INNOVATIONS

Business-Building Ideas for Today's Advisor

THE MASELLI GROUP

Inspired Training for Financial Professionals

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New "BULL MARKET"

Lifeboat Drill®

A Proactive Strategy for Modern Times

Summary

Today's economy is pretty strong. The stock market is up and we are now in the longest Bull market in U.S. History. People are feeling pretty good...or are they?

Everyone knows that markets don't go up forever. Many investors and advisors today are concerned that a decline might be coming. And no one wants to relive the nightmare of 2008. So what can you do? What should you be saying to your best clients right now?

This conversation is intelligent, proactive and makes you look really sharp. You're not trying to time the market, but demonstrating prudence, wisdom and amazing value for your people!

(SCENE: A lunch or dinner meeting with Alan Advisor and Jim Client.)

- Alan Advisor -

Hi Jim, it's good to see you. How have you been?

- Jim Client -

Hi Alan. I'm good. It's nice to see you too. Thanks for the invitation...I really enjoy this restaurant.

(General conversation and small talk ensues before you get into the Lifeboat discussion.)

- Alan Advisor -

Jim, obviously these markets have been pretty strong lately.

(This portion of the script can be adjusted to fit whatever the current market conditions may be. If times are scary simply say, "Jim, obviously these markets have been pretty choppy lately," and continue your opening in that vein. The best time for Lifeboat Drill is when things are good and markets are calm and stable. But it can be used anytime. For the purposes of this script, let's pretend that things are great at the moment but there's some uncertainty about the future...which there usually is.)

I just wanted to share some ideas about your situation. We've put together an excellent plan for you and I think the basic course we've charted is still the correct approach based on your long-term goals. This recent run has had a positive impact on your portfolio. And the overall plan we've built for you is solid. I like the asset mix and the managers are doing exactly what we expect them to do. No one is taking dangerous bets and their performance is actually a bit better than the averages in some cases. So the bottom line is that we are still in good shape

The basic plan you've put in place for the client can be changed by only one factor: the needs of the client. Market activity, political uncertainty, scary headlines and other exogenous forces do not get to change the plan. In fact, suggesting that the plan is subject to these "slings and arrows" of fortune actually undermines the entire planning process. The plan is always solid! Minor changes are a normal part of the planning process just like a tall building is built to sway in an earthquake.

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from a structural plan standpoint.

- Jim Client -

Yeah...things have been pretty good for a while and I'm certainly glad to know you still feel the basic plan is sound.

- Alan Advisor -

The reason I wanted to talk with you tonight is to introduce you to a concept and a process we engage in with a small handful of our top clients. We call it "Lifeboat Drill." It's just one of the benefits of working with Alan Group and I this thought would be valuable for you.

- Jim Client -

Lifeboat Drill? It sounds ominous.

- Alan Advisor -

Not really...it's actually a good thing and I think it will make a lot of sense to you. Investing is a lot like navigating a big ship. In any market and economic environment, there are hundreds of unpredictable forces that could affect your portfolio.

Naturally, we have tried to account for many of these through proper diversification and asset allocation. And we have a portion of your assets in safe or even guaranteed programs.

We set a careful course and our disciplines are designed to ride out most storms. But there are some storms that might require more significant protective action. That's why I created a Lifeboat Portfolio for you.

- Jim Client -

Do you see trouble ahead?

- Alan Advisor -

If history is any guide, there could be potential turbulence and volatility ahead. Corrections are inevitable and this one is long overdue. And even in the best of times, I am always on the lookout for trouble...it's just a habit with me and frankly, it's part of my job.

Look, we probably will never need to use the Lifeboat plan, but I want us to be prepared in case we do. And if we do, I won't have a lot of time to explain the idea to you at that point. So I wanted to take a few minutes tonight and walk you through this so you know what the alternative plan looks like and how we would implement it if we needed to. Hey, the time to do Lifeboat Drill is before you hit the iceberg...I'm sure you agree. It's just intelligent and pro-active to do this thinking beforehand.

- Jim Client -

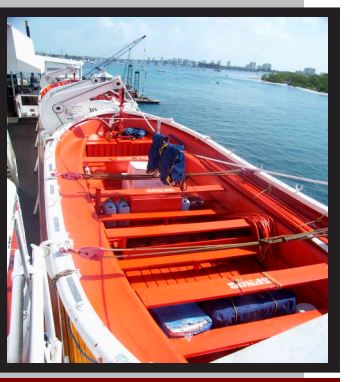
That's great...please go ahead.

