Investment News

Thinking of your clients as partners

As investment advice becomes less of a one-way street, advisers must be more collaborative

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Economic uncertainty and an avalanche of available financial market information may be causing a permanent change in relationships among financial advisers and their clients.

An unexpected finding in a national adviser study indicates that this could be the case, revealing that investment decision making may be evolving from an adviser-in-charge situation to a collaborative relationship in which advisers and clients share that task.

Advisers who have been in the business long enough recognize that attitudes and trends are cyclical, and what can seem like change is really an approach or concept coming back into fashion. But how advisers and their clients relate when it comes to making investment decisions may be entering a new era.

This change came to light as part of a recent benchmarking study for The Options Industry Council on how often and why advisers use options. In addition to learning that nearly half of all advisers used options in their clients' accounts in 2010, the survey asked advisers to describe the circumstances around their last options trade. That's where the surprise emerged.

Fully half said the trade had come about at their clients' urging. Either the client directly requested an options strategy, such as covered-call writing, or asked for help managing a situation, such as a large position in a single stock, where using an options strategy such as a collar addressed the risk factor.

While there has always been a subset of clients who have brought ideas to their advisers, for the most part, the relationship has been one of expert to amateur, the director to the directed, especially in the area of investments that are considered sophisticated or complex. This unforeseen finding points to a more balanced relationship between advisers and clients, where they are partnered to achieve the client's investment goals.

But if the advisers are no longer the sole source of knowledge and ideas in the relationship, what else does the adviser contribute?

HOW TO COLLABORATE

Here are some tips to help manage a more collaborative relationship with a client.

Ask questions. As a consultant, I never suggest to a client that I know all the answers to a problem. What I promise is that I know the questions to ask and that when we are through addressing them, the answers will be apparent to us both. An adviser truly engaged in consultative selling has a similar role, which requires attentive listening and asking probing questions that go beyond the mundane.

Be a resource. Whatever investment idea a client brings an adviser, there are likely to be many more solutions, and possibly better ones, to meet the client's objectives. It is the adviser's responsibility to offer alternatives, and to compare and contrast possible choices. This process helps the client arrive at an answer most likely to meet his or her needs.

Provide perspective. Most investors can draw only on their own experiences, or those of family and friends. Advisers, on the other hand, probably have helped hundreds of clients build and manage portfolios over the years. That knowledge and experience can be invaluable to people trying to finance their first home, balance college costs with savings or determine when to retire.

Offer objectivity. Thanks to behavioral-finance research, most advisers now realize just how biased and seemingly irrational the decision-making process can be. For example, most investors are willing to sell a stock and take profits when a position appreciates but are reluctant to sell a stock that has declined in value, even if holding on could mean further losses. Being the voice of reason in these situations can keep an investment plan on track.

If the adviser-client relationship is indeed becoming more of a two-way street, the change may be beneficial for advisers. Certainly, among the lessons in the collapse of the technology and housing sectors, or the breakdown in the correlation between the stock and bond markets, is that no economist or portfolio manager can accurately predict the market all the time; black swans are more common than we think.

Since even guaranteed products such as certificates of deposit and fixed annuities carry a small element of risk — e.g., runaway inflation or the bankruptcy of the insurer — an adviser cannot promise a specific outcome. Thinking of clients as partners in the investment process may help build the kind of relationships that will withstand whatever the marketplace may present.