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## Opportunist or victim? It's the advisor's choice

September 16, 2008 | Nick Murray



I awoke in my Vancouver hotel room on a Monday to find — as had been anticipated Sunday evening when I turned in — that Merrill Lynch had sold itself to Bank of America, and that Lehman Brothers had filed for bankruptcy. Screamed the *Vancouver Sun* headline, "Meltdown Feared In World's Markets."

Well, thought I, that's certainly part of the truth: some people are waking up this morning in fear that the world's markets will "melt down" — whatever they construe that phrase to mean — while others are not. But even I would admit that the *Sun* could not have made a headline out of this observation. In that case, they'd have had to say, "Meltdown In World's Markets Feared By Some, Not By Others." Such a statement would of course be disqualified from ever constituting a headline in any newspaper in the world, on not one issue but two: (1) it would take up too much space, and (2) it's the truth, rather than the news.

The real question was (and remains): which did you — and, through you, the clients who rely on your judgment — think it was? A disaster to be dreaded, or an opportunity to be seized? For there are, finally, only two ways in which a career financial advisor can experience an episode of significant distress in the financial markets. One is as a victim; the other is as an opportunist.

The four-word death song of the victim is, "It's different this time." This is shorthand for, "Even though there has never before been a confluence of economic, financial and/or geopolitical forces powerful enough to break the permanent uptrend of democratic capitalism, and of the capital markets through which it exchanges securities, **now something new, different and inexpressibly worse is happening**, and therefore the old truths no longer apply."

Adopting this worldview, the victimized advisor ceases to be of any value to his clients whatsoever. Freely acknowledging that we are in *terra incognita*, he can only stand impotently aside as his clients flee to cash, along with all the other lemmings. He certainly isn't prospecting, because he wouldn't know what to tell people. On those rare occasions when someone comes to him with funds to invest, he parks them in a money market fund, regardless of the goals and needs of the client. He becomes, in time, that most wretched of creatures: an advisor with no advice to offer.

The opportunistic advisor reasons as follows: "Each and every crisis appears radically different from all the catastrophes that have gone before **at the time you're going through them**. The U.S. commercial and investment banking system has burned through something less than two trillion dollars in capital, and that's a truly terrible thing. But I seem to remember four trillion dollars going up the flue **on Nasdaq alone** between 2000 and 2002, and the economy came through just fine.

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"Come to think of it, the decline in the broad U.S. market throughout this terrible credit crisis is still less than half of how much it went down in the tech implosion/recession/September 11/accounting scandals of those years.

"Funny, but every crisis seems to be like that. From the Long-Term Capital Management/Asian contagion meltdown in 1998 to the war/recession/layoffs/savings & loan crisis of 1990-91 to the greatest one-day stock market crash of all time in 1987 — indeed, as far back as I can see — seemingly unique and insoluble crises strut their hour upon the stage and then fade from memory as the permanent uptrend resumes.

"I think this crisis is going to end up looking like that. That is, I don't know how it's going to end, but I'm highly confident **that** it's going to end, and maybe that's all I need to know.

Everybody around me is not just bearish but hysterical. They can't all be right. I think maybe I should start calling around, to see if anyone has some cash with which to buy marked-down portfolios of great companies **before the sale ends.**"

Try to remember that the victim and the opportunist are having the exact same experience of the current unpleasantness. They're both working from the same set of facts, and neither is able to predict when, where or even why the great financial forest fire of 2007-08 will burn itself out. All that differentiates them, at the end of the day, is one perception. The victim is quite sure that this time is different; the opportunist is pretty sure it's not.

Of the current situation, relatively little need be said, all of it unpleasant. Sparked by a protracted period of absurdly low interest rates, Wall Street went out and spectacularly levered up the one asset in Main Street that was already leveraged to the gunwales: the single-family home. Around this rotten core evolved a universe of exponentially more complex and ultimately incomprehensible (most of all to their inventors) synthetic instruments.

In the race for easy fees, first underwriting standards and then the risk management function itself were abandoned. This was fine, as long as the core asset upon which the whole caravanserai rested kept appreciating. In mid-2005, it stopped. What is most startling is not that this house of highly-leveraged cards collapsed, but that it took so long to do so. It wasn't until June 2007, when the first Bear Stearns mortgage fund imploded, that the music started to stop.

Even then, the banks had more than enough time to unwind their grotesquely leveraged balance sheets. They failed to do so. Fourteen months later, Merrill Lynch (the last extant of seven stockbrokerage firms with whom I interviewed in 1967), has been sold at a fire-sale price, and Lehman is in liquidation. *Requiescat in pace.*

Meanwhile, cash balances are building up all over the world to levels (even scaled to GDP and equity market capitalization) which have no precedent in history. If you're looking for something that might just be really different, look at global cash: when least expected, a spark may touch off the greatest buying panic any of us has ever seen.

Smith Barney's John Manley once said that the shortest interval of time measurable by man is between the moment when it's too soon to buy stocks and the moment when it's too late. We opportunists wait in joyful hope for that moment, and are in the meantime investing our cash as fast as we can. The opportunist is not worried about getting caught in the market's last capitulation-driven 20% down leg. He's worried about being left out of the next 100% uptick.

To the opportunistic advisor, I recommend a program of four activities. First, go through your entire account book and prospect every client you have for new money (or just the acceleration of an accumulation program already in place) **before the sale ends.** (Once again, the victim's bear market is the opportunist's big sale.) If nothing else, this will get you acting again — instead of reacting — and turn yours into a positive, hopeful voice.

Second, when the process above is complete, prospect your entire account book again, for introductions (not just referrals). The appeal is: you, Mr./Ms. Client, have an active, engaged, opportunistic advisor — *moi* — who is trying to keep you investing in a way that is consistent both with long-term economic and financial history, and with your own long-term goals. **You must know someone who does not have such an advisor** — indeed, someone who feels abandoned by their advisor. I would like you to introduce me to that person, please.

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Third, prospect everybody you've ever prospected. People who told you they were happy with their advisor a year ago, when the market was making new highs, may have long since — given the events of the last complete turning of the leaves — discovered that he has clay feet. The time to prospect isn't when markets are up and people are reasonably happy with their advisors; it's times like now.

And fourth, go to my website [www.nickmurray.com](http://www.nickmurray.com), and download my sample newsletter. From it, help yourself to a piece called "What We Offer: a cup of coffee and a second

opinion." It's a warm, encouraging, friendly offer of good counsel in these difficult times: e-mail it, put it in your window, run it as an ad in your local paper. People love it, and they'll love you for it as well. It's my gift to you.

Upwards of forty years ago, I learned a definition of the phrase "bear market" which has served me extremely well ever since. ***A bear market is a period of time during which common stocks are returned to their rightful owners.***

The same is true, I believe, of clients and their investable assets. During wild bull markets — when children, charlatans and madmen flock to the investment advisory profession — clients migrate away from strong advisors to weak ones, with their promises of easy wealth. But in markets like this, chastened clients are ready to move back into strong advisory hands.

All it takes is an opportunistic advisor — one with faith in the future rather than fear of it — to prospect them, and to show them the way.

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