

Clients are upset and they're voting with their feet. But instead of bemoaning your woes, you should view this as a time to prove your worth and snag a few new clients. Asset allocation isn't dead, but you have to use it right and you have to communicate more with your clients. Playtime is over so get to work (after you read this article).

By Helen Kearney

## What Wealthy Clients Want Now

THE FINANCIAL CRISIS HAS SURE TAKEN ITS toll on the wealthy. Last year, the number of millionaires in the world plunged 14.9%, according to the 2009 Merrill Lynch/Capgemini World Wealth Report. There are now fewer millionaires than there were in 2005. And many of those who are left aren't happy with the investment advice they're getting. Last year, almost 25% of millionaire clients moved some or all of their assets to a new advisor.

Indeed, the overwhelming feeling is that high-net-worth investors have lost faith in their advisors over the past year. Turns out, advisors didn't have any deeper knowledge of investments than did clients, says Michael Sonnenfeldt, founder of high-end investment club Tiger 21. "It wasn't supposed to be like that," Sonnenfeldt says. "For a long time, advisors held themselves out as having a specialized knowledge," he says. "The last year has blown that mystique away." This has put even the best advisors under scrutiny, Sonnenfeldt says, as investors have re-thought the overall relationship. Sonnenfeldt notes that Tiger 21 members are inclined to take an especially active hand in their investments. Indeed, an attraction of the club is the detailed feedback members get from other high-net-worth investors.

Still, it's not all gloom and doom. After all, with all of those assets in motion, there's a huge opportunity for advisors to snag new business. In fact, a group of advisors from a variety of firms managed to increase their new client intake significantly over the past year.

### Find Your Inner Teenager, Talk More On The Phone

Yes, it's financial advising 101, but amazingly some advisors still aren't communicating enough with their clients. A recent survey by Spectrem Group found that more than half of clients expect their advisor to return their phone call within a day. Moreover, 36% of those surveyed expected their call to be returned in one to three hours.

It's a message that rings true with advisors who have managed to capture the assets of clients dissatisfied with their current advisors during the downturn. Mark Donohue of RBC Wealth Management in New York City has added \$108 million in assets from new clients since July 2008. Donohue, who has been in the business for 27 years, says he is working harder than ever, going to the office six to seven days a week and constantly calling clients to give them his view on the situation. "When you call someone on the weekend and you're in your office and you take all the time they need to discuss what they need to do, it makes a big difference," he says. In fact, he's surprised that all advisors aren't putting in the extra effort. "I shouldn't get a gold star for that. It's what everyone should be doing," he says.

Richard Zinman, an advisor at Credit Suisse Private Banking USA, added around 25% in new assets over the past year. He says that many of his new clients didn't leave their old advisors just because they lost money; they left because of a lack of communication and thoughtful ideas about how to get them through the crisis. The worst scenario for advisors is when they don't make the phone call, and then the client calls them to say their leaving. "The extent you procrastinate will lose you clients and assets," Zinman says.

John Q Smith, an advisor in UBS's Private Wealth Management office in Chicago, has attracted over \$45 million in net new assets so far this year. He tells a similar story of one of his new clients. She had left her previous advisor at a major trust bank and moved her assets over to Smith (who was her son's advisor) because she didn't receive one phone call during the market meltdown.

Smith, on the other hand, had conversations with all of his clients in November and December to prepare them for what he saw coming in the first and second quarters of 2009. Smith says his client's former advisors "just never made the outgoing call to say, 'Now here is your current portfolio strategy and here is where your investments are.'" She was

# Cover Story

very upset.”

Of course, it's natural that advisors want to avoid awkward conversations about losses, especially when the investments were made on their advice. However, Jeff Spears of Sausalito, Calif.-based consulting firm Sanctuary Wealth Services says that if advisors want to keep their business they have to 'fess up. "You have to regain your clients' trust. You have to say, 'I screwed up, let me tell you what I learned,'" he says. While Spears says that advisors can explain the losses in terms of the unprecedented market meltdown to some extent, they must also admit their mistakes and provide an explanation as to how they'll avoid the same thing happening again.

