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INSIDE INFORMATION

The newsletter for serious financial advisors. (www.bobveres.com)

SILENCING THE ECHO CHAMBER

The T-3 Conference offered a look at the profession's transition, a lot of time-saving solutions, and one VERY interesting breakthrough in client communications.

Wow! That's really good! In fact, it might be *It*, the Holy Grail thing that I've been looking around for ever since, oh, at least the Schwab Conference last September when *a thousand* advisors cancelled their registrations and plane tickets because they didn't have *It* to offer their clients. The search intensified last November when we thought the markets had bottomed out, and it became a bit more urgent last month when the markets bottomed out again, and we all began to realize that keeping clients from stampeding with the herd was something we were going to have to take month to month. But to find it *here*, where I least expected it…

"Here" is the Technology Tools for Today Conference in Addison, TX, known as T-3 to those cool enough to have attended and brainstormed their office applications personally with presidents of their software providers in the exhibit hall. *Here*, the normal conference dynamics are turned upside down, so far that in the closing general session, when Dave Drucker and Joel Bruckenstein allowed the audience to share their feedback, input and highlights, there were unhappy complaints from attendees that seven hours of exhibit hall time over two days was *too little*.

Here, when advisors leave the exhibit hall to attend sessions, those exhibitors who are not presenting hold informal summit

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meetings to decide how to integrate data among their applications--or, for tech consultants like Jo Day of Trumpet, to get commitments to share specifications so that back at the office Kevin Day can write speech commands that will work with Jott to control CRM applications or feed client files.

And, perhaps weirdest of all, *here* the attendance levels were up an estimated 25%, to more than 370 advisors, in a year when other organizations are talking about canceling some of their meetings because conferences may be the first budget item that advisors are cutting back in this period of revenue compression.

The theme of the meeting, aside from the sudden emergence of *It*, was the idea that there are climactic periods in the planning profession when evolution becomes not just a matter of routine, but urgent, a condition of survival, and we are (like it or not) deeply in one of those periods today. Keynote presenter Richie Lee of Lee Financial in Dallas suggested that the planning profession may be hitting a tipping point where technology and human capital are now, suddenly, roughly equal contributors to a business's survival and prosperity.

Meanwhile, Greg Friedman of Friedman & Associates in Novato, CA, proprietor of the Junxure CRM system, addressed both issues in a keynote address which, by my count, mentioned his own software only twice in passing. In a session on mindmapping hosted by Janet Tyler Johnson and Gary Davis, Jr., Davis gave the audience a rundown of possible ways they can systematize their businesses, and a relatively painless procedure for making it happen. A session on mobile technology (the Blackberry and, increasingly, the growing power of cell phones as mobile devices), bordered on science fiction, except that things like defining how to connect data from a variety of databases from your computer into your phone, and defining the format of the different fields on your little telephone screen, is actually here--and the process of doing this yourself can be demonstrated in about fifteen minutes.

And one of the more interesting sessions of the meeting suggested that voice-to-text technology is now, finally, ready for prime time, and you could start, this week, dictating client notes (during or after meetings), send yourself reminders, dictate e-mail messages to staff while commuting, and even control your computer, create and update client files automatically without touching a keyboard.

Later in this newsletter issue, you'll get a full report on the sessions by Lee, Friedman, Johnson and Davis, and a separate article on the speech-to-text thing. (I won't even TRY to cover the mobile technology, except to say that Bruckenstein and Drucker think it will become a key part of the way you run your business at some point in the near future, and they have been near-perfect on this kind of forecast in the past. You are now on notice.)

But here, I want to get back to *It*, because in the middle of all the Darwinism and productivity and all of us feeling kind of inadequate because what is being demonstrated in the exhibit hall is one to five light years ahead of what's running in our offices, something surfaced which directly addresses an immediate need in every planning office everywhere; *It* is a way to keep clients from panicking in what is clearly a long-term market doldrums.

The *It* presentation came from Bob Curtis, who runs Pie Technologies, the creater of the MoneyGuidePro planning software. Curtis started by defining the problem, which you already know: the media and your clients' friends and neighbors have created an echo chamber of negativity that is, alas, reinforced every time you send them a quarterly statement or a statement arrives from the custodian. Curtis offered a diagram which shows where we are now; it had two bar charts, running left to right, one ranging from fear (panic at the extreme end) to irrational exuberance on the other, the other ranging from zero risk tolerance to virtually unlimited capacity for (upside) risk.

