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5 Years Since the Crisis: What's Changed for RIAs?

By Paula Vasan

From improving communication with clients to placing a bigger emphasis on risk management, advisors share how they're navigating the rebounding market environment and how their practices have evolved as a result of hard lessons learned during the financial meltdown of 2008.

1. Brent Brodeski, Savant Capital Management

We learned that while advisors have generally assumed clients act rationally and logically, in reality, even the smartest and most logical clients tend to make decisions with their gut and then validate such decisions with facts — oftentimes misguided or incomplete facts. As result, talking standard deviation and expected returns with clients did not really resonate during the crisis.

We built a tool to show clients that even if markets never recovered, most would be fine as they would still collect interest, dividends and often had enough principal left, even at reduced prices, to live comfortably for a long time. This quelled lots of anxiety and allowed people to stay the course. The crisis made us think differently and reinvent how we would grow and lead our business and enhance our client value proposition. Because of this we still succeeded in growing quite a bit. We managed to get to $3.4 billion today in spite of challenged markets.

2. Ron Carson, Carson Wealth Management Group

Due to the events of 2008, Carson Wealth saw a marked increase in people asking the question, "Do I have enough resources to quit working and maintain asset values throughout my lifetime without negatively impacting my lifestyle?"

One main lessons learned from the market crash in 2008 is the importance of having a holistic, continually updated wealth plan and relying upon it when emotion increasingly affects the decision making process. We have always made wealth planning the cornerstone of the client relationship, but adjustments after 2008 have focused on increasing three key areas for our clients:

1) Trust: an increased emphasis on the importance of planning provides a calm voice in a turbulent time – the advisor-client relationship is about so much more than investment advice.

2) Transparency: a plan is only the beginning. Once a plan is developed, having proactive strategies which the client clearly understands and has direct access to trade notifications, weekly updates and quarterly streams enhances their experience.

3) Accountability: a plan is only good if it is something which creates accountability. By having a plan, maintaining transparency to the investment vehicles and proactively monitoring in line with goals, our clients receive peace of mind.

3. Mag Black-Scott, Beverly Hills Wealth Management

Financial services have changed forever since 2008 and the way we do business is not changing back. Successful advisors and clients have learned to be innovative and identify more quickly what works, and discard what doesn't. Because we continue to put innovative elements in place for our clients and add value well beyond "beating the markets" on any given day, we are confident that as volatility abounds and regardless of what looms on the horizon, we are ready to protect our clients in any situation.

4. Ryan Wibberley, CIC Wealth Management

We used to believe buy and hold was dead. I vividly remember a client being angry that his portfolio was down around 15% when the Dow lost 50%, and he asked me "why do all advisors talk in terms of percentages and not dollars?" Meaning, if a client has $1 million dollars, and he is down 15%, the client is down $150,000. Clearly, emotions were taking over and simple mathematics were not of concern. After the markets recovered, the client now jokes about how freaked out he was and some of the things he said when his emotions were getting the best of him. I think we learned that managing client expectations is as important as managing client assets.

The key takeaway was that we needed to manage client expectations in a different way. We also learned that clients feel better about their investments, even when they are down, if they can identify with their investments or understand what they own. For example, it's easy for a client to understand their shares of Pepsi, vs. some mutual fund that holds hundreds of stocks. We learned that if a client owns Pepsi, and it's down 20%, they seem to be ok with it more, because they know it's Pepsi. Our portfolios now hold a much higher percentage of high quality individual stocks than ever before. We plan to hold onto these names for the long haul.

5. J.J. Feldman, Miracle Mile Advisors

Since the 2008 financial crisis, we have implemented the tactical sleeve of our portfolio as a cushion for extremely volatile periods. The crisis proved to us that being nimble, able to move quickly in up or down markets was a necessity. The financial crisis made our firm and put us on the map.

6. T. Brian Hayes, Hayes Advisory Group

Many people realized, when the dust settled, that they would not be able to retire when they originally planned to. I believe Hayes Advisory Group grew from this, because more people now realized the importance of proper planning and investment management. Our clients went through this period without any major issues as they had the proper strategies in place – they had a plan for the long-term, no matter what angst the short term markets may bring. We brought on several new clients after this time period and have put these people into a plan that will give them comfort in times of extreme discomfort.

The 2008-2009 financial crisis simply drove home the point that you have to have proper planning and a risk management system in place to prepare for the market's inevitable volatility. One of the biggest issues that we heard from the clients that we picked up was that their main problem with the advisor or company that they use to be with was the lack of communication. They received very little attention and no planning advice during the severe downturn.

By communicating and educating properly, we have picked up a lot of new clients looking for better management over the last several years. I cannot stress good communication enough – before, during and following the storm.