- Alan Advisor -

Jim, for your portfolio, the Lifeboat Plan would involve a move out of all long-term bonds to shorter-term instruments including raising 40% cash. I also would switch from our two growth managers into value portfolios, increase the foreign portion to 10% and boost the overall dividend yield of the portfolio to 3% per year. We might also add 10% to the annuities.

(This is just an example. The actual Lifeboat Portfolio you create for your client would depend on their goals and current positions. It doesn't need to be elaborate or overly complex. Just an intermediate-term structure designed to mitigate the risks that have you concerned. In most cases, it should probably take you only a few minutes to design a Lifeboat Portfolio.)

Jim, these would not be permanent changes. I don't think we're headed for a long-term economic upheaval. We are still keeping a good position in equities. Market timing is a foolish game. But to keep blindly chugging along without adjustments is also wrong. The days of *"buy and hold forever"* are gone. Things can happen pretty fast and I just like having



There is a business benefit to letting clients know that you have limited room in your Lifeboat. It's explained in detail in my book *Referrals The Professional Way* but some perception of exclusivity is very powerful.

Trouble is my business baby! I like my clients to understand that I am on guard and watchful even in the best of times. The subliminal message is that I manage serious money for serious people. They expect me to think ahead. Which is something that no robo-advisor could ever do!

Don't over-promise. Lifeboat Drill is a mitigation tool, not a cure for all volatility. Short of staying totally in cash, no portfolio can ever be totally safe from all external events. You want to make that clear and not be held to an impossible standard.

a more conservative plan ready to go in case the seas get too choppy. I don't like the idea of giving up the gains we've made. Do you see where I'm going with this...does this make sense?

- Jim Client -

It does make sense Alan, but I'm still a little unclear as to when we would use this lifeboat?

- Alan Advisor -

Look, no one can predict the future and nothing can protect the portfolio from unforeseeable social shocks. But from a basic economic standpoint, my team and I watch several key indicators that we use to evaluate the strength and direction of major economic trends. These indicators are still mostly positive at the moment and I expect them to continue that way. But if they ever flash red...that may signal a temporary move to the Lifeboats. And making these changes doesn't cost you anything. We have the ability to adjust without any added fees.

Chances are that won't happen...I just want to be ready. This whole Lifeboat idea is more of a safety precaution than an economic prediction. But this is one of the reasons you hired us. This is the kind of thinking that goes into our planning process.

(As a financial advisor, you are obviously watching the economy, inflation and interest rates...that's a given. But it's also good to develop sources of insight on the components and precursors of such indicators. And it helps to remind clients that in any economic environment...there are viable alternatives that produce reasonable rates of return.)

- Jim Client -

I like it Alan...but I think you're too pessimistic. I want to keep running as long as we can!

(This is a typical emotional statement you might hear during a Bull market. It could be a sign of irrational exuberance and potential trouble. You might need to bring Jim back to reality. Truth is the markets could drop 30% in the blink of an eye. You don't want to frighten him, but a dose of common sense might be in order. In tough economic times, however, you might hear an opposite set of emotions based on fear. And for that you would need the "Bear Market Script.")

- Alan Advisor -

I'm not a pessimist at all. But I want to be as prepared as possible. It's my job to protect you by thinking ahead and being as ready as we can be. If we never need the Lifeboats...I'd be overjoyed. But that's just not rational. This money is important to you and you can't just sit back and passively watch. We need to be ready to take intelligent action. And that brings up another part of this Lifeboat Drill we need to discuss.

(This is the asset consolidation part...take your time here.)

I know you have an account over at Jackson Steinem and Helen's IRA rollover is at Community Trust. (PAUSE) Jim, I can't protect any of those assets and if the spaghetti ever does hit the fan...I want to get all the children in the Lifeboat!

(And you must say it just like that! This is an emotional anchoring statement. You want to evoke the image of protecting the most important people in his world. It's a powerful moment and you might want to practice it in a mirror.)

You should think seriously about consolidating these other accounts at the Alan Group. It would be foolish to protect only part of your portfolio. I think you can see that our process is more rigorous and disciplined than most other advisors in the industry today. I doubt anyone else has had this conversation with you or has even thought of a Lifeboat Plan or your total portfolio...am I right?

- Jim Client -

You're right. That makes some sense Alan. How would we do that?

