
IN TODAY'S VOLATILE INVESTMENT CLIMATE, FORWARD-THINKING ADVISORS ARE EXPLORING INVESTMENT ALTERNATIVES, FOCUSING ON TAX-DEFERRAL STRATEGIES AND ENCOURAGING FACE-TO-FACE MEETINGS WITH THEIR CLIENTS.

BY DAVE WILLIS

The New World of Investing

If you are like many investment advisors, you are probably getting lots of calls from angry and frustrated clients whose investment portfolios have been negatively affected during this economic downturn. How do you hold on to them as clients and continue doing business with them? The following strategies will shed some light on how to navigate your way in the new world of investing.

Connect with clients

Aaron Smith, founder and president of A.W. Smith Financial Group in Glen Allen, Va., and a registered principal with Centaurus Financial, *is* getting more calls from his clients right now, but because of the work he and his advisors do during the sales process, they're not frantic calls. "As long as people know we've got their backs and are holding their hand, they seem to be OK."

He also makes an extra effort to connect with his clients. "We build the relationship, do a little hand-holding and talk about how to weather financial storms," he says. In addition, he gives his clients and prospects a book he just published, *In the Black*, which strengthens the bond even more, he says.

Smith has also benefited from other advisors' lapses. "Many times, people come from other advisors because they're not engaging in any conversation whatsoever," he explains. "They just want someone to solve their problems."

They want security, too. John Rafferty, Houston-based vice president of annuity marketing for AIG American General, calls it a "flight to certainty. People seem much more interested than ever in a return *of* their capital vs. a return *on* their capital," he says. "They're frustrated and are re-evaluating what is important." ▷

MUTUAL FUND ACTIVITY SEEMS TO FORETELL MARKET SHIFTS.

Choose a niche

To find new leads, some advisors are reinventing themselves and focusing on a niche. Grady Jennings, CLU, ChFC, head of Ontario, Calif.,-based Jennings and Associates/Dignity Group, and a producer with Mutual Trust Financial Group's MTL Insurance Company, has been successful in growing his business in a specific market segment. "I've worked with a lot of families who have children with disabilities," he explains. "Their need for protection is never going to change."

Jennings, who also is principal and one of the original registered representatives of MTL Equity Products, Inc., which is celebrating its 25th anniversary this year, sees a steady flow of prospects. "We are doing a lot of broker-of-record work now with people who aren't satisfied with their current advisor," he explains. This provides him with opportunities to serve a wide range of his clients' financial needs—from insurance to investments and more.

Explain market trends

As difficult as finding new investment prospects may be, selling to them may be even tougher. Preston Wines, financial advisor with Woodbridge, Va.,-based Edward Jones, uses data to help his clients and prospects understand cycles and boost investment sales. For instance, he explains to them the correlation between consumer confidence and equity performance. "If you go back 35 or 40 years, every time confidence dips below a certain level, 12 months later, the market has gone up by double digits," he explains. "Typically the very best years have followed the worst. That gives buyers faith."

Mutual fund activity also seems to foretell market shifts. "We have a bar graph showing mutual fund inflows vs. outflows," explains Wines. "When you look at peaks in inflows, you're probably due for a better market. Nationally, mutual fund inflows are starting to turn around," which should lead to a turnaround in investment sales.

Jim Kelley, CFS, St. Louis-based financial advisor with The America Group and registered representative through The O.N. Equity Sales Co., works with a lot of phone-company retirees, counseling them before retirement on distributions. "In most cases, we suggest taking a lump sum," he explains. "That offers the most flexibility." He encourages clients to spread the distribution.

"We may put part of it into a brokerage account, where we buy individual bonds, mutual funds or individual stocks, as their risk tolerance allows," he says. He used individual bonds because of the guarantees and because they offered pretty good value for a while. "That's drying up a bit," Kelley notes, "so we've dipped our toes into the market some, particularly in international and domestic stock funds."

Consider alternatives

Part of Kelley's success also involves taking a different approach. "There are alternative investments including funds that inverse U.S. government bonds or the dollar," he explains. Market declines and volatility make these worth considering.

"It's incumbent on advisors to look for different places to make money for our clients," he says. Between ETFs and the different mutual funds that are out there, he adds, advisors have many options.

