Surviving a Bear Attack

Realizing the power of financial planning through lessons learned in previous market downturns

By **BY DAN MOISAND, CFP®** June 2020

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Back in the days when there were conferences to attend, I once heard football coach Lou Holtz say, "Pressure is something you feel when you are not prepared." That statement triggered a slew of memories of some of my former coaches who had barked similar things to me and my teammates during my youth. I have echoed the thought myself as a leader, mentor, parent, and with my clients. I mention this not to relive my glory days (I didn't really have any), but because it is a statement worth referring to as we manage through a true crisis and a nasty market environment.

A significant part of financial planning is preparation. I expect that most readers of the *Journal* believe that a financial planning relationship is the best way to help clients navigate the ever increasingly complex world of personal finance. While I will rehash here some of the reasons financial planning is so powerful for crisis preparation and management, the intent of this piece is to delve into some aspects of practicing financial planning that can undermine the value by sharing my struggles in past downturns.

These aspects matter because being prepared does not eliminate all pressure, and unaddressed pressures can lead to poor choices and bad, even devastating results.

The Power of Planning

When I see that someone made a bad financial decision, I can usually trace the problem back to a lack of a plan, a bad plan, abandoning a good plan, implementing a sound plan poorly, or failing to revise a plan as needed. Clients of good financial planners do not have these deficiencies. You cannot be a good planner unless you develop good plans, help clients stick to the plans, implement the plans efficiently, and revise the plans effectively when needed.

No decent planner would ever create a plan that didn't account for frequent market drops over their client's lifetime with several of those drops being severe, terrifying declines because that is what markets have always provided. An assumption of no large rapid declines, or the ability to predict and therefore avoid such declines, defies the weighty evidence of history. Simply put, volatility should be a given.

Good plans are flexible enough that they can adapt. Interest rates, stock prices, economic growth, inflation, the tax code, our families, our friends, our jobs, and our health will all change. We just don't know how or when these changes will occur exactly. Good planning expects uncertainty and the need to adapt to changes sensibly rather than reacting to pending change out of emotion.

We use software extensively, but a financial plan is not a bunch of software outputs. It is a group of intended actions that will be taken should certain events take place or at specific times. The actions are identified through the financial planning process to create policies and are tailored to each client. Despite the incorporation of volatility, clients will still worry. What great planners do is listen attentively, meet their clients where they are emotionally, and then gently—even lovingly—lead clients back to their plans.

Your client is calling asking what they should do because they have lost touch with their plan. They have forgotten that you started with "why?"—specifically their "why," not

anyone else's. You, dear readers, already know what to do because you planned for volatility.

This ain't my first rodeo. I've been through many downturns in the past 30 years and without fail, every client I could get to revisit their plan has, to some degree, lowered stress levels and increased confidence. This isn't because I'm special, it is because financial planning is so powerful.

That sounds simple, but it isn't easy. Once a good plan is in place, the most likely impediment to success typically is not the economy, the markets, or our politicians. It's folks who do not do what they planned to do. That is often the client, but it can also be the planner. This is where financial planning moves beyond a technical endeavor and becomes a craft, a profession.

This hit me shortly after the Great Recession when a reporter asked me what we were doing differently. At first, I was a little stumped. From a process standpoint, financial planning had not changed. Pressed to reveal what I had learned from the Lehman Brothers fallout experience, all I could come up with were things I re-learned, like how trying to time the market during a crisis is a low-probability affair, and stressed clients don't care about facts, data, or graphs until you accept their feelings. Upon reflection, I have identified some things we are doing differently as we expanded our toolbox.

My Overblown Fears

The glowing description I gave of financial planning is deserved, yet we will still lose an occasional client. Because our process is so thorough, collaborative, and grounded in robust evidence from sound research, client departures rarely happen because a client loses faith in their plan or their planner. Nonetheless, this was always my fear and I still harbor it to a degree.

However, in most cases, departing clients had something besides finances and markets heaping stress on them. The financial elements add to their angst, and emotion boils over to the point they feel they must do something—anything. They can't cure the cancer, beat the addiction, or save the marriage, but they can convince themselves they can save money by cutting out some fees without considering the effects of cutting out their financial planner.

If you are in touch with your clients regularly, it is easier for them to see they are better off with you than without you, especially in trying times. Sometimes, however, clients don't tell us about sensitive matters, and we get the dreaded call.

