their needs and objectives, and that you genuinely care about them, before providing advice and solutions. As Mr. Richardson says, "People want to know how much you care before they care about how much you know."

Equity analyst and finance professor, **Lou Schizas**, encourages advisors to put the current situation into context for their clients. In his presentation, *A Planners' Guide to Thriving through a Recession*, he pointed out how the mass media tend to focus on the negative. "Most journalists are reporting with great panic that there is now almost nine percent unemployment. But that means that 91 percent of the (employable) population has

a job. That's not so bad. Similarly, clients are freaking out, but they need to know that this is why we accumulate capital, so we can dip into the honey jar to transition through the bad times."

Developing a stronger focus on client service is another key theme that was stressed by several presenters. In fact, Mr. Costello sees the current situation as a great opportunity for service-oriented planners to distinguish themselves, pick up business and grow their client base. "Don't put your head in the sand and say, well, there's nothing I can do. There's always something you can do, no matter what the industry is, how bad it is, if you're going to continue in this business, you have to differentiate yourself."

Mr. Costello adds that recessions in any business sector, including financial services and financial planning, are great opportunities "to grow your business if you're good and you follow those principles (of communication and client service), and for the people who don't do that, someone's going to get their business. There are opportunities for really good planners to pick up business and to grow their book if they have the right solution."

Both Mr. Richardson and Mr. Johannessen stressed that the current market crisis is creating an unsurpassed opportunity for

planners to acquire new clients. Consumers are beginning to realize and appreciate the importance of financial planning and to value it more highly than in the past.

Those advisors who offer full-scale financial planning services to their clients are the ones who will be able to capitalize on the current economic situation and turn it to their advantage. In fact, Mr. Johannessen pointed out that, in the U.S., many smaller planning shops have begun to merge with others to form larger firms capable of offering a wider range of services to their client base.

On another positive note, **Benjamin Tal**, Senior Economist at **CIBC World Markets**, commented that demographic trends are very bullish for the stock markets and this will translate into a growing need for financial planners. "The fact that there is a lot of money sitting on the sidelines is very positive for financial planners. Disposable income in Canada has risen twice as fast as in the U.S. over the past five years." Mr. Tal doesn't see the \$95 billion in cash sitting in savings accounts across Canada contributing to an increase in consumer spending in any significant way. Instead, he sees this as "a huge amount of money waiting to be invested."

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