Thought Leader Roundtable

Six luminaries in the financial services industry presented their views in a roundtable discussion moderated by Marie Swift and held in conjunction with the TD Ameritrade Institutional Conference in San Diego, February 2015.

Risk and investments was the primary topics of debate.

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Context

Many consumer investors are still haunted by the memories of 2008. In some cases, those memories may affect their current behavior in the recent bull markets. Advisors must clearly explain risk in the current bull market environment and must continue to manage risk while still achieving clients' investment goals. This can be challenging, especially as consumers become more familiar with online investment offerings and low-cost index fund options. Advisors may be experiencing fee pressure and must find ways to continue to add value, manage risk and set appropriate expectations.

Setting

Following the TD Ameritrade Conference in San Diego in January 2015, several financial services executives presented their views in a roundtable discussion. The 60-minute conversation was a spirited debate. This paper presents just a few of their important insights and observations.

Inquiries about this Paper

Leesy Palmer, Media Director
Impact Communications, Inc.
(800) 974-7753 | ImpactMediaManager@ImpactCommunications.org

Defining Risk

Marie Swift, President, Impact Communications: We are here today to talk about risk, investments, and client perceptions. Andy, you are in the trenches every day with your clients as an advisor. What are you seeing and how are you talking to them that is different today?

Andy Millard, Founder, Millard & Co.: To me, the first thing we have to do is define what risk means to us. Define what it means to our clients. Risk means different things to different people. We hear as advisors all the time that risk may mean the short-term potential loss of capital. On the other hand, the bigger picture risk might be loss of long-term purchasing power and what is risk versus a temporary loss? Here's a story I sometimes use with clients to get them thinking about risk: You start out in Las Vegas with \$1000. At the Blackjack table, you do great and get it up to \$1500. Then you lose a little bit and are down to \$1300. On the way back to your room, you're thinking, I just lost \$200. Well your spouse, who's waiting in the room for you, says, you left with \$1000 and came back with \$1300? You did great! As this story illustrates, risk and reward are really just two sides of the same coin. For our clients, I think it's important for us to define that risk/reward relationship for them and for us to understand what their perception of risk is. Once we define it, then we have to react to whatever that version of risk is.

Neal Quon, Partner, QuonWarrene: Based on the things that I've heard from the advisors we work with, and saw even in my own practice, I agree with you. Clients don't always have the right mindset towards risk. Think about the mathematics of loss: "Oh I'm down 10%" but to get back to even, all they think is "I have to make 10% back." If you really run the numbers further out like we saw in 2008, people lost 47%. You have to make 100% just to get back to even. So defining risk, as you put it, is critical.

Daniel Satchkov, President, RiXtrema: Andy, you said you have different clients, right? You have to listen for their definition of risk and you have to target that. Can you give us an example where you feel like this particular client really needed to learn something and you helped them learn it?

Millard: I'm not sure if I've really helped them learn. As an advisor, sometimes you feel that you haven't been successful. Like 2008 – that was a really difficult time. I have two client stories I always use: It's October 2008. I'm at a conference in Boston, the FPA National Convention, and it's one of the worst days in the market in 2008. The market is just plunging. I get a call on my cell phone. It's my newest client. Three weeks earlier we had fully invested his entire portfolio so now the market is crashing and burning. He is calling me up and saying, "Andy, what do we do? I'm losing money right now." I said all the things you say to clients: "You don't need the money right now, let's just hang on for a while and ride this out. This is what happens sometimes. We will rebalance as we go." He says, "Okay we will do that." A year-and-half later, he is back to break even; ever since has been smooth sailing and he's happy.

Another client, a couple days later, calls me up. She is in her car heading from some meeting she's been to and the speaker there said, "the market is going to tank, you need to sell everything." She calls and says, "I think we need to go to cash." I try to talk her out of it but am unsuccessful. So we went to cash. She stopped the bleeding and was very happy with that. What I was unable to teach her was when you're timing the market like that it requires two right decisions – when to sell and when to buy. You get one right and feel great about it but your work is only half done.

Satchkov: The published return of the S&P we see in all of the charts? Unfortunately, most retail investors don't actually get that. I was at a *Financial Advisor* magazine conference and heard a brilliant speech by Nick Murray where he made those points very eloquently. If you can read his stuff I recommend it. He has powerful arguments and is humorous.

