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A lesson in crisis management

Market's uncertainty and dreadful results test client skills of money-management firms

LAURA WILLIAMS-TRACY
CONTRIBUTING WRITER

Bad news is best delivered in person, and few of us have had more heart-to-hearts lately than money managers.

Financial advisers could be rethinking the mileage limits on their car leases. Many have traveled the Eastern seaboard visiting clients to preach calm in the face of the worst market downturn in recent history.

Others relied on electronic means, but the goal was the same.

In a style reminiscent of President Franklin Roosevelt's Depression-era fireside chats, financial adviser Benton Bragg, president of Bragg Financial Advisors, brought his measured, steady voice to periodic audio files e-mailed to clients.

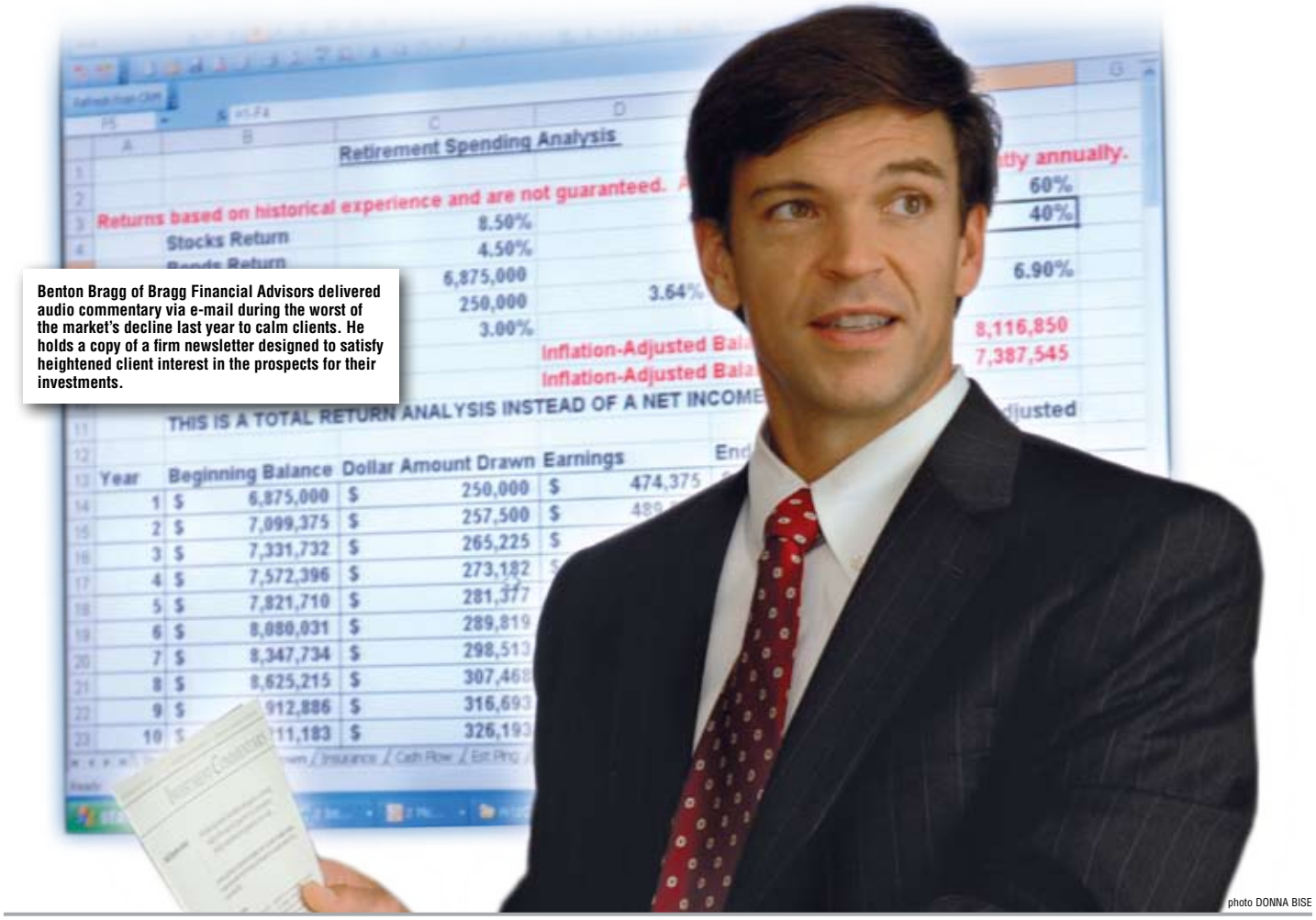
Way

"Be prepared for the worst and hope we'll be pleasantly surprised," Bragg advised the Charlotte-based firm's several hundred wealthy clients via an audio file on Sept. 23. That message came a few days after the federal government announced a plan to spend billions to prevent the collapse of the nation's financial system.

