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Voices: Michael Martin, on a Personal Investment Index for Clients

Adviser: It is all about getting clients to stick to their financial plans regardless of market performance

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Michael Martin

Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Michael Martin is director of investments and insurance at Legacy Financial Partners in West Palm Beach, Fla.

Understandably, conversations between advisers and clients tend to become more difficult when the market is suffering. For many of us, quarterly meetings during 2008 and 2009 were particularly challenging. We spent considerable energy during that time working to give clients some perspective on what was happening while stressing the importance of sticking to a financial plan.

What's important to remember is that we often

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market is doing well. We have many clients who look at the Dow Jones Industrial Average or the S&P 500 and are frustrated when their portfolios aren't mirroring the growth that they see in those indexes.

It is true that the media's coverage of these indexes drives our clients' fixation on them. But I think it also raises the question: Are those unreasonable comparisons to us as advisers? And if so, how can we help clients develop the right perspective and

understanding of success as it relates to their own portfolios?

At our firm, we use the concept of a personal investment index. During our first meetings and the opening of accounts, we introduce the idea that we're using a client's goals, their needs, time horizons, and risk tolerance as our financial guide and our benchmarks. Successful investing and planning, we explain, isn't measured by how closely their portfolio mimics other indexes that are simply indicators of the condition of the equity market.

Instead, success is measured by how well our collective strategy is helping them work toward achieving their goals in a way that they feel is appropriate given their attitude toward money and risk. When clients buy into this concept of the personal investment index, they can stop obsessing over numbers and start seeing their portfolio as the tool that is allowing them to build for a child's education, or providing the savings they need to cover potential health-care needs in retirement.

Establishing those goals and helping clients start to develop that mind-set or perspective takes a lot of upfront work during the onboarding process—and it doesn't stop there. While we do touch base about the stock market's performance during our client meetings, the majority of the discussion is about their objectives, their current appetite for risk, and what their portfolio is doing in service of those goals. I find that even our most astute clients sometimes need to be reminded that they're not invested wholly in equities which helps explain the discrepancy between the returns they see on an index and in their portfolio.

Education is a continuing process and when we commit to it as advisers, we can help keep our clients invested in their financial plans whether the market is up or down.

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