Say Goodbye to Bad Clients

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Clients fire advisors at will, but advisors hesitate to disengage clients even when they are not worth the headache or risk.

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Corporation's right size. Museums deaccession works of art. But financial advisors—whether embarking on a broader pruning of their client list or parting ways with particularly troublesome customers—embark on a process of what is known as disengagement.

That's the word Kevin Bishopp, director of practice management at Russell Investments in Seattle, uses when he is guiding advisors through the tricky process of dropping clients who no longer fit well within an advisor's practice.

Because the advisor-client relationship can be very close, and because of the kind of duty of care an advisor owes to a client, "a lot of times, advisors feel obligated to clients to stay in the relationship, come what may," Bishopp says. The first part of his job, therefore, is to "coach them over the mental hurdle" and get advisors accustomed to the idea that it's OK to tell your clients that you can't work with them any longer.

"Clients fire advisors at will, but psychologically it's more difficult the other way around," Bishopp adds. "Yet many advisors have built books of business that are unsustainable from a business perspective or where the business simply isn't worth the headache or risk.

Competitive Pressure

At a time when advisors face growing demands for higher levels of both service and fiduciary responsibilities, it's more crucial than ever to make sure that client lists emphasize those who will value and listen to your advice.

"If there is a disconnect between the way the advisor and client view the relationship, it's hard to see how this will be fair to either—certainly not to the client," says Jack W. Kennedy, an advisor in West Deptford, N.J. "It's a partnership. and reviewing our client list helps us make sure that it's a healthy partnership."

That said, cutting back a client list can be a taboo subject in many quarters. Some advisors say simply that they screen new clients rigorously, looking for just the right fit when it comes to the type of portfolio, the client's objectives, the advisor's expertise and the relationship element—the ability to build the kind of partnership that Kennedy describes.

Few advisors are as willing to speak openly on the subject as Kennedy. A handful insists, adamantly, this is something they have never done and would never consider doing. Others clearly worry that merely discussing the possibility would be enough to jeopardize even the strongest current relationships.

That doesn't need to be the case, Bishopp argues. Rather, he says, pruning a client list can be the best way to continue serving all clients—including those who are let go. Provided the separation is done correctly, the process doesn't need to be nearly as stressful as an advisor may fear.

When to Cut Ties

Sometimes it's obvious that it's time to part ways. One red flag: when an advisor's phone rings, displaying the caller ID of a particularly difficult or demanding client, and everyone in the office cringes and tries to avoid answering.

"That's a telltale sign that it's time to move the account; perhaps they treat the staff poorly, or disregard your advice," Bishopp says.

Other cases aren't as clear cut. Sometimes some clients' assets don't grow as rapidly as the rest of an advisor's book, or one client's needs are increasingly at odds with the kind of services an advisor
tries to provide.

Sometimes the decision boils down to an issue of broken trust. "I had a guy, a client, who lost $550,000 trading Internet stocks; it was a disaster," says Paul Marrella, an advisor with Raymond James Financial Services in Wyomissing, Pennsylvania.

Marrella and his team didn't know what was going on until the client came to them to confess that he needed to adjust the rest of his portfolio in response to the losses.

"It was a personal disaster for him, and it was risky for us—now I was going to be the guy at risk for something he did on his own and didn't tell us about until later," Marrella says.

The fact that the client concealed the existence of his ETrade account from his advisor was evidence that the relationship was beyond repair.

"We had to tell him we couldn't help him anymore, that he hadn't trusted us or listened to our advice," Marrella says. "He was very upset, telling us that he couldn't believe that we would let him go after all the years he had worked with our firm."

Avoiding Risk
In cases like that, the decision is simple: Continuing to do business with a client who disregards advice can be professionally risky, especially when a client has explicitly told an advisor that he intends to disregard that advice.

If the decision turns out badly, and the client decides his advisor should have done more to stop him, the resulting dispute can cast a blot on an advisor's reputation.