In the past, when I got such a call, I could get annoyed at having to re-explain,

and sometimes I took the client's concern as an attack on the planning or on me. After a couple of these calls, I even found myself blaming some clients for not listening or not being accurate when they told me they understood their plans or my advice. I've learned to look at these calls as an opportunity to help clients reconnect with their plans and provide insight into ways to improve our process and our communication.

By looking at these interactions as opportunities rather than a chore or a threat, I am now better able to, in a manner of speaking, give grace. I always knew empathy was important, but I did not fully appreciate how important giving grace can be, for clients and my own psyche.

The better we listen attentively, meet clients where they are emotionally, empathize, and extend them grace, the more likely we are to get the chance to lead them back to their plans. Those plans are best met with the help of a professional who knows them and cares about them.

Learning to take a deep breath, to resist defending the plan or the planner, and to start by just listening has helped me save a few clients over the years. And I don't mean save them from leaving. I truly believe I saved them from self-inflicted financial wounds.

These softer skills did not come as easily to me as the technical analytics. I see lots of planners dismissing the "touchy-feely stuff" to emphasize the technical, or vice versa. The craft of financial planning requires both. I have found a balance between the two and found the techniques that work for me. You can also.

Stress Is Normal

Another thing I have learned to do better is to recognize when I feel stress and to do something about it. As I mentioned, to me retaining a client is about saving them from financial suffering or failure. That is a high-stakes proposition and it can induce added stress. Not everyone can be saved, and it breaks my heart every time.

When I was less experienced, I thought it important to not show much emotion, especially to an emotional client. I told myself I needed to be a rock for them. I still think that is true but not in the same way or to the same extent I once did.

Look, the last thing a panicked client needs in a time of crisis is a panicked or depressed financial planner. How you present yourself matters. A mistake I made was that in my quest to show strength, I suppressed my emotions to the point I wouldn't even want to give a hint that I had the feelings I had.

In the midst of the Coronacrash, I had a pit in my stomach just as I did after the 9/11 attacks and during the 2008 financial crisis. What is different now is I have no hesitation sharing with clients that I get queasy in bad markets. It took time for me to get rid of this hesitation. I did it by making sharing my experience part of preparing new clients. It is one thing to talk about a 50 percent decline and another to live through it and make decisions in real time.

I routinely tell the story of how I checked my 401(k) in early March 2009. With every mouse click, my brain was screaming “Don’t look! It will be bad, and you will feel awful,” but I looked anyway. It was bad and I definitely felt awful, but it was what I did that made the difference. I stuck to the evidence-based approach and I didn’t panic.

I looked because I am human. I made a good decision because I was prepared. The pre-crisis goal of preparation should not be to completely prevent concerned calls. That is unrealistic. The goal is to sow the seeds for good decision-making. “We talked about this and here it is so let’s follow through and do what we said we would do when markets behaved like this.”

The Need for Self-Care

Past declines also taught me that when times are tough, it is easy to let the uniqueness of the situation cause me to neglect myself.

We have a rescue unit that runs out of the Air Force base here on the Space Coast of Florida. People join that unit because they want to save lives, and they train every day so they can pluck boaters from the clutches of the ocean. One of the first things they are taught is that their life is more important than the lives of the people they seek to save. It is an odd and seemingly selfish position to take. The rationale is basically that if they die, not only does the person they are trying to rescue perish, more people die in the future because there is one less trained rescuer available.

Our job is not a matter of life and death and we are not that important, but there is a need for some selfish self-care. There have been lots of jokes about drinking and unhealthy diets during this stay-at-home period, but it isn’t good nor helpful to actually eat poorly or drink too much.

Don’t get sucked into working 60 hours a week or neglecting exercise. Take a break. Turn off the news. You will find it easier to take that important first deep breath before diving in to help a client.

It is also important to tend to your co-workers. The same self-care neglect trap exists for them and it can not only affect the staff that works directly with clients, it can be detrimental to firm culture when back-office staff are affected. Like your clients, your team will benefit if you see how they are doing, offer help, and extend grace.

Controlling the Controllable

The biggest changes at our firm coming out of the Great Recession have been consistently reinforcing our messages about the media and working with clients to develop more resilience when ingesting news. I think I first saw this statement in a Yeske Buie piece somewhere: “It is more important to be resilient than nimble.” So true.

