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“Determining a Client’s Risk Tolerance”

- How many of you have your own hard earned money in real investments?
 - For those who haven’t...aggressive or conservative?
 - Conservative?
 - You give me you 1,000,000 in 1996
 - Now 2009 – you have 1.5 everyone who got out before crash got 5 million
 - How would you feel?
 - You are aggressive?
 - Spring 2002? = 500,000 million
 - That’s the problem with investing, clients come and go many times because of performance: or even sue you
- You have to understand client, first time investor may not know their own risk tolerance
- Historically Long Term average, 100% invested in stock market , average 10% a year
- Many people may have second thoughts, they may cancel the orders after you give the advice
- Look at historical reactions, to determine future emotions.
 - Did they sell everything when the market crashed in 08’?
 - They are very conservative
- Typical American Investor gets swept up easily.
 - Buys High, and Sells Low
 - Everyone is Experienced...not everyone has knowledge
- Ask Questions...Ask Questions... Ask Questions
 - If you are in the office and you go to talk to your coworkers about investments
 - Do you want to say how well you did, or how bad you did?
 - What are you going to do if your portfolio goes down 10%
 - Shrug it off? Complain? Take money out?
 - What about 20%?
- In 2008, Stocks and bonds went down...What happened to diversification?
- Financial Planning is 99% Emotional
- My success comes from understanding my clients
- When creating a plan, you want to maximize probability of success
- When speaking about returns, you must discount tax consequences, especially in these times
- You need to encourage some level of risk,
- Your individual risk tolerance as a planner does not matter when deciding your client’s risk tolerance
- If someone is depressed, maybe taking prescription meds, be very carefully in judging risk tolerance.
- Paraplanner – Does technical work, does not work directly with clients