

GOOD NEWS! AFTER MANY MONTHS OF DECLINE, THE STOCK MARKET IS CAUTIOUSLY TRENDING UPWARD. IT'S NOW TIME TO SHOW YOUR INVESTMENT CLIENTS YOUR TRUE VALUE AS AN ADVISOR. TAKE THE FIRST STEPS BY HELPING THEM FOCUS ON THE LONG TERM, LEARN WHEN TO SHIFT GEARS AND INVEST WITH PURPOSE.



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Digging out From Under

BY TINA OREM



Even though The Great Recession is largely behind us, pulling their clients out of the rubble remains a grueling task for most investment advisors. Some are still in “first-responder” mode and are desperately trying to save their clients’ decimated investment portfolios, while others are in better shape but are so traumatized that every market aftershock only worsens their “post-recession stress disorder.”

To make things even more daunting, consider that for most advisors, “getting back to normal” means a return to dealing with their clients’ regular issues: bad savings habits, a low financial-literacy rate, skyrocketing tuition and health-care costs, and the overwhelming urge to make up lost ground as quickly as possible. To put it plainly, this is not an easy time to be an advisor.

But there has *never* been an easy time to be an advisor, and all is not lost. According to the industry experts we interviewed for this article, there are some strategies and products out there that can help you help your clients rebuild and restore their financial future. ▸

To Rebuild and Restore

- Focus on the long term.
- Invest with purpose.
- Know when to shift gears.
- Go global.
- Pursue income.
- Be a good advisor.

Get serious about strategy

The biggest change advisors are making to help their clients recover and prosper in the market is this: They're injecting more discipline and structure into their clients' portfolios and keeping those clients committed to that structure even when it's difficult, so that fluctuations, even big ones, don't scare their clients as much as they have in the last couple of years.

"When the market decreases as it did at the end of 2008, it really is an opportunity to remind the customer of his overall strategy and to just stay the course," says NAIFA member Jim Prisco, who is president and chief operations officer of LifeMark Securities Corp. in Rochester, N.Y. "There might be some reallocations of assets to balance the portfolio a little bit more, but the last thing you want to do is just pull out altogether, because that comfort level from an investor standpoint is not going to come back until *after* the markets have rebounded, as they have," he says.

"Many of our clients had sort of a haphazard collection of mutual funds with no real overriding theme," adds

NAIFA member Bruce Moar, LifeMark's director of business development and chief compliance officer for the RIA division. "What

ONE BIG SOURCE OF CONFLICT AMONG CLIENTS AND ADVISORS RIGHT NOW IS WHAT TO DO ABOUT CASH.



we're seeing is people getting out of those and going into a more holistic advisory approach—something a little more thought out, with more structure to it."

Though focusing on a portfolio's strategy *after* the fact is better than not doing it at all, Moar says that staying true to a long-term strategy is key to fully participating in market recoveries. "When [the market] does turn around, when it does bounce like it did here," he says, "it's a tremendous opportunity and you hate to see people miss out on that."

Invest with purpose

As they try to help their clients recover, some advisors are also stressing the connection between their clients' emotions and their product selections. Although a few of them *say* they give as much weight to *why* their clients invest as they do to *how* their clients invest, Ray Eads, president of Wealth Management Northwest in Lynnwood, Wash., says that many have yet to embrace the concept.

As an investment advisor, he says, you should ask yourself the following question:

"Are you a money person in the people business, or are you a people person in the money business? Most advisors are money people who have to deal with people. It's a lot easier, because when you start dealing with somebody's emotional life, you get your hands dirty."

But as an advisor, you should be willing to get your hands dirty because this method of purpose-driven investing incorporates your clients' life goals instead of just his investment-return goals into his overall portfolio management.

"We are realizing that [financial planning] is not about money; it's about your [client's] life," says Eads. "Money isn't the goal; money is how you pay for the goal." Eads says he doesn't do investment or financial planning for a client until he's gone through a detailed life-planning process with that client, which involves addressing things like "bucket lists," dreams, reflections and goals.

This purpose-driven approach has become increasingly popular, and Eads says it has a stabilizing effect on investors in times when the market is down. If clients understand the purpose of their investment, and the investment is structured properly to achieve that purpose, the question of what's going on today becomes to a great extent relatively unimportant, he adds.



Know when to change gears

Anna Ibrahim, a financial advisor with Ameriprise Financial Services in Rockville, Md., stresses the importance of changing gears in a bear market and formulating effective “sell” strategies for your clients. “It’s the first thing you learn in this business,” she says. “You’ve got to learn when to sell; you’ve got to know when to get out.” No one did that during the bull market, she adds, because they did not have to.

Ibrahim says she has been giving her clients sell recommendations and letting them know when their accounts are up by 10 percent or 12 percent. “Get the greed factor out and let’s be smart about the money,” she adds.

Educating clients about the need for a change in approach is something Eads advocates as well. He says that many of his clients began investing and learning about investing in the bullish 1980s and 1990s and are still blindly following the rules of that era. “What they learned...were things like: ‘broadly diversified portfolio,’ ‘buy on dips,’ and ‘don’t trade too much because it’ll just cause taxes and commissions.’ All of these truths worked in that environment,” he notes. “Unfortunately, because these environments are cyclical, when we move into the next environment, it’s not true.... You have to base your strategies upon the environment.”