## Have a Plan

Of course, talking to clients and sympathizing about their losses is one thing, but clients are now expecting more from their advisors in terms of planning their next move. Most clients know that you don't have a crystal ball, but it's part of your job to at least have an opinion—and even better, a plan. Kathy Roeser, an advisor with Morgan Stanley Smith Barney in Chicago, who has brought in around \$15 million in assets from new clients over the past year, says one new customer told her that he didn't switch advisors because of the amount of money he had lost. In fact, he had sold half of his portfolio before the drop. Rather, he was unhappy that his former advisor hadn't laid out a strategy going forward and wanted a clear plan as to what to do next.

While it may be difficult to convince your understandably nervous clients to jump back into the market, most will be open to ideas to help stem further losses. Credit Suisse's Zinman says he is candid with clients and prospective clients. "We lost money for clients and ourselves, it was hard not to. We don't get up on a pedestal and say that we dodged all the bullets, but we do

still believe in our robust plan," he says. That plan involves asset allocation, the demise of which he says has been greatly exaggerated. But now it also includes ways to harvest tax losses and generate gains in traditionally tax-inefficient vehicles (such as short-term trading strategies) to repair some of the damage.

Indeed, UBS's Smith says it's more important than ever to have a properly allocated portfolio. He sees opportunities in the credit markets, including high-yield bonds and munis. "We felt our clients were well compensated for the risks in these products," he says. And while clients might be nervous, Smith credits his team's robust risk management processes and decision to stay away from some of the riskier investments for retaining his clients' trust through the downturn. His clients were always underweight in alternatives because he and his team were leery of the risks, he says. "We really spend a great deal of time on risk management... you can't be recommending strategies unless you have an investment philosophy that grounds you in every decision," he says.

For example, Smith points out that for the level of illiquidity and risk in a private equity investment, he would need the return on that investment to be substantially above that of the S&P 500. Given he has such high return expectations for illiquid and risky investments, he didn't go into them.

Furthermore, Smith eschews the notion that buy-and-hold is dead and continues to preach the benefits of compounding. "It's a great inflation hedge and lets you manage downside risk," he says. In the end, Smith adds that his strategy all comes down to three things: asset allocation, compounding and risk management.

Charles Nemes, an advisor with Raymond James & Associates in Novi, Mich., who attracted \$20 million in new assets in the fourth quarter last year, recommends making sure you take profits when the

# MARK KRESS

## Help Wanted in Discipline and Structure

**MARK KRESS**, founder of hair replacement firm Spencer Forrest, says that he looks to his advisor primarily for help in asset allocation. He views that as the basis of his portfolio; performance and risk management stem from asset allocation. "That's the primary issue. And it's different for everyone. In my situation, I need a good deal of cash flow," he says.

Kress, 53, also looks for help in discipline, structure, and a clearer approach to tax issues and estate issues. "I realized my risk tolerance is not as high as I thought," he said, referring to the aftermath of the financial crisis.

His advisor is Ehrenkranz & Ehrenkranz, a law firm that advises high-net-worth individuals and families on financial matters, including taxes and estate planning. He says he's happy with them because the service and follow-through have been excellent. Plus, he feels he can't blame an advisor for missing a perfect storm that was virtually unforeseeable. And Tiger 21 gives him much of the vetting process he wants.

The process of selecting an advisor has remained largely the same through the financial crisis, he says. It's still based heavily on recommendations, he says. And contrary to a lot of reports, he doesn't see a big reason to move. "Investors would need strong reason to change," he says. - Lee Conrad

If you allocate 50% in equities and the market surges and you find you have 53%, take the profits. "No farmer ever made money by leaving crops in the field."

-Charles Nemes, Raymond James & Associates

Percentage of **clients** who felt that risk management and due diligence are important factors in deciding to stay with their firm

73%

Percentage of **advisors** who felt this way

54%

## GREG ROGERS

*Contingency Planning is Crucial*

**GREG ROGERS**, president and founder of RayLign, a consultant to family offices, says that investors today want objectivity above all else. They want to feel like they're "sitting on the same side of the table" as the advisor.

