



By Donalee Moulton

IN THE WAKE of the worst recession since the Great Depression, many Canadian investors remain shaken. Financial planners are hoping to play a key role in restoring their faith.

“How quickly and how severely the whole (economy) unravelled affected clients’ stability factor. There is no question it had a huge impact on clients. Two years later people are nervous but they’re starting to look for strong returns,” said Margaret Franklin, president and chief executive officer of Kinsale Private Wealth Inc., an investment management company in Toronto.

“For many clients, this is the first experience they’ve had with a downturn,” she added. “Advisors were very good at holding hands. That needed to be done.”

The key is open and honest communication, said Keir Clark, associate director of wealth management with ScotiaMcLeod, the investment arm of Scotiabank, in Fredericton, N.B. “To help manage the powerful emotional responses clients have to loss, advisors need to effectively communicate the financial impact of taking too little risk as well as the impact of taking too much risk.

“While it’s exceedingly difficult work,” he noted, “advisors must keep clients focused on distant time horizons to help them avoid making poor quality decisions in the short term based on the news of the day.”

The need for ongoing outreach to clients is ever present—regardless of the ups and downs of the economy, said Matthew Bacchiochi, vice-president with GMG Private Counsel Inc., a portfolio management firm in Toronto. “The emphasis in good times and bad should be communication. Presuming the client was properly educated before embarking on a long-term investment strategy, our experience is that investors are tolerant of pullbacks when a planned approach was initially employed.

“Moreover,” he pointed out, “it is imperative that advisors are not improperly influenced by capital market or economic uncertainty when their client’s personal investor characteristics and circumstances have not changed.”



Hindsight is helpful. “We have had the benefit of being able to look back and see that not panicking and following a discipline was actually the right thing to do. This was a much harder argument to give in 2009. But today that story works,” said Robert Broad, vice-president and investment counsellor with T.E. Wealth, a national wealth management firm based in Toronto.

However, he noted, those clients who are still down a lot today are difficult to deal with. “It likely means they sold risky investments close to the bottom and didn’t buy back in. This obviously represents opportunity for a new advisor, but of course, we need to be careful. It is important to make sure this type of client is prepared for the next period of difficulty and not just stretching their risk now because of recent stronger returns.”

Advisors can—and did—find themselves in a Catch 22 situation, said Franklin,

a chartered financial analyst. “In 2006, clients were pushing advisors for greater exposure to those things that were hot. Those were also the things that fell the hardest.”

“The very best advisors did a great job in providing a broad perspective around market returns,” she added. “They went back to basics in terms of the requirements of the client.”

That shift remains important, said Broad. “Today I think the basics still matter. Having a plan that takes you through different market environments is likely the best way to go.”



CANADIANS ARE KEEN to be part of the plan, noted Clark. “Following the experience of this recession, many clients are interested in getting more involved in the process of managing their money. A key part of this increased

client involvement is getting a clearer understanding of how their advisors are managing the risk in their portfolio.

“Leading advisors will make the necessary investment of time to help wary investors get a better understanding of the relationship between risk and return,” he added.

In particular, noted Bacchiochi, a certified financial planner, “continuing education, aligning your interests with those of your clients and investing in your business are fundamental to maintaining consumer confidence.

“Truly customizing an investment policy statement is also important in order to confirm portfolio objectives, protect the portfolio from ad hoc changes, maintain discipline for a long-term strategy, and restrain the manager and client from inappropriate short-term actions,” he said.

“After a financial crisis where risk was such an enormous factor, it is important



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to know if consumers have any real understanding of the basic principles of financial risk,” said Annamaria Lusardi, director of the Financial Literacy Center, a research and development organization in Hanover, New Hampshire. “We have worked hard to understand financial and debt literacy, which is already quite poor. Now we find that consumers’ knowledge about risk is extremely low across all countries and particularly low among women.”

In Canada, according to that research, only 16 per cent of men and nine per cent of women surveyed managed to answer three basic literacy questions correctly — a result identical to that found in the other 13 countries polled.



WHILE EDUCATION LEVEL was a factor (only eight per cent of high school graduates were able to answer all questions correctly) it does not tell the whole story. Even the better educated didn’t fare well: only 20 per cent with a university degree were able to answer the survey questions accurately.

That lack of knowledge doesn’t seem to concern most Canadians, the survey found. Just 10 per cent of Canadian respondents indicated that they have increased their financial education efforts following the global economic crisis.

“We think these study results speak to a real need for financial services providers to help their customers learn more about financial risk,” said Rhonda Grunier, vice-president of TNS Canadian Facts, a marketing and social research subsidiary of TNS Finance, and director of the London, England-based firm’s Canadian financial research practice in Toronto.

“In fact, we see many of our financial clients already developing educational materials to help their customers

make more informed decisions about managing risk.”

“Helping to create a well informed consumer makes good business sense for financial institutions,” she added. “It’s a possibility that even the most well-educated consumers may just disengage because they are too afraid to invest in products they cannot understand.”

Investors are also disillusioned, said Franklin. “The concept of retiring at 55 with two homes and a wealthy lifestyle is not realistic. The (life) we’ve led people to believe in is a false one.”

Advisors, she added, need to manage expectations and clients need to remove their rose-coloured glasses. “There is accountability on both sides. On the professional side, we have to do a better job of articulating risk, and we have to do it in a language clients understand. On the converse side, clients have to be realistic.”

That realism will be infused with information from their advisor, said Broad, who is also a certified financial analyst. “Credibility comes from being up front with clients about what you can control or predict and what you can’t. Promising something that you can’t deliver is not the key.

“Very few clients are looking at three- and five-year returns today and feeling really good,” he added.

Many, in fact, are confused. According to a survey released last year by BMO Financial Group, Canadians are struggling to determine what they should do with their investments and, in many cases, are investing their money without much confidence they are making the right choices.

The survey, conducted by Leger Marketing, found that nearly two-thirds of Canadians who have investments have a mix of equities, cash, fixed

income investments and diversified mutual funds.

However, more than half of respondents did not believe that mix was the right one for them.

Canadians are also unsure how much attention their portfolios deserve. Sixty-three per cent indicated that, ideally, investments should be monitored on at least a weekly basis, if not daily. However, 73 per cent of investors said they check their investments only monthly, if that.

This is an opportunity for advisors to step up, said Bacchiochi, who is also a certified financial analyst. “Advisors who...continue to invest the time in educating and understanding their clients should be able to leverage this experience to enhance their business.”

That client education will likely reaffirm the status quo with respect to investment strategy, said Broad. “I think the best way to establish credibility right now is to confirm that plans didn’t change. The long-term plan created for the clients envisioned periods of good and disappointing market returns. We ended up living through one of the worst periods.”

Advisors can also build their business by reaching out to others in an effort to help clients, said Clark. “Leading advisors, supported by subject matter experts, are available to educate and consult with clients

and prospective clients on a wide range of life-based financial issues. They’re capable of offering competent advice on such issues as estate, insurance, business succession, tax, real estate, and, of course, investments.

“Going forward, the hallmark of a successful financial advisor will be this broadening of their service offering in collaboration with SMEs,” he added.

“Working closely and co-operatively with other key advisors will continue to become increasingly valuable.” **END**