With a deluge of messages coming from so many sources all vying for attention, it can be challenging to develop and maintain perspective. In a time of crisis, it is even harder. People want to know what is going on and be well-informed but if not careful, they can get worked up as they gather information. Both clients and planners must learn to control their intake and their reactions to news.

It is counterintuitive, but I have noticed that solid reporting from professional journalists at credible publications can get people even more concerned and focused on the short term than outrageous “click bait” that’s easy for many to dismiss. Once a client’s timeframe no longer jibes with most of their plans, bad decisions are more likely. Under stress they can easily think they need a prediction to succeed when what they really need is something they already have—a plan. This is preventable if they are prepared to recognize what the news is doing to them and take preventive measures.

We planners love to tell people to focus on what can be controlled. People can control their intake of news and their reaction to what they consume. Preparing clients to be in the financial markets must include coaching on the role of media in their decision-making.

One item must be drilled again and again. The idea that this time is different should never result in abandoning equities bought for long-term goals. This is critical because this time truly is different. Every downturn is different. The players and plot lines are always unique. What has never been different is how the dramas have ended—the chaos settles down and in the aggregate, stocks recover.

In our profession, picking on the phrase "this time is different" seems elementary, but that is almost always where clients go when their instinct to flee danger kicks in. The media is filled with people saying, "forget the long term, you have to do something completely different or you will suffer even more." The more clients expect to hear this, the more likely they are to avoid believing this themselves and making a poor tactical decision in conflict with their long-term strategy.

The media serves an important role in society, but it can be an enemy of patience and discipline. By reinforcing this sentiment, we have more clients who do not let news drive reactive, short-term decisions than ever before.

Follow Through

The last lesson I will share is that few things build trust better than reliability. If your advice to clients is based upon good research and evidence-based practices, your process is sound and your preparation thorough, then you know what to do and not do in a crisis (see the reading list below for some resources). Moreover, your clients have the best odds to succeed they are going to get, *if* you follow through and do what you said you would do.

Staying the course is good advice but it doesn't mean do nothing. I see many planners frozen like a deer in headlights. They say things like, "I'm not sure it's the bottom so I'm not sure I should rebalance or loss harvest or Roth convert, etc." (I hope no one reading this told their clients they would only rebalance at a bottom!) If you have a rebalancing policy, apply it. If not, get one. Policies exist to reduce the chances of making emotion-based decisions.

Did you tell clients you would be there for them and coach them through a bad market? Have you called them, listened, and then offered the help they need, or have you avoided reaching out or answering the phone, hoping they leave a message that isn't about their lower account balances?

In prior major pullbacks, the flow of new clients became a trickle, until things settled down. That is when people reflected on their experience and evaluated their planners and themselves. Whenever we start to move toward normalcy, people will assess if they were prepared, led, mislead, treated well, heard, cared for, and otherwise well-served. Did they have a plan? Was it a good one? Was it implemented well? Were adjustments made thoughtfully and strategically, or panicked and reactively?

If you didn't communicate what you would do in a bad market and didn't repeat to clients those intended actions regularly before COVID-19, you have a challenge in demonstrating reliability because the client has no reference point.

If you did communicate and are now not doing what you said you would do, you risk destroying the trust you created. The more dramatic the shift in approach, the harder it will be for clients to accept. You better have an easily digestible rationale, defensible through evidence, for such a change.

The future has never been certain, and we should not suddenly expect it to become certain. No matter how sound the preparation, uncertainty is still stressful.

What I have noticed in this and every prior market malaise I've experienced in the last 30 years is that the better the planning, the less stressed people are and the better their decision-making because they were prepared and knew what to expect and what to do, even if it was hard to pull off at the time.

Picture yourself a few years from now. Looking back on the Coronacrash, what behaviors and decisions will you have wanted to have taken today? Do you think you will be proud of how you handled things? This "fast forward, look back" exercise can be helpful with clients, too. If they have lost touch with their plans, taking a deep breath and stepping back to review their plans often gets clients back in a good frame of mind to make critical financial decisions. If you can also get them to envision the future, they may fear the present less.

These are the days in which you don't merely survive a bear market, you set the stage for both you and your client to have a prosperous future.