He believes there is a shortage of really competent advisors. "We've had a lot of the form over the years, and not enough substance," he says.

If investors don't change advisors, they at least need to change the way they look for advisors, he says. Specifically, they need to understand their own needs, which is easier said than done, especially with a family. Many families are unsure how to even ascertain their true needs, which is often compounded by conflicting viewpoints of family members.

Contingency planning is critical. This means more than scenario planning. It analyzes the impact of one investment really falling to zero. What happens? What if that investment accounted for half the portfolio? Yes, that can happen when the investment is an employer's stock, or the family business, Rogers says.

market runs ahead. Once he and a client decide on an allocation of, say, 50% in equities, if the market surges and the client finds himself at 53% equities, Nemes advises to scale back. "I tell them, you don't own [the gains], the market does. You have to protect your money and make it yours," he says. "No farmer ever made money by leaving crops in the field." But too many advisors tried the financial equivalent, Nemes says. They rode the market up during the last boom, only to tumble spectacularly when it crashed.

### Ramp Up Risk Management

According to the World Wealth Report, 73% of clients surveyed thought that risk management and due diligence were important factors in their decision to stay with their firm. But it's a point that advisors appear not to have fully grasped yet: only 54% of advisors surveyed thought that it was a reason that clients would stay.

"Clients probably won't walk into your office and demand to discuss risk management," says Russ Prince, president of Redding, Conn., based consulting firm Prince & Associates. "To them it's just about not losing more money." He recommends that advisors have a clear philosophy and practical plan to deliver stability and keep their money secure. This is a much more effective conversation than launching into how you'll win back their losses, he says. "They don't want to hear, 'I'm going to get [returns of] 20%', when they can see things aren't going that way. They want to see how you can pull this together," he adds.

But the old ways of assessing a client's risk tolerance just aren't going to cut

it in this environment. "Everyone says [on their survey] they can afford to lose 20% when everything's going up. Then when things are bad they lose 5% and have a nervous breakdown," says Prince. Instead, he says, advisors need to compile a detailed profile of their clients and understand their motivations for investing. Advisors should present clients with a number of extreme scenarios, such as another market meltdown or a job loss, to gauge their reactions to each. While a client may consider himself to be an aggressive investor, when he hears the actual dollar amounts he could lose in different situations, he may rethink his stance.

Finally, the assessment needs to delve deeper into portfolio diversification and create diversification within asset classes as opposed to holding merely a variety of asset classes. For example, to create diversification within the fixed income portion of a portfolio, that could mean using bonds to generate returns while using others to preserve capital.

And clients are taking the initiative more often to make sure they understand the risks themselves. In the good times, when everything was going up, your clients may have just left everything to your judgment. But whether you made mistakes or not, your clients' trust has been shaken and they're demanding more information. "You need to be able to explain the risks," says Ileana van der Linde, a principal with Capgemini. "Clients are saying: 'If I don't understand it and you can't explain it to me, then I don't want it.'" Some advisors are already noticing this more take-charge approach by clients. MSSB's Roeser says a number of her new clients are asking

# Cover Story

about the risk, and also the liquidity, of different investments. “They’re telling me: “I took a back seat to managing my money before but I owe it to myself to be more involved,” she says.

Steve Crosby, U.S. practice leader for PricewaterhouseCoopers’ global wealth management business, agrees. He says he’s hearing of clients going to their advisors and demanding information about their counterparties, such as whether they’ve had any regulatory issues. Crosby says he’s been impressed with some advisors who have prepared all the documentation a client may want. “They can just slide it across the desk. Here are my counterparties, ranked first or second in every market, here is my FINRA statement etc.,” he says.

Regardless of the approach, the risk-management conversation will be a difficult one, says Tiger 21’s Sonnenfeldt. “We know now that investors don’t have the tools to understand risk... most measures of risk inherently look back. It’s like driving a car by looking out the rear window, you can see where you’ve been but you also might drive off a cliff,” he says.

