A Bumpy Market and You:

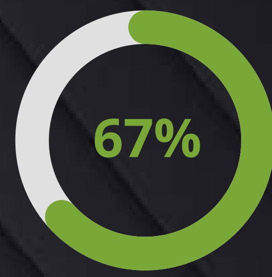
3 TIPS FOR MANAGING YOUR CLIENTS' EXPECTATIONS AND FEARS

It’s an understatement to say the last few years have been economically volatile. From soaring stock prices to a post-pandemic crash, **some of the largest companies in the world underwent massive layoffs and reorganizations** to mitigate revenue loss. Similarly, **the federal government’s attempt to curb inflation by raising interest rates** placed additional pressure on middle and working-class households, a move that lent credence to speculations about an impending recession.

Your clients may be worried, particularly regarding their financial security and investment portfolio. Are their hard-earned assets safe? Can they expect growth at any point in the near future?

As a financial professional, it’s your job to alleviate these entirely valid concerns as much as possible. This tightrope can be tricky to walk, however, since it requires being transparent about market volatility and tactful when discussing existing and future investment opportunities. When clients feel jumpy, it’s easy to blame the person overseeing their most lucrative assets for any losses or bad investments. Spoiler alert: that person, in this case, is you.

So how do you continue cultivating a trusting advisor/client relationship in such a frenzied environment? Here are some tips for navigating choppy economic waters while leading your clients (and yourself) to safer shores.



BELIEVED THAT THE U.S. ECONOMY WOULD GO INTO RECESSION IN 2023

20% THOUGHT THE RECESSION WOULD LAST LONGER THAN TWO YEARS

The State of Your Clients Mindset

In the 2023 Planning & Progress Study, Northwestern Mutual researched how adults living in the United States felt about money, the economy, and financial security. Put simply, the results showed that Americans as a whole were quite worried about their household finances.

When surveyed in early 2023, 67% of respondents believed that the U.S. economy would go into recession in 2023. On top of that, almost 20% of those surveyed thought the recession would last longer than two years. Three out of four respondents felt the recession would have a high or moderate impact on their near-term and long-term financial future. In light of these fears, many households are taking active measures to “buckle up” and protect their savings and investments.

RIAs and advisory firms that rely on clients being willing to take an acceptable level of investment risk, these trends are worrisome. However, not all is doom and gloom for the wealth management industry. Reading between the data points a little bit, it’s possible to see glimmers of opportunity in what are otherwise conservative spending patterns. Strategic investments still offer one of the best routes to inter-generational wealth. RIAs can provide great value to clients if they approach investment strategies in a human-centric, empathetic way.

Be a Voice of Reason

One way to connect with clients in times of economic uncertainty is by positioning yourself as the voice of financial reason. Nearly 60% of Americans reported plans to postpone large purchases as a result of the worldwide recession. However, fear-based decisions rarely result in optimal outcomes over time.

Advisors can help clients logically make the best decisions about where to cut costs in ways that make sense. To do this, RIAs must cultivate a sense of trust with clients that goes beyond a simple transactional relationship.

Consider these strategies for building these reciprocal bridges:

BE A REASSURING PRESENCE

Adding to already heightened feelings is a recipe for disaster. RIAs should strive to be **a calming influence** in any interaction they have with clients. This approach does not mean dismissing or minimizing client concerns. Instead, advisors should practice **active listening** and offer solutions that make sense and align with client goals.

EDUCATE CLIENTS ABOUT THEIR FINANCIAL SITUATION

News and opinions about any economic situation are rampant, and it can be difficult for clients to differentiate between valid concerns and hyped-up panic posts on Twitter. This is a great opportunity to show off your knowledge and skill set as a financial expert.

Talk to clients directly and ask them to share what worries them most. Guide them through lessons about the stock market, investment strategy, and the pros and cons of certain financial decisions. Not only will clients feel more empowered when sifting through the noise of social media and news channels, but RIAs will also be increasingly seen as a valuable bank of knowledge.

STAY FOCUSED ON THE LONG TERM

Although it's always a good idea to be transparent about current economic woes, RIAs should also keep their clients focused on a future where well-laid financial plans and investment decisions have come to fruition. **Selling shares on impulse** may result in smaller gains and the inability to meet certain financial goals long-term.

Ultimately, forging and shoring up client relationships is the best way to keep trust levels high amid economic uncertainty. Clients want a guide who genuinely cares about their financial futures. Expressing that care and providing thoughtful, valuable investment advice benefits clients and RIAs in the long term.

Meet Your Clients Where They're At

Not all clients are the same, and investment strategies should reflect individual goals and interests. One characteristic, in particular, deserves special attention from RIAs: age.

In the 2023 Planning & Progress study, separate generational groups reported varying levels of concern over current and future trends. RIAs can use these findings as a basis for financial conversations with clients of different ages.

GENERATION X

The post-Baby Boomer generation stands out as a group with major concerns about the financial course of their lives. Fifty-five percent of surveyed Gen Xers claimed they won't be financially prepared for retirement and reported a 46% chance their savings would run out before they died.

Worse yet, 38% of Gen Xers have reported taking no steps to address the gap in their current savings and expected retirement needs. This negative outlook toward their financial security is notably lower than other age groups included in the survey.

RIAs should acknowledge the fears of Generation X while offering financial strategies that offset them. Although Gen Xers might not have the financial security their parents did, their own economic outlook is likely not as bleak as they believe.

