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Rattled advisers calm anxious clients

45% of advisers believe recession's ahead, according to InvestmentNews survey

By **Sue Asci**

January 28, 2008

Despite cries from fearful clients to sell off stocks in the wake of last week's stock market meltdown, most advisers told clients to stay the course, according to an *InvestmentNews* online survey of advisers.

That said, the market's bloodletting rattled even the most steadfast advisers, shaking their confidence in the economy. More than 45% of 1,082 advisers surveyed last Thursday said the United States was headed into a recession this year, up significantly from the 24% who responded the same way in November and early December for a similar *InvestmentNews* survey of advisers.

More than 57% of respondents said they had heard from anxious clients since the start of the week. Meanwhile, 85.1% of respondents said they had reached out to clients on their own.

Two-thirds of respondents — 65.1% — said they were not making any changes to their clients' allocations to equities in light of economic and stock market events that have occurred since the start of the year.

But 18% of respondents said they would increase those allocations and 16.9% said they would decrease them.

Last week's roller-coaster ride began Monday when global markets went into a free fall on fears the United States is entering a recession. The sell-off was extended to the U.S. market the next day, when in early trading the Dow Jones Industrial Average plummeted a stomach-churning 465 points. It eventually closed the day up 2.4% after Federal Reserve Board Chairman Ben Bernanke cut the Fed's main interest rate target by 0.75%.

After a wildly volatile Wednesday session, the Dow rallied Thursday and dropped again Friday. It ended the week at 12,207.17, up 0.89% from its Jan. 18 close.

The Standard & Poor's 500 stock index ended the week at 1330.61, up 0.41% for the week, and the Nasdaq composite index closed at 2326.20, down 0.59%.

For advisers, much of last week was spent easing clients' fears and steering them away from making rash moves.

"It's troubling and it's a legitimate fear," said Jeff Bernier, managing director of TandemGrowth Financial Advisors LLC of Roswell, Ga., with $70 million in assets under management. "While their fears are not unfounded, we don't want them to make short-term irrational decisions."

SIT TIGHT

Nervous clients who called the offices of Financial Perspectives were told simply to sit tight.

"It takes a lot of reassuring and a bit of conviction that you think it will come back," said Chuck Gibson, president of the Newark, Calif.-based firm, which manages $60 million in assets. "The time and depth of this thing will really test my conviction as well."

Although he is not making any asset-allocation changes at this point, if the market volatility continues, clients may force changes themselves, he said.

"You can hold them off for a period of time," Mr. Gibson added. "I think we are going to be in a recession."

A recession may already be here, said Steve Medland, partner and principal at TABR Capital Management LLC of Orange, Calif., with $155 million in assets under management.

"But that's not all bad news," he said. "Recessions tend to fatten up good buys in the lows. If we're heading that way it could be an opportunity to put more chips on the table and begin buying again."

Jim Saulnier, a certified financial planner in Fort Collins, Colo., who manages $15 million in assets for clients who are focused on retaining their assets as they enter retirement, isn't taking any chances.

"I'm taking about 7% of my clients' stock allocation and investing half of that in Treasury index securities and the other half in a long-short fund," Mr. Saulnier said. "It's not based on fear, but based on my concern that we may be entering a period of higher inflation and slower growth."

BEING PROACTIVE

If financial advisers aren't hearing from worried clients, it may have to do with the fact that the advisers were proactive in addressing their concerns.

"If you are uncomfortable with your portfolio allocation in light of recent events, get in touch with me — we can easily adjust your target allocation, revise your Investment Policy Statement to reflect the change, and modify your portfolio," Rick Miller, a financial planner with Sensible Financial Planning and Management LLC in Cambridge, Mass., wrote in an e-mail he sent to clients last week. "Otherwise, sit tight: I don't recommend attempting to 'time the market.'"

Clients were pleased to hear from him, said Mr. Miller, whose firm manages about $155 million of assets.

"People worry," said Thomas A. Muldowney, a managing director with Savant Capital Management Inc., a Rockford, Ill., firm with $1.5 billion under management. "There's nothing you can do about it."

But getting in front of events — his firm sent out an e-mail the first week of this month telling clients to stay focused on the long term — can help ease tensions, he said.

The tactic appears to have worked.

Savant Capital received "maybe" 50 calls as of last Wednesday from people concerned about the markets, Mr. Muldowney said. That's not a lot considering the firm has more than 1,600 clients, he said.

Clients of Kays Financial Advisory Corp. of Atlanta, with $150 million in assets under management, began receiving reassuring e-mails several weeks ago, said president Scott Kays.

He has not made any changes in mutual fund portfolios, he said. "In the individual stock portfolios, I am rotating out names gradually to growth stocks that have gotten hammered," Mr. Kays said. "There are more values in technology and industrials."

— Sara Hansard, David Hoffman, Matt Jacobs and Darla Mercado contributed to this story.

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