Clark Capital Management Group

NavigatorInsights

How Organization Promotes Successful Outcomes

As investment professionals, we know that clients may often need our help in maintaining a long-term perspective on their investments. Helping clients understand how their money is working for them is the key to helping them maintain commitment to their financial plans. In this article, we will discuss three ways to help clients organize their investments. By delivering a realistic road map to clients, illustrating their financial future, you can help them remain confident and on course toward successful outcomes.

One of the main behavioral biases is mental accounting. "Many behavioral economists say mental accounting (i.e. treating different piles of money with different intentions) helps trick your brain into better budgeting and saving. It's really a take on the classic envelope system, where you allocate your paycheck to a weekly or monthly budget and put the cash in different envelopes — one for each budget category. Once the envelopes are empty, your budget is maxed out."[1] However, mental accounting can have many drawbacks. If investment portfolios are not structured in an organized way, clients can become confused about how each part of the allocation is intended to perform. When mental accounting comes into play, clients can lose sight of their overall plan and the roles that each part of their investments plays in their lives. A standalone aggressive equity strategy might be quite a risky prospect on its own; but if the client understands that it is his or her longer-term money that won't be touched for ten plus years, it becomes more palatable. As investment professionals we have the potential to deliver significant value by helping clients create a cohesive strategy for their financial future.

Here are three ways you can help clients maintain a comprehensive, long term perspective on their investments.

Use a Segmented or Bucket Approach to Spread Out Risk Over Time

One approach that can help is segmenting the assets into what we'll call buckets. Shorter term money that will be used in one to three years, stays in money markets. Risk gradually is ratcheted up as you move from short-term assets to long-term assets. Long-term assets can be positioned more aggressively for growth. This approach uses time as a risk management tool. As discussed in other *Navigator Insights* there are several ways to manage risk. But the key is to help clients understand that if a long- term bucket suffers a decline in value, there is plenty of time to make up for it. They may be less likely to make a panicked decision during a down market if they see that their shorter-term money has been safeguarded.

Incorporate Personal Benchmarks to Help Clients Stay Focused on Their Own Needs

Personal benchmarks can help clients stay focused on their needs not just on market results. The Certified Financial Planner program highlights the importance of using software such as a Monte Carlo system to help clients understand the probability of achieving their required rate of return. However, investment proposals generally only compare an investment strategy against an index benchmark such as the S&P 500. By helping clients identify their personal required rate of return and relating that rate of return to their investment strategies via a "personal benchmark," our industry can help clients remain focused on what's relevant to their needs.

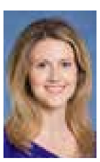
Consider Unified Managed Accounts to Stay Organized and Stay Focused

A unified managed account (UMA) system can help clients maintain focus and perspective on their overall investment strategy. It can help you deliver a high degree of personalization while also streamlining your practice. The right UMA software can cut down on the paperwork clients receive, and it can help clients see the importance of each piece of their financial puzzle. It can help you de-clutter your office, get rid of operational headaches, and free up more time to spend with clients. In addition, by simplifying the investment allocation into one account number per registration, you can spend more time focusing on the whole picture of financial planning. By taking some of the heavy lifting out of the investment side of your practice, you can spend more time in client meetings focusing on the entire suite of your services. Ultimately, UMA technology can help you spend more time on other parts of your practice — specifically, the services that differentiate you as an advisor.

Helping Clients Navigate Their Future

We believe these three strategies are most effective when they are tied together as a comprehensive solution. Combining personal benchmarks, a bucket system, and UMA technology can help you differentiate your practice and help clients navigate their future. This is particularly true when you provide clients with a clear and simple road map for their income plan. Once clients see the benefit of organizing their investment strategies into a UMA, they may see the benefit of working with one advisor instead of spreading their investments across multiple financial advisors. This can ultimately give you the opportunity to make a more positive difference in your clients' lives.

1. Quinn, Morgan. "9 Basic Pieces of Money-Saving Advice No One Follows – But Should." http://money.usnews.com/money/blogs/my-money/2015/03/26/9



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