Get ahead of clients’ scary year-end statements

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The reaction to negative statements among clients who have an investment plan is different to those who just buy investments without a financial road map

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Investors opening their year-end portfolio statements may be in for a shock if they haven’t been following the markets lately – especially if they haven’t heard from their advisors.

The S&P/TSX Composite Index was down by 12 per cent in 2018, the Dow Jones Industrial Average fell by 5.6 per cent and the S&P 500 index dropped by 6.2 per cent. Although each of these benchmark indexes bounced back in early 2019, last year’s losses are etched into year-end account statements for clients who have a meaningful exposure to equities. The downturn may be most shocking for some millennials, many of who are likely experiencing annual losses in their investments for the first time.

Still, the volatility shouldn’t come as a surprise to investors who have proactive advisors. Good advisors have been communicating about the market turmoil with clients and have prepared them for what they’re seeing on their statements arriving at this time of year, says Norm

Trainor, president and CEO of the Covenant Group in Toronto, which provides coaching to financial advisors on how to grow their business.

“You want to anticipate and diffuse any concerns,” says Mr. Trainor. He says the conversation may go something like, “‘You’re going to be getting your year-end statements soon, and it’s not pretty. Do you have any concerns?’”

Being proactive allows advisors to anticipate and respond to their clients’ concerns rather than react when clients’ may be stewing about poor performance. Clients who are upset by a market downturn are also more likely to focus on the fees they pay their advisors and question if they’re getting value for their money.

“If the investments are performing pretty well, fees are usually of little or no concern,” says Mr. Trainor. “If they’re performing poorly, they become a focal point.”

Manage clients’ expectations

The level of investor dissatisfaction is often based on a ratio of experience to expectations, Mr. Trainor says: “We can’t control the experience. We can’t control whether markets go up and down. What we can control is the expectation; what we establish on the front end. That front end is so important in diffusing issues down the road.”

Scott Plaskett, senior financial planner and CEO at Ironshield Financial Planning in Toronto, says the conversation about market volatility needs to happen when the advisor first meets the client – even if markets are soaring.

“If [investors] are surprised now, they weren’t set up properly to begin with,” says Mr. Plaskett.

Some investors still get stressed out when the market drops, even when an advisor prepares them. Mr. Plaskett believes the reaction isn’t necessarily anger over the markets being down, but a lack of clarity about why.

“They just want some information. They want to be educated a bit,” says Mr. Plaskett. “Then, they can understand. Until then, it’s just this black hole.”

He argues the reaction is different for people who have an investment plan compared with those who just buy investments without a financial road map.

“People who don’t have a plan are looking for the highest rate of return because they don’t know what rate of return they require” to meet their financial goals, Mr. Plaskett says. “The heavy lifting is in the financial planning. If you’re just putting together a portfolio without context around why, and if the why is just to earn as much as you can, you’re setting yourself up for some tough discussions.”

A long time horizon

In Mr. Plaskett's experience, some millennials aren't as concerned about the latest market drop because they have money in the market and understand they have a longer time horizon. "There is a perception that, 'I'm not done buying yet.' Until you're done buying, you don't want the markets to continually go up," he says.

Mr. Trainor recalls a 30-something investor, a former associate, who put all of his money, $40,000, in the market with the help of an advisor in August, 1987. The market dropped by 23 per cent on Oct. 19, 1987. On the following day, his portfolio was down by 45 per cent, with a value of about $22,000.

"He came into the office and was very relaxed," recalls Mr. Trainor, who felt terrible since he also knew the man's advisor. "I thought he was going to be really upset but he said, 'Norm, I'm 33 years of age, this is a 30- to 35-year time frame. Markets go up and down.' I thought, 'Wow, this guy has a really good advisor.'"

Mr. Trainor says that man – no longer a colleague but still a friend – has done very well in the market.

Rosemary Horwood, an investment advisor with Toronto-based Rosemary Horwood Wealth, a division of Richardson GMP Ltd., says many of her clients have experience with market volatility, including during the 2008-09 global financial crisis.

Ms. Horwood says she reminds clients that markets will be volatile, but that downturns like the one that took place in late 2018 are just one point in time over a much longer investment period. She also reminds them that downturns can also present good buying opportunities.

"The way I set expectations with clients about investments is that we choose investments that have weathered the storm in the past and that we think would have a good potential to do so going forward," Ms. Horwood says. "I think it puts people in a good place to be confident in staying invested."