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Market Volatility and the Priorities of an Adviser

By Josh Brown



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Surveys of financial advisers are always a snapshot reflection of the day or week in which the data is collected. Do a survey of financial advisers on a risk-on day, with the Dow screaming 300 points higher, and your results will significantly differ from a poll taken during a spate of Euro Crisis-induced selling.

A new survey released from Cogent says that RIAs believe their clients are now more concerned with “volatility” – a code word for *losing money* – than anything else. As all advisers know, clients are only concerned with one *type* of volatility: the downward type. Upward volatility in their holdings is no problemo.

From Investment News:

Among the 206 registered investment advisers surveyed in September, Cogent found that 70% cited market volatility as the top concern among their clients, followed by 23% who placed retirement planning first and just 6% who said wealth accumulation was most important.

“Given their clients’ current mindset, 45% of RIAs said managing risk is now their top priority in terms of portfolio construction, ahead of wealth preservation (24%), exceeding a performance benchmark (12%) and delivering absolute return (10%),” said Andrew Scherer, managing director of Invesco’s RIA division.

You’ll notice that poll was conducted during September, the worst month of this year market-wise. Don’t fall out of your chair to see everyone all of a sudden concerned with risk management and wealth preservation.

But shouldn’t it always be so? Should the vicissitudes of any given week really dictate “what matters” to you as the financial adviser? Are you really a wealth manager?

If so, your priority is *always* managing risk. You are not John Paulson or Paul Tudor Jones going for the gusto! You are not Bud Fox hunting down the next big score.

You are there to manage risk, period. This does not mean not to take risk – it means being cognizant of what you’re risking at all times and taking into consideration how much risk each particular client can and should bear. All other considerations should be subservient to this elemental function.

And if you lose a client because you’re not a gunslinger or because you’re not being aggressive enough in a market melt-up, then guess what – that client is eventually going to find the guy who will blow him up properly, just the way he wants it. That client will stumble upon the hotshot he’s looking for and he’ll get blown to smithereens in the end. By the time he’s satisfied with his “potential upside,” his losses will assure that he’s no longer high net worth-enough for your practice anyway. Let those clients go so you

can focus on the serious people, you have a job to do and cannot concern yourself with the fantasy world of trading into a fortune with Chinese Internet stocks.

Returns are important, performance is important – but in a secular bear market now headed into its twelfth year, they cannot be a priority over managing risk. If they are, you are perhaps a trader or a broker or a hedge fund manager – but you're no wealth manager. When you manage assets for wealthy people, job number one is to make sure that they do not become un-wealthy – even if this means giving up some of the market's upside.

The priorities of an RIA firm and its reps should not shift just because the tone of the market changes. Clients are allowed to be mercurial, we aren't.

[RIA Clients Rattled by Mercurial Markets \(Investment News\)](#)