Venk Reddy, Founder, Zeo Capital Advisors: As Andy said, 2008 was an interesting time. There are some great examples and lessons that were learned, but no two crises are the same. At Zeo, we speak to probably a thousand advisors a year between our clients and prospective clients. I find that there are two predominant types of investors that emerged from 2008. At the risk of oversimplifying, there are those who tend to be on the wealthier end, who got out of the markets entirely and haven't gotten back in. Now they see new tops and all the while, they are losing purchasing power.

Then there is the other side of the coin where there is a big hole from 2008 and you have to dig your way out of it. There is a reach for yield and a reach for return, which is scary because, ultimately, there is no free money, which also means you are taking on risks and, more often than not, it's not necessarily a risk that is aligned with the portfolio's objectives, especially for a firm that manages fixed income portfolios. It's not aligned for capital preservation, and what scares me about the conversations that advisors are having with their clients is that everybody is framing 2008 in the context of "how do we make sure we are on the right side of the next directional trade?" Or at least not on the wrong side.

> *"You actually are better served trying to build a portfolio that embraces the uncertainty… so no matter what the factors are that cause the next crisis, you are better prepared."*
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> *~ Venk Reddy*

With respect to fixed income portfolios, I don't think it's appropriate to have as your goal being on the right side of the directional trade. I think rather than make a bet on uncertainty where you could be right or wrong, and when you're wrong you lose your income and your principal, you are better served trying to build a portfolio that embraces the uncertainty and actually has characteristics that can benefit in a number of market environments, so no matter what the factors are that cause the next crisis, you are better prepared.

Millard: Venk, I think you are absolutely right in that we need to be careful when we talk about 2008, because we experienced market corrections before, but 2008 was different because it wasn't just a market correction. It was this huge, gigantic, economic event that affected everybody. I had clients coming into my office saying, "Is it true that my money is going to be completely worthless?" Now that is risk! That money is no longer going to have any value at all. So that kind of memory sticks in one's psyche and they've talked about it ever since. When we think about a correction now we think of it in terms of that huge kind of event and I think over emphasize the real importance of that or whatever the next event might be.

Educating Clients and Setting Expectations

Evan Simonoff, Editor-in-Chief, Financial Advisor magazine: That is the Peter Schiff / Jim Rogers argument, that people were going to be taking their wheelbarrows filled with cash to the supermarket and we were going to have a massive inflation, a hyperinflation. That has not materialized. How many clients initially bought into that and how many are still in it?

Millard: To answer your question, as an advisor, I did my best to educate clients. But we still had to talk a lot off the ledge, which we did. While they understood it, they got it, they were still very scared but hung with it for the most part and it worked out okay. But the memory of it, the feeling in the gut still lingers and that's what they are dealing with now.

> *"The first thing we talk to about is their expectations, and in particular their comfort with and expectations about risk."*
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> *~ Lance Hicks*

Lance Hicks, CEO/President, Finance 500 Inc.: Dealing with existing clients, especially clients that we've had for a long time and with whom we've already been through a lot of ups and downs and severe markets ('92, '97, 2000, and 2003), is not an issue or problem. It's when you have a new client come in, and an event like 2008 happens shortly thereafter, that a lot of advisors may have problems, because what they don't do is manage expectations. That is a key part of any conversation we have with a new client. The first thing we talk to them about are their expectations, and in particular their comfort with and expectations about risk. Risk is not just the assets you own or what percentage of assets you own. A key component of risk is duration and timing. I tell clients that if they are coming onboard with us, they have to understand that they are going to be with us for at least six to eight years, and there are going to be ups and downs during that time period. If the first year is down, I remind them that they need to stay with the program for seven more years. Because if you look at the history of the markets over long periods of time, you'd be hard pressed to find a period where you lost money over an 8 year period. So be patient and stick it out. That is my opening conversation and I repeat that every year and remind clients to stay with the game plan. For me, a big part of risk is properly managing expectations.

