INNOVATIONS

Business-Building Ideas for Today's Advisor

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Inspired Training for Financial Professionals

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Lifeboat Drill®

A Proactive Strategy for Modern Times

Summary

The economy and the markets have been pretty strong for quite some time now. But there's a ton of confusion and uncertainty out there today. Your clients are concerned. Even if they seem outwardly calm and relaxed...they're probably feeling more anxiety than they have in years. They know that markets don't go up forever and they remember all too well the horrors of 2008.

The Lifeboat Drill conversation is intelligent, proactive and makes you look really smart. This will not only help your people, but it will help you distinguish yourself in their eyes and position you to bring up the idea of referrals in a professional and non-salesy way. Give it a look!

(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 volatile lately.

(This script can be adjusted to fit whatever the current market conditions may be. If times are good simply say, *"Jim, obviously these markets have been pretty strong lately."* Actually, the best time to do Lifeboat Drill is when things are relatively calm and stable. But it can be used anytime. For the purposes of this script, let's pretend that things have become a little choppy and scary.)

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 volatility has slowed us down a bit and it's eliminated some of the risk cushion we had, but the plan design itself 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 from a structural plan standpoint.

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.

- Jim Client -

Yeah...things have been a little shaky lately, but I'm 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 beneficial 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 financial future. Naturally, we have tried to account for many of these through proper diversification and asset allocation. And we have a good portion of your assets in safe and 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 more trouble ahead?

- Alan Advisor -

If history is any guide, there could be more 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 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 Lifeboat Drill 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 proactive to do this thinking beforehand.

- Jim Client -

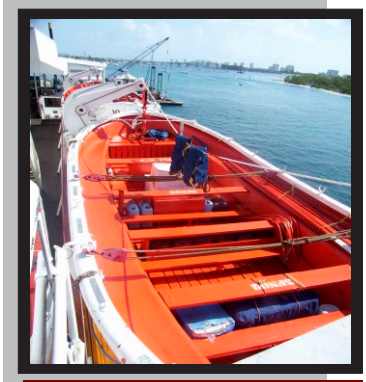
That's great...please go ahead.

- 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, reduce the foreign portion to 5% and boost the overall dividend yield of the portfolio to 3% per year. We might also add 10% to the fixed annuity.

(Obviously, the actual Lifeboat Portfolio you create for your client would depend on their needs and current positions. It doesn't need to be elaborate or overly complex...just an intermediate-term structure designed to weather the coming storm that has you concerned. In most cases, it should probably take you only a few minutes to design a Lifeboat Portfolio.)

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



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.

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.

- Jim Client -

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

- Alan Advisor -

No one can predict the future and nothing can protect the portfolio from unforeseeable social or political 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 reasonably positive at the moment. But if they ever flash red...that may signal a temporary move to the Lifeboats.

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 to work for you. 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.)

If you work for a large firm they probably have a research department with economists and strategists who provide guidance on financial topics. But the best advisors do not rely solely on the company line. They develop their own sources of information on critical issues and formulate their own opinions. They also prefer to "own" the ideas themselves.
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.

- Jim Client -

(You might hear several things at this point that would reveal the client's emotional state.)

I like it Alan...but I really wish we were in the Lifeboat already! (Too afraid)

OR...

I understand it Alan, but I think you're being way too cautious. (Too optimistic)

OR...

Why don't we wait and see what happens before we do anything. (Confused and passive)

It's not necessary to respond with any specific market prediction. That's not the purpose of Lifeboat Drill. The core message is that you are thinking ahead and ready to make a course correction if the conditions warrant. This is much more of a psychological positioning tool than a detailed investment strategy session.

- Alan Advisor -

Look, I don't see us headed for the Great Depression. We are not going to over-react to short-term volatility. All I wanted to do tonight was to show you how we try to protect you by thinking ahead and being as ready as we can be. 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 your wife'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 into the Lifeboat!

(It's important to 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 for your total portfolio...am I right?

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 excellent financial planning and 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 your better hands.