Pursuing a strategic mix of high-yield, riskier opportunities combined with more conservative investments can help make up some lost ground for adults rapidly approaching retirement age. Most importantly, reminding Gen Xers that all is not lost can help them place faith in a wealth management strategy built around their specific needs.

GENERATION Z

On the opposite side of the age spectrum, Generation Z comprises children born during the digital age of the Nineties and early 2000s. Since retirement is still decades away for most of them, Gen Zers focus more on pressing concerns that affect the here and now. Thirty-eight percent reported inflation as being their top financial concern, primarily because it impacted their ability to make large purchases.

As a result, Gen Zers are postponing major life milestones that typically come with hefty financial investments. Marriage, child rearing, and house purchases are occurring later in Gen Zers' lives compared to when older generations experienced those events. Further worries over gas prices, climate change, and job stability exacerbate the problems already looming on the near horizon for these young adults.

In this case, RIAs can discuss diverse investment portfolios with their Gen Z clients. Offer tailored advice that takes into account existing income streams, potential future earnings, and eventual major life milestones like starting a family or purchasing a home. Again, acknowledging the existential crises and day-to-day struggles experienced by this age group is a good way to build rapport and establish a sense of mutual understanding.

It's important to remember that all demographic findings are generalized and not necessarily true on the individual level. However, this data can be a valuable resource for relating to clients with a wide variety of different needs and expectations. Personalized investment plans work best when RIAs develop them in tandem with clients. Meeting clients where they're at in their respective lives is a good starting point for this ongoing collaboration.

Position Yourself as a Trusted Guide

When it comes to navigating the choppy waters of economic uncertainty, RIAs need to remain agile and highly responsive to market trends. This also means understanding how their clients view economic ups and downs and their own spending habits. According to the latest Progress & Planning study, half of U.S. adults identify as disciplined spenders, with the other 50% claiming an undisciplined approach. Interestingly, though, 70% of all respondents said they had good clarity into exactly how much they could spend now versus what they could save for later. Over 60% also said they were somewhat or very tolerant of investment risk.

RIAs can practice a few general strategies that will result in better client-advisor conversations and more favorable financial outcomes.

- **Flexibility in Portfolio Planning:** Depending on economic, political, and cultural headwinds, investments should be reevaluated and even modified. RIAs should remain willing to adjust client portfolios as circumstances change. Some tweaks could include asset allocation, rebalancing, and additional investment in industries and businesses that seem primed for growth.
- **Be Proactive, Not Reactive:** Instead of waiting to see how market conditions shake out, RIAs should adopt a more proactive stance that gets clients ahead of favorable trends. Educating clients about the market is a good way to stay aware of events. This shared attention can be routed into healthy and thoughtful client-advisor discussions about financial opportunities.
- **Staying Abreast of Federal or State Regulations:** As any experienced advisor knows, government regulation is an important piece of the investment pie in that it moderates what can (and cannot) be done. Paying attention to new legislation that may impact how investment portfolios are structured is important in any economy, much less an unstable one.
- **Providing Transparent Reporting:** Clients have a right to see how (and whether) their investments are paying off. Offering a glimpse into how portfolios look over time also reassures clients that their money is in good hands and handled appropriately. If your firm doesn't offer an automated dashboard that clients can log into, ask your clients how often they'd like to receive portfolio updates. Once decided, make sure that you consistently hit those deadlines and offer visibility in ways that are accessible to your clients.

- **Be Open About Issues:** Part of transparency includes being honest about the bad as well as the good. Clients deserve to learn about any changes or investment decisions that may impact their earnings. Flag concerns and issues to your clients and offer solutions that directly address them. Few mistakes can't be remedied with a well-thought-out strategy implemented consistently over time.
- **Communicate Frequently and Openly:** Stay in touch with clients. Assume they want to hear from you (because they likely do). Overcommunication is better than failing to communicate something of import, and your clients will better trust that they are getting an accurate picture of their financial situation.
- **Clearly Articulate Your Investment Strategy and Methodology:** Not all advisors operate the same way, and RIAs should be clear with clients from the beginning of their relationship how they approach investment decisions. It's possible that some clients may not like your particular strategy, and that's ok. Refer them to colleagues that might be a better fit. Having a reliable network of fellow RIAs is always a great way to find new clients via referrals.
- **Consider Digital Client Engagement Tools:** Sometimes, RIAs are pressed to find the time it would take to truly get to know clients individually. Digital solutions like **PreciseFP** offer an alternative to the traditional paper and desk processes that were once common in wealth management firms. It eradicates manual data entry and enhances the efficiency of day-to-day operations so that advisors can provide top-tier customer service easily. It even has a **scientifically-validated questionnaire** to help you assess your clients' appetite for risk.

When it comes down to it, an uncertain economy actually **makes advisors more important to a client's financial well-being than ever before**. How you communicate with your clients can set you up for a successful relationship and result in better investment decisions.

Shifting the advisor-client discussion to one based on transparency and empathy makes sense, particularly when emotions are heightened in uncertain times. Not only is it the smart business thing to do, it's the right thing to do. At the end of the day, your clients are people who seek to connect with others who treat them as such. Don't just be a financial advisor; be a person first. The financial stuff will all fall into place as a result.

For more information on how PreciseFP can save advisors and RIAs time, contact us here.

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