7. Phil Wood, One Price Portfolio

Having been in the financial services industry for over 25 years, I've seen my share of ups and downs. While the financial crisis five years ago was obviously no fun for anyone involved, it did teach me something about investor behavior and did lead our firm to implement some changes.

After working with clients through a number of corrections (1987, early 1990's, early 2000's, and the most recent one in late 2007-early 2009), we noticed that our clients seemed to be handling each new downfall better than the previous. They weren't panicking. We'd like to think we played a part in this by not burying our heads in the sand and recognizing that when the going gets rough that's when our clients need leadership the most. During our visits, most of them voiced the attitude that "we're all in it together" and there was no sense in doing something foolish. They generally stayed the course, which bode well for them.

With that said, however, we wanted to do what we could at our firm to limit our clients' downside risk, if possible, since all asset classes seemed to become more correlated during each subsequent correction. To that end, and being primarily fee-based, we started using more tactical asset allocations; incorporating them into our existing strategic holdings. This has allowed us to not only diversify between products but to also spread our risk between two different strategies, which has allowed our clients to sleep perhaps a bit better at night.

8. Paul Saganey, Integrated Financial Partners

What I learned during the financial crisis was the power of having very strong relationships with other professional partners, such as accountants and attorneys. In terms of gathering new assets, 2008 was one of our best years ever. During times of crisis and financial stress, people will reach out to their trusted advisors. The reason for our success was that when the CPA was part of our Professional Partner Program, they would refer their client to our advisors. The opportunity to offer clear and concise options to people that we didn't normally see was presenting itself on a weekly basis.

One of the most important things I learned during the financial crisis was the value of having a clear and articulate story. If your money management philosophy is well-defined and understood by other professional partners in your community, then during difficult times you will actually attract new assets. You will be a magnet – because you have a story that will stand the test of time: a strategy that can perform well in both up and down markets.

Since 2008, we learned to be even more aggressive in our use of our active money management strategy, and this has been very appropriate for our clients. The bottom line is the value of professional partnerships with people who know your story implicitly, and will refer you to opportunities when they present themselves, which very often happens during times of crisis.

9. Scott Hanson, Hanson McClain Advisors

In 2008, more than half of the 50 largest single-day losses in stock market history occurred, throwing much of the country into panic. With revenues at HMA tied to a percentage of assets managed, the 34% market downturn of 2008 mirrored a decline in our bottom line. Our first impulse was reactionary: cut costs and evaluate partnerships. But cooler heads prevailed. We knew the downturn wouldn't last forever. The events of that year actually changed Hanson McClain Advisors (HMA) for the better.

First, we doubled our marketing spending. With everyone running for cover, we'd be well-positioned for the upswing. The second thing we did was to create a new division to broaden our client base and help us better weather future storms. Our account minimums had been set at $250,000. Research showed that 43% of our callers were turned away because they lacked the assets to support our service model. That didn't sit well. In response, we created a new service model for clients with investible assets ranging from $50,000 to $250,000.

To date, that model has brought in 288 clients and helped increase our total AUM to $1.6 billion: making the last four years the best in the 20 year history of HMA.

10. Michael Conway, Conway Wealth Group at Summit Financial Resources

The crisis brought out an "all hands on deck" attitude with our team. Our job is easy when things are going well, but we demonstrated that we could work well as a team under duress and respond to our clients' needs in an effective and responsive manner. We were proactive; we reached out to our clients believing that direct communication and our availability to them was crucial in reducing anxiety. While some money managers might have disappeared, we reached out; an effort that was valuable to our clients.

Overall, we spent hours on the phone, ate far too many meals at our desks, learned that the unthinkable can happen, that all the talk about teamwork really does pay off and that a real relationship with our clients is what saved us. There will be times when a crisis occurs, and we learned that it is how we react to the event, and the bonds we've forged, that makes the difference.

11. Adam Nugent, Foresight Wealth Management

When the market was falling apart in 2008 we had started to implement some of our tactical strategies in our client accounts. I had an aggressive investor who I was meeting with to review their account towards the end of the year. At the time, the market was down nearly 40% and I was there to report that we were down just over 10%. When I showed her the information, she jumped out of her seat and ran up and gave me a hug and a kiss. It was the first time I have ever been given a hug from someone who had lost 10% in an account (and I am assuming the last time). We found out how important the client relationship is and how, especially when markets are falling, how important it is to continue to educate, hand-hold, and help clients understand how markets work.

Prior to the crash, we started to implement tactical strategies that helped our clients avoid many of the losses that others experienced. That decision has helped our clients experience better outcomes as a result. We also enhanced our services offerings and diversified our business model so that we were not so concentrated in one particular area, either by investment choice or by the clientele we were working with.

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