Manage risk with annuities

With clients who are more risk-averse, equities may be more difficult to sell—at least for now. But advisors can't afford to lose them; instead, they should address their concerns through consistent contact and, where appropriate, portfolio diversification. Annuities could also be a way to retain customers in times of uncertainty.

Rafferty sees some value in broaching the subject of annuities to clients. "By no means would we advocate that people stop investing in the equity markets, particularly as low as they are," he says. "But if your clients have not used annuities before, this might be an opportune time to talk about the role they can play in a portfolio."

Indexed annuities could be part of that conversation, as well. "Advisors can talk about the certainty of return of capital with indexed annuities," Rafferty says. "Also, they can discuss the opportunity to earn more than with a traditional fixed product."

Use tax-deferral strategies

As advisors offer investment counsel, they must recognize today's realities. "What is old is new again," Rafferty explains. "Tax deferral used to be part of the core conversation with clients,

Rules for Investing

- Explain market trends to clients.
- Offer annuities to risk-averse clients.
- Encourage in-person client meetings.
- Use tax-deferral strategies.
- Stay confident.

but that fell by the wayside in the market frenzy over the last few years. People are starting to pay attention again."

Projections call for legislation to add more than a trillion dollars of new taxes over the next decade. "That is going to impact taxation of capital gains and dividends," Rafferty notes. "It is also going to impact income taxes for those earning more than $200,000 a year." Advisors should talk to their clients about competitive returns, coupled with the ability to defer taxes.

In his work with families whose children have special needs, Jennings finds many opportunities to help them address their tax and related issues as part of their investment decisions. His focus is more on *how* to place money so it meets clients' needs than on *where* to place the money.

For example, one individual he spoke with has about $2.5 million in his portfolio, two thirds of which is in investment accounts in IRAs. "When the dad dies, his twins could wind up losing up to $800,000 in taxes," Jennings explains. As an advisor, he helps such clients understand that investments need to be structured for the children, not just for the parents.

"We wind up doing the investments through a special-needs trust so that we can keep everything on a tax-favored basis," he says. "We have been using different products within the special-needs trust. It's not the product we are trying to promote, though. It's the process. Structure it properly and it doesn't really matter what the product is," he notes.

Ask clients to stop by

In-person client meetings are critical in today's investment world as well. "Whenever and however we can, we get people in the office to see them face-to-face. Some things just don't translate well over the phone—people's expressions, the concern in their eyes, things like that," Wines says.

"It's an old adage, it sounds trite and it's probably overused, but people don't care how much you know unless they know how much you care," Wines notes. "If they sense that you care about them, they will trust you." In-person meetings help convey this caring.

Smith echoes the value of the personal touch but recognizes that some advisors struggle with it because they have not focused on it. To help his firm's advisors, he talks with them about their own families and puts them through exercises that help them talk about social things first. "Then we take those social things and connect them to the financial well-being of their client," he adds.

Stay confident

Rafferty cites a Gallup poll that shows 22 percent of pre-retirement Americans—up from 10 percent in 2001—say they'll rely on part-time work in retirement. "Their world view is so glum that they think they'll have to work in retirement to have the income they'll need," he says.

In response to this, his firm offers a website, *retirementraise.com*, to help pre-retirees and advisors understand how to incorporate annuities in their investment mix.

Beyond that, advisors hold on to their clients by staying confident. "Our clients already have enough fear," notes Jennings. "A house that a couple of years ago was worth $700,000, with a $650,000 mortgage, is now worth $400,000." Couple this with high unemployment and it should come as no surprise that finding new business is tough for many advisors. But they can't afford to get frustrated or discouraged. Instead, Jennings suggests, they should work with their clients in areas where they need the most help right now. "Maybe it's helping families get out of debt," he adds. "When things turn around, you'll be well regarded as a trusted advisor."

Smith encourages a focus on integrity. "Make sure you don't have any scratches, bumps or nicks on your credibility," he says. In the aftermath of the Bernie Madoff scandal, his advisors present their FINRA broker reports to clients and prospects. "We explain what FINRA is, how it works and how to use the report with any advisor they're looking to work with."

Advisors should also try to stay healthy and keep a positive outlook, according to Smith. "If you have a positive state of mind, you generate a better feeling in your clients and prospects," he says. "Clients are pretty good at sniffing us out. If their advisors aren't comfortable or confident, they won't be either." And that means no sale. □

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