Quon: I agree with you that it's not so much about the return. We never sell return; advisors never sell on return yet that's the consumer's perspective on how they should select an advisor. And you are right, it's about managing that expectation and it's really investing in that relationship and raising that level of awareness through education. That's critical to keeping that client engaged and not surrendering when the markets don't cooperate.

Reddy: I'd like to add to something Neal said. It's not just about marketing return. The truth of the matter is, whether you are a person managing portfolios of bonds or managing asset allocations for clients, investors don't get to choose returns; we choose risk. We walk in every single day and we are picking risks. If you manage to a return goal and not a risk goal, you are already working with an incompatible toolkit. When we speak to advisors, we explain that the reason our business exists is to try to create a fund and risk profile that fits into a risk managed portfolio. When we hear what they are thinking and doing, we really try to understand if they are thinking about managing risk goals and choosing risk profiles, not just returns. It's a lot easier – not trivial, but a lot easier – to think "I have to construct a portfolio that is capital preservation in nature" than it is to think "I need to construct a portfolio that is going to make 10%" or 5% or whatever that number is." We have to remember that we are choosing risk. We don't get to choose returns.

Simonoff: Let me ask a question of the two advisors in the room. In the academic world, the new type of risk that has developed in their world in the last 15 years they call sequential risk. This is retiring in 2000 or 2008 and having the first few years of your retirement seeing the equity portion of your portfolio sliced in half and if you didn't have enough reserved funds in fixed income or something else to live off of, you were dipping into your equity funds at a dramatically lower price which could have a long term effect on your living standard. And that is something that a lot of people are trying to solve for with alternative asset allocations, setting aside bigger emergency or living expense funds that used to be for one or two years — now people are talking five years. From your vantage point, did you have clients who retired in either 2000, 2008 or thereabouts and how did they react? I imagine, like most other Americans, they dialed down their lifestyles but what was the psychological reaction?

Hicks: I don't recall any clients that specifically retired during that period. We had clients in retirement already however, so we were already allocated. Our retired clients aren't heavily weighted in equities, but we were very early proponents of alternative assets. We started in the late '90s, years before most people ever talked about it, doing structured notes and structured CDs, which have an equity component without the equity risk. That is one alternative we have used with retirees, or with those that still want to have equity-like features in their portfolio, but not the risk of equities. These types of vehicles have done relatively well in terms of mitigating risk while providing above average returns.

Millard: For me, a lot of our clients are already retired so this is something they deal with every year. I'm sure I had a couple retire at that time but for us it's a year-to-year-to-year thing. How much can you afford to take this year? All right we'll take that much. How much can you afford to take this year? Can you afford to buy the car? Well probably not this year, so we are not going to buy the car this year. Can you afford to take the trip? Well maybe take a less expensive trip this year. I've tried to figure it out as a math problem. I've seen the math problem versions of it and, with a real live person, I don’t think a math problem is the optimal solution. It's just an individual thing and a year-to-year thing. I don't know if that answers the question.

Simonoff: I'm talking to people who are thinking a lot about this. Then you also have the problem right now, with retirees, of the whole zero interest rate policy. I was at a conference earlier this week — Jeff Gundlach said you see all these 60-70 year olds working in restaurants and WalMart — they can thank the Fed for not being able to retire. Bill Gross called it financial repression.

Millard: But we have to deal with that. To me it's not a question of blaming someone; it's just a matter of dealing with what you have to deal with. And when you are at a place we are now — historically low/near zero interest rates — you just have to deal with it. To me, that makes it the most challenging time to be an investor since I've been doing this. Because you are dealing with zero percent interest rates. There was a time not too long ago where you could get 7% on a money market fund, but no one wanted it because the market was going up 30% every year. So now you are getting 0% on a money market and the market is...we don't know what the market is going to do. It's challenging from a fixed income perspective, from equity, alternatives — it's just tough.

Simonoff: Do people delay retirement? Do you see any of that?

Millard: I have seen people delay retirement, yes.

Hicks: I agree. I have clients who were thinking of retiring at 62 who are now thinking 67.

