INTRODUCTION TO THE
THE SCRANTON SALES PROCESS

ADVISORS' ACADEMY
SERIOUS RESULTS FOR SERIOUS ADVISORS

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INTRODUCTION TO THE SCRANTON SALES PROCESS

HELLO, I'M DAVID SCRANTON,

The founder of Advisors' Academy. Congratulations on making a career changing decision to join our group! Now, I urge you to take full advantage of my years of experience in the financial industry by studying and absorbing what I call the Scranton Sales Process!

Hopefully, at this point, you have gone through our intensive academy training and now have a basic understanding of my process. By reading and rereading this manual you will, eventually, become proficient at my sales process. Ok let's begin!

There are several overriding themes that you must keep in mind:

Discovery Process

The sales process should be part of a **discovery process,** wherein the prospect discovers, with your help, that they have a problem—and that you are the solution to that problem.

As renowned sales trainer Brian Tracy says, "Telling is not selling." You cannot simply tell a prospect that they have a problem. Nor can you tell them what product they need in order to solve their problem and expect them to automatically take action. Instead, they must **discover** it on their own.

Judo vs. Karate

You should approach financial sales by using "less force, and more momentum." Think of it like comparing Karate to Judo. As a fighter in **Karate,** you attack your opponent and they attack you back. The relationship between advisor and prospect often mirrors this, unfortunately. By the end of the appointment, both parties are exhausted from the back-and-forth combativeness. As a fighter in **Judo,** however, you entice your opponent to lean toward you and use the opponent's momentum in order to win.

As the advisor, you want to practice *Judo,* not Karate. Instead of bantering back and forth, let the prospect gracefully come to the conclusion that they do in fact have a problem and that you are best suited to solve their problem.

Just Say NO to “Annuity Breath”

Wouldn’t it be nice if we could simply show a prospect a better way, a better financial tool, and they would sign up? Unfortunately, that’s not how it works. People are more motivated to change advisors to solve a problem than to merely improve their current position.

Perhaps the biggest mistake an advisor can make is to provide the product solution before the prospect understands the magnitude of the financial problem that the product is intended to solve.

One Decision at a Time

A lot of traditional sales techniques ask a prospect to make four decisions at once:

1. That they have a problem
2. That their current advisor is not best suited to solve the problem, so they must switch
3. That they want you as their new advisor
4. That they need a specific product from you

This is a lot to handle all at once! It’s no wonder the most common client objection is: “I want to think about it.” Our process will help the prospect by keeping his or her decision making process pure: **one decision at a time.**

Process Not Product

Let’s face it: most advisors have access to similar products. It’s not your *product* that will solve the prospect’s problem—it’s your educational **process** and philosophies. The Scranton Sales Process will help you make a paradigm shift, allowing you to see the solution as a process, not a product.

3 Acknowledgements

Before you can offer a product solution to a potential client, there are three things that they must first acknowledge:

1. They have a **problem**
2. They are **motivated** to solve the problem
3. They want to solve the problem through **you**

“Motivation to solve a problem” *is defined as when the potential client is willing to liquidate something (stock, fund, etc.) and/or change advisors in order to solve the problem.*

THE SCRANTON SALES PROCESS CONSISTS OF 7 STEPS. THE ORDER OF THESE STEPS IS IMPORTANT:

1. CFQ
2. Categorize the Prospect
3. Use Appropriate Track
4. Build a Wedge
5. The Commercial
6. The Close
7. Banks, Bonds, Insurance Companies

Step 1 is to get a **Confidential Financial Questionnaire (CFQ**) —also known as a Fact Finder for those of you who've been in the industry for a while.

Step 2 is to **Categorize the Prospect.** They will be either labeled a: *multiple-advisor* prospect, *single-advisor* prospect, or *do-it-yourself* prospect. Then, based on the most likely outcome, the prospect will be deemed either a: *product sale, planning trail, or garbage pail.*

Step 3 is to **Use the Appropriate Track** to help the prospect discover that they have a problem and to motivate them to make a change in order to solve that problem.

Step 4 is to **Build a Wedge** between you and their current advisor. You want to enable the prospect to discover that their advisor is doing more to hinder—not help—their financial situation. Only then can they realize that they need a competent advisor (that's you) to take on their financial portfolio. Don't think of Steps 3 and 4 as separate and sequential. Rather, interweave them as you go through the process with your prospect.

Step 5 is to **Give Your "Commercial"** to the prospect—*only after they've asked for it!* You can't just "vomit" it out—otherwise, it comes off looking like a sales pitch. Instead, you have to *entice* the prospect to ask for your commercial.

Step 6 is **The Close.** The goal is to get a written commitment that the prospect wants your help. This means your prospect must commit to work with you in writing, specifically by transferring all or some of their assets by an ACAT transfer.

