ADVISOR PERSPECTIVES

Why Investors are 'Mad as Hell' – And what you can do about it

By Dan Richards
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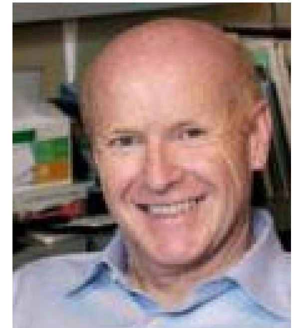

Last Friday, Jason Zweig of the *Wall Street Journal* wrote about fear and anger as the two dominant attitudes of American investors today – fear about their future and anger at those they see as responsible for the latest crisis. His column depicts many investors as intensely disillusioned, summoning up the phrase *"I'm mad as hell and I'm not going to take it any more"* made famous in the 1976 Oscar-winning film, *Network*.

These worries aren't limited to just "do it yourself" or older investors or those with modest assets – they cut across a broad range of ages and asset levels. Today's investor psyche has fundamental implications that will require changes in how you interact with clients. Before getting into how to respond, let's look at what's driving today's mindset.

Why investors are afraid

In his article, Zweig pointed to three things that cause fear among investors:

Their finances

In a recent survey, 73% of Americans said they "worried about money" during the previous day, up from 56% in March of 2009, when there was serious talk of a global meltdown and another depression. Indicative of this anxiety was a recent *New York Times* article on dollar stores which pointed to a "new consumerism" (i.e., thrift) among the affluent, as households with incomes over $70,000 today make up almost 25% of dollar-store customers and are the fastest growing segment of shoppers.

Their future

Nearly six in 10 Americans say that the latest market downturn will limit the opportunities to pursue their future objectives. And only 11% say they have "strong or very strong control of their financial lives," down from 17% in March of 2009.

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The way ahead for the United States

Over half of Americans are moderately or very fearful about the future of the United States. These fears aren't new – even before the events of 2008, surveys showed the current generation of Americans to be the first on record unsure about whether their children would be better off than they are.

Continued uncertainty about house prices and unemployment has only made these fears worse – and the downgrade of US debt and extensive media coverage about the deficit and debt ceiling have also contributed to this anxiety.

What makes people angry

The survey found that 59% of American are moderately or very angry about the challenges facing the United States, but their anger goes beyond that, to real frustration with the way the financial industry operates today.

In his column, Zweig writes: "*People seem to feel like bystanders at their own financial lives – almost as if they were spectators at a race track equally incapable of stopping an impending car crash and of tearing their eyes away from it."*

In a video interview accompanying the article, Zweig said that many investors feel victimized by a system rigged against them, constructed by policy makers, regulators, banks and Wall Street firms for their own benefit. More than at any time since the 1930s, investors feel the rules are tilted against them. This has contributed to a "buyer's strike" on stocks – while existing holdings aren't being sold, new money is staying on the sidelines, even in the face of record low returns on bonds and cash.

Rebuilding confidence

When it comes to their financial advisors, investors tend to be sceptical rather than angry. Even when investors like and respect their advisor, many say advisors oversold their ability to manage risk – even "conservative" portfolios were hit harder than was seen as possible, both in 2008 and in the past cycle. Another widespread complaint is that advisors have been too slow to act in the face of changing developments.

Whether these complaints are fair is irrelevant – they are real in the minds of many investors. Given that reality and the extent to which the confidence of many clients has been shaken, here are some guidelines for conversations to address some of today's client anxiety.

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1. *Make face-to-face meetings your priority*

   Many advisors rarely meet with clients; depending on your business model, there may be annual reviews, sometimes not even that.

   Clients may be okay with this in normal times … but these are not normal times. For the period ahead, your top priority should be offering to meet with any clients who are anxious or want to discuss their portfolio. Even if a meeting can't take place for three or four weeks, the fact that it has been scheduled will reduce some of the stress that clients feel.

