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As an advisor, what can you do to help clients go through a market downturn?

The ongoing coronavirus pandemic has sent global markets into a seemingly unstopping vortex, but as a financial advisor, it is critical for you to convince your clients to stay on course with their investment strategy, citing historical stock market crashes and the subsequent market recoveries.

Communication plays a crucial role in volatile market situations, like the one we're facing right now. As a financial advisor, if you recommended a portfolio in accordance with the risk profile of your clients, then they should be able to recover from any short-term portfolio contraction.

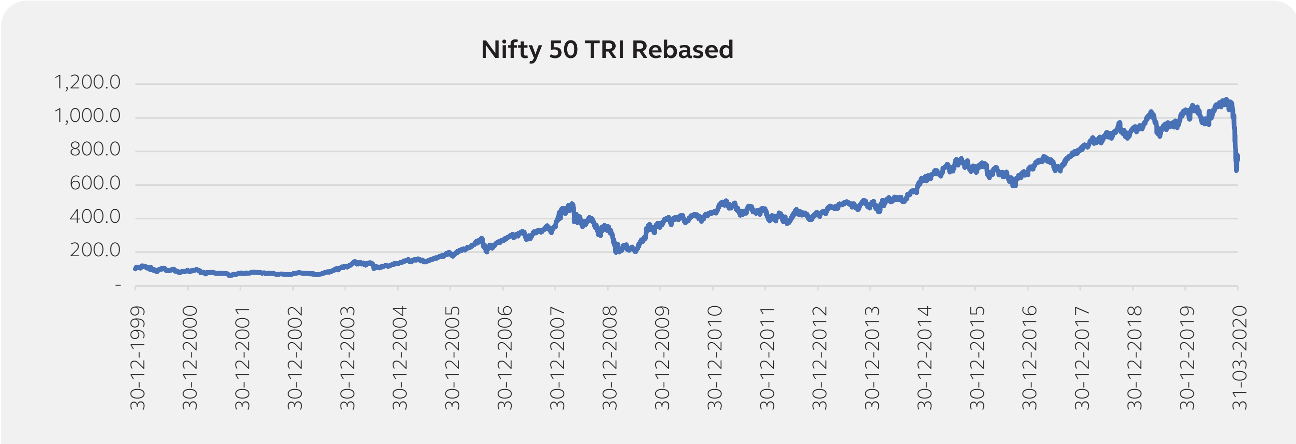
What History Has Shown

A close look at the market history reveals that stock market crashes aren't rare. In fact, the Indian economy has witnessed at least 10 stock market crashes over the past 20 years.

As an advisor, it is critical to be rational when convincing your clients to stay put.

Here's an illustration of a sample portfolio and its value across different market crashes. For simple calculations, we're considering a portfolio with an initial investment of INR 100.

Sample Portfolio Growth Chart Across Markets Phases



Past performance may or may not be sustained in future. Value of Nifty 50 TRI rebased to 100 as on Apr 1, 2000. Data as on 31st March 2020. Data source: www.nseindia.com. This study is for illustration purpose only and investors are advised to consult their financial advisors before investing. Investments are subject to market risks.

1. **Stock market crash of year 2000:** Starting with an INR 100 portfolio on January 1, 2000, the investment went as low as INR 59.3 on Sept 21, 2001, only to regain most of its value by October 2003. The portfolio continues growing until the next market crash (2008), reaching a maximum amount of INR 480+.

2. **Stock market crash of 2008-09:** The portfolio comes down to a minimum of INR 202 on October 24, 2008 only to reclaim INR 400+ level by the end of 2009.

3. **Market slump of 2015-16:** The portfolio remains strong through the slow market, hovering just over INR 600.

4. **Stock market slowdown of 2018 (Q4):** The portfolio briefly touches INR 680+ levels from its highs of INR 880+.

5. **Market slowdown of 2020:** The portfolio is down to INR 774 on March 23, 2020, from its recent highs of INR 1000+ throughout February 2020.

Note: Above calculations are done as per Nifty 50 TRI Data

Sharing these findings with your clients to indicate comprehensive growth despite multiple stock market downturns can restore their shaken confidence.

Is It Going to be OK?

A regular conversation between an advisor and a client is more or less oriented towards regular contributions and a positive, forward-looking outlook. However, a falling market could ignite a string of fear among investors. You may receive multiple calls from investors asking whether **"Is it going to be OK?"** and it's quite likely to be an emotional call, as their financial goals rely on it.

As a financial advisor, you should focus on the **"time horizon"** and risk profile of your client. It is crucial to make your clients understand that their investment period and risk profile remain the same even during a slow market. It's just the outside noise and market volatility triggering panic reactions.

Unless the client is set to reach his goal within the next couple of years, he/she has plenty of time to recover from a slump. Your previous analysis of a sample portfolio will help you highlight the importance of staying put with the investment, thereby calming your clients. Most of the long-term clients with past exposure (2008-09) to a market crash would've already learned their lesson.

Another primary concern among investors during the current coronavirus-lead panic is about **long-term recovery.** Many long term investors are afraid that the present virus-associated risks are capable of inducing a prolonged global economic depression, which might be challenging to recover from.

As their financial advisor, you must indicate that the global, as well as the local economies, have been through similar downturns and were able to recover in due time. Getting out of their investments as of now will not only make their present losses real but also eliminate their chances of benefitting from the recovery cycle.

A critical difference between this slowdown and historical ones is the fact that clients are worried about their physical as well as their financial health. Hence, it is crucial for you to convince clients to make the right investment decisions today, which will allow them to achieve their long-term goals in the future.

An Opportunity for Advisors

Despite the present negative sentiment, there is a silver lining for financial advisors. It's times like these when people realise the importance of working with financial advisors.

You as a financial advisor must caution your clients of a grave investing mistake, i.e., to buy high and sell low. Doing so could have a severe impact on the long-term financial goals of investors. You should instead focus on the time horizon and risk profile of your clients and convey the same to them.

Additionally, you should explain the benefit of continuing investments to your clients. Buying during falling markets allows clients to accrue assets at lower average prices, which could boost their portfolio returns during the recovery.

You should emphasise over the importance of having a financial plan in place. Furthermore, you must convince your clients to continue working with investment professionals, allowing them to avoid any costly mistakes and achieve financial security.

To conclude, it is best to remind everyone that there are some things which are out of everybody's control and but we should do what is in our control, and that is keeping our emotions in check.