Markets Going Haywire? How to Beat Stress

By Kimberly Foss December 01, 2014, 3:57 a.m. EST 6 Min Read

The advisor’s job is more stressful than most. Not only do we deal in amorphous and sometimes difficult-to-explain financial products, but we function alongside investment markets that can behave like a scary roller coaster. (Just think back to those first days of October, for one recent example.)

Most stressful of all, we shoulder the hopes and dreams of our clients. No matter how the markets swing, we don’t want to let them down. We willingly take on the responsibility for the future success and happiness of others. And that can lead to sleepless nights.

Perhaps that’s why particularly rocky markets can create the same trauma and the same lingering stress for financial advisors as violent events do for their survivors. A study published last year in the Journal of Financial Therapy compared advisors’ symptoms to post-traumatic stress. It found that every financial professional interviewed reported medium to high levels of stress in the aftermath of the financial crisis, and that 40% of planners reported severe symptoms, such as not sleeping or having trouble concentrating.

There’s no question that those dark days in October 2008 were like living through a nightmare, frozen at the approach of a big terrible something and not knowing which way to run. Many advisors responded to that shrill voice inside their heads the one screaming, don’t just stand there, do something! and made rash decisions hoping at least to extinguish that sinking feeling of doom. Some advisors even abandoned the profession.

Many advisors made radical changes in their investment approach, shifting from buy-and-hold to tactical strategies, the study on post-traumatic stress found. In fact, a 2012 survey by Curian Capital found 63% of over 1,000 independent financial advisors surveyed had adopted more tactical asset-allocation strategies in the aftermath of the financial crisis.

In the throes of the crisis, I remember thinking to myself, the whole world just changed forever. It will never be the same. Yet, as I looked out from my office at the street below, I was astonished to see that life was going on as before. The doors of Starbucks were constantly in motion. People were chatting and texting, picking up their dry cleaning. Flowers were being delivered across the street.

I remember thinking, don’t you all know what has happened? Am I the only person who feels the end is near?

Yet the oblivion of the general public offered up a lesson: No matter what happens in the market, our lives do go on. We pay the tuition bills. We cook a meal. Retirement distributions are made. And, yes, flowers are delivered.

And trusted advisors, although traumatized, must pick themselves up, dust themselves off and move forward.

For me, the financial crisis confirmed my faith in both my process and philosophy, but it also forced me to think concretely about the ways I react to uncertain times. Here's my advice on how to manage the unavoidable stress of our profession.
Advisors aren't immune

We prepare an investment plan for clients so that they can handle the unexpected market gyrations and stay on course to reach their goals.

Yet to effectively manage our stress, advisors must first admit that we are not immune to the same, sometimes irrational fears of individual investors. We must also accept that we can be swayed by harmful behavioral tendencies of our own from overconfidence to herd behavior.

Just as an investment plan keeps clients focused when others feel exhausted by market volatility, advisors need investment and practice management road maps to provide direction and prevent emotional decisions when the journey seems the toughest.

In addition to documenting general practice management procedures, I have spelled out steps to follow in a downturn, both in terms of communicating with clients and managing their portfolios.

Additionally, I routinely review with clients our evidence-based investment approach, which is grounded in decades of solid academic research. We invest in funds offered by Dimensional Fund Advisors, where University of Chicago Nobel Prize winner Eugene Fama and Yale's Roger Ibbotson are board members and Dartmouth's Ken French serves as the firm's head of investment policy.

Just knowing that can do a lot to curtail stress for both advisors and clients.

CONSERVE YOUR ENERGY

You may have heard people say after a trauma, a death in the family, for instance that it helps to get back to their routine. There's comfort in those routines, whether it's Sunday dinners or a daily jog.

If you can organize and streamline your practice tasks into regular habits from prospecting to rebalancing you limit the number of decisions you have to make in a day. And that, in and of itself, conserves the mental energy you need to address major issues free from stress.

A New York Times story on decision fatigue, published a few years ago, offered a compelling example of how decision-making ability erodes throughout the day. A study of parole hearings in Israel found that prisoners who appeared early in the morning received parole about 70% of the time, while those who appeared late in the day were granted parole less than 10% of the time.

Researchers tried to account for that significant disparity, evaluating a range of variables from the severity of the crime to the ethnicity and sex of the inmates. The conclusion? The length of time the judge had been sitting on the bench was what drove the parole decisions. Because they had already made a number of taxing decisions during the day, judges were less willing to grant parole in the afternoon.

Broadly speaking, then, it seems that the more decisions we make, the more inclined we are to get a little cranky and stick with the status quo. And, if we face an extreme amount of stressful decisions, our decision-making can devolve into paralysis. We just feel stuck.

If that’s not an argument for drafting operational procedures for your practice, I don’t know what is.

TALK IT OUT

In stressful markets, some advisors go underground. After all, they figure their own stress will be magnified if they have to talk with clients and prospects who are upset. They may also fear that they will be unable to conceal their own fears from clients.

We are careful to do the opposite. No matter what the markets are doing, we are in constant communication via the phone, online newsletters and email to inform and listen to clients. I also appear frequently on TV and host quarterly webinars for clients.

Staying in touch not only calms your clients fears, but it is good therapy for advisors too. If you don’t reach out to clients during stressful times, their small worries can grow into big fears. Instead of wondering how upset they are, address their concerns head-on. It’s our job as trusted advisors to offer guidance and support in the darkest days.

KNOW YOUR CLIENTS

I mean really know them. John Nofsinger, a behavioral finance expert and author, urges investors to be very specific with investment goals.

I want a secure retirement doesn’t pass muster with him. Rather, he would encourage pre-retirees to list specific trips or describe their daily lifestyle in vivid detail. Why? Visualizing very specific goals helps us avoid the psychological biases that inhibit good decision-making.

I find that has a side benefit for me in times of turmoil. The more I know about my clients hopes and dreams, the easier it is for me to remain focused on those goals when market volatility ratchets up my own stress level.

As flight attendants always tell us before takeoff, secure your own mask first before helping someone else. As advisors, we have to control our own stress before we can expect to help clients. FP

Kimberly Foss, CFP, CPWA, is a Financial Planning columnist and the founder and president of Empyrion Wealth Management in Roseville, Calif., and New York. Follow her on Twitter at @KimberlyFossCFP.