Help divorcees tune out the noise.

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We have a lot to appreciate in the digital age, but one thing we may have too much of is news. It is more like noise.

As news breaks and markets move, there is often a glut of snap-judgment that passes for commentary and instant reaction. Part of this is because bad news is more interesting than good news. It's nice, but not interesting, if the sun came up, but if there is a destructive storm it does turn heads. The result, in any case, is that more than ever these days, the news tends to stir anxiety and fear.

As advisors, we all know that fear can permeate financial decisions. Divorcing clients, sometimes never having experienced dealing with family investments before, can be even more susceptible to the negative effects of that fear-inducing media noise. Their worry may be heightened about how to structure or restructure their financial lives or what investment decisions to make.

Our job as trusted advisors is to guide our clients, help them understand their divorce options, and assist them as they make steady progress toward achieving their new financial life. Part of that job is to help them tune out the noise.

Our role can be that much more challenging during volatile times. We can help our divorcing clients by acting as behavioural coaches. A good, trusted advisor can be an anchor of stability or an emotional circuit breaker, guiding vulnerable clients during heightened times of emotional anxiety—helping them keep counterproductive noise at bay.

Even at the best of times in the modern media world, it is easy for people to be distracted and frightened. Events take place all the time that have a global economic impact, and in today's 24/7 news cycle, media tend to boost anxiety and fear with their dramatic headlines and stories. Before the Internet Age there was time to pause for thought, but no more. Media are under intense pressure to come up with the next plot twist—the financial aftershock of an election or bad earnings report, the coming risk of a global crisis or recession, heightened market volatility, and predictions that markets will sink.

One example of this was the response to the U.K.'s vote to withdraw from the European Union during the spring of 2016 — the Brexit. Journalists around the world wrote about the consequences that would be felt across the global economy and how markets would free fall.

It is true that there have been political repercussions from the Brexit vote, and there will be more. But a lot of media commentary seems to miss the fact that since the June 23 vote, markets have managed to negotiate their way through the noise.

Within a few weeks of the U.K. vote, Britain's equity index, the FTSE 100, hit 11-month highs; by mid-July, the U.S. markets (the S&P 500 and Dow Jones Industrial Average) had risen to record highs. This illustrates the dangers of trying to guess instantly how markets will react to news events, and of basing an investment strategy on speculative opinion or fearmongering instead of thoughtful, calm analysis based on actual facts.

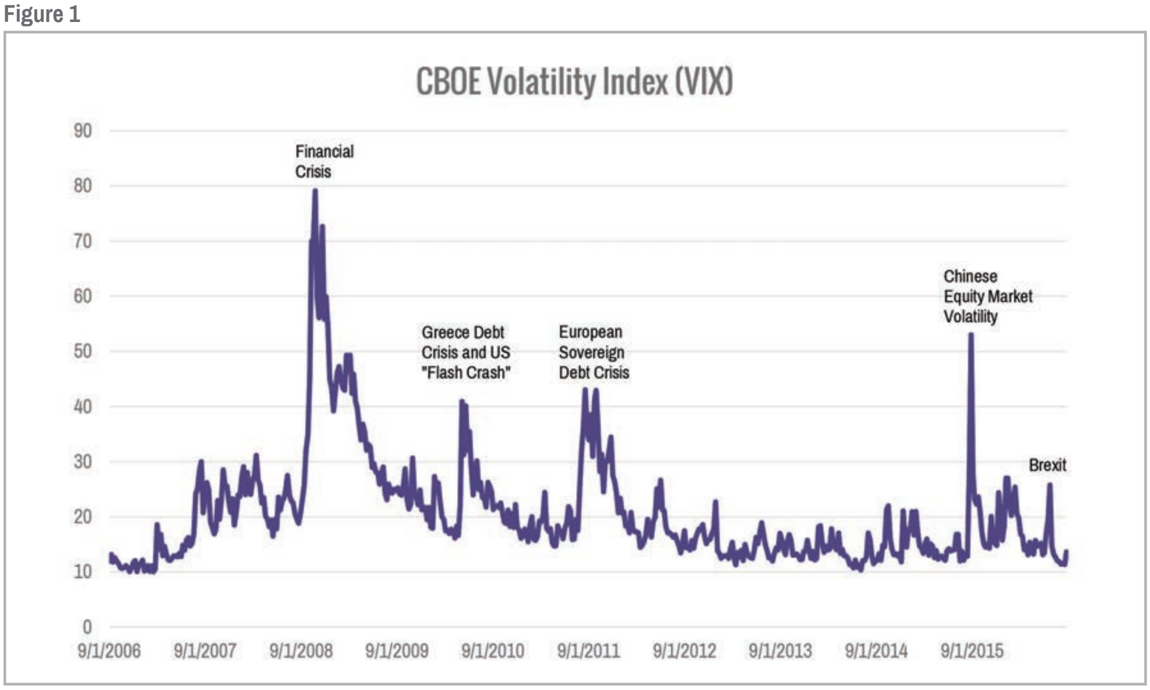
The Brexit vote did, in fact, lead to market volatility initially. However, it was not exceptional or out of the ordinary. We can see that while there was a slight rise in volatility (as measured by CBOE Market Volatility Index, **figure 1**), it was actually minor relative to other major events of recent years, such as the financial crisis of 2008, the Eurozone crisis of 2011, and the Chinese equity market volatility of 2015.

