ClarkCapital MANAGEMENT GROUP

NavigatorInsights

Is Your Client a Modern-Day Sisyphus? Three Ways to End the Vicious Cycle

In Greek mythology, the gods punished King Sisyphus for bad behavior by forcing him to push a giant boulder up a hill, only to watch it roll back down again — over and over for all of eternity. Up and down, up and down in an endless cycle of effort and despair. Sound familiar?

Following last month's Brexit decision, the Dow plunged 611 points (over 3.4% in one day) and the S&P lost 3.6% in a single day. The S&P then quickly recovered and hit all-time highs.[1] Investors who don't keep their emotions in check can most likely relate to Sisyphus, putting enormous energy into deciding when to enter the markets (usually around a high), only to see their account balances fall back down again. And so begins another trip.

Managing clients' emotions is challenging and frustrating, yet it can be extremely rewarding when executed well. Here are three ways you can help a client get a handle on their reactions to the ups and downs of the markets and avoid feeling like a modern day Sisyphus.

Embrace Emotions — A CEG Worldwide study shows that "84% of affluent clients want to connect with you emotionally first — and then use logic to justify their desire to engage with you. This means who you are and what drives you as a person has a big impact on whether affluent investors will want to work with you."[2] So rather than leading your initial meetings with facts and figures and logic, it's important to drive home why you want to help clients in the first place and, specifically, how you are qualified to do so. Crafting a personal story about why you are so passionate about helping clients can help investors better understand the value you deliver.

Once you've built a strong connection and established trust with a client, they are more likely to rely upon you to navigate their financial journey — even when the waters are choppy. In other words, once the trust is there, you're more likely to be able to coach clients off the ledge in times of financial stress and keep them focused on what really matters, their personal goals and objectives.

Use the "IKEA Effect" to Help Clients Remain Committed — The IKEA effect is a cognitive bias in which consumers place a higher value on products they have partially created. According to Behavioral Economics, "The IKEA effect is particularly relevant today, given the shift from mass production to increasing customization and co-production of value. The effect has a range of possible explanations, such as positive feelings (including feelings of competence) that come with the successful completion of a task, a focus on the product's positive attributes, and the relationship between effort and liking."[3]

Here's how you can use this cognitive bias to your clients' advantage. Instead of having a client fill out a traditional risk tolerance questionnaire that will "assign" them a standard, off-the-shelf balanced portfolio, collaborating with them to build a personalized asset allocation together may help clients remain far more committed to achieving their long-term goals. Part of the reason is that they were actively involved in the process. For more on the benefits of a collaborative portfolio construction process, click here.

Incorporate "Safety Wheels" Where Needed

Just as the markets go up and down, investors' appetite for risk goes up and down. Changes in investor behavior are documented by money flows into equities during the late stages of a bull market and out of equities during the late stages of a bear market. In both cases, irrational behavior is driven by fear and greed.

A personalized risk management approach will adjust and adapt to the changing markets based upon the desired outcome or goal of the client. Here are a few suggestions for using personalized risk management to help clients remain on track:

- Use personal benchmarks to help clients stay focused on their needs not just market results. Tie the benchmarks to specific goals the client wishes to fund, such as college for a child or leaving a legacy.
- Use a segmented bucket strategy to help clients' segment risk over time. Money that needs to be tapped in the short term should be placed in risk-free asset classes such as cash. Longer term money (needed 15-20 years out) can be placed in higher risk securities such as equities that would have the potential to recover from a market downturn.
- When appropriate, incorporate downside hedging in an effort to protect clients' downside risk exposure.

By managing client emotions and providing them with simple tools to stay on track, you can add tremendous value to your relationships and your practice. Help clients avoid the unnecessary cycle of stress and anxiety by channeling their attention toward what truly matters to them.

1. CNBC.com
2. http://www.financial-planning.com/news/strategies-that-draw-the-affluent
3. https://www.behavioraleconomics.com/mini-encyclopedia-of-be/ikea-effect

Author: Patty Quinn McAuley

Patty Quinn McAuley, CFP®, is the Director of Marketing for Clark Capital Management Group. On the blog, she writes about helping clients achieve successful investment outcomes and about communicating effectively with clients.

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