2. *Start by listening*

   With many investors, feeling genuinely listened to is the first step on the path to rebuilding trust. In his best seller *The Seven Habits of Highly Effective People*, Stephen Covey put it well: *" Seek first to understand, then to be understood."*

   Start meetings with something as simple as *"Markets have made many investors anxious, tell me how you're feeling."* Encourage clients to talk about their concerns with follow up questions – the best way to engage clients is by getting them to open up about how they really feel.

3. *Acknowledge today's real challenges – but don't overstate them either*

   Straight talk helps build trust. That means being upfront about the real concerns for the economy – don't sugarcoat the challenges around debt, unemployment and house prices throughout the developed world.

   At the same time, you need to provide positive perspectives that help balance all the bad news. Given the scepticism about stocks as an asset class, big picture conversations about price-earnings multiples compared to historical levels won't always do that – and "*focus on the long term"* and *"remember that stocks outperform over time*" have worn thin with many clients. Instead, hone in on the earnings and financial health of companies that clients know and have confidence in – Apple, Procter and Gamble and Walmart are all good examples of familiar names that reassure clients.

4. *Re-examine the role of investments that generate cash*

   Many investors have money in cash that should be invested to achieve long-term goals. Provided that they don't need access to the funds for some time, an approach that can increase client confidence and get money off the sidelines is to focus on investments that pay steady income of 3% to 5% – blue-chip consumer staple dividend stocks and investment-grade bonds are examples.

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Share the research showing the historical market outperformance by companies that consistently raise dividends, versus those that hold them steady or don't pay dividends at all. And when deploying cash into the market, discuss doing this in stages over the next year. Not only does this reduce the risk of investing just before a big drop, but it sends your client the message that you're not in a hurry to get your hands on their money.

5. *Have candid conversations about the price of risk aversion*

Times like these truly test clients' tolerance for volatility. A recent newspaper story on why investors need an investment policy statement (IPS) is an example – in a sample IPS, a 46-year old woman can tolerate a loss of 10% but a decline beyond a one-year period would concern her. It's hard to see how that leads to an investment mix with any chance of providing a reasonable long-term return. It may be that this investor would prefer to work an extra five or ten years rather than take more risk, but at the very least her advisor needs to be crystal clear about the implications of the choice she's making.

These kinds of markets create the need to talk about the losses that investors can withstand and still sleep at night on the one hand and the true cost of avoiding mid-term losses on the other. In some cases, this conversation will result in adjusting the risk in portfolios down; in others clients will conclude that they need to change their view on how much volatility they can tolerate. And while studies generally question the value of guaranteed products, sometimes the guarantees on variable annuities or guaranteed minimum withdrawal benefit solutions can make the difference in clients' comfort with more volatile investments.

6. *Review portfolios more often*

A common complaint is that advisors are too passive and portfolios too static – many investors feel they're just sitting there, "*taking it.*" That's especially true with investors who own mutual funds and other managed solutions and are often unaware of changes to their portfolios.

During markets like those of late, clients want to feel that their portfolios are changing to take advantage of opportunities. A common complaint from clients – "*If my investments made sense a year ago, given all that's gone on, how's it possible that exactly the same investments make sense today?*" In response, make a commitment to update clients quarterly on what's happening to markets and any changes in portfolios as a result.

7. *Identify options to help clients control their financial future*

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> Zweig's article talked about a number of things stressing investors today, but feeling that they don't have control of their financial future has to be at the top of the list.
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> A good financial advisor's most important role is to work with clients to create a financial path to their long-term objectives, in the process helping them understand the options and tradeoffs available to achieve their goals. That process can give clients a feeling that they have choices and at least some measure of control of their financial future. If your conversations with clients achieve nothing else, then the time invested will be well spent.

Winston Churchill once said: *"The pessimist sees the difficulty in every opportunity. The optimist sees the opportunity in every difficulty."* Right now, many clients are overwhelmed by all the bad news surrounding them. Great financial advisors are emotional anchors for investors – keeping the highs from being too high and the lows from being too low. By putting these steps in motion, you will provide balance and help clients recapture a sense of realistic optimism about their future.

Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries, go to www.clientinsights.ca. Use A555A for the rep and dealer code to register for website access.

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