## Become The Quarterback

Of course, clients don’t want to just be presented with all this information without discussing it with their advisor. More than ever before, advisors need to assume the role of quarterback in their clients’ financial affairs. Raymond James’ Nemes says he and his partner, Tim Rush, hold annual “summit meetings” with the client, as well as the client’s attorney and accountant. Nemes says it’s essential to discuss issues such as estate planning, so they can coordinate all aspects of their client’s financial life. Nemes specializes in advising physicians who he says often don’t have time to organize this themselves. “They don’t want to read the fine print. They want us to take the quarterback role,” he says.

Still, coordinating these meetings takes a lot of work and Nemes says it’s one of the reasons he and Rush decided to reduce their number of clients from about 1,400 to 250. The lesson was brought home to him when a prospective

\$2 million client came to meet him. Nemes proudly told them how many clients were on their books, and never heard from him again. “So I called him

# TOMMY GALLAGHER

Take Ownership or Go Broke

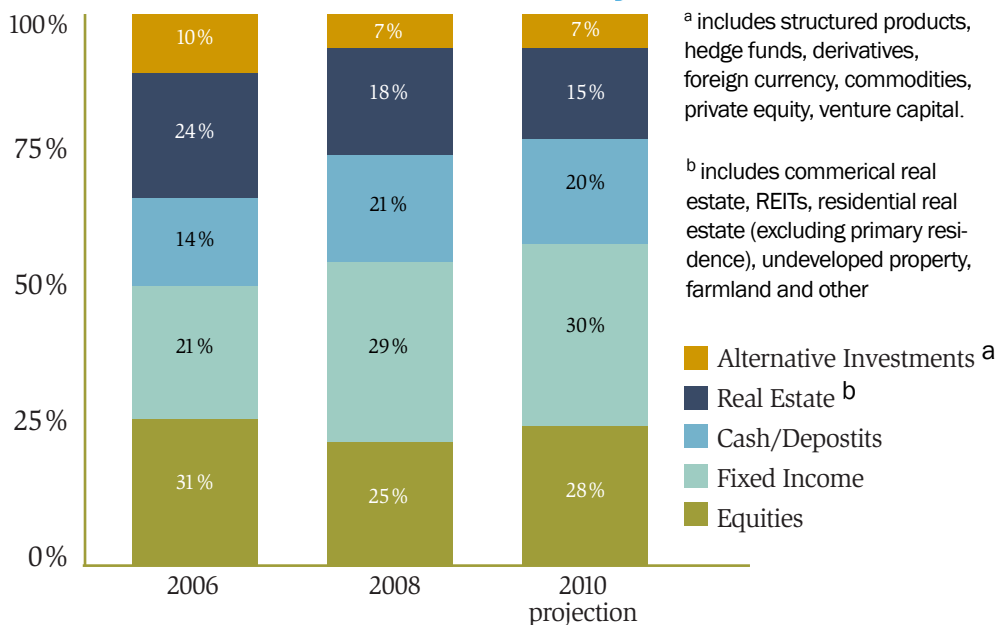
**TOMMY GALLAGHER**, 64 and retired, doesn’t use financial advisors. “This is my job in life. I was lucky to work in [the financial] industry when I did... and I made some money. My job now is to not lose it.” So he’s taken on the task himself, doling out money to various managers and deciding how much each one will get. The goal: to beat inflation and maintain his lifestyle.

He lost 8% last year, but he also gained some hard-won wisdom. He and his wife were unable to get out of some funds-of-funds that posted losses of 20% and 27%, respectively, even before mid-year, because of lock-up periods. “We now have the bulk of our money with more liquidity,” he says.

As for risk management, Gallagher suggests having specific goals and limiting both the upside and the downside. For instance, some of his gold holdings will be cashed out if the price reaches \$1,100 (or if it falls to about \$800.)

