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Identifying Hidden Financial Risks Creates Sales Demand

(Content provided by The Advisors Forum; edited by James W. Garrett, Esq.)

The world changes; clients' circumstances change; motivations and interests change. As these changes occur—often gradually—"hidden" risks emerge that can significantly deteriorate future wealth if left unattended. By "hidden" risks, we mean exposures of which the client or potential client is likely to be unaware. Identifying hidden risks in an education-based marketing program delivers an important service to your marketplace and, with this knowledge, provides you with a gateway to meaningful conversations about the added value you can deliver to prospective clients.

Our law firm regularly offers public seminars for this reason. For example, we offer our ***Wills vs. Trusts*** seminars several times every month in all of the cities where we have offices. If you have not attended one of these seminars, we encourage you do so. The ***Wills vs. Trusts*** seminar is also an easy and non-threatening way for you to introduce clients to the importance of estate planning whom otherwise would be reluctant to make an appointment with an estate planning attorney directly.

Key Takeaways:

- From the past several years, people understand the devastating impact of unmanaged financial risks.
- A client's changing circumstances, needs, and aspirations open holes that allow hidden risks to creep in.
- Identifying the variety and impact of these hidden risks provides the opportunity for thoughtful and informed risk-management discussions.
- Presenting these hidden-risk categories as an education topic offers the practitioner a platform to secure new clients, particularly those that have hidden risks but have been lulled into thinking that "everything is fine with their plan" by their current advisor.

Most Practitioners Require "Demand Pull" Marketing to Increase Growth

The two basic types of sales circumstances are "Demand Push" and "Demand Pull." The Demand Push client is a prospective client who has already identified the need for a financial plan and investment solution and is conducting due diligence to hire a practitioner. You're hearing from a Demand Push client when you receive a web inquiry, a referral, or a phone call. Your market presence (local search access, professional connections, active client referrals, and website clarity) activates this demand. A strong market presence will increase the regularity of inquiries from Demand Push clients. For some financial professionals, Demand Push marketing and word-of-mouth activity produces growth sufficient to meet the firm's revenue objectives.

Demand Pull marketing is education based. You, as the practitioner, operate in an educational mode, illustrating your prospect's needs that exist but are unrecognized either at a basic level or in a matter of degree. You identify these needs and motivate the prospect to act by providing education

opportunities.

What you need to know: For the vast majority of financial professionals, achieving the desired revenue growth trajectory requires an ongoing, proactive marketing and sales effort to fuel demand. The key challenge in this common scenario is accessing a market of prospective clients with an educational message that drives action where little or no energy existed before.

Inertia Is a Force to Overcome
Inertia is a powerful force to overcome in today's marketplace. You find inaction with this sentiment: "I already have a plan or program." Indeed, the financial planning industry fosters this inertia by treating the planning phase as a discrete, infrequent step; the industry emphasizes the initial investment program deployed to execute the financial plan.

In fact, for most investors—and often unbeknownst to them—legal issues, tax issues, demographics, life stages, interests, anxieties, and aspirations change with regularity, and often altogether.

What you need to know: Treating a plan or program statically in the face of a changing world and uncertain future is a sleeping pill . . . not far from the frog that passively rests in the pot of warming, and soon to boil, water.

Fear Is a Real and Important Motivator Leading to Positive Outcomes
Fear is a high-impact investment force. Fear creates emotional memory that acts as a joint force to inertia or complacency. We see this today in investor caution borne from the 2008 financial crisis (similar to the financial behaviors of the Depression-era generation).

But fear can also be an important driver of good outcomes. Fear-induced motivation is an education opportunity for your Demand Pull marketing strategy.

Over time, a client's circumstances, needs, and aspirations deviate from what they were when the client's financial and investment plans were first constructed. The more time that transpires, and thus the greater the changes in the environment, the more likely hidden risks reside in the client's plan.

What you need to know: Just as a doctor diagnoses bad eating habits as a likely indicator of future health risks, so too can you diagnose hidden financial risks as threats to the prospect's or client's need for financial comfort, confidence, and purpose. Activating "fear" of these hidden risks produces demand to have additional consultations with you.