- Jim Client -

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

-Alan Advisor -

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

Also, there's one last point...and I don't want to confuse you, but it's potentially important. There is a more positive side to all this economic confusion...and we are starting to see some areas of the market that are undervalued right now. These opportunities could rebound dramatically when greater stability and certainty return to the market...and we are looking at these for their upside potential as well.

- Jim Client -

That sounds encouraging.

- Alan Advisor -

You're right. In every period of confusion and uncertainty, there are opportunities. In addition to protecting you, looking for bright spots is part of my job too. It may be a bit early right now...we are keeping our eyes open for these situations and we will strike when the time is right.

- Jim Client -

That seems like a good plan. Let me know when you think we're ready.

- Alan Advisor -

I will Jim...you can count on that. OK..that's pretty much it then. I just wanted to walk you through the 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 are on the bridge of the ship. The plan is strong and we will hold our course.

Historically, every economic downturn has been a precursor to better times. But there are always some folks who say we are in deeper trouble than ever before. You need to formulate your own opinions on the future of the markets and the economy and your philosophy of investing will guide the client. 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 to a relatively normal world. But when you come out of the fallout shelter, the entire landscape could be radically different and potentially toxic.

One scenario might be that trade wars and escalating tariffs kick us into a cycle of much higher inflation. That triggers higher interest rates and a slowdown in the job market which could cause a recession.

There is also significant political and social unrest in the US today as well as many foreign countries. A bad decision, provocation, or a mistake by a world leader could cause some kind of military situation which might lead to a severe market reaction.

There's not much you can do from an investment standpoint to protect against many of these shocks. But as an advisor, I try to keep two main thoughts in my mind at all times.

1. No matter what happens in the world, the economy and the market, my clients still need my help to get to their goals. No headlines...no matter how scary, can relieve me of that sacred responsibility. So I am here, in sickness and in health, for as long as we're together.

2. The markets and the global economy are ultimately a manifestation of the human spirit. Human beings (with a handful of exceptions) strive toward improvement in all things -- their lives, the success of their companies, the impact of their innovation. If that powerful life force changes...if the core human spirit dies out and we enter another Dark Ages with Sharia law or some other fundamentalist ideology...then a bear market will be the least of our problems. Stockpile ammunition, canned goods and barbed wire because we will be in deep trouble.

But that's not happening...so have some fun and keep your people nice and dry in the Lifeboat. It's a safe place not only for their money, but their emotions!

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 you 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. 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.

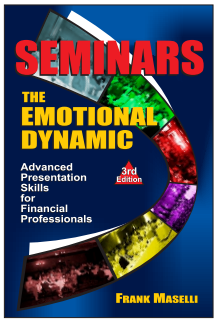
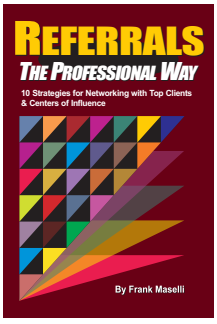
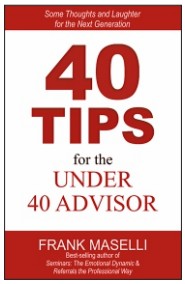
How could I use Lifeboat Drill to ask for referrals?

As an initial conversation, I might say something like this:

Jim, I'm sure you can see the value in our approach. It really is a better way and a more thorough strategy than most advisors use. Just so you know...if you ever run into anyone who you think might appreciate the way we do business, please let us know. As one of our top clients, you have the ability to refer anyone you care about into our practice. They might be friends, relatives, or work colleagues. Whoever you send us will be treated with extraordinary care and diligence. In fact, we've actually created a Referral Guide for this exact purpose. It will explain how we handle referrals if you were to ever share a name with us.

Please understand, this is not a marketing thing. We are very selective about the people we work with. But we've learned over time that our top clients are by far the best source of the kinds of people who need the level of care and insight we provide. We can talk about this more anytime you like. Just keep it in the back of your mind. Our door is open to anyone in your world.

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 30+ 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.

FRANK Maselli

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