

Re-engage your clients with a proactive and personalised service that lets them own their plan. After all it's the personal service they think they are paying for.

The financial world is in turmoil. Most clients are confused and anxious about how it will affect them. Do they have to change their plans, their portfolios or worse still, are they considering changing their adviser to one who seems to care? So there has never been a better time to bring clients in to review their circumstances and re-assess their needs, to help them understand their financial risk tolerance(s) and how it compares to the riskiness of their portfolio in the current market volatility. By bringing together behavioural finance, our own research and the practical insights from one of our long term users, we have some practical suggestions on how you can be proactive, review client portfolios, better match those portfolios to clients' needs and, in the process, help clients take responsibility and ownership of their financial plan.

We know that financial risk tolerance is an enduring personal trait that changes little over time. However, there's also no doubt that client behaviour with regard to investments differs from booms to busts. If it's not risk tolerance changing, what could it be? Behaviour is a function of a number of parameters: goals, perceived alternatives, perceived risks, risk tolerance, etc. It seems likely that what is changing from boom to bust is perceived risk. In boom times, there can appear to be little investment risk as year after year there are bumper returns. Then the bust arrives and almost everything seems to be producing losses. No wonder one sees a change of behaviour with the degree of change depending on how well the adviser has forewarned the client by properly explaining potential losses.

No matter whether they originally undertook a FinaMetrica risk tolerance assessment, another psychometric risk assessment, a simple portfolio picker questionnaire or even if no risk profile was undertaken, a simple invitation to revisit the client's risk tolerance in the light of their circumstances, their portfolio and the state of the markets may be the most practical way to re-engage your apprehensive clients.

Once your clients have completed their risk tolerance assessments you are in a position to revisit their other financial needs and re-do their gap analysis. A gap analysis is the difference between the expected outcomes from the portfolio that matches their needs compared to the expected outcome from the portfolio that is consistent with their risk tolerance. In most cases there will be a difference. Perhaps in the current circumstances they may have to defer retirement a few years, reduce their expenses or revisit their portfolio. No matter whether a change to the plan is needed or not you will have a firm foundation for a meaningful discussion.

7 common sense things you might do if a portfolio review is called for.

It makes good sense to shield lower risk tolerance investors from multiple negative experiences. Any portfolio of direct holdings in shares will generate significantly more bad experiences than a similar equity exposure in a managed fund. Having the equity exposure through a series of managed funds will generate a lower number of losses. Utilising a "fund of funds" limits the bad experiences even more. So, without diminishing equity exposure, risk averse investors can participate more easily in markets most likely to deliver the portfolio outcomes needed

1. Review portfolios as if they were in cash - would you make the same investments now? If not, develop a plan to move the money. Consider selling on any 'dead cat' bounce.
2. Review leveraged assets and asset classes. Apply the "10-minute bin test". If you do not understand the current offer document in that time, it could be appropriate to move the money on. The overall theme in uncertain times is product simplicity.
3. Reduce specific company risk but retain market risk through exposure to indexes and ETFs.
4. Review the level and scope of portfolio diversification. Remember cash is an asset class.
5. Seek to minimise cost, tax and transaction inefficiencies through better selection of investment vehicles and wrappers.
6. Consider placing low risk tolerance individuals into structures that minimise their downside experiences. So, if you are running direct equities make sure you know which clients are more likely to stress out and cash out.
7. Similarly, for those who currently own volatile individual managed funds that might induce an anxiety attack, a "fund of funds" could be a better solution.

If you have not done so recently you should look at FinaMetrica's Risk and Return Charts, which puts portfolios that are consistent with the seven risk groups into historical context taking into account market performance through to June 30. You can download a copy from here*. If you haven't looked at them recently you are likely to be pleasantly surprised to see that recent investment performance is far from the worst that investors have endured in the last 40 years. Our advisers tell us that the charts are an invaluable tool in educating clients about market volatility and a critical tool to help them better manage portfolio performance expectations.

Justifying your ongoing relationship by matching needs to products.

You need to justify the fees for an ongoing service that ordinarily deals with the rich complexity of changing personal circumstances, needs, investment markets, legislation and economic conditions. You need to generate a real long-term financial plan that identifies the clients' goals and aspirations mapped against their resources. The critical trade-offs between risks needed to achieve those goals, along with the spending and financial risk taken on, will need to be illustrated to (and be seen by) the client in order to form the core of the ongoing client relationship. This will provide a solid basis for both client ownership of the plan and an ongoing service relationship. Both planner and client will have a clear understanding of their respective role and accountability. Without an accountable plan, there is only transactional advice, from which there is no basis for either an ongoing service or a recurring fee.

The critical issue is the full recognition of the client's individual needs, circumstances and aspirations. Recommendations can consequently be easily seen to be matched to the requirements of the clients. The personal circumstances to be addressed include:

1. Recognition of the client's needs that have a financial dimension. For instance, a new car in 2010 with specific costs, minimum comfortable living costs etc.
2. Recognition of the client's longevity. Taking into account the difference between partners. In traditional couples the female may live 10 or 15 years longer than the male.
3. Projections of net assets and outgoing expenditure to at least 15 years beyond the client's (and partner's) life expectancy.
4. Recognition of the client's (and any partner's) financial risk tolerance and how any difference in their financial risk tolerance is resolved.
5. Recognition of how risk tolerance is accounted for in the plan generally illustrated by a gap analysis.
6. Description of how the asset allocation recommendation was arrived at.
7. Illustration of possible volatility in the recommended portfolio.
8. Quantification of the range of possible portfolio outcomes.
9. Recognition of the client's risk capacity; that is, their capacity to sustain actual losses on their portfolio without significantly changing their short and long term plans, and
10. Meaningful identification of how the manager recommendations were arrived at.

Consequently, a properly structured financial plan will do much to share responsibility with the client for the decision-making. In addition, there will be an obvious pathway for the client to take ownership of the recommendations based on their 'properly informed commitment' to the plan.

Clearly, a 'living' financial plan needs to be regularly monitored for changes in client circumstances, economic conditions, government legislation and a broad range of issues that impact upon the client's financial wellbeing. Justification for ongoing financial planning fees clearly follows.

Your clients need you to help them through this challenging stage of the economic cycle.

There are two things that most financial services players agree on: losing money makes clients unhappy and that everyone, industry insiders and clients alike, become upset when expectations are not met. So it's best to manage both clients and expectations pro-actively. The bottom line is to minimise the likelihood of a client bailing out of the market and feeling entitled to blame you, their financial planner, for any crystallised losses. Do not procrastinate, be proactive and make the call. Now is the time to re-engage with clients.

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**<http://www.riskprofiling.com/index.php?module=htmlpages&func=display&pid=8>*