Identifying Hidden Financial Risks Opens Doors to Added Value

The chart below lists some financial circumstances that pose hidden risks. Your educational efforts

to identify and illustrate hidden risks (i.e., a Demand Pull approach) offer an important service to the prospective client, just as the doctor's advice to correct poor health behaviors can add years of life if followed. (For your existing clients, diligence in monitoring changes to the client's circumstances, needs, and aspirations—thus avoiding hidden risks—attaches to the fiduciary standard, strengthens the advisor-client bond and increases your client-referral prospects.)

Client Circumstance	**Hidden Risk**	**Outcome If Identified and Resolved**
Low-basis stock (i.e., appreciated securities portfolio)	• Capital gains tax exposure • Medicare surcharge tax exposure • Exposure to creditors' claims	• More money available through reduced taxes • Wealth is protected • Stock distributions to trusts providing tax benefits, wealth shifting
Low-basis property	• Same as low basis stock PLUS • Replacement value insurance mismatch in an appreciating market climate	• Same as low basis stock PLUS • Tighter loss-risk management
Rental Property/Vacation Home	• Exposure to lawsuits from renters, guests and trespassers	• Umbrella insurance • Establish LLC to hold title and provide asset protection
Unexercised, in-the-money stock options	• Income or gains taxes (depending on the option type) • Medicare surcharge tax exposure • Overconcentration to an employer's operations, competitors, and market environment • Inefficient allocation of wealth to investment horizons or purposes	• Tax efficiency considering other income and gains sources • Improved investment diversification

Life insurance with substantial cash value	• Using other income sources with less tax efficiency	• Monetize the policy to support income needs • Improved tax efficiency
Unmatched life insurance death benefit	• A death benefit too high, risking encroaching on estate tax thresholds • A death benefit too low to support wealth shifting in estate planning • A death benefit too low to replenish lost income due to premature death	• Too High: Estate tax savings • Too Low: Achieve target wealth distributions to beneficiaries • Too Low: Fund income replacement • Too Low: Peace of mind that survivors will be sustained
Sub-optimal insurance products	• Surrender charges in wealth realignment • Too-high premiums that become a financial burden and thus increase the potential for policy lapse	• Comprehensive planning to minimize dollars lost to fee and cost inefficiencies
Earned income in retirement	• Creating additional tax exposure in concert with other income sources	• Restructuring distributions to achieve tax efficiency
Ownership of an employer's stock	• Poor diversification and risk management due to a concentrated exposure to the employer's operations, competitors, and market environment	• Improved overall risk management
Current chronic illness, poor family health histories, or both	• Faster wealth depletion through	• Wealth protection through a long-term

	increased medical liability • Increased family burden	care funding plan • Peace of mind that family burdens will be lessened
Obsolete trusts	• Unnecessary estate costs • Estate execution inefficiencies • Mismatched wealth to desired purposes	• Lower costs • Lower taxes • Viable estate execution • Comfort that wealth's purposes will be fulfilled
Estate plan relying on wills	• Unnecessary exposure to probate • Exposure to legal costs of incapacity • Loss of control of wealth and wealth transfer timing	• Estate execution efficiency • Control of wealth and its distribution • Comfort that the plan matches desires, values, and interests
At-home, teenaged dependents	• Legal liability exposure in the case of accidents that have resulted in another's disability or death	• Wealth protection

Actions to Consider:

- Educate yourself on these hidden risks and how your solutions have the potential to manage the risks. Our law firm offers a number of continuing education courses to financial professionals are a wide range of topics. Our next education course offers 3 hours of CE on the topic, "From Boomer to Elder: Helping Your Clients Plan and Protect Their Estates and will be offered in Richmond on October 30th and in Newport News and Virginia Beach on November 6th.
- For hidden risks beyond your expertise or solution set, partner with other practitioners (e.g., trusts and estates attorneys, insurance professionals, CPAs, investment advisors) to present a holistic solution proposal.
- Conduct seminars or small-group meetings with prospective clients to create leveraged sales opportunities.
    - In a group setting, plan on presenting the entire hidden risk list to ensure coverage of the variety of attendees' circumstances.
- Regularly meet with existing clients to ensure that a hidden risk hasn't crept into the client's life. If one has, engage in a plan and solution update for optimal risk management.

- This activity identifies new business opportunities and is in keeping with the fiduciary standard.

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