FORGET
THE HARD SELL

Wealth managers who are drilled to 'always be closing' are likely to create portfolios based on client fear and greed rather than sound financial reasoning

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Leonardo DiCaprio barking 'sell me this pen' in *Wolf of Wall Street* is how most people imagine the world of 'selling'. There are many methods for selling everyday products such as cars, soap, appliances, credit cards and checking accounts, and many successful salespeople to deploy these methods. But for wealth managers, a different approach is needed.

This is because, while responsible customers know what they want and need when shopping for common products, many wealth management clients do not have a good understanding of investments, portfolio theory and market dynamics.

When salespeople use the standard techniques and treat investing like a shopping expedition, the client experience is seldom ideal. Clients often evaluate investment options in isolation, outside the context of their portfolio and their own lives. That's all well and good in a rising market, but markets do have that annoying tendency to oscillate and take a dip once in a while.

WANTS AND NEEDS

Private wealth management has historically catered to what HNW individuals want, while paying lip service to what they need. But at its core, investing should be a needs-based activity, and the great irony is that what investors need is the thing they profess not to want: risk.

Wealth managers should be assessing how much risk their clients should take. Pushing hot products that clients currently want is often pandering to clients' fear and greed.

Risk tolerance is greatest near market peaks, while risk-aversion is rampant around the troughs.

Thus, many firms pigeonhole clients and products into discrete categories labelled 'conservative', 'aggressive', or various other descriptions.

Risk profiles are distilled into a succinct adjective or phrase that attempts to describe:

- How much risk can I handle emotionally?
- How much risk can I afford to take?
- How much risk do I need to take?

But an investor's tolerance, capacity and need for risk-taking are seldom aligned.

TIME AND RISK

Investing is the act of forgoing current consumption in exchange for larger (though uncertain) consumption in the future. To make this larger future spending possible, an investor first needs time, and second needs some risk premia that rewards the deployment of capital over that time.

Wealth managers can measure how much time the client needs to invest, as well as how much risk the client needs to take. An investor who knows these two things can better resist the siren song of irrational exuberance because they know they don't need to take more risk.

The client can also shrug off market downturns because their need to take risk has nothing to do with current market gyrations and everything to do with desired future spending. A 10% fall in the Dow won't change someone's mind about retirement 15 years from now.

On a broader note, this sales process is less likely to run afoul of local regulations and create compliance issues. While smaller boutiques such as independent asset managers should be able to effect this shift, large private banking departments of megabanks could have a harder time.

'Sell me this pen!'

It is often more expedient for private banks to hire as many new relationship managers with sizeable AuMs and hope that the relationship managers and/or their clients will stick because of superior investment performance or outstanding legendary service.

The same question asked of investors may also be asked of wealth business managers: why take that risk? ■