WEALTH ADVISER

Voices: Abigail Gunderson, on Helping Clients Resist Emotional Investing

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Abigail Gunderson *Photo by Gittings*

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Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Abigail Gunderson is head of business development and client relationships at Tanglewood Wealth Management in Houston.

When we think about market events that drive impulsive client behavior, we typically think of downturns. People are afraid of losing money, which can make them want to change their asset allocation. What advisers sometimes forget is that exceptionally good times in the market can inspire those very same impulses. In this case, the fear of missing out on returns can make clients question the methodology behind their asset allocation.

During a record-breaking market, helping clients adhere to the allocation strategy you built together is a challenge. It's the adviser's responsibility to help clients keep on track and remind them of the bigger picture and their long-term strategy.

Last year was a great year for the S&P 500, and people were very excited by the returns they saw from the market. However, it's dangerous to get swept up in the emotions of such a boom. We have clients who are very close to retirement. They see the S&P closing up almost 33% in 2013 and suddenly they want to chase returns, shift into a more aggressive portfolio strategy and be part of that growth. That impulse is shortsighted, but it's also very human. It's the adviser's role to help ground our clients, and we can help do that by being more proactive with our messaging.

Our message needs to be that clients' diversified portfolios are built not just to provide growth, but to provide them with income for the remainder of their lives. Equities are an important piece of that, but they're just one part. This is the investment philosophy that clients bought into when they began working with you, so take the time to remind them exactly how that works.

Sit down and have a conversation with clients who are having doubts about the allocation in their portfolios. Often, clients are eager to change the structure of their portfolio because it just isn't clear to them that each assets has a function. For example, gold was a big loser last year, and clients may not appreciate its value as a non-correlated asset. Instead, they see a slumping commodity tying up money that could be put to better use in the S&P.

Therefore it's important to explain the role of each asset that clients are holding, and to help the clients understand why their reasons for wanting a change may not be sound. Your clients will almost always be receptive to that kind of advice. And ultimately, they'll be thankful for it when the next downturn hits, and they see the benefits of their balanced portfolio in action.