Financial Planning
INVESTED IN ADVISORS

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How to Help Clients Cope with Volatility

The road to investing is lined with many potholes. After a long, relatively smooth ride, some clients may be startled by the bumps. How do experienced financial planners guide their clients on handling market volatility? We asked a half-dozen top advisors to share their wisdom.

EDUCATE AND PREPARE

"Setting the table is paramount," says John Wolff, chief executive and managing director of Capital Fiduciary Advisors in Leesburg, Va. "Clients must have appropriate expectations. We try to make it clear if you can't stand the volatility of equities, then you shouldn't own equities."

Stressing the importance of realistic risk tolerance to clients and the inevitability of encountering volatile markets are also critical, advisors say.

"We try to instill the idea over time that anybody in risk markets will encounter these periods of volatility," says Mark Hamby, chief executive officer of KMS Financial Services in Seattle, now a part of Ladenburg Thalmann's independent broker-dealer network. "When assessing the risk tolerance of clients, it is absolutely essential to keep these periods of volatility in mind, but it's never easy to do. We tell clients that if you have to have a certain result by a certain date, that's more akin to speculation than investing."

Lenox Wealth Management in Cincinnati takes a straightforward approach with its clients, says chief executive John Lame, telling them that "corrections occur every five years. Expect them."

INVESTMENT POLICY STATEMENT

Don't relegate the investment policy statement to a hum-drum formality; make it a centerpiece of your relationship with your client, say veteran wealth managers.

Such statements are the cornerstone of every client relationship at Miami-based Lubitz Financial Group, says President Linda Lubitz Boone.

In fact, Lubitz Boone quotes Warren Buffett when regularly reminding clients of the importance of the statement: "To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights or inside information," Buffett has said. "What's needed is a sound intellectual framework for making decisions and the ability to keep emotions under control from corroding that framework."

"Your intellectual framework," she tells clients, "is the work we do with you to determine the appropriate investment policy statement and further investment asset allocation to give you the best opportunity to meet both your short-term and long-term life financial goals."

COMMUNICATE REGULARLY

The three most important words in real estate? Location, location, location. It's a truism that never gets old. Same with advisors' need to communicate with clients – continually.

Constant communication was a big reason Mosaic Financial Partners in San Francisco didn't get any panicked calls from clients last week, says Norman Boone, the firm's founder and principal.

At the end of September, for example, Mosaic sent out a "calming" email to clients with the subject line "Optimism, Pessimism or Euphoria" that emphasized the firm's long-term and "broadly diversified" approach to investing.

The fact that there hasn't been much volatility over the past few years allowed many clients to "get lulled into a false sense of security," says former NAPFA Chairman Tom Orecchio, principal at Modera Wealth Management in Westwood, N.J.

"We use emails, meetings, newsletters and white papers to remind clients that the reason they can earn 7% or 8% on their investments is that they have to accept volatility – otherwise, their money would be in savings accounts earning 1% or 2%," Orecchio says.

When volatility does hit, advisors should contact those clients they know will need hand-holding, says John Anderson, managing director and head of practice management for SEI.

"You want to be the voice of reason," Anderson says. "You don't want to sound panicked, but you do want to acknowledge what's going on and what clients are hearing in the media. Most importantly, ask them how they're feeling and listen to them. Then you can remind them that no one can predict the future and review their written plan and the need to stick with it."

VOLATILITY MEANS OPPORTUNITY

Turbulent markets and selloffs can also be a client's best friend.

"Market corrections are opportunities, not threats," Lame says. "The goal is to buy $1 of earnings for as little as we can pay."

For clients who can tolerate the risk, some advisors recommend buying managed futures, which use future contracts that typically have exposure to alternative assets such as commodities, energy, agriculture and currency. "Managed futures are a good example of a way to capture trends and provide a counter-balance to stocks," Orecchio notes.

Using the VIX during a see-sawing market is another strategy for more aggressive clients. "The client has to have an appetite for risk," Wolff says, "but we like it as a hedge against the broader markets."