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With Clients, Partway Is Better Than No Way At All

By Peter McDougall May 28, 2015

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Clients' fears, uncertainties and other hang-ups can keep them from following the expert advice of their financial advisor. When this happens, advisors may need to ratchet down their expectations from perfect compliance to, well, good enough.

Jeff Speight, business-development and client relationship manager at Houston-based **Tanglewood Wealth Management**, has run into this issue with estate-planning clients. His firm, which manages roughly $830 million, has a few ongoing client cases where blended families create some estate-planning challenges.

One case involves a retired doctor with a $3-million estate who has three kids from a previous marriage. Two children are independent and financially stable, but the third has special needs. "The client feels a tension between providing for her spouse, since she was the main breadwinner, and also leaving money to her children from the first marriage," Speight says.

Ideally, says Speight, his client would have an honest and forthright conversation with her husband about trying to balance these competing needs. But she doesn't want to have that conversation. "She's worried her husband will think she's trying to short him from some of the money," Speight says.

Jeff Speight

As things stand, the physician's husband currently stands to inherit everything. Speight suggested the client create a $1-million trust for the special-needs daughter and put the remainder into a marital trust to support the husband until he dies. At that point, the remaining assets would pass to the other children. The client is currently weighing her options, but she seems open to this approach. "It's not ideal, because it doesn't involve any communication amongst the stakeholders, nor

does it leave anything immediately to the two independent children," Speight says. "But it is a start, and it can be tweaked down the road if necessary."

Jim Marren is an advisor with **Reno Wealth Advisors** in Reno, Nev. He remembers a client from earlier in his career. Two siblings in their fifties had inherited about $5 million, but they were big spenders. "They had way more money going out than coming in," says Marren, whose practice manages $113 million. For three years, the siblings refused to do anything with the money but invest it in FDIC-insured CDs that were paying relatively low interest rates. They were too afraid of taking on any investment risk, even though Marren repeatedly explained how CDs weren't a suitable investment — and how, if they didn't shift course, they'd soon drain their inheritance.

Brad Jenkins

Marren decided to switch gears and focus on getting them into a short-duration bond fund. He calls it a "baby step" toward more appropriate asset allocation for their ages and long-term goals. "It was a slow move," he recalls. The strategy paid off, however. As the brothers grew more comfortable with the risks of the bond fund, Marren was able to shift them into a more diversified portfolio — a move the FA figures would have been impossible if he'd tried to push them harder.

Brad Jenkins is CEO of **Jenkins Wealth** in Centennial, Colo., with $72 million under management. He encountered a similar scenario with a 64-year-old client who was terrified of taking on stock market risk. The ultra-cautious client needed growth and access to her nearly $1.5 million, but — like Marren's clients — wanted the safety of CDs.

Shades of 2008

In the second meeting, Jenkins showed her how she was in danger of outliving her funds. But she wouldn't budge. "She'd lived through the 2008 market crash and was terrified that would happen all over again," the FA explains.

So Jenkins adjusted his target, advocating for his firm's most conservative allocation model instead, a 20:80 split between stocks and bonds. And Jenkins set his firm's proprietary portfolio-monitoring software to establish a floor that would limit any losses to 5% before selling. That floor gave the client the comfort level she desired. With her fears eased, the client eventually allowed Jenkins to invest her funds at the more aggressive 60:40 allocation.