THE DISTELFINK – Client Communication that Counts

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Benchmarking. It's something I've been thinking about as a result of a recent conversation with a former colleague whom I hold in great esteem. Is it harder for advisors to communicate with their clients when portfolio values are down, perhaps underperforming their benchmarks? I think the answer is obvious, yes. But when the markets aren't performing well, and clients are feeling unsettled, shouldn't advisors be reaching out even more proactively and creatively? Yes. So is it possible that the yardsticks advisors establish become a deterrent to strong communication when it is needed most? I believe it's possible. And I believe the solution could be to set a *mutually* agreed upon benchmark at the beginning of a client relationship. Over the years, I have worked with clients who already seem to have their own understanding of an appropriate benchmark for their money to be invested – it might be the current rate of inflation plus some excess amount, it might be an absolute target of 10% or 15%, or it might even be a competitive return on cash. I'm not talking about money market returns or CD's, I'm suggesting something a little more tempting like the Prime Rate less 1/2 percent. Perhaps as advisors we should be more in sync with our clients' goals and benchmarks, than those we seek to create for them.

Let me tell you about Noah. I had the great pleasure of working with Noah for several years earlier this decade. Noah is a dynamic retailer. He is also a loving husband, adoring father of his three daughters, and he still fails to understand why Porsche ever decided to get into the small SUV market instead of devoting their time and resources to their racing team. Noah likes fun cars! Noah grew up admiring his father, who had established and managed, a very successful supermarket. He worked with him, respected him, all the while learning the business from him. They had long and loyal relationships with many of their employees and customers. They always enjoyed spending more time in the store itself, than hidden away in the offices above. For years, Noah and his father reinvested in their business using the excess cash-flow it generated. They added a wine room that also sold other kinds of alcohol. They made sushi onsite. They competed without a blink during the window when online grocery shopping was supposed to rollover the bricks and mortar supermarket.

About a year before Noah's father passed away in 2000, Noah decided to use some of his accumulated cash to create a more traditional investment portfolio. At the time, we recommended he diversify amongst stocks, bonds and even hedged investment strategies. As the markets started to turn downward in mid to late 2000, we would show Noah how his portfolio was holding up compared to "our" benchmark for it. Then he would remind us if he had left the reserves in "cash", at prime less a half, he would have done even better. He would always concede that his timing for investing in the stock market was not the best, but I always felt that somehow we had not fully understood Noah, and we might not have been communicating as effectively as we could have been with him.

We knew he was looking for a return higher than he was earning on cash. And we knew that he wanted to diversify the legacy that he would leave his family someday, away from the core family business of the markets. Yes, plural, Noah eventually established another highly successful market in 2003. However, when he started investing in the financial markets, it was in the midst of the internet heyday, and when the top fifty stocks of the S&P 500 were compounding at better than 20% a year for the past five years. Investing looked so easy and enticing, and we all wanted more. But we have learned since then. We have learned that it is good to be true to ourselves, and to the goals that have worked in our families. We have learned that unusually good things don't usually last forever. But those things that we grow and nurture and develop creatively – like Noah's family's stores – can thrive for a long, long time. Stores need lots of hands on care though, and someday there may not be someone in Noah's family to mind the store. But there will be children and grandchildren who Noah has encouraged to gain education about the financial markets, so they can oversee the more liquid, investible assets Noah has amassed. He will leave a tremendous legacy for his family thanks to his long term view and steady commitment to his business and to the financial markets, which do not always return prime less a half. Sometimes they return a lot more, and we are all looking forward to that time again.

So in the end, if as advisors, we were more attuned to where our clients fell on the investment learning curve at the start of a relationship, and were more focused on how quickly their own knowledge base and understanding grew, we might learn to communicate more successfully when discussing investment portfolios with clients. Business people like Noah, entrepreneurs and wealth inheritors are all looking for sound investment advice. And I believe it is our responsibility to relate that advice more effectively to each client's individual circumstances and yardsticks for success. Rather than expecting a client to adjust to our jargon and benchmarks in the investment world, perhaps as advisors to individuals and families, we should be more cognizant of making the investment process more approachable and personalized, while still maintaining a high standard of professionalism and integrity.