Quon: When I was actively practicing, I had a client who retired in 2007 and who just decided, as you mentioned earlier, to decrease their lifestyle. They took on project-based work so they continued to work since they understood the importance of not withdrawing from their portfolio in that down period. Going back to your point, Andy, that was probably based on education and understanding the timing of withdrawals. They just realized and understood that they were in it for the long term. So going back to the duration comment, how do we not do irreparable damage to your portfolio by taking you out now? They took the time and they were patient and they are doing okay now.

Reddy: The duration comment is really interesting because duration means a lot of different things to different people. In the context of this conversation so far, we've referenced duration in terms of asset/liability matching, which is a very institutional concept that a lot of advisors bring to the table. Clients need money at a specific time or don't need their money for a certain amount of time, so if you match that duration, then you theoretically should be able to close your eyes to what happens in the interim and have some confidence that you are getting your money on the other side. Coming from the fixed income perspective, the other side of that coin actually has caused more problems and introduced a ton of risk in portfolios that folks aren't always necessarily aware of. For example, take a 10 year treasury. A 10 year treasury is great if you've got a 10 year timeframe and you are okay with the yield. But if interest rates go up 1% tomorrow, in a one year timeframe, you are going to lose just under 6%. So if you have clients that have their rainy day money — I don't know when I'm going to need it, but I don't want to sell something at a loss when I do, but if I don't need it for a while, I want to maintain purchasing power – then, despite the fact that people think treasuries are safe, and maybe they think they are safer than, say, short duration credit because it doesn't have the credit risk. The truth of the matter is, from an asset/liability matching standpoint, the treasury introduces a heck of a lot of principal risk. Even though conventional wisdom is that it's "risk free," the duration asset/liability matching works in the other direction as well in fixed income portfolios. It introduces an extraordinary amount of risk. There is a misperception that there is good risk and bad risk; it's just risk that fits the client's goals.

Satchkov: I think there's another problem introduced by the Fed's policy that is just as bad potentially as the problem of 0% interest rates and the same problem of punishing savers. It's the problem that causes people to look for yield in places where it's not found. And it's basically – the issues of supply and demand are not independent of each other. They are very much in a closed loop so that's why financial systems can get unstable. In what other industry can you have supply growing with the price? Only in finance. And it usually happens like that. Not the other way around as it is assumed in economics textbooks. So the problem with yield, I find, is that I look at all this high yield leverage instruments that we find, right? And people look at the treasury yields and see that basically they are zero, right. And here is this high yield instrument that gives you 5%. Now to me, knowing the financial system, knowing some of these instruments, it's pretty plain that many of these high yield instruments are way more risky than what you are compensated for. How do you control that? How do you find instruments where the high yield is warranted, where it's not just some kind of high leverage vehicle that was created just to satisfy demand? Who knows what's under the hood there. How do you explain to people that you shouldn't invest in triple CCC or a lower rated entity at 5% yield?

Reddy: I'm going to help with that education because that oversimplifies what we do for a living. I would be careful to vilify credit risks and glorify duration or treasury risks. Risk isn't good or bad; it's just a matter of fit or not fit. Within fixed income there is a spectrum of risk. There's liquidity risk, credit risk, and duration risk. The best way we can preserve capital in a portfolio isn't to choose one or the other, but just to make sure the risks are diversified so no one risk can overwhelm the portfolio in a time when it isn't an optimal risk to take. That said, your point is valid because when folks tend to gravitate towards credit risk in particular, they do it indiscriminately. They do it by buying an ETF that has 400 bonds. If you are going to buy a portfolio of 400 high yield bonds, you are going to buy some crappy credits. It's just going to happen. So if you introduce credit risk as one of the risks in a fixed income portfolio, which I think is a valid and diversifying thing to do, it matters what credits you pick. Now I would also encourage that part of the portfolio to be on the shorter duration side so you are not duplicating other risks, but it matters what credits you pick. And if you actually have that deep-dive fundamental process overlay in the credit component of a fixed income portfolio, you can create a better, more diversified portfolio. So it's less likely any one risk will explode the portfolio, and it lets you tell clients that while markets come and go, it matters less to you because your portfolio is designed to be more all-weather, for lack of a better term.

"Risk has to be appropriate and understood. Your job as an advisor – and general our goal in this industry – is to help people get to a proper conception of risk and really separate the wheat from the chaff."

