

Keeping Clients Happy... or Wealthy

The Easy Sell Is Usually Wrong

By William Hammer, Jr.

"There are risks and costs to action. But they are far less than the long range risks of comfortable inaction."

John F. Kennedy

We have all had some of the most difficult conversations of our careers over the last two years. We have fielded difficult questions about the volatility of financial markets, the uncertainties surrounding government action and the value of our advice.

With the added stress on our client relationships and lower annual revenues for many of us, there is a temptation to allow clients to do what is easy or comfortable instead of encouraging them to do what is right and necessary.

People are living longer, healthcare costs are rising rapidly, interest rates are at historic lows and retirees are paying for the richer lifestyle to which they have become accustomed. In this environment, you'd think investors would want to grow their portfolios rather than simply protect them.

Yet, they are investing wildly in low-paying vehicles such as bonds, bond funds, and CDs. If the returns on these investments weren't unappealing enough, especially when adjusted for inflation, just think about the inevitable drop in bond prices (especially long-term bonds bought by yield-hungry investors) when interest rates go up? This is not a question of IF, but a question of WHEN.

Bonds are an easy sale right now because the equity markets have created a perfect storm of confusion, frustration, and surrender. More and more investors mistakenly believe that this time is different—that the equity markets will never provide the healthy returns they have in past.

If bond-mania isn't bad enough, think about the cash that is sitting on the sidelines: not emergency funds but long-term retirement money that won't be touched for



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years. Show me a portfolio that needs to last a lifetime sitting in cash and I'll show you a frightened person without a plan. Cash is always a response to fear and fear is always acted upon in the absence of a plan designed by a trusted financial advisor.

The bond and cash examples are from the investment side of financial planning, but regardless of our concentration, we all face the same basic issues with clients wanting to either (a) do the wrong thing at the wrong time, or (b) don't do the necessary thing at the right time.

The average family spends more time planning their next vacation than their retirement. Clients carrying \$5,000 of golf equipment in their trunk may balk at the price of a good estate attorney's work, or they can't

find the time to set a retirement planning meeting. We know clients whose debt loads mirror the amount of money they have given to their grown children

***Cash is always a sign of fear
and a substitute for a plan.***

over the last five years.

Our profession does not require us to be financial geniuses, but it always requires us to provide perspective and accountability to our clients.

We offer perspective when we help clients do the right thing instead of the wrong thing – like chasing yield in long-term bonds right now. We encourage the uninsured breadwinner of a family of five to buy a life insurance policy rather than that new BMW. We show a couple why spending \$800,000 on their next house instead of \$1 million may allow them to retire earlier if they save the difference.

We offer accountability when we make sure clients follow through on what needs to be done. Getting aging clients to finally execute their Medicaid plan will start the five year look-back period sooner. Making sure your wealthy client has a solid buy-sell agreement may not

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Always Something Better

If a client wants to do something you think is wrong or inappropriate, there is always something useful, and maybe better, to do with his/her money. Help your client consider:

- An alternative equity investment.
- An investment back into his/her business or in professional training.
- Update of an estate plan.
- A buy/sell or partnership agreement.
- Buy more life insurance.
- Hire a consultant for the business.

Folly Of An Easy Sale

Putting all a client's money into 10 year munis yielding 2.5% might be an easy sale right now, but consider the likely consequences:

You have a decade where every dollar you invested is worth \$1.28. If the cost of living rises at the historical rate of 3.3%, you will need \$1.38 to buy everything that cost a dollar today.

We just had a bad decade in stocks. But the odds are the next decade will be stronger – possibly much stronger.

be as interesting as recounting Sunday's football game, but it's your job. You may never get a thank-you note, but you are obliged to nudge a client to update the estate plan that was written 20 years, three kids, and \$5 million ago.

Above all, our ability to tell clients what they need to hear is what makes us valuable to them. We are not cheerleaders, but financial professionals whose life's work is dedicated to helping people achieve their goals. People may choose to work with us because they like us and trust us, but we can never let our friendships interfere with giving the right advice.

We have all heard a parent say, "I'm your mother, not your friend." With us, it's advisor first and friend second. The more committed we are to clients' well-being, the more willing we are to make sure they stay on plan and avoid the mistakes that can cause hardship.

I enjoy happy clients as much as the next advisor, but it will be a snowy day in Bermuda when I tell my clients what they want to hear instead of what they need to hear.

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