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BEATING THE RECESSION DEPRESSION

by Stephen D. Gresham

If you've been an advisor for even a few years, then the sub-prime mortgage crisis probably has you feeling like it's *déjà vu* all over again. A high-growth sector of the economy has collapsed, investors are panicking and selling off shares, brokers are being sued, and inevitably Congress will hold hearings about how all this happened and who is responsible. Welcome to the credit-sector equivalent of the tech wreck.

Now, what are you doing about it? Have you called your clients?

If you haven't, you're not alone. At an investment advisor seminar about a month after the 2001 terrorist attacks, the speaker asked members of the audience to raise their hands if they had reached out to clients in the weeks that had passed since that horrible day. Only about one in four of the seminar attendees raised their hands. The speaker pointed to a man in the audience who hadn't raised his hand and asked, “Why haven't you called your clients?” The man sheepishly replied, “Because I wouldn't know what to tell them.” A woman sitting nearby — one of the relative few who had raised their hands — spoke up and said, “Have them call me. I know what to tell them!”

So did another advisor I know, who used that event to trigger discussions with clients. “It's appropriate in this market environment for us to look at your original questionnaire and investment policy statement,” he told them. “Let's talk about potential changes we might make, and explore the possibility of getting you into the market in a more aggressive posture to take advantage of the drops.” He told his clients that while their original questionnaire helped form the blueprint for an investment solution, that solution requires occasional maintenance, which can mean rebalancing the portfolio.

Advance Notice

Many top advisors prepare their clients in advance for rebalancing opportunities, knowing that getting clients to act in the moment can be difficult. Before the markets took a nosedive in 2000 and 2001, when the Dow was hovering around 11,000, gung-ho investors were throwing their money at the blue-chip index. But when it had fallen to 8,000, those same investors were reluctant to commit more money. That's human nature. But as professional advisors, we need to help our clients act more like institutions, and move when the values are there. While it will be some time yet before the full impact of the sub-prime crisis is felt, there are values in the market even now.

Rebalancing is proof that you actively manage client portfolios. Let's say you have a client whose portfolio initially consisted of 75 percent stocks and 25 percent bonds, and this market downdraft led to a drop in the fixed-income allocation. Rather than shift money out of the other accounts, you could recommend that the client invest additional — that is, external — assets in the fixed-income allocation, and bring up the percentage so that all allocations are equal again.

In other words, the good performance of the equities, and the bad performance of the bonds, may have left the account with 85 percent equities and 15 percent fixed-income. Rather than shift 10 percent out of the equities to correct the imbalance, there is potential to get new money from your client to restore the

fixed-income allocation. “We could take away from the more successful managers who are doing better by comparison,” you can say to clients, “or we can shore up your account with extra cash.”

Set Yourself Apart

Regardless of their cause, market dips and bounces provide opportunities to reinforce your value as a consultant. By providing a course of action (or inaction, if appropriate), you remind clients that you are watching the markets. Remember, the typical $1 million client has three or four advisors, and that means the client is receiving three or four different levels of customer service. Make sure the level of service you provide is the best. According to the 2007 *Phoenix Wealth Survey*, the No. 1 reason clients look for a new advisor is because their current advisor does not provide the level of customer service they expect — and deserve. If you know that your affluent clients have assets invested with other advisors, then discreetly ask about the quality of those relationships.

You don't want to be perceived as trashing your competitors, or suggesting that they are ineffectual or incompetent, so be sure to emphasize the quality of your relationship with the client rather than the performance of the other accounts. For example, in this period of market turmoil, it's perfectly acceptable to ask, “What are your other advisors telling you?” Chances are, the answer is “Nothing.” Your clients will quickly realize which advisor is sensitive to their needs, and which ones aren't. That realization can pave the way to a discussion about the client investing more assets with you.

Not that it will be an easy sell. You can expect some of your clients to point out that many economists are predicting a recession, the depth and duration of which is anybody's guess (as is always the case). This is a great opportunity to teach your clients why this is the perfect time to put more money to work. Here are some points you might want to pass on to them:

- At the start of every normal recession, few investors believe there is a recession.
- There is a point late in the recession when most investors acknowledge there is a recession.
- Profits decline, stocks decline, unemployment increases, consumer confidence declines, and consumer spending slows during that part of the recession.
- Observers start to believe that the recession will be deeper and longer than any similar period before.
- Every normal recession has some particularly dangerous features — for example, the 1970 stagflation, 1974 oil embargo, 1982 oil collapse and the 1990 banking crisis.
- In the last three months of a recession, the pace of Federal Reserve easing accelerates.
- In the last three months of a recession, the stock market rallies.
- At the end of every normal recession, few believe the recession is over.

Ask your clients if they feel the market is a leading or lagging indicator. Of course, it's a leading indicator. When you look at the history of modern markets, whenever there has been a recession, the investors who waited until the end missed about half of the gain in the market. Chances are your client portfolios are down a bit from where they were at the end of the second quarter, and they may be reluctant to invest in an uncertain or sagging market. When you remind them that now is the time to buy, so they will be well positioned to profit when the market regains its forward momentum, you will be helping ease their anxiety in this time of crisis — something that few of their other advisors may be doing.

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