



Investors Can Be More Volatile Than Markets

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The client called on March 6 and was adamant: Get me out of stocks.

His financial advisers tried to reason with him. Equities accounted for just a third of his portfolio, they pointed out, and it was money he wouldn't need for more than a decade. The 60-something client wouldn't listen.

So, the advisers reluctantly exchanged his equity holdings for short-term fixed-income products such as Treasury securities and certificates of deposit. And less than three weeks later, with the Dow Jones Industrial Average up more than 20%, he phoned back with a new message: The market is looking better. Can you put my money back in it?

Gregg Fisher, President and Chief Investment Officer of New York investment advisory firm **Gerstein Fisher**, tells this anecdote to illustrate a point: Managing investors can be more difficult these days than managing investments.

Gerstein Fisher advisers now are working on a strategy to move the client back into equities, possibly using dollar-cost averaging.

In addition to helping clients to develop an investment strategy, **Fisher** said he and his colleagues also work with investors on "not changing their strategy because of their mood."

It isn't easy.

Fisher encourages clients to take a long-term view and not focus on daily market movements.

"Read the sports pages, don't read the financial pages," he counsels them.

Investors who understand that investing is a long-term process, who understand why their portfolios are structured the way they are and who realize recent trends aren't necessarily predictive are less likely to make irrational and emotional decisions. Still, investors may need frequent reminders from their advisers.

"I do sometimes feel like a bit of a broken record," says Sacha Millstone, senior vice president of the Millstone Evans Group at Raymond James & Associates Inc.

Some of her clients lately have expressed interest in buying depressed financial stocks. Millstone suggests a less-impulsive strategy: Place buy orders for individual stocks at prices below current levels. Clients might not get all their orders filled but they can limit the potential for losses, she says.

Millstone also suggests that clients bolster their mutual-fund holdings by making set contributions from their bank accounts each month or quarter. Genworth Financial Wealth Management's workshops for financial advisers include a bell curve showing how an investor's emotions change with the value of their investments.

Investors move from doubt and suspicion to caution, and then to confidence and enthusiasm (they buy here) as an investment or market increases. They feel greed at the peak, followed by indifference, denial, concern and fear as values decline. Investors sell when they feel panic and despair.

This leads to a damaging buy-high, sell-low approach, said Mark Schoenbeck, chief marketing officer at Genworth Financial Wealth Management.

"As much as you want to educate up front, the brutal truth is people are still going to get emotional about the decisions they're making," Schoenbeck said.

When reason fails to temper emotion, financial advisers may need to show some tough love. When an investor's impulses threaten his wealth, Schoenbeck says, an adviser may need to give clients an ultimatum: Heed me or take your account somewhere else.

Advisers hope these clients will stay; but, if they don't, it isn't all bad. Schoenbeck, who worked at another broker-dealer during the technology bubble, recalls how clients left brokers who refused to load them up on tech stocks. Those investors returned after the market - and their portfolios - crashed, and they came back with a new sense of loyalty.