~ Daniel Satchkov

Satchkov: Your point is well taken, but when you invest in high yield, you need to have an investment vehicle that actually researched those companies. You cannot invest in low credit companies en masse, right? Another point is that people start thinking of this high yield instrument as a fixed income replacement for treasury and they end up with equities and high yield, which are highly correlated. They think, "I'm just going to get a bond," but with a higher yield they are actually getting equity-like risks. Now high yield is not good or bad; no risk is good or bad. Risk just has to be appropriate and understood. Do you see people thinking that high yield that is supposed to diversify equity?

Millard: I'm not smart enough to be able to really do those calculations for duration and credit risk and mixing those together. But when I hear a client talking about how this really great instrument that has this really high yield and they perceive it as no risk, I **am** smart enough to know that yield does not come for free. If you are getting this great yield there is a risk someplace. I may not be smart enough to figure out where that risk is but I promise you the market knows that risk is there and we can't just pretend that it's not. I think that may be what you are driving at.

Diversification

Hicks: I like the point that Venk made; what he's pointing out is, in essence, a form of diversification. Diversification is still key in managing and lowering risk, but often I see people who think they are diversified simply by choosing different asset categories, when they should be choosing different risk levels and different risk types. That's where I see a lot of portfolios fall apart. When people come to us with a portfolio of high yield bonds and equities, and think they are diversified, sorry, no, they're not. They have diversified — a little —by asset class, but not by risk type.

Reddy: Which brings us to another interesting point, thinking about diversification. I think a lot of clients, especially when it comes to their advisors and managers, think the toughest part of our job is constructing the portfolio. I would disagree with that. The hardest thing we do is to identify the risks that are in the toolkit — risk identification — so we know what risks we are taking. Andy's right — there is no free money. There are no equity-like returns with fixed income-like risks. That just means you are taking some other risk, and if you are not aware of it, you should be. Identifying the risks you are taking to get the returns you are getting is a difficult, or at least underappreciated, effort compared to assorting the risks, once you know them, into a colorful pie chart.

Simonoff: Do clients view risks as loss of principal, underperforming an index, or running out of purchasing power and potentially running out of money. Most advisors I talk to think it's the latter – from the advisor's perspective. But from the client's is it under performing the S&P or the Dow. Or is it just losing – I'm down 10% and the market is down 15% they don't care.

Millard: It's all the above. They measure risk from the highest point their portfolio has achieved. So any reduction from there, like you made that $1500.00 in the casino, any reduction there they view as a loss. They also view risk as losing purchasing power. They also view risk over a long period of time as the value of the portfolio going down, even though they are taking withdrawals out. So we as advisors view it as purchasing power. As you said Evan, they also view it as under performing. That's what they see every day, the one financial number they get every day is how well the Dow did, not even the S&P, it's the Dow and so it's x number of points and if they didn't make that number of points or heaven forbid they went in the other direction, they view that as risk. We pride ourselves with being diversified. I can't tell you how many times clients have said, "the market has been up x number of points but I'm down. How can that be? I looked at it today and the market was up but I was down. How can that be?" They view that as risk. When the real risk is that *doesn't* happen.

Simonoff: Or in 2013 they were up a nice 12-14%, the S&P was up 32%, the Dow was up 28% and they asked why aren't we all in US stocks?

Millard: Perfect example, because US equities were up right at 30%, while just about every other asset class we had in our client portfolios was down. So I'm feeling really good — we got everybody diversified but only one of our asset classes is up. If the US was one of the asset classes that were down and a couple of other ones were up, we get to the end of the year and we've outperformed the S&P and all of a sudden I'm a champ.

Reddy: I think we hit on a really interesting point there, and it goes back to setting expectations. I think one thing that is worth considering is something we refer to as "the theory of relativity." That is, risk is relative, and people respond not to absolutes but to what their expectations are relative to reality. Clients, advisors (in our case) or anybody else, even my kids, respond to the relative difference between reality and what they were expecting. This is actually a reasonable way to help clients understand things. Think about anybody who wears glasses. When the optometrist puts you in the chair, she doesn't ask, "Is this good?" She asks "Same, better, worse?" It's a lot easier to understand relative differences. Then you can start iterating your way in small increments to the right place. I think when we talk to clients and when we talk to advisors, the same sort of conversation can head off that potential mismatch of expectations by framing the conversation in relative terms and guiding folks slowly to where they need to be.

