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YOUR MONEY

Rules for the New Reality

By [RON LIEBER](#)

BACK in September, before we were all inured to the tottering nature of so many financial giants, investors were looking for someone to blame.

So when Prince & Associates, a market research firm in Redding, Conn., polled people with more than \$1 million in investable assets, it wasn't any great surprise that 81 percent intended to take money out of the hands of their [financial advisers](#). Nearly half planned to tell peers to avoid them, while 86 percent were going to recommend steering clear of their firms.

In January, Prince took another poll of people with similar assets, and only a percentage in the teens had engaged in trash-talking. Just under half of the investors had taken money away from their advisers.

All of the bad feelings, however, raised a simple question that's even more essential when we've all been so severely tested. What, exactly, does your wealth manager owe you? And what can you never reasonably expect?

Some of the answers are basic. Your financial advisers should have impeccable credentials. They should be free of black marks on their regulatory or disciplinary records. They should agree, on Day 1, to act solely in your best interest, not theirs or those of any company that might toss them a commission.

But other standards are less obvious, and the carnage in the markets provides an excellent opportunity to review them.

WHAT YOU SHOULD EXPECT

A LONG LOOK AT RISK

Most of us aren't honest with ourselves about how much [investment](#) risk we can handle. Even worse, we tend to change our minds at market tops and bottoms, making the wrong choices at precisely the wrong moments.

An accurate assessment of risk is important. But you can view risk in many ways.

David B. Jacobs of Pathfinder Financial Services in Kailua, Hawaii, usually starts with risk capacity. Young people have a great deal of risk capacity, since they have their whole career ahead of them to make up for any mistakes. A football player might have much less risk capacity, since he could have only a few years of high earnings. And some retirees have plenty of risk capacity, if they have a solid pension.

Then Mr. Jacobs moves to risk need. Need is driven by goals. Someone with no heirs and \$20 million in municipal [bonds](#) might not care so much about significantly growing the portfolio. But if that person suddenly becomes passionate about a cause, he or she may want to double that amount in a decade to create an endowment or put up a building.

Only then does risk tolerance become a factor. "You have to help people visualize what the risk means," Mr. Jacobs said. "If a year from now, your \$1 million is \$700,000, how would it change your life? Does that mean you can't go visit your grandchildren? I'm trying to dig down and make people think of exactly what their day would be like."

A BALANCE SHEET AUDIT

Diversifying the risks in your portfolio is merely the beginning of the process. Burt Hutchinson, of Fischer & Hutchinson Wealth Advisors in Bear, Del., trained as an accountant before earning his certified financial planner designation. He believes in tax diversification too, across a range of savings vehicles with different tax rules.

He wants his firm to act as a sort of personal chief financial officer, looking at liabilities as well as assets and at spending as much as saving. "How are you tracking your cash flow?" he will ask. "Is it increasing? Decreasing? Do you have any idea where it's going?" He says that a good financial planner should ask to see your tax return, not just your investment portfolio.

CUSTOMIZATION

A 100-page financial plan lands with a thud and comes with fancy leather binding. What you might not know, however, is that off-the-shelf software probably produced most of it.

Not that there's anything wrong with computer projections. But most people's financial lives, even those of the wealthy, do not contain 100 pages of complications. And enormous financial plans can be overwhelming and difficult to follow.

"Plans need not be over 10 to 15 pages," said Timothy J. Maurer of the Financial Consulate in Hunt Valley, Md. "But every bit of it should be customized."

TO EAT THE SAME DOG FOOD

When Dr. Marc Reichel, an anesthesiologist from Beaufort, S.C., grew tired of stockbrokers pitching investments they would never use themselves, he queried a new adviser about her own portfolio. "Unlike with my previous experiences, she said, 'Sure, this is what I have, take a look,'" he said. "And it wasn't just a one-time thing. It was ongoing."

Dr. Reichel has been with that planner, Sheila M. Chesney, of Chesney & Company in Sheldon, S.C., for nearly a decade. "The only way I could feel like I did a good job was to say that I'm doing the same thing," she said. "If it wasn't working for me, I wouldn't be doing it."

