

Advisors Can Look Out for Clients by Staying the Course

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"The courageous advisor is the one willing to stick with the discipline of a solid investment strategy"

Inevitably, I get an onslaught of questions when I am out socially. This seems to be the life of every Financial Advisor once friends and acquaintances realize your chosen profession. There was a time early in my career that I would avoid the "What do you do for a living?" question. But I must be honest, now, more than ever, I love it.

The most popular question as of late seems to be surrounding market timing. "When should I get out of the market and back to cash", or "when should I jump back into the markets?"

These are great questions with a very simplistic answer: I don't know. I am sure readers find this hard to believe, but it is the truth. No advisor out there knows exactly where a bottom or top lies. There are many factors, sentiments and indicators that give an overall direction, but there is no exact science.

For that reason, diversification is the key. Along with knowing your client, knowing the goals and risk levels are key to building a properly diversified portfolio.

Advisors will differ in their definition of a diversified portfolio, and certainly there will be differences in the underlying investments that create it. That is where personalities and trust are important in the relationship investors have with their advisors. It is also why having a professional advisor is so important.

Many do-it-yourself investors create an emotional bond with the investments they choose and tend to chase them up and down without an exit strategy. At the other end of the spectrum, a transaction-based broker may trade just to get paid. A good advisor will only reallocate when the portfolio has disparity from the customized model created to best achieve a client's plan.

To further illustrate the benefits of staying the course, a colleague recently told me of a study regarding penalty kicks and goalies in soccer. The study appeared in the "Journal of Economic Philosophy." Below are the highlights:

- 331 penalty kicks studied
- 80% of kicks scored
- 93.7% of the time the goalie would dive left or right, basically guessing
- Only 6.3% of the time the goalie would stay in the middle
- When diving left the goalie saved 14.2% of the kicks
- When diving right the goalie saved 12.6% of the kicks
- When staying in the middle the goalie saved 33.3% of the kicks

The moral is clear: Don't dive, and you have about three times the chance to make the save. What makes this study more interesting is that when a group of 33 goalies were presented the findings and asked if they would continue to dive, 80% of them responded yes. Why? The overwhelming answer was that they didn't want to be criticized for doing nothing. Even though

they knew they would experience less success by diving, they were more worried about the fans' perceptions.

The lesson for investors is similar. Many advisors are pressured by clients, or even themselves and possibly their firms, to always be doing something for a client's portfolio. The result may be excessive trading, rebalancing or other transactions in an attempt to justify the fees. Even though the evidence supports staying the course on a solid investments plan, too many advisors will dive just to satisfy perception.

The courageous advisor is the one willing to stick with the discipline of a solid investment strategy, knowing over time that that will yield the best results for the client. There is no justification needed because the work was done up front and is ongoing in monitoring a well-crafted plan.

Don't dive, stay the course.