Improve Client Trust and Communications in Volatile Markets

by Michael T. Carpenter

Volatile markets require financial advisers to mobilize the full array of their professional skills, and no skill is more important during turbulent environments than effective risk communications. Communicating effectively with investors experiencing high uncertainty, volatility, fear and increased stress requires using an approach very different from that used in less stressful times.

Normal communication approaches can be less effective when clients become anxious or upset. Under fearful conditions, investors' hardwired biology can highjack their normal cognitive functioning. According to the Center for Risk Communication (www.centerforrisk communication.com), people under stress can lose up to 80 percent of their ability to process information. Threats—both real and perceived—often create involuntary biological changes. These changes include increased pulse, blood pressure, perspiration, blood sugar and hormone levels, plus tension, anxiety and queasy stomachs. An investor's freeze, flight or fight response is also often triggered. These conditions create challenges because of the increased difficulty clients have hearing, understanding, remembering and thinking as clearly and logically as they do under normal circumstances.

Understanding and applying what risk communications experts have learned about effective communications during periods of elevated stress and uncertainty can be extremely valuable.

Implementing Effective Risk Communication

Effective risk communication is the exchange of information between advisers and their clients about risk.

This could involve some combination of a client's real or perceived threat/crisis/risk, lowered trust, high concern, lack of familiarity, lack of control and/or uncertain impact.

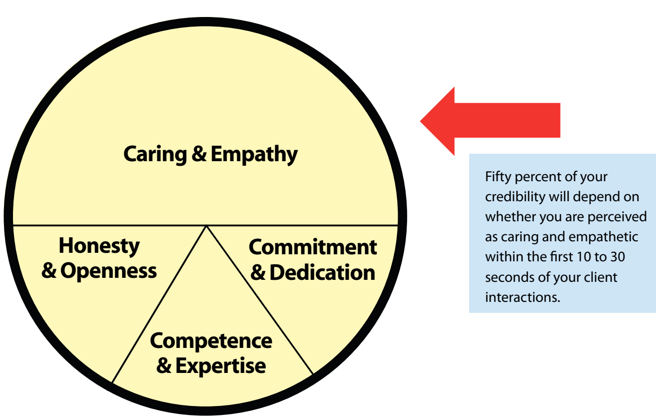
Effective risk communication can cut through the communication barriers that uncertainty, anxiety and fear create, increasing investors' confidence in their advisers' ability to help them manage risks. It can also help advisers build and maintain positive, trusting client relationships and enable advisers to bring client perceptions of the risks they face in line with the actual risks they face.

Tips for achieving effective risk communications include:

- Respect clients' perspectives, acknowledge their fears and understand and validate their concerns
- Listen first and avoid lecturing
- Emphasize candor, full disclosure and transparency
- Avoid jargon and technical terminology—use simple words and short statements
- Don't over-reassure
- Use positive or neutral terms—avoid negative words and phrases
- Use examples, analogies and stories to establish a common understanding
- Emphasize trends and cycles rather than large, negative numbers
- Be concise and clear, then ask if you have made yourself clear—don't assume

Adviser actions that build client trust during uncertain times include a demonstration of caring and empathy, competence and expertise, honesty and openness and dedication and commitment.

Exhibit 1: Key Elements in Trust and Credibility



Source: Center for Risk Communication (www.centerforriskcommunication.com)

Building Trust and Credibility

The key elements to building trust and credibility during periods of high investor concern, according to the Center for Risk Communication, are depicted on page 14.

The most important element, by a factor of three, is the establishment of an adviser's caring and empathy. For maximum trust-building and communication during uncertainty, caring and empathy must be established before any other factors can have an effect on building trust and credibility.

A Risk Communications Model

"Compassion and Caring Determines Risk Acceptability," or "CCDRA" is a simple, mnemonic risk communications model that can help accomplish an adviser's risk communications goals. Experts on the subject recommend using its steps when communicating with clients affected by anxiety, uncertainty and fear associated with negative investment surprises and volatile markets. Guidelines put forth by the Department of Defense's Deployment Health Clinical Center (www.pdhealth.mil) designed to help military doctors achieve effective risk communications with patients can easily be applied to the adviser-client relationship. Here are steps to achieving effective CCDRA risk communications based on those suggested in a 1999 Deployment Health Clinical Center paper by Charles C. Engel Jr.:

1. Begin your message with a statement of compassion and understanding.
2. Offer a brief, simply stated, "sound bite" conclusion statement.
3. State no more than two succinct pieces of data that support your conclusion.
4. Repeat your brief conclusion (in a slightly different way), and ask if you have made yourself clear; don't assume.
5. Agree on an action step, such as a follow-up phone appointment in a couple of days or weeks. Investors are less worried when their concerns are not being ignored or rejected and an action step is in place, even if that action step is as simple as a phone appointment to re-evaluate developments.

With the accelerating pace of worldwide change and increasing uncertainty showing no signs of slowing any time soon, effective risk communication is going to become a more important and valuable skill for every financial adviser.

Michael T. Carpenter (www.MCarpenterAssoc.com) is the author of the book The Risk-Wise Investor: How to Better Understand and Manage Risk. *He is a Boston-based strategy, sales and marketing consultant. His programs and tools help financial advisers convert elevated investor concerns about uncertainty and risk into business-building forces. Contact him Mike@RiskWiseInvestor.com.*

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