

# Talk the Talk

Helping your clients recession-proof their businesses is good business for you

## GUEST COLUMN

BY CHRISTOPHER KRUCZYNSKI



Business owners are an important part of every high-net-worth practice. Attracting more business owners to your practice (and retaining the ones you already have) is most likely a top priority for your marketing efforts over the next 12 months.

One strategy that can help enormously in that effort is to speak the “language of business.” No, I’m not talking about the language of macroeconomics or high finance. In the financial services industry, we usually think of “business” in terms of interest rates, productivity, labour supply, inflation, etc. For the typical owner, talking business

means something different – a motivational meeting with the sales team, for example, or a discussion with managers on how to streamline plant operations.

As a financial professional, it’s important that you learn how to speak to these “everyday” issues. You don’t have to be an expert by any means, but when it comes to business, you need to “talk the talk” in a language that business owners understand. In doing so, you will reflect your understanding of the common challenges faced by business owners. That makes it easier to establish credibility and build trust with this important niche market.

One challenge that has been on the minds of many owners I’ve spoken to is the growing possibility of an economic slowdown in many sectors of the Canadian economy (particularly in eastern Canada). As

a financial professional, owners will naturally look to you for wisdom and guidance about what may be happening, and how it might affect their investment portfolios. That’s fine, but if you really want to connect with owners, you should address some of their business concerns as well. By passing on some timeless business wisdom about how to weather tough times, you can communicate a sense of shared values and common experience. That can go a long way in strengthening a relationship with a key prospect.

Here are some simple recession-proofing tips that I’ve passed on to the owners in our practice. By no means is this an exhaustive list – no doubt you’ll be able to add your own to the list. When it comes time to pass them on to a business owner client or prospect, make sure

to mention that these tips come from your personal experience working directly with entrepreneurs and senior executives in planning and managing their personal and business finances.

### TIP #1: PLAN AHEAD

Any good ship captain will use the “calm before the storm” as an opportunity to prepare the ship for rough seas. Business owners should do the same. Take the time now to think about your business’ potential vulnerabilities. What are the three most serious challenges facing the business? What events or circumstances could cause trouble in the future? What resources (financial or otherwise) could the business access if it needed to? These basic questions can start you thinking about what you need to do should your business encounter difficult times in the months ahead.

### TIP #2: STRENGTHEN RELATIONSHIPS WITH KEY CLIENTS

When the going gets tough, good

clients are worth their weight in gold. When clouds are gather on the horizon, the best business owners take the time to strengthen relationships with top clients. That can take any number of forms: Sitting down and talking about their ongoing needs, getting feedback on your service and products, or even a “thank-you” lunch. The point is to make it clear to key clients that you appreciate their business, and look forward to a strong, mutually-beneficial relationship in the future.

### TIP #3: CONSULT WITH PEERS

As the saying goes, experience is the best teacher there is. Which is why the best business owners take the time to learn from the experience of others. Ask the owners you know in your community about how they’re preparing for the coming slowdown. Find out how they’ve dealt with previous downturns. What lessons have they learned? Don’t limit your discussions to people from the industry you operate in—often the most creative ideas come from

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## Artful Advice

Visual tools can help advisors explain complex investment concepts to their clients

## COMPLIANT ADVICE

BY PHILIP PORADO



If you believe the premise that compliance starts with the advisor, then it’s the firm’s duty

to ensure that advisor has the tools necessary to help clients understand what they’re getting themselves into.

Investments are complex. So, even if your clients tell you they understand things like risk and the theories behind portfolio performance, it still falls to advisors to make sure that’s true. It’s not that clients lie, but many are embarrassed to be perceived as ignorant and may try to sound more sophisticated than they in fact are.

The average investor doesn’t understand modern portfolio theory. They don’t understand correlation, or why low correlation is good in a portfolio. So you need to make sure you have what it takes to convey the meat of those concepts without boring the client to the point where he or she stops listening.

How many times have you heard an advisor complain about a client who acted like he knew his stuff and seemed gung-ho about an aggressive, high-risk investment

strategy but then quickly wrote a complaint letter when the markets took a turn? It’s an old story, and the only way to stop it from being told is for advisors to accept it’s their job to make sure a client really does understand the risk being taken on.

Advisors have to ask the right questions; understand what a client’s monthly financial commitments are; and determine what other expenses they may have (alimony to an ex-spouse, or a parent in a nursing home). People don’t always offer that information on the first visit. Really getting to know the client takes time but it needs to happen before the portfolio is designed.

Once you understand their needs, find out how much they know about how the markets work and fill in any blanks. One way to do that is by using graphs that show how much risk a client is taking on with a particular stock, mutual fund, or even a basket of securities or funds.

“Investors want to see graphical representations of risk, return and MER. And it has to happen between the advisor and the client face to face,” says Edward Iftody, president of PureLogix in Vancouver. “There are too many

cases where a Know Your Client form is filled out, the trades are placed, and then compliance comes back and says, ‘There isn’t enough risk in the compliance form. Get it changed.’”

### Getting to know the client takes time but it needs to happen before the portfolio is designed.

In such cases, the client is put in a position whereby he or she has to change the risk profile on the KYC, or risk having the account frozen. Too often, says Iftody, those changes are made for expedience rather than because it’s the right thing for the client. His company addresses that problem through a software system that can display the risk level of a portfolio, and even a series of risk scenarios.