"Advisors have a fiduciary duty to our clients, to make sure that their decisions are prudent," Kennedy says. That said, if a client insists on a move Kennedy views as risky or potentially too volatile to fit into his portfolio, he will suggest that the client open a "play" account elsewhere for that purpose. In such cases, Kennedy also makes it clear to the client— in writing—that this isn't part of the account over which the advisor has any oversight or authority.

"We are happy to manage their serious money, and we want to take that responsibility seriously," Kennedy says.

Regular Reviews
Some advisors take a hard look at their client list every few years: some do it consistently over the course of the year. Falling into the latter group are Trevor Kula and Randy Peck, of Peck-Kula Investment Management Group, affiliated with D.A. Davidson in Omaha, Nebraska.

The duo conduct many intensive, family wide financial planning sessions for their clients; if they encounter a client who doesn't need or want that kind of hand-holding, but turns out to be just looking for someone to manage an investment portfolio or build an asset allocation strategy, they say they would gently steer that client in another direction early on.

But the process is ongoing. "At heart it's a question of whether we are able to deliver what it is that they really want or need, and whether they are paying us for what we deliver," Kula says. "Are [they] going to value what we bring to the table?"

Since clients' needs and personalities can change, the two advisors still find situations where they need to bid farewell.

"Sometimes it is that they can't be bothered; they don't want to set aside the time for the meetings that we have to review everything," says Peck. "That's a clear sign that the fit isn't right."

Handling the Breakup
Handling the actual breakup usually isn't nearly as traumatic as advisors fear, says Paul Auslander, CEO of American Financial Advisors in Orlando, Florida, an RIA firm that manages about $250 million in assets.

The process Auslander describes sounds a bit like ending any relationship. "The best thing you can do is go and see them—maybe schedule lunch," he says. "And tell them that while you started out great together and while you still value the relationship ... you think they would be better served by someone else—for whatever list of good, factual reasons you can present to them."

"You're helping them to agree with the conclusion that you've grown apart," he adds.

Be prepared to explain specifics when making such a decision, and bring suggestions for what the client should do next. Advisors who work within larger firms can sometimes refer clients within their networks or suggest that a client use a firm's call centers, which will provide nuts-and-bolts services, but not advice.
Offer Referrals

Auslander says that when he meets with any client he's shedding, he's already identified others he believes may be a better match, and prepared them for the soon-to-be ex-client to call. "You tell the client that these three people are good planners, and that they would be a good first step in the process of finding someone else to work with."

But Auslander offers one caveat: "You obviously don't send someone to them who is going to be a risk for their practice," he says. "In that case, you tell the client to talk to one of the brokerages that may be more focused on transactions than on having a fiduciary planning responsibility to their clients."

Benefits for Clients

Often, advisors say, a disengaged client can learn from the experience, too. "I'll hear 'I didn't realize we had deviated so far' from the way we had been working together," Auslander says. "But then people realize that the fit just isn't as good—and they have a better idea of what to look for in the next relationship."

And yes, he adds with a laugh, it is a lot like dating—or, rather, breaking up.

Marrella says a recent cutback trimmed the number of clients his group serves by 20%. The firm parted ways with clients who were the least engaged with their advisors, as well as those who no longer fit in terms of the size or complexity of their portfolio.

Although Marrella says that well-established practices benefit from a streamlined client list, advisors agree this kind of process is most important for planners who have been in the business for less than a decade. Odds are that as they were expanding their practices, they found themselves signing on clients who weren't ideal fits, principally to build up assets.

Several years down the road, with their business better established and a clearer sense of their own strengths and weaknesses, as well as a better understanding of the expertise they can offer, it was time to prune.

"It's all self-inflicted," Kula says. "The way the industry is set up, we need to build our practice rapidly in order to stay alive, and so you have to deal later on with the issues that creates."

Suzanne McGee is a New York-based financial journalist who's written for The Wall Street Journal, Barron's and MSN Money.

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