



# Healing Financial Trauma

Financial advisors have had to become psychologists for clients facing hardship.

**By Karen DeMasters**

**EVERYONE FROM MILLIONAIRES TO** middle-class executives to auto workers are finding themselves in unpleasant financial constraints nowadays. The recently laid-off, downsized or demoted are trying to cope with the new financial realities. For some, that means not buying the new yacht this year. For others, it means looking for sales on socks.

In both cases, financial advisors have to learn to walk their clients through these troubles, and many find themselves acting as amateur psychologists first, financial advisors second.

"I have become more of a psychologist recently than my college roommate who majored in psychology," says Kevin VanDyke of Bloomfield Hills Financial/SII Investments, a boutique investment advisory firm that focuses on auto industry employees and retirees in Bloomfield Hills, Mich. Working in the Detroit area has put VanDyke in the heart of the worst hit part of the United States during the recession, and most of his clients have been affected.

"This is a transition for everyone," says VanDyke. "We are trying to hope for the best, but we expect the worst."

Among those clients faring the best are those he switched to guaranteed income products more than five years ago. But others, depending on their auto company salaries and pensions, have been forced to work an additional five or six years before retiring, if they still have jobs at all.

"One couple I work with is in their early 50s, and both worked for Chrysler making more than \$100,000 each a year," VanDyke says. "They have been forced to take early retirement and face an income cut of 40% to 50% from what they were used to. They have tried to adjust with such tactics as finding bargain fares for vacations to the Bahamas. The wife even thinks it is kind of fun to find socks on sale for \$1.99."

When auto companies go bankrupt or get bought out they leave their employees in two classes. Those with qualified pensions may end up with half of what they counted on, VanDyke explains. For



those with unqualified pensions, he tries to negotiate to see what he can get for the client. He tries to buy annuities for those who can cash out their investments to give them a cushion.

In the meantime, if the employees are young enough, they might need to move on to new jobs, at a time when as many as 40% of the executives in the Chrysler and General Motors headquarters offices have been let go, VanDyke says. In addition to the well-publicized unemployment issue, there is also an issue of "underemployment"—an evil less talked about.

"The media does not give enough attention to underemployment," says Robert A. Mecca of Robert A. Mecca & Associates LLC, Mount Prospect, Ill. "A lot of people are working for a company for years and then are offered a lesser job. I have not had a single client who has rejected this kind of offer. They feel they have to take it because they know how bad the job market is."

Mecca has clients who were making \$75,000 with full benefits and are now reduced to \$50,000 with fewer benefits.

"They put off capital expenditures; they do not get the new car or remodel the home. I am the one who helps them sort out 'needs' from 'wants,'" he says.

Gary Gilgen, director of financial planning for Rehmann Financial, an accounting, financial services and consulting firm based in Troy and Saginaw, Mich., also talks in terms of helping clients differentiate between needs and wants so they can make rational plans.

"I've been in this business for 33 years," Gilgen says, "and a decade ago it was recommended people have two to four months of cash on hand to live on in case of an emergency. Then it went to three to six months, then eight months, and recently people have been saying you need 12 months of cash to pay living expenses, but a lot of people just do not have that available."

Gilgen says a lot of his clients thought they would get another job within a couple of months after being laid off. "Now I have more than 30 clients who have been out of work for more than a year. They believe they will find work eventually, and it will pay

what they were used to making, but in the meantime I have an \$85,000-a-year engineer from the auto industry who is now making \$32,000 a year, and we have to make adjustments."

He cites one situation he heard of recently where there were 165 engineers applying for one auto industry engineering job. "So some people are going to find it difficult to get a job in their field," Gilgen says.

You may have to be an incurable optimist as your clients stare down continued hardship. David Blaydes, president of Retirement Planners International in Naperville, Ill., says the current situation may actually be easier for those losing jobs because so many others are in the same boat or because the individuals have been through it before.

"It is so common now to lose a job or be downsized or demoted that it has less of a negative impact," Blaydes says. "I have clients who are on their second, third or even fourth job loss. Some are accepting reduced benefits or working longer hours, but most are just being terminated."

Dealing with the client's emotional state is the most important thing at first, he says. "You have to give them the emotional and mental ability to deal with the situation, then deal with the finances."

