Letter from the President

How Advisors Must Deal With Financial Turmoil: Forging a New Level of Trust for a New Financial World

On September 15th, IIAC held its Annual Conference in Toronto. The day provided IIAC members with insight from some of the top leaders in our industry as they examined the theme of "*Forging a New Level of Trust in the New Financial World*".

The financial crisis happened exactly three years ago. But once again, investors find themselves in the midst of tumultuous financial conditions, facing roiling capital markets and plummeting equity prices -- and surrounded by profound uncertainty about the economic and financial outlook.

No doubt, investors had expected things to be much different than they are three years on. They probably expected to see good progress on deleveraging the economy and the makings of a steady recovery, with government deficits and debt burdens moving towards balance and confidence growing in financial markets and the global economy. The reality has turned out differently, leaving investors to face another challenge. The global economy is anemic; governments, particularly in Europe, have failed to get their finances in order, with the peripheral European countries lurching towards default; global financial institutions, many with large holdings of sovereign debt, are again at risk; market volatility has accelerated and investor confidence has dissipated.

Not surprisingly, investors are worried. They know only too well from recent experience that their accumulated financial wealth is at risk from financial shocks in debt and equity markets. They also know that governments don't have the same resources to bail out large institutions, and provide economic stimulus to mitigate financial and economic shocks and reignite a recovery in financial asset prices. Finally, even if volatility is dampened, low interest rates and trendless equity markets will make it difficult to generate portfolio returns without taking on significant risk.

All these concerns gnaw at investor confidence, particularly for clients approaching retirement with sizeable nest eggs, and often encourage investors to withdraw from the marketplace. Events now control investors rather than the other way around.

This is the time for advisors to forge a new and higher level of trust with their clients: To calm them in the face of financial turmoil, assist them in better understanding the complex business and financial environment, and offer them timely advice – or simply remind them of steps to be taken to navigate through difficult economic and financial conditions, consistent with their risk-tolerance, to keep them on track in meeting their financial goals.

Advisors above all need to stay close to their clients, keeping in frequent communication by telephone and email. Many advisors already communicate actively with their clients, but many have intensified these efforts, with differing approaches and techniques, to improve the effectiveness of the advisory process. Clients need reminding that they have built realistic financial plans to achieve their goals with contingencies to deal in volatile market conditions. Advisors need to provide frequent updates on the status of financial portfolios (supplementing formal published financial statements), and explain portfolio performance in relation to targeted objectives. Advisors also need to reassure clients that adequate precautions have been taken if unlikely but severe "black swan"-like events arise, such as the capacity to shift to market-neutral strategies and increased cash holdings. Advisors certainly aren't clairvoyant. They can't predict with certainty how market conditions will unfold, and their clients don't expect them to. But advisors should explain -- and interpret -- recent events, how portfolios are insulated from financial shocks, and what the likely scenarios will be for financial markets. Clients don't expect a crystal ball, but they do expect a knowledgeable guide to the possibilities the future holds.

Many advisors intensify these proactive steps as financial conditions deteriorate and investors become more unsettled, to strengthen communication, bolster confidence and forge a closer relationship with their clients. Through these steps, trust in the advisor strengthens. Well-informed and more confident investors lead to better investor investment decision-making – and peace of mind.

These difficult times put everyone to the test. But advisors who constantly work at ways to strengthen investor trust build a strong and long lasting foundation with their clients that will serve them well in future years.

Yours sincerely,

Ian C.W. Russell, FCSI
President & CEO, IIAC
September 2011

11 King Street West, Suite 1600, Toronto, Ontario M5H 4C7 ▪ Tel: 416.865.3036 ▪ Fax: 416.364.4861 ▪ irussell@iiac.ca ▪ www.iiac.ca