TAX PLANNING DOESN'T ALWAYS MEAN TAX DEFERRAL ANYMORE.

Though Eads does make room for opportunities, he says he’s largely out of the market right now and notes that bear markets last longer than 10 years on average. “In the summer, you don’t wear a long wool coat just because it was cold last January,” he says. “But that’s exactly what happened in our investment world. We’re still investing 10 years into a bear market like we did during the greatest bull market in history.”

Pay the tax now

Tax concerns are very high right now for many investors, and advisors need to devote more time to honing in on tax strategies, estate planning and tax-advantaged products, such as IRAs, 401(k) plans and municipal bonds. Notably, tax planning doesn’t always mean tax deferral anymore, and some advisors are making atypical recommendations.

Laila Pence, CFP, owner of Pence Wealth Management and a registered representative with LPL Financial, is one of those advisors. Pence, who has been in the business for 30 years, says she’s doing a lot of Roth conversions

to reduce potentially higher taxes in the future.

This idea surprises Pence, not to mention her clients. “I tell them that every single year I’ve ever lived, we’ve always had the thought of deferred taxes and ‘don’t pay taxes if you don’t have to.’ But this is the first time I’m telling them to look at Roth conversions and pay the tax,” she explains.

Pence is also doing conversions for clients with large estates and large IRAs. “It reduces their estate, and their money grows tax-free for them and their heirs. There are very few things that can beat that,” she explains. Pence says that many of her high-income-bracket clients are also increasingly interested in tax-free bonds.

In addition, Ibrahim is seeing many of her clients becoming more open to tax management because they don’t know what’s going to happen in the future.

Get out of cash

One big source of conflict among clients and advisors right now is what to do about cash. Unlike some clients who want to use it to chase high returns, many shell-shocked investors are

IBRAHIM IS SEEING MANY OF HER CLIENTS BECOMING MORE OPEN TO TAX MANAGEMENT.

still hoarding cash unnecessarily and missing out on the recovery.

“So many people just fled to cash during the downturn,” says Moar, “and certainly, with interest rates at historic lows, that was no bargain.” Granted, educating investors about the short-term nature of cash is part of the advisor’s job, but coaxing skittish investors into appropriate instruments with better returns is difficult right now.

Ibrahim has seen this in many of her clients. They want to rush out to cash, but she is trying to help them by letting them know that cash isn’t really doing much for them right now. “What is the purpose of the money?” she asks them. “If [it is for] your living expenses or the down payment on a house, sure, we’ll go with cash because we’re not really looking for growth; we’re looking for safety. But if you’re looking for your retirement fund,



cash is probably not going to get you much, especially if you’re 45 years old.”

Go global

Diversification is fine, although it means different things to different people, but it’s critical now to have a significant global element in any diversification strategy, says Moar. “The average investor is woefully underweighted in global investing,” he adds.

Global securities are also getting extra attention from Eads, though his approach is slightly different. “This is an asset class that we can look at, but it’s not a buy-and-hold asset class like we might have thought of in the 1990s,” he says. “A bear market requires you to be more nimble in your asset-allocation decisions. Asset allocation is still critically important, but you still have to be nimble.”

Pursue income

Some of the advisors we interviewed mentioned the word “chasers,” clients who are scrambling to make up lost ground and want to bet the ranch now that the market is slowly moving up. But there isn’t much room for that crowd in Pence’s business. She’s focused many of her clients, about 70 percent of whom are retirees, on income securities.

“We really believe in income,” she says. “Frankly right now, we think this would be a very bad time to chase. The market has had a pretty good run-up, and there’s more risk out there. We’re going to have to absorb the gains that we’ve had.”

What she has found is that the most important thing to her and her clients is cash flow. “I cannot spend appreciation. I can only spend cash flow, I can only save cash flow and I can only grow cash flow,” she explains.

Pence says that dividend stocks are also particularly attractive, especially during a recovery, because their relative safety makes them an obvious place for shy investors to go when they’re ready to dip a toe again into the market. “They will look for those companies first as well,” Pence says. “In fact, those companies have been appreciating just as well as the growth companies, and you’re getting paid while you wait.”

It’s sort of a win-win situation in that investors get capital gains as the market goes up but also can still receive income if the market sours, which encourages them to retain their shares and thus focus more on the long term. “If you get a portfolio that’s already paying you 5 percent or 6 percent, it gives you a lot more staying power so that you don’t panic,” she says.

Be a good advisor

Your clients’ needs may have changed, but perhaps more than ever, they recognize the power of having a good advisor. “In the late ’90s and during the dot-com era, [keeping clients] was probably more difficult because every consumer became a stock expert and was able to manage his own portfolio,” says Moar.

“After the dot-com bubble burst, people realized there was some risk involved. I think over the last year and a half, with the market decreasing the way it did, customers became more concerned. Those that were on their own were probably frightened and were the ones that stood on the sidelines.”

But those with a good advisor who was holding their hands through the demise hopefully were convinced to stay the course, and as a result, reaped fantastic rewards, Moar adds. It’s no wonder that many advisors report having little trouble retaining or attracting clients right now. □

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