Even worse days were ahead as the S&P 500 index hit its nadir on March 9, a 41% drop from its high in October 2007.

"We started to realize it was an extraordinary time," Bragg says now. "We communicated with much more frequency with our clients and responded to market events. As things worsened, we communicated more."

The financial crisis demonstrated a money manager's job isn't limited to



Benton Bragg of Bragg Financial Advisors delivered audio commentary via e-mail during the worst of the market's decline last year to calm clients. He holds a copy of a firm newsletter designed to satisfy heightened client interest in the prospects for their investments.

photo DONNA BISE

CLIENTS: Market's losses, scandals underscore need for communication

building value in portfolios. The market's downturn has required effective communicators who can give clients perspective.

What many found were investors who had paid little attention to their growing portfolios in good times but who were suddenly fixated on financial networks. The steady stream of bad news only served to ramp up their anxiety.

"People focus on the most sensational news," says Winston Way, president of Buckhorn Capital Management. "It was important to have a way to communicate to mute that sensational impact." Buckhorn manages investments for about 100 clients with an average account size of $400,000 to $500,000. "The worst thing is for them not to hear from you when the news is bad," Way says.

Quarterly reports detailing account holdings along with a forecast for the next quarter had been commonplace. Face-to-face meetings between adviser and client happened once or twice a year.

But the dramatic drop in the market, coupled with problems at Bank of America Corp. and Wachovia Corp., created a panic. Hand-holding became part of the job description. But for smaller boutique firms, the question was how to do it efficiently.

"We had serious questions about whom to call first. And every conversation lasted half an hour or more," Way says. "We had to figure out a way to communicate what we needed to say, but do it in a way that addresses everyone at once."

For Way, who has been an investment adviser in Charlotte since 1990, the answer was a telephone conference with 100 clients. Clients could call in at specific times to listen to Way.

The first such conference call, held just after Thanksgiving, attracted 70% of Buckhorn's client base. The second call in mid-February drew 40% participation. A May call drew 30%.

"When the news is bad, people want all of the details," Way says. "When it's good, you can't pay them to listen."

But the market hasn't recovered enough yet to end the need for assurance. Way started a weekly e-mail with a quick synopsis of the market's activities and is considering a monthly open house on Saturday mornings for clients to drop by and discuss concerns.

Brian Rudisill, chief investment officer for Eastover Capital, says the quarterly newsletter the firm distributes wasn't enough to pacify clients. The firm's principals got in their cars and began visiting their 80-plus clients within driving distance.

"For our client base, seeing us face to face is what's most important," Rudisill says. "A lot of people understood — 'You guys don't have a crystal ball.' "

Novare Capital Management responded to the crisis by crunching more numbers. With the value of investments crashing, clients wanted to know how much they had lost and whether their retirement plans could still work. Financial planner Anne McPhail reran cash-flow statements and went back to clients with numbers that sometimes eased their anxiety.

"In many cases we were still generating cash flow from bonds, so they could still make their house payment and go on trips and have the peace of mind that it was going to be OK," she says.

Bob Finley, professor of finance at Queens University of Charlotte, says the financial crisis has tested the communication skills of many financial managers.

"It's about reconnecting with individual clients and helping these people recover, if they are able," Finley says. "Clients will have a new view of risk, and their goals will likely have to be scaled back on how soon they can retire and how much money they will have when they retire. It's a matter of rebuilding those goals."

Beyond the financial cost is the loss of confidence.

Bragg says recent investment scandals provide an opportunity to address the difference between noncustodial advisers who place a client's money with a third party, and Bernie Madoff, who kept the funds that were to be invested.

"Unlike Madoff, we have a custodian between us and their money," says Bragg, whose firm uses The Bank of New York Mellon Corp. as the custodian. "We've addressed it directly to assure them why that's not going to happen. But that certainly was just one more thing for them to worry about."

FAST FACTS

- **Money managers** have faced unprecedented demand for their views on the market since last year's financial crisis.
- **Some advisers** have made personal visits to calm clients. Others have used e-mail, conference calls and mailers.
- **With the market's** strengthening since March, client concerns have lessened, money managers say.