There is no shortage of strategists, experts and "talking heads" who provide guidance on financial topics. But knowing who to trust for good advice is tricky.

Consider creating a ***"Trusted Advisor Journal"*** for your practice. This is explained in detail in my book, **Referrals The Professional Way.** It's a tool that will last your entire career and provide you with a solid track record for the people who give YOU advice.

Either way, I always like to tell a client: *"Based on my analysis and the work my team has done, we believe..."* This says you're an independent thinker, not simply a parrot for smarter people.

Clients today often fear placing all their assets under the control of one advisor...and this is totally natural. If you want to consolidate those assets you must give the client both a rational and an emotional motivation for doing so. Lifeboat Drill is both. It's not only smart financial planning, but it touches the emotional theme of protecting the clients complete world...not just a piece. In reality, you ARE doing this for them. Your ability to see the big picture holistically makes you a more valuable advisor...and places them in better hands.

-Alan Advisor -

It's very easy and takes about two minutes. There's one form to sign and you're done. I will have my assistant walk you through this tomorrow if you like.

- Alan Advisor -

Jim I just want to be sure you understand that I can't predict the markets. No one can. Things can turn around very quickly these days and I guarantee you we will not be able to get out at the absolute top. I just feel a lot better knowing that we have a plan and a strategy in place if things do get scary.

Also, there are forces that can drive markets down in the short-term that have nothing to do with the underlying strength of the economy or the companies we own. If that happens it can be a powerful buying opportunity and we are the lookout for those situations as well. I don't mean to make this too complicated but there are many variables we try to watch.

- Jim Client -

It really isn't as easy as it looks, is it? I very much appreciate all the thought that you've put into this. Please keep me posted on anything you need me to do.

- Alan Advisor -

I will Jim...you can count on that. OK..that's pretty much it then. I just wanted to walk you through our process a bit. We can revisit this next quarter and certainly if anything happens that merits your attention...we will call you immediately. But for now, my team and I have our eyes and ears open, the plan is strong and we will hold our course.

- THE END -

You know that the economy and the markets move in cycles. Historically, corrections happen roughly every 5 years. So by some measures, we are long overdue. Also, every economic downturn has been a precursor to better times. But there are always some folks who say *"This time it's different."* So it can be genuinely confusing to know which way is right.

As an advisor, it's wise to formulate your own opinions on the markets and the economy and let your philosophy of investing guide the client. You are their connection to this world and although that's an awesome responsibility, they rely on your wisdom, insight and experience.

I believe it's vital for advisors to HAVE an intelligent opinion and not simply be neutral and reactive. But ultimately you're in charge. You set the course!

When The Lifeboat Isn't Enough

In today's crazy world...there could be an extreme scenario where you might skip Lifeboat Drill entirely and go right to the Fallout Shelter Portfolio. Consider the metaphors:

With the Lifeboat, you expect to be rescued and returned safely to a relatively normal world. But when you come out of the fallout shelter, the investment landscape could be radically different and potentially toxic.

An example of this might be a return to hyper-inflation of the 1970's. I'm talking about serious, systemic economic problems that signal a radical, long-term shift in investment philosophy. This may require a complete re-think of the client's financial plan and possibly their life goals.

I don't see this anywhere on the horizon today. Granted there are some doom scenarios that predict nuclear or biological terrorist attack. That could trigger a difficult economic environment, but they are not likely and there's not much you could do from an investment standpoint to protect against that.

As an advisor, the two main thoughts I try to keep in my head at all times are these:

1. No matter what happens in the world, the economy and the market, my clients still need me to get to their goals. No headline...no matter how scary can relieve me of that sacred responsibility. So I am here for the duration.

2. The markets and the global economy are ultimately a manifestation of the human spirit. Human beings (admittedly with a handful of exceptions) strive toward improvement in all things -- their lives, the success of their companies, the impact of their innovation. When that powerful life force shifts or changes...when the core human spirit dies out and we enter another Dark Ages with Sharia law...then I'm thinking a bear market will be the least of our problems. Stock up on ammunition, canned goods and barbed wire because we are in deep kimchi my friend.

Advisor questions about Lifeboat Drill

I can't predict world events. How do I know when to go to the lifeboats?

