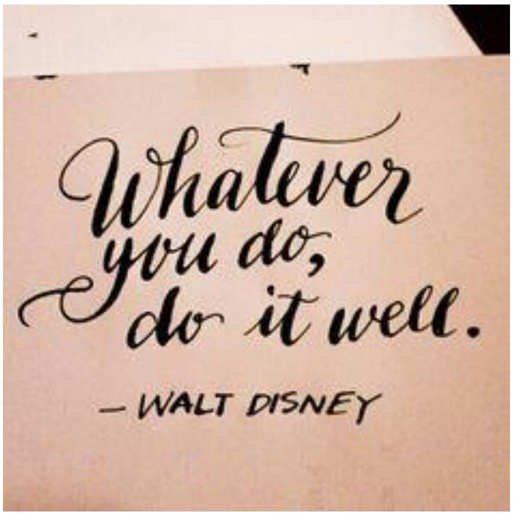
# DO WHAT YOU DO – AND DO IT WELL.
# FORGET ABOUT THE REST

*“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."*
Warren Buffett

How to bake a Catastrophe Cake: first prepare the base with poor advice, sprinkling in inexperience, opportunism and greed. Add a healthy pinch of finance company collapse. Next – mix this with a global credit crisis, adding uncertainty and government intervention for taste. Follow this up with an election and a budget deficit for local flavour. Cover with declining confidence and serve cold.

Since its inception the financial advisory community have shunned away from utilising asset allocation tools such as the Capital Asset Pricing Model (CAPM) to assist with the design of their client’s investment portfolios. When combined with the token questionnaires to survey their client’s risk profiles, clients have ended up with a disconnect between their investment expectations and their allocated risk. Today investors exposed to tardy portfolio construction are not just assessing their portfolios in monetary terms, but in the impact upon their lifestyle.




It's grim out there. The NZX-50 is down 35% over the past twelve months, and 16.5% since the beginning of September. The financial contagion that started with the U.S. subprime mortgage defaults has spread to Europe and Asia. Central Banks are currently the only providers of cash with global economies struggling to function without access to credit. The financial services industry and its participants are struggling to make decisions on a rational basis with no sight of trust and confidence returning to financial markets in the near term. It's gotten so bad, in fact, that some high profile advisors are recommending that investors pull any money they need for the next five years out of the markets.

The new challenge for financial industry participants is how they will retain their clients, or prevent them from acting on fear and liberating their portfolios. The financial services industry has arrived at a major junction, where the expectations of all participants must dramatically reshape. Financial advisors are struggling to define their value proposition and consequently losing the confidence of their most treasured asset: their clients. Administration platforms are anticipating an unknown competitor: technology. Investment managers are endeavouring to unify their business ambitions with their investment ambitions. Circling above this are the Regulators who are hinting towards increased compliance overheads and tougher new rules. It is hard not to be distracted by all of this uncertainty.

The recovery from two decades of client greed and advisory laxity will be more laboured and uncertain than the financial services industry has considered. The mountains of cash channelling into banks indicate investor preferences to remain absent from both equity and money markets. The media has become their new jaundice financial advisor in recent months, with the financial services community left to look on and wonder how to add value.

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Whilst the media has an insatiable appetite for reporting doom and gloom, they are unable to compete with financial advisors in these key areas:

1. Know your client by conducting comprehensive initial and ongoing risk profiling
   Technology offers readily accessible risk profiling tools for both advisors and their clients to regularly appraise their risk appetites. This should not be considered a one-off exercise, and if done regularly and properly will keep the legal fraternity away.

2. Providing clients with relevant and robust Strategic Asset Allocation
   There are a handful of quality independent entities that provide this service for a relatively nominal fee. Any asset allocation must be well considered and relevant to the client's unique circumstances.

3. Access to investment vehicles that are able to deliver their investment expectations
   Quality investment manufacturing has become the domain of the wealthy, with the bulk of ordinary investors being exposed to corporate investment mediocrity. Clients will pay a premium for access to investment talent and capabilities that are difficult to get into without their financial adviser.

4. Develop client relationships founded on trust and respect
   Client surveys conducted during September 11 emphasised the significant value that clients place upon a relationship with a trusted advisor. During this event, financial advisors who remained in close personal contact with their clients ended up with resilient client relationships and financial advisory businesses.

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Now is the time for financial advisors to step up and navigate their clients through times of uncertainty and fear. These market conditions are exactly what robust financial plans are designed for – and while the current crisis may seem unprecedented, the market's reaction to it isn't. Sensible investing involves having a plan that anticipates periodic crises and allows your client to stay fully invested through them. This is the defining moment where informed industry participants will cement deep client trust – whilst others will watch 20 years of frivolous client encounters erode before them.