Top Stories

Advisors Reassuring Jittery Clients Amid A ‘Nutty Market’

By Cyril Tuohy
InsuranceNewsNet

Are winter’s temperatures mild enough to awake the hibernating bear?

As the stock market swoons as a result of the slowing Chinese economy, financial advisors stand ready to go into “reassurance” or “hand-holding” mode as they prepare for the few nervous clients set push the panic button.

Advisors say retirement investors and clients with long-term investment goals are generally better off tuning out CNBC, Fox Business News and other cable business channels that parade every hiccup in a stock price.

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said Kashif A. Ahmed, a financial planner and president of American Private Wealth in Woburn, Mass.

“I tell them (clients) to ignore them,” he said.

“Reacting to a nutty market is just plain nutty,” said Frank C. Boucher, owner and founder of Boucher Financial Planning Services with offices in Reston and Occoquan, Va.

“I try to make clients aware that these things happen and they will continue to happen,” he told InsuranceNewsNet. “A knee-jerk reaction will probably cost the vast majority of investors a lot of money.”

The Standard & Poor’s 500 index, which ended 2015 flat, has fallen since the beginning of the year. It slid another 1.3 percent Thursday to 1,965.31 by 10:26 a.m. in New York, according to Bloomberg.

The S&P 500 is off 7.8 percent below its all-time high set in May.

"The market has been in denial," Michael Ingram, a market strategist at BGC Partners in London, told Bloomberg. "The broader issue is that growth dynamics are weak pretty much everywhere. Make no mistake, what happens in China this year will shape the market dynamic for the next five."

Advisors interviewed for this article say they have not received many calls in the past week. They said the clients who have called for the most part have left their portfolios alone in the wake of reassurance and hand-holding by advisors.

Of course, the whole point of hiring a planner is to plan for those moments when portfolios take a hit, as they are doing now.

Investors who don’t have a game plan should realize that making changes now “may be akin to putting your seat belt on after the car crash,” John Fowler, a financial planner and wealth manager with McElhenny Sheffield Capital Management in Dallas, said in an email.

The market swooned in late August, also due to China-related jitters. But it was only a couple of months before the S&P 500 recouped its losses, closing in early November within a few points of its May closing high.

Advisors said their clients should not act on their own, and that clients should call to discuss any investment position.

“We tell clients that it's OK to be stressed, don't react or panic,” said Marguerita M. Cheng, CEO of Blue Ocean Global Wealth in Potomac, Md. “Please call. We are here to help. I think it's important to remind clients that retirement is a long-term goal.”

“Clients who panic, I don’t want them as clients,” said Ahmed, who also teaches graduate courses in finance and investing and has been tweeting about China stocks.

Clients who try to trade on their own will be referred back to him from his broker/dealer, he said. Clients want to trade on their own should not be working with an advisor — at least not with him, Ahmed added.

Reminding clients to think in 20-year or 30-year increments is often easier said than done, advisors said. This is especially true for retirees with little exposure to market volatility, clients who suffered little from the 2008 meltdown, or even for younger investors used to the immediacy of mobile technology.

Boucher encourages his retiree clients to keep at least three years of living expenses in a money market account. He said it’s important to distinguish between advisors who have discretionary control over assets and advisors — such as himself — without discretionary control.

“We don't have control of their assets and they can do anything they want,” said Boucher, who has been in the wealth management business since 2000.

During his career, he could recall only one client who “did something stupid” and who later admitted to it. But he suspects there are a handful of other clients who made mistakes and never had the courage to tell him.

And in a volatile environment, people make mistakes — yet someone always benefits: Wall Street, for instance, where brokerage houses collect commissions on every trade.

“Volatility is nobody’s friend but I’m sure there are some people who benefit,” said Jamie D. Greenleaf, principal and lead consultant with Cafaro Greenleaf, a Red Bank, N.J.-based advisor to retirement plans.

When equity markets start to sway, plan participants call looking to change their investment choices and even consider suspending contributions into 401(k) accounts. This is exactly the wrong time to make such a move, as workers buy shares of mutual funds at lower prices.

“Really, what we need to do is talk them off the ledge,” Greenleaf said.

Before the Internet age, when funds mailed statements quarterly, 401(k) investors were better served because they weren’t tempted to act on emotion.

By the time workers opened their 401(k) statements, the market had already rebounded and advisors and investors could “ride it out,” Greenleaf said.

If there’s any gain to be squeezed out of a volatile equity market, it’s that advisors may want to pause and evaluate the holdings in a client’s portfolio.

“If you don’t have a good reason for each security and you can’t arrive at a reasonable price target and stop-loss level, then odds are you shouldn’t be holding it any longer,” Fowler said.

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