Satchkov: What if their reference point is their friend and the cocktail hour and they tell them they did 30% and they are right near retirement, so they shouldn't really own these equities. If you put in these equities you are actually doing a disservice for them, but they demand that you do this, so they want the upside of their friend, but they want a downside protection still.

Reddy: This is the classic dilemma – do you want one cookie today or two cookies tomorrow.

Satchkov: My friend has three cookies and you are only giving me one. (everyone laughs)

Risk Assessment and Technology

Millard: To me that is where a tool, a risk assessment tool such as yours Daniel, really comes in handy because what I use that risk assessment tool for is to say, "okay we know what has happened in the past but we don't know what is going to happen in the future. We see all these things happening in the world. What if this plays out or this plays out or this plays out? How might that affect your purchasing power, your portfolio?" Because the client is thinking about these things and maybe not in some kind of concrete terms but they are thinking about them all the same. Just to know we have at least modeled those things and taken a look and see this is potentially the worst case scenario, you can lose in real or absolute terms a certain amount based on that. Maybe even more: this is the best we have — we don't know for sure. Keep in mind this could happen. If they get that, they internalize that, and they make an informed decision — now we are getting someplace.

> *"I tell clients, 'keep in mind, this could happen.' If clients get that, they internalize that, and they make an informed decision – now we are getting someplace."*
>
> *~ Andy Millard*

Quon: I would agree on all the comments that were just made especially related to technology since that is the area we follow. With access to information and in this day and age with the Internet, clients are always out there and that's what they are using as a basis for comparison, not just a friend at a cocktail party. Saying "I got this in my Sharebuilder account, so how come we are not doing any better?" But the use of technology, I think, helps reframe the conversation in relative terms to what it means for them. Going back to what Lance was saying earlier about 2008, they are feeling good now because the market has recovered from 2008 but somewhere in the back of their minds psychologically they are still worried about it. They might not know how to verbalize it, but technology and the tools that are out there today for advisors are phenomenal in helping to model and illustrate why we need to move forward the way we do. This is why you are not all in the S&P 500. This is why we've built a diversified portfolio. They are always going to want what they didn't get because, as you said, that's because their perspective was misaligned if their expectations weren't set. Because they are getting all this information from the web, from the news, from their

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>
> *~ Neal Quon*

buddy at the cocktail party. Advisors have a hard job and I'm glad there are tools like Daniel's that can help you guys do it better.

Risks and Client Behavior

Simonoff: The news from around the world in the last six months or maybe the last year, since Vladimir Putin invaded the Ukraine but really what happened last summer with Isis and problems in Europe and elsewhere, has really been depressing and you saw the markets react in late September early October not violently but they did get somewhat jittery and this year there has been a lot of volatility. What sort of impact has that had on clients that you've talked to? Is this enough risk for them to notice?

Hicks: For our clients, no. It has not been an issue because they are already in diversified allocated portfolios, and they understand there is going to be a stream of news and negative events that will occasionally create ripples in the financial markets. But we are not managing for short term events. These "hot breaking news" things don't necessarily trigger a change in our allocation policies.

Millard: To build on what Lance just said, I've got to say I've found our clients to be very understanding, very accepting of the risks, once we explain it to them, once they understand. They do want more, they want better returns, but they are all grown-ups and understand they can't always get what they want. And they don't hold it against you as the advisor; they know you are trying to help them make it through that minefield.

Simonoff: It's interesting. What I've heard is that some leading robo advisors have in October seen 20% exits or moves to cash, which makes you wonder what would happen if there was a real bear market as opposed to a 10% correction.

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>
> *~ Evan Simonoff*

Millard: You just hit on it! We talk about all these different types of risk but what it boils down to is "will my family and I be okay?" We can't just have a pure technological solution — but if we as advisors can help them understand we are going to be okay, then that is the only risk that matters to them and they will stick with you.

Satchkov: So basically your job as an advisor and in general our goal in this industry is to help people get to a proper conception of risk and really separate the wheat from the chaff because underperforming your friend is not a real risk. Let's focus on the real risk and let's recognize that.

