OBSERVER

Risky Business

Perhaps you've seen it: the phenomenon of "beer muscles"—a person's misconception that they are stronger than they are after they've had a few brews.

In this industry, it seems that clients get "risk muscles" when there's good news in the market.

Clients are feeling a bit like flexing their risk muscles as of late, according to *Financial Planning's* monthly Retirement Advisor Confidence Index.

The index, which is a barometer of business conditions for wealth managers, reports that clients' perceived risk tolerance jumped 2.3 points in December 2014 to reach a five-month high of 54 points.

But the advisers who provided information for the survey remained cautiously optimistic at the news, indicating that though the numbers indicate investors are feeling more adventurous, they are only making minor shifts in allocations to bonds and equities from November 2014.

The index is composed of 10 factors, including asset allocations, investment product recommendations, economic and risk factors, and taxes and planning fees.

Though clients might be increasing their perceived risk tolerance, make sure they're doing it for the right reason, writes Wealthfront's Andy Rachleff in a December 2014 blog. He cautions that clients shouldn't change their risk tolerance score often and should do it for only three reasons: a major life change; a significant increase (or decrease) in liquid net worth; or a significant increase (or decrease) in income.

For example, he writes, if your clients find themselves with some excess income, they'll be able to take more risk.

Do not allow clients to change risk tolerance score for market timing, he cautions.

An increase in a client's perceived risk tolerance isn't anything new. In fact, the *Journal's* own Practitioner Editor Michael Kitces wrote last January that client's actual risk tolerance doesn't really change, but they perceive they can take more risk in bull markets because they think the risk doesn't really exist.

"It may be time for financial planners to more widely adopt quality tools to measure risk tolerance," Kitces writes, "but simultaneously recognize that managing client (mis-) perceptions of risk is the real challenge that we face."

> "I think Mark Zuckerberg is a fascinating entrepreneur, and Facebook is clearly an important thing. I really have some concerns, though, about privacy. Every kid has the right to have their teenage years forgotten. And I think we're losing that. I can honestly say that I'm glad that my teenage years are mostly forgotten."
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> **—Nolan Bushnell, co-founder of Atari, *Time***

STAT BANK

74.5... Percent of American families that have some form of debt. (Federal Reserve)

<40%... Share of workers with pensions in 1979. (*Bloomberg Businessweek*)

>10%... Share of workers with pensions in 2011. (*Bloomberg Businessweek*)

>10%... Share of workers with 401(k)s and other individual accounts in 1979. (*Bloomberg Businessweek*)

>40%... Share of workers with 401(k)s and other individual accounts in 2011. (*Bloomberg Businessweek*)

23... Percentage of survey respondents who don't think personal financial stability is attainable. (National Foundation for Credit Counseling)

66... Percentage of survey respondents who want financial stability, but don't know how to get there. (National Foundation for Credit Counseling)

77 years... For how long Social Security has sent out checks every month. (*Bloomberg Businessweek*)

19.9... Percentage of working women in management or professional occupations in 1970. (U.S. Department of Labor)

51... Percentage of working women in management or professional occupations in 2011. (U.S. Department of Labor)

50... Percentage of career military families that are confident in their ability to retire comfortably, up 11 points from six months ago. (First Command)

$36.17... Average amount per week American workers spend on lunch. (Accounting Principals)

4 hrs, 55 min... How much time spent watching TV, per day, for the average American. (Nielsen)

33... Percentage of Americans with mortgages who plan to save money for retirement in 2015. (HSH.com)

9... Percentage of Americans with mortgages who plan to refinance a mortgage in 2015. (HSH.com)

Most Investors Prefer In-Person Meetings over Technology

Despite Americans' love of all things technological—from our smartphones to Facebook—most investors still prefer to interact with their financial advisers through face-to-face meetings, with younger investors more comfortable using technology to do things like asking their advisers for information and reading industry news.

John Hanckock's quarterly Investor Sentiment Survey, which measures investors' views on a variety topics, found that 66 percent of all investors prefer in-person meetings, and only 35 percent mentioned email as a preferred way to interact with their advisers.

However, among investors under age 45, email was a preferred method of interacting for 51 percent, compared to 26 percent for investors age 65 and older.

"While technology clearly is important in investors' lives and used more prevalently by the younger generations of investors, that two-thirds of investors say meeting face to face is the way they want to interact with advisers tells us they find value in what advisers bring to the table," said Matthew Rigatti, vice president of Signator Investors, Inc., an independent broker-dealer owned by John Hancock.

> "It may feel and sound counterintuitive, but the more boring you can make the investing experience for your clients, the better off they'll be."
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> **—Carl Richards, CFP®, writing in *Morningstar* magazine**

Knowing Numbers

The start of a fresh year has a way of encouraging people to get all their finances in order. It's likely your clients are some of those people. Recently, the *Wall Street Journal* published an article giving readers an overview of the 15 numbers they'll need to know regarding their money.

Under the investing category, clients are being advised to learn the following: the percentage of savings in stocks; the maximum 401(k) contribution; the price/earnings ratio of stocks; average yield on bonds; and the average expenses of their funds.

In the taxes category, they should know their adjusted gross income and their state's estate-tax exemption amount. In terms of planning, they'd be wise to determine the following: their fixed living expenses; health care costs; costs to rebuild their home; price-to-rent ratio; and life expectancy.

When it comes to debt, your clients should know their mortgage interest rate and FICO credit score.

Another number clients should know would be how much they're helping adult children with their expenses. *Time* magazine recently reported that some adult children never become financially independent, oftentimes leading to their parents having to work longer or dip into their retirement to help.

In that case, Joe Franklin, CFP®, writes that planners should advise clients to use trusts and family foundations to ensure their wealth is responsibly spent. This also protects your clients against family members who might take advantage of them.

Also, as he advised two of his own, clients should be advised to wean their kids off economic assistance, save more while they can, and delay retirement for a bit.

"We're going to see repeated attempts to go in with seemingly technical changes that intimidate regulators and keep them from putting teeth in regulations. If we return to the pre-crisis business as usual, where it's routine for people to accommodate Wall Street on these technical changes, they're just going to unravel the post-crisis regulation piece by piece. Then, we'll be right back where we started."

—Marcus Stanley, policy director at Americans for Financial Reform, *New York Times*, reacting to the new bill, Promoting Job Creation and Reducing Small Business Burdens Act