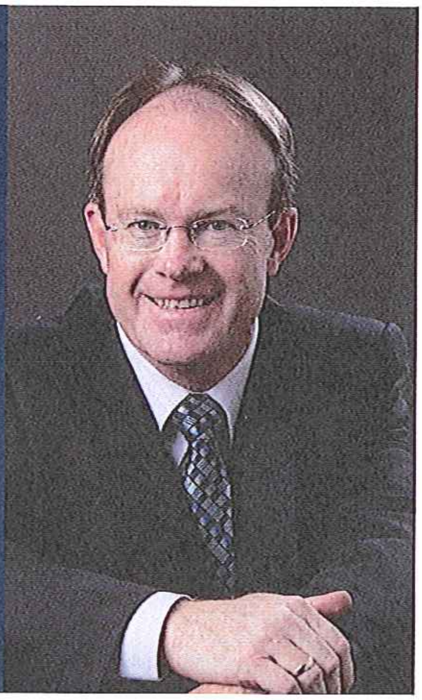

A testing time for all businesses

Martin Mulcare suggests you ask yourself three key questions.

I have been fascinated to observe the wide range of behaviours that financial advisers have both demonstrated and experienced during periods of high market volatility, most recently on display in August 2011. It seems to me that the stress in the financial markets has the potential to translate into significant stress for their clients and significant stress for their business. However, it doesn't necessarily have to be like that.

You might like to apply these classic tests, in retrospect, to your business:

1. How did your value proposition stack up during the market volatility?

If you are really a financial adviser, helping people to maximise the probability of achieving their financial goals, then you may have had to provide some assurance for your anxious clients. If you are an investment adviser, helping people to achieve better investment returns, then your clients (and you) have had a very difficult time. It seems to be an excellent time to reassess the role that you really want to play in your clients' lives. Choose carefully.

2. What is the true state of your relationships with your clients?

If your phone was running hot with worried or angry calls then I wonder whether you enjoy, in reality, the trust and confidence of your clients. At the same time, if you are congratulating yourself that your phone system was quiet, I wonder if you really understand your clients. Even with a sound relationship built on trust you should know the clients who, by their nature, would have appreciated some reassurance from you.

3. How are your revenue projections looking for this financial year?

If your revenue looks like taking a tumble in line with the markets then this might be a good time to question why your business income is based on "funds under management (FUM)". Dollar-based fees are not only more robust when markets are volatile but they are better matched to your value proposition - if you are truly a financial adviser.

And if you are thinking that this is a bad time to switch to dollar-based fees because you will "miss out on the upside", then when will you convert your pricing model? I know that you will not be open to the argument if you are enjoying a 20 per cent increase in FUM.

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Whilst I have suggested in the past that, at least in part, your role is to help people to make smart decisions about their money, you are actually most valuable to your clients when you stop them from making dumb decisions about their money. This does not, I admit, have a great marketing ring to it; but if you don't recognise this aspect, you really may do your clients a disservice.

One of my clients related his experience with one of his clients calling to say that he wanted to switch to cash at what appeared to be the bottom of one of the market falls. In this scenario your role is not simply to provide information and advice. As my client explained, his client was not in the state of mind to listen to rational arguments about market movements and asset allocations. Your role is to provide leadership and direction and prevent your clients from doing irreparable damage to the achievement of their financial goals.

It may not be a pleasant conversation, but that is what you are being paid for. And if your client refuses to follow your direction, then why would you continue to retain them as a client?

In such an uncertain economic environment far more Australians need your advice than during an era of economic prosperity. Yet I hear financial advisers complaining that new business is tough! If your clients and your referral partners knew that your primary skill was reducing the uncertainty in your clients' financial lives there would be a queue of prospective ideal clients. How long is your queue? ■

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