Hicks: Going back to the concept of managing expectations: we talk to clients about the fact if there is a big dip, they should be happy. That's an opportunity. I mean, look at the history and track record of the markets. Every dip has had a subsequent upsurge. What does that represent for us? An opportunity. Why panic about an opportunity? Yes, in the short term it may be difficult, but behind that, there is opportunity.

Simonoff: Did anybody, any clients in 2008 think this was a great time to buy dividend stocks, lock in 4, 5, 6% returns, which today look awfully nice given what's happened to the fixed income markets. People could have made a big difference in a lot of retirees' lifestyles and I'm not sure many clients had the *cojones* to ask for that, but people who did are living a lot better.

Hicks: We are discretionary managers, so it's not up to the clients to make such decisions; it's up to us. In the aftermath of 2008, did we take calculated, diversified risks? Yes, we did do. We didn't go crazy or load up the portfolios, but we started taking positions even in the face of that severe downturn.

Millard: We are discretionary managers as well. At that time we had a pretty substantial allocation to real estate. As bad as the stock market, regular equity markets were, real estate markets were even worse. So we have this whole weak component to the portfolio. They were down at one point 64% and so our discipline required us to rebalance. Buy that when it's down, sell when it's high (buy low, sell high) and that's what took the stones to make that decision on behalf of clients who are counting on you to make the right decision and keep them solvent for the rest of their lives. To go in and double down and load up on real estate after it had taken that huge hit. But having a discipline in place before that ever started made all the difference in the world because I was able to lean back on that, take my guts in my hand, make those buys and my biggest problem ever since has been trying to figure out how to deal with the capital gains tax problem. It's been great!

Key Takeaways

Swift: It is time for closing statements. If you could only impart one piece of advice or key takeaway to the readers of this roundtable transcript, what would that be?

Millard: I think the most important thing is that people can't choose their returns but they can choose their risk. Our biggest responsibility as advisors is to figure out what those risks are – to identify those risks so we really know the risks we are taking. That's it. That's big.

Our job as advisors and other financial professionals is to accurately identify what those risks are so we, and the client, can make an educated and informed decision as to what risks they choose to take. That will drive the returns to a certain extent but it's the risks that are the key part.

Hicks: The two things to take away from this conversation: One: Manage investor expectations, and properly analyze and manage risk. Risk is not just about the metrics – the alpha, the beta, the R squared, the Sharpe ratio. Those are fine and good, but ultimately risk is an emotional reaction to things being either too good to believe, or too horrible to withstand. The art and science of being a good advisor is to help manage these emotional reactions. Two: to speak to Venk's point, advisors need to understand the different types of risk, the different components of risk, and diversify among those and manage those, as opposed to just "buying assets." This is a critical issue and I find many advisors do not do risk analysis at a deep-dive level.

Satchkov: The biggest takeaway for me is the clarification of this idea of man/machine symbiosis. There is a lot of talk right now about robo advisory – about all the technological changes and it's all very valid. There is a revolution going on. Ultimately I think the same thing will happen as happened with the computer revolution way back 30, 40, 50 years ago when it was thought computers were going to replace people. But that didn't happen, right? What happened was it became really clear that the optimal solution is for man and machine to work together. Because I work with technology tools and most of my background is with quant geeks, I know these tools. I also know people's expectations have to be managed but this conversation really brings it together for me. As an advisor, you should find your optimal symbiosis with technology. Are you looking for it? If you're not, you are probably going to be behind.

Quon: My biggest takeaway from this conversation is the importance of really defining what risk means. It's different for everybody, as we've discussed here. But really, in tying it all back together, from a technology perspective there is a big concern about robo advisors. But a robo advisor is not going to have qualitative discussions to reframe the conversation about what risk really means. Now more than ever, advisors need to embrace technology and come along side it and really make that part of their service delivery and expectations management, to foster good healthy client relationships. I don't think they need to be afraid of technology. I think the idea of using risk-based tools to want to understand the psychology of this is important because everybody has a different perspective and it will be really great when people can finally understand what risk means to them. I think that is going to be critical. Going back to something Venk said that stood out to me is a really basic concept that no two crises are the same. So, once risks are identified and understood, advisors need to build a portfolio or select management strategies that take advantage of both sides that really try to diversify and weigh that risk.