He also says investors should not be shy about firing their advisors. “Anyone who had an advisor who lost 40% to 50% should be thinking that advisor is not working in their best interest,” he says. “People are just expecting their investments to go back up, but what if they don’t? Can they really afford another 20% fall after last year?” People have to take ownership of their own investments and make sure they’re better educated. “They need to read the papers, they have to know what’s going on in Latin America (and know how those events will affect their investments). If they don’t, they’ll be broke.”

## Analyzing the Asset Choices of the Wealthy



# LESLIE QUICK

*Always the Question: Why Is This Being Recommended?*

**LESLIE QUICK**, 56, co-founded Massey Quick five years ago along with Stewart Massey to manage their own money. Today, it's a family office with \$1.4 billion under management, and creates custom portfolios for wealthy families and foundations using about 45 different money managers. The company has a \$5 million minimum so clients can be spread out over at least seven or eight managers, most of whom have minimums of their own of \$500,000 to \$1 million.

The current market is unlike anything Quick has seen in his career. And this is a career that began in 1975, and 23 years later saw the sale of the family business Quick & Reilly to Fleet. "Even in 1987, it rebounded relatively quickly," he says by way of comparison to today's turmoil.

Trust is the biggest issue for most investors today, he says. "There is always the question in the back of people's minds: Why is this being recommend to me? Is the advisor getting a payment, or whatever you want to call it, a kickback?"

His answer is to put his money where his mouth is. "We don't put clients in anything that one of our partners isn't already invested it." He considers this a risk-management technique: a qualitative, yet important one for clients who learned recently that they didn't know how much risk they were taking. In fact, a number of mangers he uses did not understand what was going on either, and took up to 80% of their holdings off the table and held it in cash last year. On the client side, he says they "did a lot of hand holding in the fall." - Lee Conrad

to ask why and he told me that he went with someone else because he thought we had too big of a practice. He was worried he would get lost," says Nemes. "That's when I learned that the high-net-worth want to know that they are one of the few rather than one of many."

## Boast a Little

With all these unhappy clients looking for a new home for their assets, now is not the time to be a shrinking violet. Ask clients for referrals, do educational seminars to explain where clients can go next and, if you managed to avoid the blowups of some of the riskier assets, make sure your clients know—and tell their friends.

RBC's Donohue stuck to his guns during the boom and refused to be lured by promises of high yield from some alternatives, even when clients called demanding to know why they were missing the boat. Donohue credits his former work in fixed income for his more disciplined and conservative approach. "I keep a glass-half-empty posture going in," he says. Donohue acknowledges that his clients also lost money, but as they were heavier into fixed income, it was substantially less than others.

UBS's Smith also says that his team's conservative risk management and its decision not to invest heavily in alternatives has attracted new clients, while retaining the trust of his old ones. "We haven't had to spend time explaining to clients what went wrong with investments that were ill-advised," he says. "Staying out of trouble allows us to have a conversation now about (what to do next)."

And it's not just your own record that can attract clients. Advisors whose firms weren't embroiled in the financial industry meltdown are also finding that it's a selling point. Credit Suisse's Zinman (who joined the firm from Smith Barney in May 2008) says his firm's reputation was a key selling point for him in attracting new clients. "There are very few institutions that have bragging rights

at the moment and this is one of them. We've been a port in the storm and high-net-worth clients respond to that," he says.

Similarly, Donohue says that being part of RBC helps his own pitch to prospects. "RBC never put the bank or its clients at risk," he says. "Other brokers are spending half the day apologizing for their firms, while I can prospect for business."

Indeed, the World Wealth Report found that there was a 31% increase in the number of clients using regional firms this year. However, van der Linde points out that the real test will come once the crisis passes and clients are once again looking for more exotic products with higher yields.

Still, given the severity of the market drop, people might have slightly longer memories this time around.

At least RBC's Donohue hopes so. Instead of innovative new vehicles, he says his clients are looking for a back-to-basics approach. "It's one thing not to make money in the market but another thing to lose a substantial part of your portfolio," Donohue says. "People won't forget that for a long time." **OWS**