Many media reports jumped on the Brexit event, stirred anxieties, and, in the end, many were incorrect on their market forecasts. As advisors, we must help our clients navigate through this noise and help them avoid decisions based on short-term speculation.

We need to remind clients of the difficulty of timing market events. There are several decisions that must be made: not only must you correctly forecast the outcome of the upcoming event, you have to correctly guess how the market will react to that outcome. The danger of investing this way is that a situation can also change by the time investors react. As we saw with Brexit, a "crisis" can quickly change into something far less dramatic, and clients may end up responding to something that is already priced in. It now looks like it will take years for Britain and Europe to figure out their new relationship, and while this may pose a lot of challenges and difficulties, an event unrolling over years is hardly a crisis.

Successfully coaching clients can be easier said than done. However, there are a number of techniques that an advisor can follow. It is especially worthwhile to be skilled and sensitive when helping clients who are undergoing a divorce. Their nerves are often understandably frayed, and addressing their finances can be overwhelming as, in many cases, family investment decisions were made by their former spouse. Clients' emotions need to be respected and their financial needs require sophisticated attention. What can we advisors do to help clients during the emotional time of divorce?

Figure 1



1 Start with a Solid Foundation

The phrase "know your client" is more than a slogan. You should truly know who your client is, and start educating them early. Part of our success as advisors is our ability to uncover clients' true financial needs with accuracy. Without this skill, all the specialized financial expertise in the world is of little use. This needs to come first, before investment choices. We must actively listen and learn about who they are, where they are in the divorce process, and the strengths they have to create their future. Once we have clarified and solidified who a client is and their unique post-divorce objectives, we are in a far better position to educate them and set clear expectations about their investment plan.

2 Use the Financial Plan and/or Investment Plan as an Anchor

Once you have clearly defined who your client is, then a mutually agreed-upon, collaborative plan can be an anchor. It should be central to your conversations and meetings. It can remind clients that their asset allocation and investments are the result of very careful consideration, planning for their long-term goals, and appetite for risk. Reflecting on the plan can often help clients regain perspective during times of market volatility, so they can measure their specific goals, milestones, and key metrics as they progress with their new, divorced life.