BOREDOM

You have the right to be bored by your financial life. There is no shame in putting things on autopilot, saving the same percentage of your income in a diverse collection of index funds for decades on end.

This philosophy drew skepticism in the 1990s for Spencer D. Sherman, when his clients wondered why he wasn't putting them in individual technology stocks. But Mr. Sherman, a financial planner and the author of "The Cure for Money Madness," thinks his clients would be better off seeking thrills far away from the financial markets.

"If you're in a diversified passive portfolio, you have nothing to talk about at a cocktail party," he said. "But why don't people make investments a smaller part of their lives? It almost seems like people need to fulfill that desire for excitement somehow, and investing is an easy way to do it."

WHAT YOU SHOULD NOT EXPECT

MARKET TIMING

It would've been nice if every wealth manager had moved clients to 100 percent cash positions around the middle of last year. The truly prescient might have put some money down on [exchange traded funds](#) that bet on the decline of various stock indexes.

But those who did probably didn't call the top in 2000, or get back into the market in early 2003. Nor will they know when the current bear market will end. For the same reasons that most [mutual fund](#) managers consistently underperform market indexes over the long haul, especially after taxes and fees, your adviser is not clairvoyant, either.

"In the 1990s, a lot of people wanted to know how much we were going to beat the market by and our strategy for market timing," said Laura H. Mattia, wealth management principal with Baron Financial Group in Fair Lawn, N.J. Most people know better now, after riding the roller coaster for a decade or watching the unraveling in recent months.

LOW RISK, HIGH RETURN

After market timing, Ms. Mattia said, this fiction is the second of two great false beliefs in money management. "It's the same as wanting to believe in a magic pill that will cause you to lose 20 pounds," she said. "People are looking for the easy way of achieving their goals, but things just aren't always necessarily so easy."

The notion seemed abstract until December. Then, after years of smooth supposed returns, prosecutors accused the wizard [Bernard L. Madoff](#) of making it all up. Recently, the Texas financier [Robert Allen Stanford](#) came under scrutiny for peddling high-yielding C.D.'s that may have been too good to be true. Anyone who utters the phrase "low risk, high return" deserves close examination.

TO BE A PEST

Remember that you hire advisers in order to set some clear, long-term goals — which probably shouldn't change every day in reaction to the ups and downs of the markets.

“One of my biggest roles is to take the emotion out and be a calming force,” said Lon Jefferies of Net Worth Advisory Group in Midvale, Utah. “If clients want to continually change their risk tolerance when the market drops another 300 points, that’s going to make it impossible for the relationship to succeed, because they’re changing the rules almost every day.”

Rather than calling every day to second-guess yourself and your adviser, set aside dates to sit down and examine your feelings.

CERTAINTY

This one may be the toughest to swallow. Jay Hutchins, of Comprehensive Planning Associates in Lebanon, N.H., never promises an outcome. The past year, he said, should make it easier for new clients to understand why.

Even a collection of Treasury bills and top-rated, immediate fixed [annuities](#) is not enough to establish certainty in his mind. “When you decide you’re going to build a house, you build the building accordingly and with prudence, depending on whether tornadoes or earthquakes are most likely to threaten it,” he said. “Then, an airplane flies into it. Did you do anything wrong to fail to plan for an airplane crash? Of course not. You plan for what is going to be most likely.”

While Mr. Hutchins is not yet ready to predict a return to the 1930s, he doesn’t believe it makes sense to place the likelihood of it happening at zero either.

Life, in general, is unpredictable.

And for the adviser, that uncertainty should be cause for some modesty.

Milo M. Benningfield, of Benningfield Financial Advisors in San Francisco, notes that we tend to value aggressiveness. “But when I think about the meltdown, I feel like it was overconfidence,” he said. “It was a colossal lack of modesty that led people to underestimate the risk involved and believe that they understood things more than they did.”

So to him, a big part of being modest is recognizing your own limits. “You’re more inclined to say, What if I’m wrong?” he said, adding that he often reaches out for help on [insurance](#) and [estate planning](#) matters. “I think the definition of incompetence is failing to recognize that you don’t know something.”

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