He notes this is especially useful when clients are using more than one mutual fund, because it allows a client to look at the risk level and determine if it can be lived with. The portfolio can be tweaked until advisor and client reach consensus. Then, the KYC form is filled out, signed and goes through compliance without delay.

Graphs or no, Al Nagy, an advisor with Investors Group in Edmonton, says it’s the advisor’s job to make sure the client understands risk. “If they’re not paying attention, it’s my fault,” he says. “I have to make sure they grasp what I’m saying.”

He uses graphs if he thinks they’ll help a client understand one financial instrument is riskier than another. Often, he’ll draw the illustrations himself as he goes along – but adds that even clients who are engineers often aren’t interested in seeing charts about standard deviation and correlation. They expect him to understand those concepts, he says, but prefer more jargon-free explanations. “They say, ‘Okay you know your stuff. Just tell me if it’s risky or not,’” he says.

Iftody agrees graphs should be straightforward and advocates they be used to show a client where a portfolio stands, and where it’s going. One way they’re particularly helpful is to convey how much value a particular security, or group of securities, has lost historically; knowing that can help a client understand worst-case scenarios and make rational decisions about risk.

If you do use graphs, use them wisely and accurately. Back in the 1990s, a lot of mutual fund managers tried to boost perceptions of their own brilliance by showing the “past” performance of the funds they’d only just put on the market. The managers actually tracked per-

formance that would have taken place – had the fund existed – going back several years. Of course, they often packed those funds with stocks that had done zoomingly well, so the “past performance” made the brand new funds look like can’t lose propositions.

As the ‘90s ended and reality set in, regulators zeroed in on that practice and passed a series of regulations prohibiting it. Performance had to be tracked from the day the fund was first made available. Not before. And every chart showing the progress of the fund had to contain a disclaimer indicating past performance could not be taken as an indicator of future results. Furthermore, private funds going public could not use old performance data. The fund’s history had to begin on the day it became available to public investors.

Borden Ladner Gervais partner Rebecca Cowdery notes guidance, articulated in National Instrument 81-102, wasn’t so much new rule making, but rather a codification of existing expectations. That’s an interesting take.

In the U.S., regulators produced a set of punitive regulations related to performance figures and sharply tightened reviews of advertising materials. In Canada, the regulators reiterated their expectations. A lot of trust is being extended to your firm. Use it well, and make sure you tell the truth, by the numbers. **AER**

## ADVISORPRACTICE

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owners whose businesses are completely different from your own.

### TIP #4: SEIZE MARKETING OPPORTUNITIES

Marketing and sales are usually the first two budget items to get trimmed when a slowdown hits. Savvy business owners know this, and use it to their advantage. Instead of slashing their marketing budgets in a downturn, they use the opportunity to expand their marketing to key prospects. After all, with less competition for customer attention, a well-crafted marketing message has a greater chance to stick in the customer's mind.

### TIP #5: EXPLORE FINANCING OPTIONS

The bank isn't the only place to go for business financing. During a slowdown, it may make sense to explore other options such as taking on an equity or quasi-equity partner, or financing "depreciated" assets, or structuring a sales lease-back. Understanding how your business can utilize such strategies can make a world of difference in tough times.

### TIP #6: BUILD YOUR TEAM

When sales drop and revenue dries up, it's often necessary to trim staff. The best businesses see this as an opportunity to weed out mediocre team members and to refocus their development and mentorship efforts on a core group of top performers.

Nurture your rising stars, and determine what responsibilities they can take on now to build their knowledge and experience. Figure out which team members are doing what, and figure out how you can help them spend more time doing what they do best. That way, your business will have an excellent team in place to capture new opportunities when the economy turns around.

Remember, the point of your discussion isn't to solve the owner's problems. Rather, it's to prove to them that you think like a business owner, and you understand what owners are going through. A very simple message, but one that should help convince the owners you know that you can "talk the talk" as well as you can "walk the walk." **AER**

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## Pressed for time?

BY KATE McCAFFERY

Time management is the number-one challenge CFP advisors say they grapple with in their practices.

This finding underscores a host of others in a recent Credo Consulting survey of industry CFP advisors, entitled *Understanding & Supporting the Planning-Oriented Advisor – Making Your Firms' Tools and Resources Count*.

For example, the study found that planners are slightly more value-oriented than growth-oriented, while 65% of their clients' assets are invested domestically and almost 86% of client assets are actively managed. The study also sug-

gests that low exchange-traded fund usage in Canada is a direct result of the active-management approach favoured by planners. But other results, notably the dramatic change in attitudes towards hedge funds and the waning desire to pursue fee-based financial planning opportunities, are surprising, given the amount of focus the issues have garnered in recent years.

Fee-based financial planning, fee-for-service and asset-based compensation models, for example, are often held up as the golden ring or ideal for financial planners. In theory, fee-for-service models make sense since they smooth revenue fluctuations and put dinner on the table for planners regardless of market conditions or client demand for products. More are also starting to suggest this model is

what could sustain the industry once clients stop investing and start cashing in their RRSPs to fund their retirements.

Despite this, the Credo survey shows the number of advisors receiving asset-based fees hasn't changed relative to past surveys. Only 41% of advisors report receiving asset-based fees, saying these make up about 40% of their overall revenue.

"Compensation can be a leading indicator of how people are structuring their businesses. We were a little surprised that asset-based fees haven't increased as much as we thought," says Credo Consulting partner, Cynthia Enns. "Advisors that are using asset-based fees are using them more often, but we aren't seeing the pickup." **AER**