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ADVICE FOR ADVISORS WHEN THINGS SEEM TO BE FALLING APART

As the coronavirus pandemic accelerates, it's important to build a personal point of view about the best way to cope with the future's uncertainties. For client-facing advisors, the actions you take and the words you share will likely determine the trajectory of your business over the next few years. Here is some advice for helping yourself and others through the crisis.

IN THE WORDS OF FDR

The best advice I've ever heard for coping with times like this was spoken by the newly elected President Franklin Delano Roosevelt on March 4, 1933, as he began his first inaugural address:

"So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance."

We've heard these words so often that we risk losing the importance of this advice: for all of us, especially those who have earned the trust of clients and serve as their advisors, the most important thing we can do to be helpful is *to manage and metabolize our own feelings of fear*.

AB ADVISOR INSTITUTESM



Ken Haman
Managing Director

WHY IS FEAR THE PROBLEM?

Roosevelt hit the proverbial nail on the head when he called fear a “nameless, unreasoning, unjustified terror which paralyzes.” As professional advisors, our first commitment is to ensure that we are advising from a solid, rational perspective. No matter how many strategies we have learned for communicating about the markets or managing our clients’ emotions, if our *own* feelings have been activated, we run the risk of stimulating anxiety in other people rather than being a calming force of wisdom and deep insights.

As Daniel Kahneman reminds us in his famous book *Thinking, Fast and Slow*, every human brain is wired with a rational or “slow-thinking” structure that uses information and analytic processes to arrive at perspectives and decisions. Unfortunately, this part of the brain can easily be overwhelmed by the “fast-thinking” part that relies on simple impressions and emotional reactions to stimulate instinctive survival responses. This two-part structure presents the essential challenge we face when dealing with a crisis such as the coronavirus pandemic: to be effective as an advisor requires a thoughtful, highly rational perspective *precisely when we are most likely to have our own instinctive fight-or-flight reactions activated*.

WHAT CAN A THOUGHTFUL ADVISOR DO?

The AllianceBernstein Advisor Institute has developed messaging strategies to help advisors communicate more effectively with clients and manage their emotions. These strategies can increase feelings of comfort and confidence and lower feelings of anxiety. To get a list of or order the materials, call (800) 247 4154.

In the meantime, the first way to deliver these strategies effectively is to take control of your own emotional reactions to the current situation. Here’s some advice for you as a frontline advisor:

1. Pay attention to your feelings and question your emotional reactions

The fast-thinking part of your brain will react to every stimulus you experience in the environment. Comments in the news, empty shelves in the grocery store, feedback of friends and neighbors, and the constant flow of data from around the world will bombard you with “good reasons” to react. Market fluctuations will magnify those feelings with real losses that arouse “nameless, unreasoning, unjustified terror which paralyzes.”

These stimuli will naturally activate vigilance and a compulsion to gather more information, and you will try to figure out how to fix the problem. It’s easy to feel frantic about how bad things seem to be. This is because the fast-thinking part of the brain can magnify and catastrophize the current situation and exaggerate the negative at the expense of the positive.

One of the most powerful things you can do to take care of yourself in this kind of overstimulating situation is to *pay attention to your physiology*. Question your assumptions when you feel upset. Be especially sensitive to times when your heart rate is elevated, you’re breathing faster than normal and you feel butterflies in your stomach. These are indicators that your fast-thinking brain has been activated and that your thinking may be more instinctive and less rational. Feelings of anger, frustration or depression signal that your mind has succumbed to the fast-thinking part of the brain.

At these times, try to avoid conversations with clients. Instead, respond to your own feelings by getting high-quality information from reliable sources. Sit quietly for a few minutes and take slow, deep breaths to reduce anxiety. Most importantly, ask yourself: “What am I feeling? Where are those feelings coming from? What part of my brain is in charge right now? Am I thinking clearly?” The simple act of questioning your own reaction activates the slow-thinking part of the brain and reduces the influence of your less rational survival instincts.

2. Focus your thinking on a long-term perspective

The fast-thinking part of the brain is purely reactive and in the moment; it doesn’t have the ability to analyze information or use language to sort out different ideas. To reduce the influence of your emotional mind, ask yourself one or two strategic questions and take the time to think through your answers. Here are a few questions that can stimulate your analytic thinking and shut down your impulsiveness:

+ “What’s likely to happen next—and after that?” The fast-thinking brain specializes in immediate threats and impulsive responses. By considering the long-term process that’s unfolding, you force your brain to use the slow-thinking part (the right tool for the job). Spending just a few minutes thinking through your professional point of view about the future will shift your brain’s activity.

- + “Does history offer any perspective on this situation?” The fast-thinking brain is designed to produce intense reactions. By zooming out and looking for more information upon which to base a decision, you activate your slow-thinking brain and rational information-processing skills—and shut down your emotional reactions.
- + “On a scale of one to 10, with 10 being defined as the worst possible situation we could be in, how bad is the current situation?” Then ask yourself, “Why, specifically, is the score that high?” Take a moment to be thoughtful about how you calculated your score by *making a list of your answers*. The simple act of making a list and assessing each reason stimulates your slow-thinking brain.

Next, ask yourself: “Why, specifically, isn’t the score higher?” This forces you to explore all the reasons why the current situation isn’t as bad as it can feel to the primitive, fast-thinking brain. Such a strategy forces your analytic brain to look for positive information in the environment, which tends to calm and enrich your thinking and to supplant the brain’s quest for negative information.

3. Take actions on things you can control

Here are some indicators that your brain is in the less rational, fast-thinking setting:

- + You are intensely focused on the immediate situation.
- + You find many “good reasons” to be deeply concerned.
- + You are constantly scanning for how to fix everything that feels broken.
- + You look backward in time and attempt to see if you could have taken some kind of preventive action.

All of these can lead to taking impulsive actions in a misguided and unreasonable attempt to make the bad feelings go away. The fast-thinking part of the brain craves action—any action—that even remotely appears to be helpful.

This creates a paradox for you as an advisor. Your fast-thinking brain wants you to take action—and to do so powerfully and immediately! At the same time, your rational mind knows that acting on impulse in the middle of a market correction is likely the worst thing you can do—potentially locking clients into losses and setting them up for facing the painful decision of “When should we get back in?” This can feel like a catch-22 with no easy way to sort out what seems to be an impossible conflict.

Fortunately, there is something you can do to take action without being impulsive: reach out by calling your clients and having thoughtful conversations. Focus on listening to how each client feels, and take the time to explore those feelings at some length. The more you help your clients put their feelings into words, the more comforting talking to you will be. For those who want to take drastic, impulsive actions, be prepared to share your professional point of view about long-term investing. For those who are more thoughtful and confident in your advice, share how you see the current situation and what you think the long-term future may look like.

A crisis such as the coronavirus pandemic is painful for all of us. Nevertheless, it does represent a powerful opportunity to communicate effectively with each client and be seen as a thoughtful and comforting resource. The benefits of achieving that status today will likely pay dividends for years to come.

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- + Helping investors overcome their emotions and keep their portfolios on track
- + Defining the importance of investment planning and portfolio construction in determining investment success
- + Providing tools to help advisors build deeper relationships that benefit their clients and their practices

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