Things can happen very quickly in the markets these days and no one can predict intra-day or very short-term events. Lifeboat Drill is not designed for that. I'd say the time to go to the lifeboats is when you see significant trouble ahead that could last for at least few months and maybe a year. No advisor would want their clients to get whacked again with another 2008 where they lose 40% of their assets. This strategy is not perfect protection but it gives you and the client a little peace-of-mind that if real danger appears on the horizon you have options. There's probably a very slim chance that you will ever have to go to the lifeboats. But showing the client it's there and helping them understand how it works demonstrates your extraordinary skill and professionalism.

Isn't this really market timing?

I think of market timing more as a tactical trading strategy within a portfolio. It often involves some kind of sector or asset class rotation and I don't recommend that. Lifeboat Drill is a holistic protection tool for longer-term storm scenarios.

What are the potential dangers in the market and economy that might force us to go to the lifeboats?

I can think of about a dozen scenarios that would cause me to recommend a more conservative investment approach. A severe spike in core inflation, rising interest rates, a systemic increase in labor costs, an attack by China on the Philippines, global conflict scenario beyond the normal. But try not to get wrapped up with the specifics of the scenario. You're never going to be prescient enough to avoid all risks.

Why do this at a lunch or dinner...isn't a phone call good enough?

The phone is fine for communicating quick information, but it's not so good for discussing complex ideas, assessing emotions or building a bond with a client. Dinner or lunch works best because it relaxes people and gives you the time to get into some details. You can certainly do this in your office as well...just minimize the distractions.

Doesn't talking about the lifeboats scare people unnecessarily?

Not if you do it right. Your goal is not to scare anyone...it's to alleviate fear. Knowing that my advisor has a plan and is watching over my situation with extreme diligence makes me feel more comfortable and more secure. No one wants to be trapped on a sinking ship. Lifeboat Drill gives them options.

My clients are very sophisticated and they're not afraid at all.

You don't need a frightened client to do Lifeboat Drill. It can work when the markets are good or bad. I believe, however, that in scary times many clients act outwardly brave, but are quite concerned inside. And in great times they are wondering when something bad might happen. It's human nature. Lifeboat Drill allows you to probe gently and intelligently into their concerns and demonstrate your awareness and professionalism.

I don't have time to meet all my clients for dinner. How can I implement this?

Assuming you've done some form of client segmentation, start with the people who need this conversation the most and go from there. As for time...there is nothing more important than building quality relationships with your people. Skip the meal if you want but make the time!

I have clients who want to go to the Lifeboat right now! What do I do?

If a client says this, they may be more scared than you anticipated and you must deal intelligently and carefully with that fear. You might want to explore some more conservative strategies within their portfolio that will calm them. If peace-of-mind and security is their #1 concern, you have solutions that can address those needs.

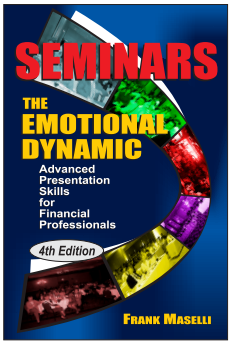
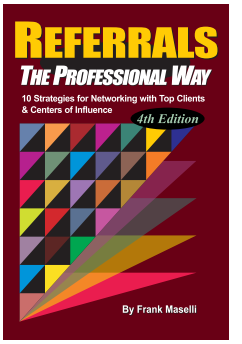
Can I use Lifeboat Drill to ask for referrals?

Definitely! This is one of those rare moments when you are demonstrating extreme pro-activity and value. It would be totally appropriate to initiate a referral conversation as part of Lifeboat Drill. Give the client a copy of your Referral Guide and walk them through it. Using the strategies in my book, **Referrals The Professional Way** will help you look powerful and successful and will calm their referral fears...which is very important!

I mainly use fixed and guaranteed programs for my clients. Would Lifeboat Drill apply to me?

It sounds like you're already in a lifeboat and that's fine assuming it meets the client's needs. For you, Lifeboat Drill might be a way to uncover additional assets that need protecting or as a catalyst for the referral conversation. As you know, however, all "guarantees" are not created equal. Be certain of the provisions and of the plans you're using. Tough times have a way of revealing hidden flaws in seemingly low risk products.

FRANK Maselli

Frank Maselli is one of the top speakers, trainers and coaches in the financial services industry today. He's a former US Army officer and a 35-year veteran of the business having been an advisor a top manager and NSM of one of the most successful mutual fund families in the world. His best selling books and live training programs are state-of-the-art and he's been voted for seven straight years as the #1 industry speaker by Merrill Lynch.

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