Coaching

The role of the adviser is to create a lifestyle plan for their client. As a member of the audience commented, his clients are not interested in the Rand value of their retirement; they want to know what lifestyle it will provide them.

Money is a story about life which is why an adviser's role is in many ways that of a life coach. An adviser needs to spend time understanding the client's needs and aspirations and to create a strategy to meet those goals. In these difficult economic times, that role is even more important as the adviser becomes the voice of reason which prevents the client from getting caught up in the headlines of the day and makes them refocus on the bigger picture.

Educating

Clients also have different responses to loss and this is a fine line for advisers. An adviser needs to take cognisance of the client's tolerance for risk but also must explain that the long-term risk of inflation is often greater than the short-term volatility of the market.

While StatsSA may argue that the inflation rate is six per cent, the reality for most clients is that their experienced inflation is closer to 10 per cent, and they have little chance of achieving their objectives if they do not invest in growth assets that can produce returns above inflation. So the role of the adviser is also to educate.

Encouraging

Panelist Anne Cabet-Alletzhauser, head of Alexander Forbes Research Institute, raised the issue of living annuities and whether clients should be allowed to select these market-related annuities without proper financial advice.

Gavin Came, chairman of the financial planning committee for the FIA, said that the reality was that most people had no option as they had not saved sufficiently for retirement. As a result, the income from traditional life annuities would not meet their basic needs so they opted for living annuities with unsustainable draw downs, having to rely on their families to support them in their later years. Clearly convincing your client to save sufficiently and to live within their means is another role of the adviser.

Explaining

One of the toughest questions asked of advisers by their clients is what they should be doing with their money given the state of the global markets.

With such extreme volatility there have been articles arguing that 'this time is different' since we're in one of the biggest financial crises of all times and this requires a different asset allocation strategy.

Reuters recently ran an article in which US advisers were interviewed and they argued that the buy and hold strategy that worked for the baby boomers won't work for the generations of investors to come. This means their clients have to move their money around more aggressively. "We're 100 per cent in cash right now and this is fantastic for us," said one adviser. "When things really start breaking down in the next few months, we'll probably start shorting the market to make money on the way down. Once it starts to bottom out and everyone in the country pulls out, we'll start buying stocks and ride it back up."

It is this kind of statement which advisers have to put up with when their clients ask them why they haven't read the markets and moved cash around. As most sensible advisers know, while this sounds like a great plan, few people get it right and no-one gets it right consistently.

Over the years there has been a lot of academic research pointing to the difficulty, if not impossibility, of profitably timing the market. Timing is everything in a tactical strategy, so it amplifies the risks of active management. In other words, the more flexibility your manager has, the more room for error. Also, active trading increases fees and taxes.

Panelist Piet Viljoen, CEO of RE:CM, always a straight talker, reminded the audience that investing is never different. If you overpay for an asset you will lose money, but if you pay the right price irrespective of short-term volatility you will make money.

An adviser's role is to explain to clients that risk is not volatility but the permanent loss of capital and this can be mitigated by the price you pay for the asset, not by trying to time the market. "If you pay a low price relative to the value that you get, you can deal with all kinds of uncertainties," said Viljoen.

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