NAIFA TOWN HALL

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GUIDING CLIENTS THROUGH MARKET FLUCTUATIONS

Airlines provide safety warnings and emergency procedures before the flight begins, Bryan Dunham regional wholesale senior manager at Capital Group told NAIFA's Town Hall participants. They don't wait for a crisis situation to give passengers vital information.

Advisors should do the same. It's important early in the relationship to let investment clients know what to expect in case of financial setbacks or market downturns.

He suggested five key points to emphasize.

- First, acknowledge that investment markets have downturns. They occur frequently. Declines of 5% occur about three times a year on average, and declines of 20% or more occur about once every six years. Accepting declines is part of being an investor.
- Second, create the proper perspective. Let clients know that markets that have gone down have always come back to set new highs. People lose money because, 1.) They make emotional decisions and fear gives into panic (they sell during declines), and 2.) They put themselves in positions where they need to access money at inconvenient times (they lack planning and emergency resources).
- Third, timing the market doesn't work. According to research, losses feel twice as bad as gains feel good. However, leaving the market in bad times often means missing the recovery.
- Fourth, be diversified. "If all of your portfolio is moving in the same direction, up or down, you don't have a portfolio, you have a bet," Dunham said.
- Fifth, emotions can cloud your judgment. Advisors will keep your portfolio remain focused on long-term goals.

Conversation Framework

For the second part of Dunham's presentation, he presented a conversation framework that will help advisors communicate well with clients and prospects and deliver the early-relationship safety workings. The framework consists four chronological steps and provides a good flow to the conversation. The steps are:

- Acknowledge – You should be honest and consider all possibilities. In the case of a conversation with an investment client, you would acknowledge that markets do go down.
- Perspective – Put potential setbacks into a larger context. While markets do go down, they inevitably come back, sometimes unexpectedly.
- Confidence – Have faith in the evidence that backs your position. For your investment clients, you can point to the history showing that over the long-term markets improve.
- Opportunity – Understand that everything negative also presents opportunities. For an investment client, you might ask: Where is the right time to buy?

The framework works for other types of conversations, too, not just those with investment clients. It can help you communicate effectively with prospects, colleagues, friends, and family.

Interpersonal Communications

Following a communications framework is just one way to improve presentations to clients and prospects. Understanding interpersonal communications is also important.

It is important in effective communication to build trust, and building trust is vital to forming relationships. Research has found that visual communication (hand movements, body language, appearance, and collateral materials) accounts for 55% of interpersonal communication. Vocal communication (the pitch and quality of your voice and the pace) accounts for 38%. The verbal component (the words themselves) accounts for only 7%. Over the phone, where there is no visual component, the numbers shift to 84% vocal and 16% verbal.

All three components are important – you obviously can't be effective delivering an incoherent message – but most people spend a lot of time considering their words and not how they are going to deliver them.

"Most of your message is being delivered outside of the words themselves," Dunham said. "When all three are aligned, that's when trust is built."

Market Outlook

Dunham also offered a brief assessment of the current market outlook in the face of COVID-19.

The speed and magnitude of this decline and the global scale is unprecedented, he said, and that makes it harder to evaluate in the context of history. "However, it does not mean there are not opportunities to find," he said. "Volatility works both ways, it is the downs and the ups of the market."

"The great nemesis of the market is uncertainty," he said. "There is a level of normalcy returning that did not exist two months ago."

The market reflects the people who are invested, and when people are feeling more certain the market becomes more stable.

Ultimately, the path of the recovery will follow the path of the virus, itself. As infection rates go down, testing increases, and a vaccine is developed, the recovery will be guided by those events.

There are opportunities to invest in high-quality companies providing products and services that have been highlighted by the COVID-19 outbreak. People have increased their reliance on companies like Netflix, Amazon, Facebook, and those providing cloud computing and video meetings.

These products and services are likely to stay in high demand, Dunham said, because some of the changes to the ways we do business, socialize, and entertain ourselves are likely to persist even after the pandemic has faded.