3 Focus on the Long-Term

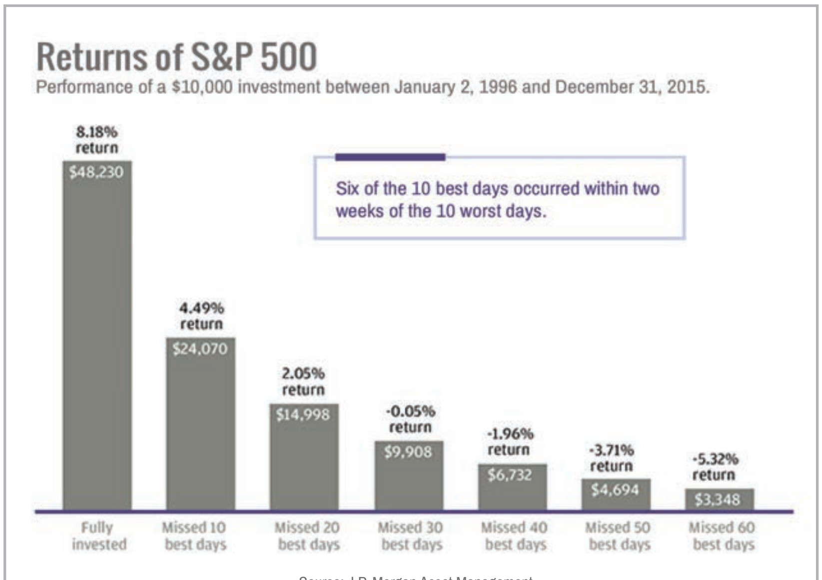
Life has already been unstable enough for most divorcees. We need to help refocus clients' attention on their long-term planning instead of the short-term gyrations of the market. This also includes focusing on their personal investment allocation, not one specific market and certainly not their friends' investment portfolios (which should be based on entirely unique objectives to those individuals). If we have accurately captured the first two points above, then clients need to be educated on how their planning fits within the long-term context of markets and their new, evolving divorced life. Ensuring clients understand the dangers of market timing instead of sticking to their long-term plan can help guide them during bad times.

Charts and statistics can help advisors illustrate the harsh reality of market timing. We also need to be sensitive to how these are presented, and to our divorcing clients' capacity for information. This is where our soft skills of communication are key.

One way to convey the importance of understanding how markets work—and how they don't—is by showing how missing only a few days of strong returns can drastically impact overall performance. Using the S&P 500 as an example, if an investor missed the 20 best trading days over the past 20 years, they would have earned an annualized compound return of just 2.05 percent, versus 8.18 percent (**figure 2**).

While investors may have varying time horizons, this still illustrates that the magnitude of the compounding effects of this difference can be significant over time. Staying disciplined and adhering to a long-term investment plan pays off. Misinterpreting market events and leaving the market at the wrong time can prove costly.

Figure 2



Source: J.P. Morgan Asset Management

4 Practice Client Sensitivity

Don't downplay clients' emotional reactions. Acknowledge their emotions and use the opportunity to help them understand your process, and explain and educate them on the reasons for your recommendations. They don't sit in the same seat as a professional advisor does all day. Although we are the experts, and they rely on us for guidance, they may see things from a different perspective. If we are sensitive to our clients' emotions we can use these opportunities as avenues for further communication, strengthening the relationship and building trust.

5 Communication

Commit to providing ongoing communication and education to clients. This should not start during times of heightened volatility and anxiety.

It should be ongoing. Let clients know at an early stage how they can expect to communicate with you and your team. For example, how quickly they can expect a reply back from you or someone on your team, and how often they can expect to receive communications from you or your office. Educating clients consistently over time will better prepare them to focus on the long-term and help them stay committed to their broader financial strategy, not just short-term events.

As advisors, our goal should be to have a solid understanding of where our clients are now and what their future objectives are. Through a well-thought-out plan, we can help them fill the gaps toward achieving those objectives, and what is important in their new financial lives. During times of volatility, both bear and bull markets, we have the opportunity to help clients manage their emotions, moderating their tendencies to chase returns or run for cover. If we can recognize and address clients' emotions and how they want to react, we can help steer them through common emotion-based investment mistakes. With a focused approached to coaching and educating them, we can also help differentiate our divorce-based practices in today's challenging marketplace.

We can help prevent clients' short-term anxieties from getting in the way of reaching their long-term goals. We can forge more long-lasting, valuable relationships with them, and these can be happier clients, more loyal clients, and clients more willing to refer to our practices over time.

About the Author

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As a co-founder of McLean Phillips Wealth Management and Partner of Richardson GMP Limited, Greg is an accredited Portfolio Manager providing discretionary money management and advanced financial planning services to affluent individuals and families. With his partner, Sean McLean, Greg created the group's structure and platform to help enable clients to navigate the divorce process and to confidently move forward with their lives.