Motivating Clients in a Financial Crisis

The Psychology of Financial Planning (Part IV)

By Carol Yip

The Financial Crisis

The Financial Planning Association of Malaysia (FPAM) will be celebrating its 10th Anniversary next year, which incidentally will be a challenging year for all of us as financial planners because of the global economic recession and financial crisis.

The last recession was in 1997 (during the Asian Financial Crisis), and that was the time financial planning services were first introduced to Malaysians. Many of us we were striving to make financial planning services known and accepted by the public in the initial years. After close to 10 years of educating the public about financial planning, what are we doing now as financial planners when the world is experiencing another financial crisis and economic recession?

What are we doing for our clients?

Have our clients become savvier with their personal finance because they have been educated well about the need and importance of financial planning or are they still very much in the dark about financial planning? Will our clients stick to their financial plan during this financial crisis or are they now panicking and losing confidence because of the financial crisis, and in the process throw their personal financial plan out of the window?

Here's the psychology of financial planning.

A person's financial situation can be easily affected by fear and panic by the external economic and financial environment. Unless people have strong beliefs, confidence and know exactly what they want in life, a financial crisis like this can create a host of emotional and financial distress. And that is putting mildly.

Why do I say so?

What's happening to our clients and their financial plans?

With bad news circulating the globe (on a daily basis) on how financial giants like AIG, Freddie Mac Fannie Mae, Lehman Brothers, Royal Bank of Scotland going bust, and how these institutions are being bailed out, how they are laying off staff, our clients may be losing confidence and getting worried about their financial situation. The fact that investor confidence continue to be gloomy and the markets remain highly volatile in the short to medium terms is a major concern for our clients.

What can we do as financial planners? How do we advise our clients? How do we add value in times like this? Do we give

our clients the assurance that things will soon recover (what goes down will always go up) and comfort them? Do we just 'soak' it all in when accusations are hurled at us by our clients for their predicament?

The truth is, we are no different from our clients. The global economic recession affects almost everyone and anyone. No one is spared. Many innocent bystanders are hit through no fault of their own. They (many whom are normal wage earners) are normally the ones who are badly affected. And they will not be feeling very good now.

So here's the challenge.

"Our clients may be better informed these days, better educated and more sophisticated in their personal financial needs, but they are nonetheless human."

How many of our clients actually think and feel positive about the prevailing situation? How many are already feeling hopeless and stressed as a result of the financial crisis? Everyone's worried about his/her financial future. Many of our clients will want to sell their investments as they have lost confidence to invest. All these may sound all too familiar because we have had a similar situation 10 years ago in the 1997 economic recession. But this time around, the magnitude of the financial crisis is many times larger than the one in 1997, going into billions of dollars, possibly trillions. Some analysts say it could be worse that the crisis that triggered the Great Depression in the U.S. in 1929.

What does this mean to you as the financial planner and to your clients when they see their investments shrinking?

Even though our clients' financial plan may be a logical plan to achieve their respective financial objectives, their emotions and psychological makeup, mindset and past experiences may create financial decisions that are not logical. As a financial planner, you should not be surprised by this behaviour, but instead understand it in order that you may be able to assist them in these trying times.

Our clients may be better informed these days, better educated and more sophisticated in their personal financial needs, but they are nonetheless human. And as such are dictated by their natural feelings of being in a limbo, fear, and panic as a result of the global crisis.

Many questions will arise: What will happen in the next 12 to 18 months? Will it be better or is it going to get worse?

Some would have lost a lot of money in the stock market by now and emotionally trying to get to terms with their losses. Careers and businesses are being affected – your clients may get into a career crisis as a result of retrenchment, salary cuts, business slowdown and possible bankruptcy when their cash flows are affected. Some get themselves further into debts. Many will face escalating inflation and the increased costs of living. Like everyone else, they have school-going kids and teenage children who may be starting college or university. All these activities need money and more money.

Your clients may also have to default on their insurance premium payments or cancel their insurance policies or stop investing in unit trusts. They may even cash out their investments because of their tight cash flow situation. It is nice in theory (it is the best time to go bargain hunting for some undervalued stocks), but not everyone will take this opportunity to grow wealth or be in the mood to invest.

As a result of the crisis, some of them may even experience family or relationship problems when financial issues surface.

When this happen, do we help clients to restructure their wealth portfolio, restructure debt, advise them to continue investing because of cheap stocks and unit trusts or do we counsel them to ease their emotional stresses? Their financial losses are real. The feelings associated with their losses are also real.

What can we do as financial planners?

As a financial planner you know it is unwise to stop advising your clients when times are difficult. They need you even more in times like this. They would need your counsel, your professional advice and more importantly your 'presence' in their lives to be their support.

I am sure your clients would appreciate you when you stick with them in times of trouble, with good intentions of helping them and their family. It is clearly a 'testing time' for you as a financial planner to continue to build your clients' confidence

in these challenging situations – to believe in you that you can help them to implement their financial plan to achieve their financial goals; to make sure that their financial plan stay on course. But you must stay the course and be at your clients' side to 'hold' their hands.

I am sure U.S. president-elect Barack Obama feels the heavy responsibility that is upon him at this moment because the world is looking to him to bring change and make things better. In particular, Americans would be hoping that he would be able to save their hemorrhaging economy and get them out of the financial crisis.

Similarly, I believe our clients are looking to us to bring change and hope to their financial situation so that they will be able to continue to achieve financial success during this economic recession. At the very least, they would be looking to us to help them to ride through this crisis.

"I believe our clients are looking to us to bring change and hope to their financial situation so that they will be able to continue to achieve financial success during this economic recession."

Life will be easier if we have clients who are staying positive and understand how this financial crisis will affect their financial plan and know what to do by taking responsibility and ownership to review and revise their plan. Unfortunately, not many of us are so lucky.

In my past articles, I have been talking about financial planning as a holistic approach that covers not only the hard financial facts, but also the soft, human issues of our clients' life.

So the time is now for all of us to do this – show our clients the hard financial facts and deal with them as human beings who also have feelings like us. Be understanding. Be kind. Empathy is the key word here.

If we can't help them as a result of external factors beyond our control, how about helping our clients to manage the 'internal factors' like looking into their spending pattern together with their family – essentially a cost cutting exercise – to help clients to communicate with family members, spouse and children of the need to be financially prudent.

This is the time to demonstrate our soft skills by attending to their emotional needs. In addition to providing professional financial advice, we may need to coach and counsel our clients in terms of their mindset, emotions and psychology to stay resilient in these difficult times. We need to motivate them to be positive and to continue to manage their personal finances well to achieve their financial goals.

Motivation needed

If it is going to take another 12 to 18 months or more to experience an economic recovery, are we going sit and wait for things to happen or do we want to be proactive, continue to do the right thing, and create a positive attitude and mindset to help our clients?

Research indicates that clients are most highly motivated by bottomline, economic considerations – how a proposed change will affect their purse or wallet. Knowing this would better assist us in crafting strategies to motivate them – strategies to enhance their cashflow, cut debt, save and invest for better returns. It is not just about financial planning, but personal financial education as well, and being literate in what is going on in the financial markets.

But I suspect the key to successfully motivating our clients to stay on top of this crisis lies in our ability to empathise with our clients – our ability to deeply understand their psyche, and what makes them tick. The quality of our relationship with them is also a critical factor. 4E

The writer is the founder and CEO of Abacus Advisory Sdn Bhd. She is also the author of two books: Money Rules *and* Smart Money-User. *More of her work and contributions can be found at* www.AboutMoneyTalk.com *and* www.AbacusForMoney.com.