

Strategies

FINANCIAL SERVICES NEWSLETTER

Published by Makovsky & Company Inc.

Volume 6 / Number 1

The New Realities of Communicating With the Retail Investor

In the aftermath of the dot-com bubble, retail investors pulled out of the market in droves. For a while, a US Savings Bond became the equivalent of a hot new technology stock, as investors craved safety for what remained of their portfolios. Then retail investors returned to the equity markets after a much briefer sojourn than pundits expected. Many are trying to make up for their prior losses. While brokerage firms and mutual funds welcome their return, some are worried that investors are setting themselves up for the next big fall.

Manage Investor Expectations

Communicators should be prepared for this eventuality by doing all they can to manage investor expectations, and ensure that their firms have been proactive in educating clients about risk/reward trade-offs. We believe that securities industry leaders will see this as an opportunity to seize the high ground with investors by:

1. Helping retail investors nail down their risk profiles – and reminding them of it each time they invest.

Securities industry leaders should use all of their available resources to ensure that retail investors know how much downside risk they are truly capable of absorbing, and choose assets that match that tolerance level. It may be time for firms to clearly categorize investments as being appropriate for certain risk profiles, and flag mismatches in investor choices. This should not be seen as a risk of losing a sale - alternatives can be suggested in the event that a customer indicates interest in an inappropriate investment. Interactive investment websites are ideally suited to this purpose, and we believe most CRM systems could be adapted to supply this information if they do not already do so.