

# Investments & Wealth

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## Emotional Communication Strategies to Build Your Advisory Business

By Richard L. Peterson, MD

There never has been a more difficult time to be a financial advisor. Yet it's not just market volatility that is creating these challenges, it is clients' reactions to the volatility that often is most distressing to advisors. And unless an advisor also is a psychologist, then nothing the advisor learned in school prepared him or her to deal appropriately with emotional clients. Being able to understand and connect with emotional clients marks the distinction between advisors who thrive during a crisis from those who merely survive.

Clients are scared and in pain. Advisors need to address that fear and pain in order to build trust, otherwise they risk losing clients. But how advisors address clients' emotions is crucial. Emotional clients don't want advisors to presume to know what they are feeling (assumptions may be wrong). While every client is different, most distressed clients want to have the space and attention from advisors to express themselves fully.

Most advisors make mistakes when communicating with emotional clients. Scared people don't like to be told, "Don't

worry." They don't need to hear the benefits of low price-to-earnings stocks, preferred stock dividends, or tax strategy (at least not imminently). Clients don't need to know more than basic facts about the credit crisis. What they want is someone who can help them feel more comfortable. Establishing strong and trusting relationships is the essence of strategic emotional communication, and it is the foundation of growing a thriving advisory business.

A 2006 study in the *Journal of Behavioral Finance* found that clients often take the credit when their investments go well, and they blame their advisors (even if they don't say so) when values turn south (Fogel and Berry 2006). This is one key intangible value-add of financial advisory services. An advisor is, in essence, a client's "emotional shock absorber." Yet it is particularly difficult to deliver such value to clients without training in emotional communication skills.

Emotional communication skills help advisors calm anxious clients, soothe those grieving losses, lower expectations of overconfident clients, and increase clients' perceptions of

**TABLE 1: A CONVERSATIONAL SCRIPT THAT CAN BE USED WITH EMOTIONAL CLIENTS (IDEAS)**

Ideas	Steps to take	Example questions for fearful clients
I	Inquire how they are doing.	"How are you feeling about your portfolio lately?" (Now let the client speak)
D	Describe what you heard them say. (Called mirroring or reflecting.)	"Absolutely, you're worried about the declines." (Pause to let them add anything extra)
E	Empathize with their feelings.	"It's hard to watch your savings fall in value and not do anything about it. It makes you feel powerless. (If they are insisting on action, then add): It might relieve some of the pressure to sell off or move a small part of your holdings."
A	Add another perspective. (Also called reframing.)	"Since market values are low, as unpleasant as that is, let's make a plan going forward so that you can have that lake house (or other long-term goal you've discussed) you've always wanted during retirement. Historically the best long-term opportunities are during fearful periods. 'We buy when others are fearful,' is how Warren Buffett (the world's wealthiest man in 2008), puts it. Why don't we keep our eyes open for some opportunities in (some area) which I remember you are interested in?"
S	Suggest solutions.	"If I remember correctly, you mentioned that you have a 10-year investment horizon. Try to avoid watching the market news or checking prices. The quarterly market price changes aren't going to be as important over the long-term."

being understood. Emotional communication skills build and strengthen trust, and trust is the foundation of every advisory relationship.

Unfortunately, most financial advisors feel defensive when approached by emotional clients. When defensive, they resort to their own comfort zone, where they are the experts and have control, which is with financial data, charts, and statistics. But this retreat to technical details is not healthful for the working relationship. It is essential to remain caring, open, respectful, and genuinely curious in all client conversations, and especially with clients who are negative or distrustful.

The IDEAS script (Peterson 2007) simplifies and demonstrates the use of emotional communication skills with emotional clients. Table 1 shows an example for communicating with an anxious client, but the script can be modified to attenuate strong emotion and build trust with clients in any emotional state. It works particularly well to communicate with clients who are grieving financial loss and broken confidence.

Emotional communication skills such as the IDEAS script can be very helpful when clients appear distressed, angry, sad, overconfident, or have excessively high expectations for returns. If clients don't appear emotional, you may be able to observe feelings in their speech and nonverbal behaviors. Some will withdraw and speak curtly when angry. Others will be more obvious, with a raised voice and contemptuous tone.

The number one mistake advisors make in conversations with emotional clients is to suggest solutions *before* understanding and meeting the clients' emotional needs. As described in the IDEAS script, first the advisor should acknowledge and validate, then reframe, and only then discuss potential solutions.

Advisors should alter the dialogue to fit their personal styles and the needs of each client. Some clients—especially those who work in very structured professions or those who are feeling overwhelmed—don't want to talk about emotion. They may find such a conversation too “messy,” so advisors should avoid the script with such clients and stick to the numbers.

The IDEAS script assumes that the advisor and client have an established relationship and a financial plan, and that the advisor has educated the client about long-term risk and reward.

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