Back in those hardly-remembered days when clients were experiencing irrational exuberance, their ability to tolerate risk was high. Today, when they have moved all the way over to the panic zone, they are saying they can't tolerate any more bad news. "People in the echo chamber are saying to themselves, I'm going to run out of money," said Curtis. "I can't take this any more. I'll be eating dog food in retirement."

The goal, of course, is to keep yourself and your clients somewhere in the middle of these graphs, between the extremes. The *It* question today is: how do you pull your clients back from the panic/zero tolerance extreme of the two spectra to a more reasonable view of what's going on? How do you convince them that even though the markets have retreated dramatically, the sky is not falling in with regards to their lifestyle and their goals?

The fundamental problem is that most advisors have given their clients a plan that either succeeds or fails, a binary set of outcomes to which we then (if we're very sophisticated) attach a Monte Carlo-generated chance of success. If your clients are like those in Curtis's slides, they have seen their plan move from a 90% chance of success down to something in the mid-40s. No wonder they're panicking!

But… What if the plan is more nuanced?

Curtis noted that the traditional financial plan includes all of the aspirational goals that a client has given you, as well as what might be called the subsistantive. You have the costs of eating and keeping a roof over their heads, and also the costs of traveling to Europe once a year and buying a new Lexus every couple of years. This "single point goal," as Curtis called it, will have a fixed retirement date of, say, age 63.

Here's the point: if you were to strip out some of the aspirational goals, or scale them back a bit, and rerun the numbers, clients will discover that they are in far greater danger of driving a Honda instead of a Lexus than they are of eating dog food. And, Curtis added, most clients are already mentally scaling back their aspirational goals far beyond what will be necessary.

The issue then becomes: how do you present this to them so that they can see not only that they're all right today, but that they will be all right even if the markets drop another 30% or so before resuming a more normal upward flight path?

If you rerun the plan as is, you will be showing clients the scary drop in chances of success from 90% to 40%. Instead, Curtis demonstrated some features in MoneyGuidePro version G-2 which are VERY cool, but which are not totally outside of your ability to replicate with another program.

The process starts by taking a more nuanced look at client goals. You ask when they want to retire, and get an "ideal" and "acceptable" number. Ideally, they would like to retire at age 64. But they give you age 66 as acceptable, something they would still be satisfied with. "Notice that we are not talking about the absolute worst outcome," Curtis said to the group. "We are talking about an outcome, which they define, where they will still be satisfied."

You do the same with travel, the same with the expense of the car they will buy every two (or, maybe, four) years, and all the other expense variables. The subsistantive goals, like food and shelter, are held steady. "The goal is to look at where you are below the ideal, but are comfortably inside the acceptable range," said Curtis.

MoneyGuidePro's latest G-2 version offers a process called "supersolve," which lets the client see that even though the chances of succeeding with the aspirational plan (the plan that you probably offered your clients) is down to 40%, they're still in the 85% range somewhere in the

