Bring order from chaos

THE KEY ROLE OF AN ADVISER? TO HELP CLIENTS OVERCOME IRRATIONAL IDEAS AROUND MONEY, SAYS **ALVIN HALL**

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A financial adviser has many functions but chief among these is the ability to help a person balance what I like to call investment 'crazinesses'. Crazinesses are the illogical assumptions, and emotionally driven actions that arise when people think about money. Your role as an impartial expert is to help people avoid these traps – here are just a few crazinesses you've probably encountered.

1 FIXATING ON PROPERTY

Everyone seems to know someone who has made a fortune in property and many people suspect it's the only asset they really need. However, a quote – often attributed to the Rockefellers – can remind people of an essential truth: "Wealth is built through concentration, but preserved through thoughtful diversification." Probably the most important role of an adviser is to educate clients about the various meanings of concentration and diversification, and illustrate the long-term benefits of putting money in other asset classes. It's a lesson a client will only really appreciate in retrospect.

2 WANTING THE HIGHEST RETURN AT LOW OR NO RISK

At heart, people want hedge fund-style returns, but with none of the associated risk. It's as if many people expect there to be a secret no-risk investment formula that financial professionals know about but aren't sharing. This dogged belief in 'the secret' exists at all socio-economic levels.

To overcome this, advisers need to work with each client to identify their 'zone', where risk tolerance and potential reward are properly balanced. This isn't easy because the balance is dynamic and it's emotional. You then need to keep reminding the client about this 'risk tolerance-to-reward' zone – effectively being their investment psychologist through all inevitable market cycles.

3 DISCONNECTING MORTGAGE RATES FROM SAVINGS RATES

Ever had a client who expects a low interest rate on their mortgage but a high rate on their savings? It's as if people sincerely believe that the two have no relationship to each other.

When savings rates are at historic lows, a dangerously common response is to forget about the associated risk and go for yield at any cost. A good adviser will gently remind clients of their 'risk-reward zone' – and point out that the net impact of lower mortgage rate is effectively the same as a higher savings rate.

4 UNDERESTIMATING THE VALUE OF EXPERT ADVICE

Given the wealth of information on the internet, clients can be convinced they could do just as good a job of managing their investments on their own. Advisers have to demonstrate a value that encompasses roles clients can't easily replicate themselves – including:

- **EDUCATOR** – communicating the principles of risk and reward, the benefits of thinking long term and showing how to negotiate the vagaries of the market;
- **PSYCHOLOGIST** – understanding a client's particular fears, irrationalities or blind spots;
- **TRUSTED COUNSEL** – being someone a client feels has their best interests at heart and can deliver the right response whatever the challenge.

INNER TEACHER

At the end of the day, the best way to overcome scepticism towards advice is to cultivate one's inner teacher. Advisers who do will discover the best marketing, trust-building, and client retention tool available. ■