As Pandemic Makes Clients More Risk Averse, How Should Advisors Respond?

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The pandemic has created risk averse investors, which can be acceptable for older people but not so much for younger ones, according to Chris Blunt, CEO of F&G, an annuities and insurance company based in Des Moines, Iowa.

To reassure older investors and spur younger ones to action, advisors need to explain their thinking process to their clients, he said.

“The advisor needs to bring his clients along with him during his process of making decisions, not just present them with the conclusions,” Blunt said in an interview today.

According to a recent survey by F&G of 1,463 people over the age of 30, at least four in five members of all generations feel they are more risk averse due to Covid-19 and, as a result, are hesitant to try or add any new financial products to their portfolio.

Eighty-four percent of respondents in the silent generation and 80% of baby boomers said they are more risk averse now. In addition, 47% of those over 75 said they are less likely to explore new financial products post-Covid compared to 39% of baby boomers who said the same.

This aversion to making more aggressive financial decisions has been created in part by the fact that older investors have lived through financial crises about once every 10 years and they know crises can recur.

“It’s not surprising to find they are more risk averse.” Blunt said. “The fact that the most recent financial crisis came in the midst of a frightening health crisis just made it worse. “

Although it is not necessarily a bad thing that older investors, who have less time to make up for any financial mistakes, are opposed to taking risks, “there is a massive amount of money sitting in bank accounts right now that should be put to work,” he said.

Advisors need to educate their clients about how to make good investment decisions, he said. “That means telling them the process you went through to come to the conclusions about their investments that you came to,” Blunt said.

“Trust in all forms of advice is at an all-time low right now, and that applies to advisors as much as anyone,” he added. “It takes time to build that trust, which means advisors need to share more of their thinking with the client. Make the client part of the process.”

Younger investors need to be convinced not to set and hold their investments, he said, adding that they should be encouraged to take some risks.

Advisors should look at their practices and see if anything needs adjusting, he said.

“Talk to other advisors who do things differently from you and see what their best practices are,” he said. “One other thing I worry about is that most advisors in practice today have not lived through a period of rising inflation. They need to look at the products they offer and see if they will withstand a sustained period of inflation.”