"I try to get people to look at this as an opportunity," says Gilgen, "although they have to make some hard decisions. If they are in a field where there are no jobs, I advise them to get re-educated if at all possible. What else have they thought they might enjoy doing?"

In the meantime, Mecca recommends that clients look at every possible way to cut expenses: that they raise the deductibles on their insurance, remove riders from insurance policies, use dividends to pay life insurance premiums, eliminate cable television, renegotiate the price of a home to lower property taxes, modify a mortgage to an interest-only plan for a few years and negotiate with credit card companies to reduce interest charges. If the clients are older, he suggests they consider a reverse mortgage.

Mecca's clients have looked at home and car insurance to see if they can raise deductibles. If possible, their payments

for life insurance may need to come from the cash balance for a while.

"For their investments, we look at two buckets. Unqualified money stays in an emergency fund to live on in case it is needed," he says. "For qualified money with tax benefits you want to keep it invested, but you may be forced to take some interest and dividend to pay for emergencies. Depending on the client's age, that can sometimes be done without a penalty if it is repaid."

Others facing what they hope is a temporary hardship become inventive and develop a sideline of work to tide them over. In some cases, credit may be needed to pay expenses or a home equity loan may be advisable, but Gilgen warns clients not to spend the money as if these are continuing sources of income because the money will not renew itself. Some clients are eligible for a 72(t) distribution from retirement accounts without penalty and can use that money temporarily.

"Our clients may have to consider bringing in renters for a while," Gilgen says. "People cannot overlook these types of possibilities. But I also have one client who looked around his house, and anything he had not touched in 12 months, he put it on the Internet and sold it and now he is helping others do the same. He has developed a nice little business. So you may have to encourage clients to be creative."

In addition to increasing cash reserves, Blaydes advises using asset allocation in equities to diversify as much as possible, "so some investments will zig when others zag." He also recommends laddered bonds because bonds will not lose value as they mature, and if investments are made each year, the maturity dates will come yearly also.

"I even also have some clients who do not need to delay luxury purchases, but they are doing it anyway, because it just does not feel right to them to be extravagant now," Blaydes says.

Poor economic times affect all levels of wealth and one couple who are clients of Robert K. Haley, founder and president of Advanced Wealth Management in Portland, Ore., have found themselves

**CONTINUED ON PAGE 98**



cutting expenses even though they had just sold a \$5 million business before they asked Haley's firm to advise them.

"I told them in the beginning to focus on living off of net income and dividends from their investments and they would have money for the rest of their lives," Haley says. "Their income was down about 25% for a while, so they bought fewer gifts and traveled less. They feel these adjustments are temporary, but they will always have income to live on. Some years it just will be a little less than others."

Haley adjusts his clients' holdings to harvest tax losses and uses stop-losses to decrease their risk of losing income. During the current economic chaos, Haley says he has not lost any clients and he has even picked up some new ones who are wary of doing their own investing.

"I recommend clients invest for dividends and interest and live off the net income after maintenance fees and transaction costs, rather than the more

traditional approach of withdrawing a percentage each year," he says. "Taking a fixed percentage works in good years but not in bad ones. Our way they always have income, just a little less in bad years."

Sometimes, it's not just the clients who need help but the advisors as well, and some professionals have switched their focus to coaching advisors on how to deal with their own financial problems before they try advising clients.

"The recent years have been an 'extinction event' for the financial industry, and advisors are looking to get out of the industry completely," says Mark Matson, CEO of Matson Money in Cincinnati, Ohio, a practice management and advisor consultancy firm. "It is hard for an advisor to help a client if his or her income is shrinking and the advisor is worried about his own fate. When the advisor can develop peace of mind, he can then communicate ways to help the client."

Matson has 300 advisors using his firm's coaching platform. The firm handles the money management for them and has \$2.36 billion in assets under management, an amount that is growing, despite the economy.

"A lot of advisors go into hiding when their investors panic, but they should be doing the exact opposite," he says. "You cannot communicate too much with clients in these circumstances. You also have to get away from commissions into the fee-based world so you are offering unbiased advice."

"Then, after you put your own financial house in order, you can assure your clients you are the one who can help them navigate the economy and their investments," Matson continues. "An advisor has to be able to tell the client they need to be disciplined for the long term, but many advisors do not have the guts to do that and they let clients do dysfunctional things." 