Reddy: This was a really interesting conversation. We had six panelist that are all from very different backgrounds and have different perspectives on the financial industry and advisors, and we still ended up in the same place: there is no free money. It's hard to imagine getting more return for the same risk or getting the same return for less risk. What's probably happening is that we are actually taking on a different risk, and our main goal as investors or as advisors is to make sure we can identify the risks that we are taking and that we build a diversified portfolio of risks so no one risk overwhelms the portfolio. If we focus on managing for risk goals like that, choosing risks since we can't chose returns, we have an opportunity to create portfolios that can embrace uncertainty and actually be better prepared for whatever is going to come. Because none of us can tell any client what is going to happen.

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Roundtable Participants

Lance Hicks
CEO and President, Finance 500, Inc.
Finance500.com

Lance Hicks is CEO and president of Finance 500, Inc. a regional broker/dealer firm headquartered in Irvine, California. Hicks formed Finance 500 in 1982. The firm specializes in equity and fixed-income management, portfolio analysis, and asset-allocation modeling. Hicks has been in the investment management business since 1977, beginning his career as a financial consultant with Merrill Lynch and later at E. F. Hutton and Bateman Eichler Hill Richards.

Andrew Millard, CFP®
Principal, Millard & Company
Low-Stress-Investing.com

Andy Millard, CFP®, is Principal of Millard & Company, a fee-only financial planning and investment advisory firm in Tryon, North Carolina. A former school teacher and high school principal, Millard is the author of two books. He is perhaps best known for being an early adopter in the field of self-produced video for financial advisors. Millard's YouTube channel has well over 150 videos on a variety of topics, including investing and risk control. He also conducts two-day training workshops where he teaches other advisors how to produce and promote their own videos.

Neal Quon
Partner, QuonWarrene, LLC
QuonWarrene.com

A graduate of Texas Tech University with a Bachelor of Sciences degree in Family Financial Planning, Neal Quon began his career in the financial services industry in 1997. He has also worked for and served as a practice management and technology consultant for many RIAs, IBDs and other leading service providers, such as Albridge Solutions and CashEdge, Inc.

Venk Reddy
Founder, Zeo Capital Advisors
Zeo.com

Venk Reddy is the founder of Zeo Capital Advisors and has been the Fund's lead portfolio manager since inception. Prior to founding Zeo, Reddy worked with several hedge funds, including Pine River Capital Management and Laurel Ridge Asset Management, which he founded.

Daniel Satchkov, CFA, MBA
President, RiXtrema
RiXtrema.com

Prior to founding RiXtrema, Daniel worked as an Associate Director of Risk Research at FactSet, where he was responsible for researching and developing software products in the areas of risk measurement and risk reporting. He speaks at numerous financial conferences and has published articles dealing with risk management issues in the *Financial Advisor magazine, Journal of Asset Management, Investment and Pensions Europe, Journal of Risk Model Validation*, and *Journal of Risk Management in Financial Institutions*.

Evan Simonoff
Editor-in-Chief, Financial Advisor magazine
FA-mag.com

Evan Simonoff is Editor-in-Chief and Editorial Director of *Financial Advisor* magazine, as well as Editorial Director of *Private Wealth* magazine. He has spent more than 15 years as an editor and reporter covering the financial services industry. Evan is a widely recognized expert on personal finance and investments.

Marie Swift
CEO, Impact Communications, Inc.
ImpactCommunications.org

Marie Swift is a nationally recognized consultant who, for over twenty years, has worked exclusively with some of the industry's top financial institutions, training organizations, investment advisors, and financial technology firms. A top rated speaker at dozens of industry events, Marie is dedicated to elevating the conversation in the industry. She also contributes to many of the industry's leading publications. A thought leader for thought leaders, she is known for bringing some of the industry's best and brightest voices together for dialog and debate. Her Thought Leader Roundtable series is just one example how Marie generates interesting conversations with movers and shakers in the financial services industry.

Questions about this transcript may be directed to:

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800-974-7753
ImpactMediaManager@ImpactCommunications.org