3 Tips To Proactively Prevent Investors from Panic Selling

How Risk Analytics and Stress Testing Can Help

Financial experts know the power of maintaining a level head even in rocky financial markets. Unfortunately, those outside the industry may not share your calm. During times of volatility, it's common for advisors to field calls from nervous clients. Some may even ask you to pull them out of the market.

It's not enough to simply say, "Don't panic sell." Upset investors must be convinced that the turbulence will eventually end and that a brighter future is possible.

Stress testing and risk analytics can help advisors navigate these challenging conversations with clients. Here are a few tips and tools to keep everyone calm.

1. Use Risk Tolerance Questionnaires To Address Panic Selling Proactively

Sometimes the best way to solve a problem is to prevent it from happening in the first place. To head panic selling discussions off at the pass, make sure you've built portfolios that align with each client's unique risk tolerance.

A risk tolerance questionnaire helps you understand a client's investment goals and ability to ride out the waves of the market. A skittish client will not be comfortable investing in assets prone to wild swings; they may be willing to sacrifice potential upside for the security of knowing the downside might not be too steep.

More confident clients, like those with a long time horizon and no immediate income needs, may feel comfortable accepting greater downside risk in return for a more substantial potential upside.

The only way to know a client's risk appetite is to **ask**. By starting every conversation with a risk tolerance assessment, you can build portfolios that will weather the market's movements to keep each client comfortable enough to resist the urge to panic sell.

2. Historical Data Can Calm Clients Primed to Panic Sell

During down periods, some clients picture themselves as masters of the uncertain universe. They think they will time their exit from the market correctly, then jump back in at the right second, only to make a killing on the upswing. You are the best one to disabuse them of this notion.

The numbers have shown time and again the fallacy in this thinking. It's nearly impossible to anticipate those upward swings that follow down periods, and it's the investors who ride out the highs and lows who consistently see greater success.

Take this example of hypothetical investors who put $1,000 in the market from January 1, 2009, to December 31, 2018. The investor who missed the ten best days made nearly $1,000 less than the person who kept their money in place the entire time.

A modern risk intelligence solution has vast reserves of data to help you educate clients about the value of resisting panic selling. Show them numbers that illustrate there are still pockets of opportunity and reasons to be hopeful about the market's future, and you may convince them to stay the course.

3. Use Portfolio Stress Testing To Replace Feelings With Information

Fear makes clients jumpy in volatile markets. They envision a worst-case scenario where the markets never rebound and lose everything they've worked so hard for. These tales investors tell themselves can lead to some irrational feelings.

Stress testing can replace those nervous feelings with actual models of hypothetical portfolio performance.

When confronted with a client's nervous impulses, present them with stress testing results. Forward-looking stress testing is based on real-world events. While it can't predict the future, it can give you a realistic look at the potential upside and downside based on the present moment.

The best way to calm an irrational fear is to present a rational alternative, and stress testing provides a clearer understanding of the range of possible outcomes. Rather than watching your client spiral into a worst-case scenario mindset, you can ground them with actual data points.

There's no substitute for experience, and financial pros know that market lows will pass and the good times will return. But for clients who may not possess your hard-earned wisdom, risk intelligence technology can help you prevent panic selling.

Getting to know a client's risk appetite with a risk tolerance questionnaire, leaning on historical data, and presenting a picture of a hypothetical future with stress testing are three ways to address the risk of panic selling head-on.

Learn about Orion Risk Intelligence to see how our industry-leading risk analytics software can improve client service in any market.