



Advisor Psychology

How advisors' behaviour changed after the 2008 financial crisis

The 2008 global financial crisis had drastic consequences for many of our clients. Few were left unscathed. For some the losses were moderate; countless others, however, were hit hard. An almost constant barrage of doom and gloom emanating from virtually every available media outlet was like salt in an open wound. The sky was falling and few felt safe.

While the horrific losses incurred by investors are well documented, the impact of the 2008 financial crisis on advisors is far less understood. How have advisors been scarred by the experience? And more importantly, how has it changed the way we do business?

These are the questions Drs. Sonya Britt and Bradley Klontz set out to answer. Britt and Klontz, who are both from Kansas State University's Institute of Personal Financial Planning, conducted a study in 2012 to measure the levels of stress experienced by financial advisors during the 2008 financial crisis. Their study was based largely on a survey of advisors completed during the tail-end of the crisis between February and March of 2009.

The researchers were looking to better understand the psychological impact the crisis had on financial professionals. Subsequently, they also hypothesized that although the psychological pain had since subsided, the crisis had caused significant cognitive changes in advisors. In fact, the crisis left many advisors shaken to their core. This has resulted in fundamental changes in their investment management approach.

Post-traumatic stress disorder (PTSD) is often associated with the horrors of war. However, any physically or psychologically threatening event can lead to the types of stress that can result in symptoms of this disorder. Britt and Klontz used an Impact Event Scale (IES) to measure the symptoms of PTSD reported by financial advisors. Among their more alarming findings were that 93 per cent of the participants

reported at least medium to high symptoms of PTSD and 39 per cent reported severe symptoms of PTSD.

Remember that as advisors we're in the business of managing relationships, not just assets, and that for many of us those relationships are of a personal nature as many advisors have close friends and family as clients. Accordingly, the crisis damaged more than just people's investment portfolios — many personal relationships were also strained as advisors experienced dangerously high levels of stress and anxiety. But the hypothesis of the paper runs deeper, and suggests that these unusually stressful events had lasting effects on how we conduct business and how we approach the primary aspects of our roles.

THE TAKE-AWAY

Klontz and Britt's survey led to a startling conclusion: that advisors admitted they were questioning the validity of their assumptions about what clients need to do to reach their goals.

Britt and Klontz point to a possible effect of the crisis: A recent shift from a buy-and-hold strategic allocation to a more tactical approach. Their paper, titled *Financial Trauma: Why the Abandonment of Buy-and-Hold in Favour of Tactical Asset Management May be a Symptom of Post Traumatic Stress*, indicates that in 2005 only about 24 per cent of advisors preferred active to passive portfolio management. By 2012 the tables had turned. More than 63 per cent had abandoned passive strategies in favour of an active, tactical portfolio management approach.

The results from Klontz and Britt's sur-

vey led to a startling conclusion: that nearly half of the respondents either agreed or strongly agreed that the financial crisis was causing them to question their own approach. In particular, advisors admitted they were questioning the validity of their assumptions about what clients need to do to reach their goals. Quite alarming was the fact that a whopping 90 per cent either agreed or strongly agreed that the fundamental rules of the industry have changed. But have they?

One of our key tasks as financial advisors is to manage our clients' behaviour (e.g., helping a client resist the urge to abandon a long-term investment strategy to grab onto the latest trend when markets are soaring, or to hide out in cash when times get tough).

In addition to monitoring client behaviour, we must also monitor *our own behaviour*. Even the most seasoned of professionals can behave unpredictably to strong emotional and stressful experiences. Those who remain true to their long-term strategies, however, are usually rewarded handsomely. From a low of 676.53 on March 9, 2009, to almost 2,000 today (at the time of writing), the S&P 500 has essentially tripled since the crisis. Clearly, a buy-and-hold strategy has proven effective in the years following the crisis.

Unfortunately, if we abandon faith, our clients will almost certainly follow suit. Therefore, as advisors it's our duty to stick to our beliefs and help our clients stay on course. Sitting calmly through a crisis, resisting the urge to jump ship, sounds simple; but as Warren Buffett himself once said, "Investing is simple, but not easy." ■

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