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Jittery investors push advisers to liquidate stocks

By **Darla Mercado**

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NEW YORK — In the midst of stock market volatility, affluent investors are feeling nervous and are pressuring advisers to sell their stocks.

Reflecting their anxiety, the CBOE Volatility Index, a measure of Standard & Poor's 500 stock index options volatility — and a legendary indicator of investor nerves — closed at 30.7 last Wednesday, the highest point in four years.

But rather than act on requests for allocation changes, advisers should listen to clients' concerns and offer support, according to Tom Wynn, director at Spectrem Group, a Chicago-based research company that specializes in wealthy investors.

"During volatile times — regardless of whether it's economic or event related — clients want assurances from advisers that everything is OK," he said. "I think what we've seen over the past couple of weeks, where the market has been so volatile, people are nervous about it."

The Spectrem Group Affluent Investor Index, which measures the investment outlook of households with at least $500,000 in assets, was flat through June and July.

Stock market conditions have also been keeping investors up at night, with 20% of them citing it as the No. 1 concern affecting their investment plans, according to the Spectrem index. As a result, they said, they would retreat from stocks and wait on the sidelines for the market to become less volatile, Mr. Wynn said.

Advisers have found that patience and the will to withstand a shaky market are learned attributes. Even if clients go with an equity-heavy strategy, and they are aware of the risk that they take on, they may call with orders to sell securities or to cut back on risk exposure.

"Since our strategy is equity oriented, it's very typical of us to get clients calling in with concerns when the market pulls back," said Matthew P. King, a chartered financial analyst and portfolio manager at Bell Investment Advisors Inc. in Oakland, Calif. "Some clients will want to sell right away and cut back on their risk exposure."

But the key to preventing clients from selling stocks is to remind them of their goals and the path they chose to achieve them, advisers said. The best way to go about it, they said, is a simple phone call to clients to brief them on what's going on in the market and to explain how it affects them.

"We had to do a lot of hand-holding," said Charles Massimo, president and founder of CJM Fiscal Management of Garden City, N.Y. "We had a conference call with all of our clients to discuss this summer's market conditions."

Weathering volatility

In this case, the emphasis was on re-educating investors, assuring them that they have weathered volatility in the past and that their portfolio is diverse enough to withstand the whims of the market, Mr. Massimo said. He also told his clients to avoid obsessing over media coverage of summer volatility: "If you're going to watch CNBC, watch it with the sound down."

It may also be a good time to consider whether some re-balancing is in order. For example, Steven Sheldon, a chartered financial analyst, principal and portfolio manager at SMS Capital Management LLC in Houston, is looking at moving profits from outperforming small- and mid-cap areas into large-cap stocks.

"I'm overweighting large-caps," he said. "Look at the financials [sector]. They've been clobbered, but they're becoming more interesting now."

Advisers also noted that even if they don't plan to change allocations in reaction to the market's performance, there is no harm in allowing investors to get their anxieties off their chest. It may even help retain clients.

"We won a lot of clients after the big downturn in 2000 because they never heard from their brokers and advisers then," said Wayne Starr, a certified financial planner and principal at BKD Wealth Advisors LLC in Springfield, Mo.

"Our crystal ball isn't any better than anyone else's, but we've prepared our clients for this volatility, and they have a good understanding of what's going on."

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