



Ease Client Fear and Anxiety with These 2 Methods

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The diverse range of external and internal risks, along with uncertainties generated by our rapidly changing, increasingly complex, uncertain, and unpredictable world is generating increased investor fear and anxiety.

Humans are naturally fearful of what we don't understand or don't feel we can control. Helping clients reduce fear and anxiety by better understanding and more effectively managing today's unique mix of new and unfamiliar risks, plus established, yet ever-evolving risks we've traditionally dealt with, is a critical client need to address. Doing so is also a great trust- and business-building opportunity for financial planners.

We can help clients reduce their fears, uncertainty, and risk, plus regain their confidence and sense of control by using two methods: (1) comprehensive, holistic, personal risk management planning; and/or (2) the VUCA model used effectively by the military.

Meet Their Biggest Unmet Need

When clients express concerns about what they see as increased risk, for example when markets are moving to new highs or they expect a negative surprise of some type, rather than only addressing that specific risk and moving on, consider an alternative. Leverage their concern about one risk as an opportunity to ask if they'd like to learn how to reduce and control this risk plus the other risks they face too, instead of having those risks control them.

Offer to help clients create a personalized, holistic risk management plan as a supplement to their financial plan and investment policy statement. By doing so, you'll help meet the largely unmet need of investors to better understand and manage the full range of internal and external risks of our rapidly changing and less-certain world. An effective risk management plan can help tilt the risk/reward equation to their advantage and transform those risks that do materialize from possible serious setbacks into minor inconveniences, or even potential opportunities.

Create a Risk Management Plan

Here's how to do it:

Define risk. Make sure you and your clients agree on what risk actually is and how it's defined. Consider using the definition of risk developed by Peter Oppenheimer, former chief risk officer and CFO at Apple: "Risk is the degree to which an outcome varies from expectations" both positively and negatively.

Identify risks. Determine the risks the client is most concerned about first, and then those that must be addressed, especially if your client doesn't mention them. It's critically important to identify the risks themselves, not the secondary or tertiary results of the risk.

Understand those risks. What is the likelihood, impact, and context in which those risks occur? The client's personal resilience in recovering from the impact of a risk occurring is also a key consideration.

Prioritize risks. Determine which risks to avoid, which to accept and manage, and which to accept with no risk management. Risk management has a cost. You can't protect against every risk, so focus on protecting against those risks with the biggest potential negative impact.

Review risk management strategy options. Understand both the strengths and weaknesses of each option.

Decide. Make decisions on which risk management strategies to use and not use.

Implement.

Monitor. Incorporate regular, ongoing risk management plan reviews into your regular client meetings.

Utilize the VUCA Model

We can learn a lot by understanding, applying, and adapting methods that have worked well in the military to deal with decision-making and taking action in the face of uncertainty, volatility, and risk.

Consider this quote from renowned military theorist Carl von Clausewitz: "War is the realm of uncertainty; three quarters of the factors on which action in war is based are wrapped in a fog of greater or lesser uncertainty."

To better understand, manage, and succeed in complex, unpredictable, and ever-changing environments, the U.S. military has embraced the VUCA model (volatility, uncertainty, complexity, and ambiguity). Doesn't that sound a lot like investing?

Volatility. In his September 14, 2016 blog post on OxfordLeadership.com, "Leadership Challenges in The VUCA World," Oxford Leadership fellow Pablo Tovar described volatility as, "a brutal increase in four dimensions of the changes that we face today: the type, speed, volume, and scale."

Uncertainty. Change drives increasing doubt about what's going to happen. Accurate predictions become impossible, and future outcomes lack clarity, causing paralysis in making decisions and taking action.

Complexity. There are increasing alternative choices and potential for confusion. Greater intricacy and interconnectedness of systems and their parts leads to more vulnerability of a single element of a complex system bringing down the entire system. There may be no clear connection between cause and effect.

Ambiguity. The situation is open to many interpretations with multiple potential meanings. Things don't make sense. Increased vulnerability to the misinterpretation of events in complex decision-making induces doubt, distrust, and hesitancy, ultimately impeding good decision-making.

Adapt and Prosper in a VUCA World

Where VUCA helps us identify and organize our thoughts, VUCA Prime helps leaders deal with a VUCA world. VUCA Prime, which offers successful strategies for operating within each type of VUCA environment, was developed by Bob Johansen, author and distinguished fellow at the Institute for the Future.

The method was recently explored in the May 2017 article in *PM Word Journal*, "Addressing Risk with VUCA-Prime," by international risk management consultant David Hillson:

Vision rises above volatility. Vision helps keep things in perspective. When things are changing rapidly, it's vital to keep a clear focus on the long-term vision, despite short-term distractions.

Understanding reduces uncertainty. Understanding what's really going on and putting it all in perspective reduces uncertainty and increases confidence. Keep in mind this quote largely attributed to Einstein: "If you can't explain something simply, you don't understand it well enough."

Clarity counters complexity. Clarity cuts through complexity. When faced with complexity, seek to simplify and focus on the core elements of the situation. Complex problems are best addressed by simple solutions, not complex ones.

Agility overcomes ambiguity. In his May 2017 article, Hillson wrote: “Agile practitioners keep their options open and prepare a range of potential responses. As the situation unfolds and ambiguity resolves into certainty, they are able to cope. When the future contains multiple alternatives, be ready to adapt your approach to match your eventual target outcome.”

Your Opportunity to Ease Client Fear and Anxiety

Take the time to help clients become familiar with both forms of VUCA, and better understand and manage risk and fear by creating written, personalized, comprehensive risk management plans. Both methods are effective ways to help your clients, and your business, adapt and prosper. Implementing these methods will ease the anxieties, uncertainties, and fears generated by our rapidly changing, volatile, more uncertain, complex, and ambiguous world. You’ll also help create less emotional, more confident, ready-for-anything investors.

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