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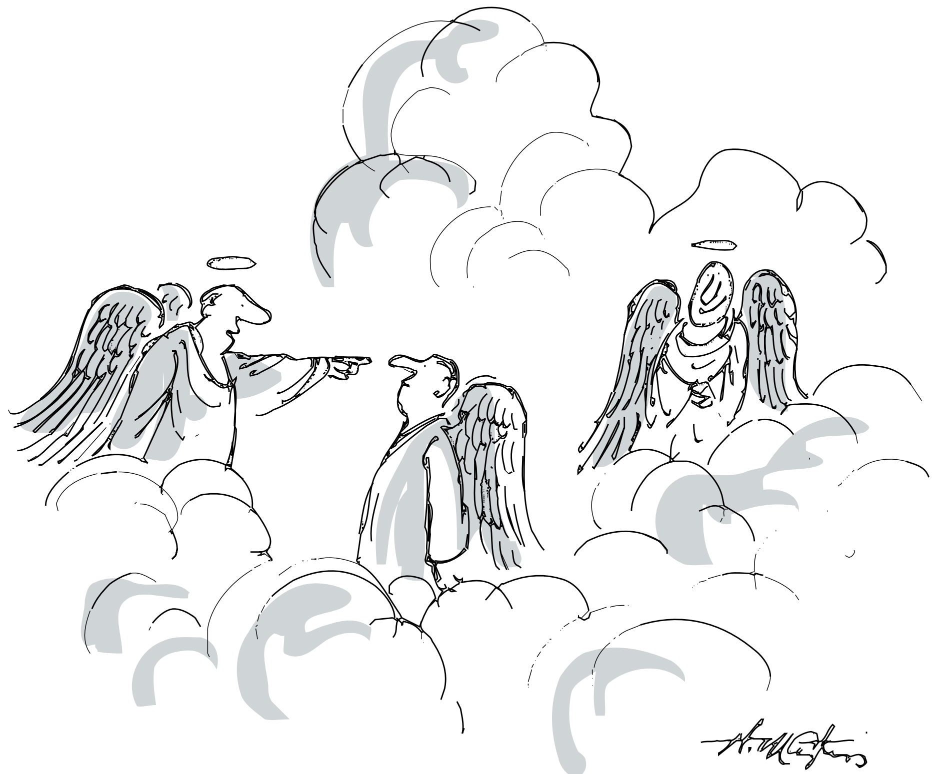
middle of the "acceptable" range of the spectrum, and at the far left side of the acceptable range (still not susistantive, but scaled back to their bare minimum acceptable), their chances of success is up over 90%.

They're not only not going to be eating dog food; they are still in the comfortable, acceptable range--AS THEY HAVE DEFINED IT.

Then you rerun the numbers with a 30% drop, and Curtis recommends that you add in the value of the house--some kind of reverse mortgage income at some point late in retirement. For the hypothetical couple that Curtis used in his slides, the market drop and the addition of the reverse mortgage very nearly balanced each other out. The client was still deeply in the acceptable range. (Incorporating reverse mortgages into the Supersolve algorithms will come with the next MoneyGuidePro upgrade.)

Of course, there will be some clients who can't get a high chance of success in their acceptable range, which means you need to have a conversation around what is acceptable. The clients may decide they won't travel as much in their late 70s and may stop traveling altogether in their 80s. They may scale back the costs of their automobiles, decide to live in a smaller house or otherwise make compromises which will almost certainly not be as drastic as where their imaginations were taking them.



"You were a Wall Street executive? Have Simkins over there recheck your paperwork."

Curtis summed up *It* when he said that "Things are worse than clients like, but generally better than they fear."

I should mention that this luncheon presentation was actually a co-presentation with Dr. Linda Strachan of the EISI Software company--makers of NaviPlan, owners of the Profiles software program. Strachan talked eloquently about how advisors need to rest their value on planning as opposed to money management, and that the planning advice becomes more important for client retention and client referrals in these down market environments.

This was certainly correct. But I think most advisors have been scratching their heads a little as the herd began to stir uneasily, and more recently as friends and neighbors of your clients have been rushing to capitulate to the bear, as the echo chamber becomes louder and your performance statements add to the volume.

You have all these analytical tools; which one can you use, and HOW can you use it, to keep your clients from panicking with the herd. Strachan, who spoke first, set the table for Curtis to show us the crowbar that can pry clients off of the left panicky zero risk tolerance end of the spectrum back toward the somewhat uneasy center, where they see that even though things are worse than they would like, they are better than their fears.

I think virtually any advisor can use this tool with their clients using their existing planning program, but I also think that we should look at MoneyGuidePro in a new light, as perhaps the first software anywhere to get beyond the binary thinking that is so natural to a computer, into the fuzzier world of human decisions. You can, and I think (if I may be so bold) you *should* have the meeting that Curtis recommends, and show clients the differences between subsistence, acceptable and aspirational. The process will be more elegant and certainly less time-consuming with MoneyGuidePro--and I suspect in the future that because of this G-2 breakthrough, a lot of decisions and a lot of plans in a lot of industries will eventually become easier to model and figure out, as we move beyond the binary way of looking at success or failure.

But that's in the future, and you are living in a present which, if the markets maintain this slow leak, should appropriately be measured week to week, month to month. We were given *It* in a presentation that is a perfect marriage of information and the times it was offered to, and you, reading this, are among the very few in the planning world to know of this approach to turning down the volume in the echo chamber.

Use it to your advantage.■