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Keeping Your Clients on Track

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You've seen your clients make the same mistakes over and over again. They don't take enough risk in their long-term investments. They panic and sell during a market drop. They chase returns by buying last year's winners.

One of the best services you can provide your clients is to help them to avoid these costly investing mistakes. To do so, you must understand why your clients make the choices they do and then help them make better choices.

First, recognise that most investors—sophisticated and unsophisticated alike—are "wired" to consistently make the wrong decisions. And if you're completely honest with yourself, you'll probably recognise that you're inclined to some extent to make the same mistakes.

Once you understand this, what are you going to do about it? Follow these simple guidelines:

1. Create a long-term plan and stick with it. Develop an investment plan that will maximise the probability of achieving your clients' most important financial goals. You shouldn't work with any investor who doesn't agree to work with you on this basis.

2. Educate your client. Caution clients about the role of regret in their decision-making. Point out the tendency toward hindsight bias the mistaken belief that that there was something they could have done differently to ensure a better outcome. When clients understand this tendency, it's much easier for them to stay the course over the long run.

3. Look at the big picture. Always put performance in perspective. Individual investments should be examined not just in context of overall market returns, but also as part of the larger portfolio over time. Show your clients how concentrated gains in the market actually are just missing the best month out of each calendar year can result in drastically lower returns than staying invested throughout the year, for example.

4. Be in close touch. Few things are so effective in helping clients avoid mistakes than simply being in close contact. Without your reassuring presence, it's all too easy for clients to overact to market events and make poor choices.

Your clients are human and will make human mistakes. By understanding where they're likely to go off track, you can systematically take the steps that will help them avoid the pitfalls and achieve investing success.