Step 7 is called **Banks, Bonds, And Insurance Companies.** This is where you finally get to present the product solution in a compliant way. The prospect will most often choose an annuity for part of their assets.

DO YOU WANT TO BE VIEWED AS A SALES PERSON OR A TRUSTED ADVISOR?

Ideally, steps 1-6 should be completed in the first 1–1 ½ hour meeting. Occasionally, a second meeting is required, but never more than that.

Think about it! Sales people are willing to offer unlimited meetings at no charge in the hope that the prospect buys something. Sales people offer recommendations, free of charge, and sometimes create detailed proposals in the hope that the prospect buys from them. Professionals, however, get paid for their work.

If you act like a salesperson, you will be viewed as one. Acting like a professional, whose time and advice is valuable… priceless!

THE SCRANTON SALES PROCESS

CHAPTER 1
CFQ

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CHAPTER 1
STEP 1: CFQ

The big idea to keep in mind here is that the ultimate sale is not made during the close—but during the **CFQ!** (Confidential Financial Questionnaire).

Right from the start, put yourself in the position of the trusted advisor. Use an educational approach without the use of sales aids. Limit small talk to 2-3 minutes maximum. Think about it; sales people use excessive small talk and canned sales presentations (including flip-charts and PowerPoint presentations). The best way to build rapport is to show people that you are trying to help them.

The CFQ should take no more than 20 minutes.

Round numbers are ok; don't get anal retentive! Start with the quantitative data, and then go to the qualitative questions. Most standard CFQs are probably sufficient for obtaining the quantitative data. Although it's not essential, I like to gather quantitative data by starting with the least invasive questions. Here is my order:

Quantitative Data Questions

1. **Occupation[1]***
2. **Family[2]***
3. **Home/Real Estate**
4. **IRAs/401Ks**
5. **Individual Stocks/Bonds**
6. **Mutual Funds**
7. **Non-Qualified Annuities**
8. **Money in the Bank**
9. **Debts**
10. **Income Sources:** now and/or after retirement (including cash flow from investments)

[1]**Ask the prospect what type of work they did before they retired.** This is important because their employment history gives you a trail of clues about their personality and decision-making process.

[2]**Ask the prospect how many children they have.** Other relations might include stepchildren, grandchildren, second marriages and the like.

***Questions 1 and 2 are my idea of small talk.**

Key Point: When obtaining the income information from the prospect, make sure to ask them for their tax return. It's easier to transfer the income sources right from the 1040, rather than trying to gather the information from the potential client.

Key Point: The ultimate sale is made during the CFQ.

Qualitative Questions

The next step is gathering the **qualitative** information, using 6 "softer" questions. This is the step in the process where the sale is made. **You need enough detail to determine the appropriate track.**

1. **Who?[1]**
2. **What?[2]**
3. **Where?[3]**
4. **When?[4]**
5. **How?[5]**
6. **Why?[6]**

[1]**Simply identify the prospect's current advisor.** It's helpful to know who you're up against. This is necessary information for building a wedge between you and their current advisor.

[2]**Figure out the type of investments the prospect has.**

[3]**Find out where the assets are held:**

- In certificate form
- Subscription (directly held mutual funds)
- In "Street Name" (brokerage account)
- By the transfer agent

[4]**Find out when the prospect began a relationship with the present advisor(s).** Find out when they bought the particular investment (if it's not part of a brokerage account).

Knowing when the relationship or investment began is important because it will give you a better idea as to the prospect's resistance to change. A "when" that is too recent or distant might imply more resistance to change.

Keep in Mind... The 'Who', 'What', 'Where' and 'When' can typically be gleaned from the statements and thus, attained for all accounts. Then, when you've determined which accounts are problematic, you will also want to obtain the following:

[5]**Figure out how the prospect works and gets along with his advisor.** Does the prospect typically acquiesce to their advisor? Or is it more of a flexible, give-and-take relationship?

[6]**Finally, you must learn why the prospect chose their advisor in the first place, or why they decided on the particular investment.** This is the question that will give you a glimpse into the client's psyche and find out what makes them tick. The 'How' and 'Why' will be the most difficult to obtain, but are the most important.

THE SCRANTON SALES PROCESS

CHAPTER 2
CATEGORIZE THE PROSPECT

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CHAPTER 2

STEP 2: CATEGORIZE THE PROSPECT

The second step is to **categorize the prospect in two important ways.** Based on their advisor orientation, the prospect will be considered one of the following:

- **Multiple-advisor** – more than one advisor handles their case
- **Single-advisor** – most of their assets are with one advisor
- **Do-it-yourselfer** – handles their own investments

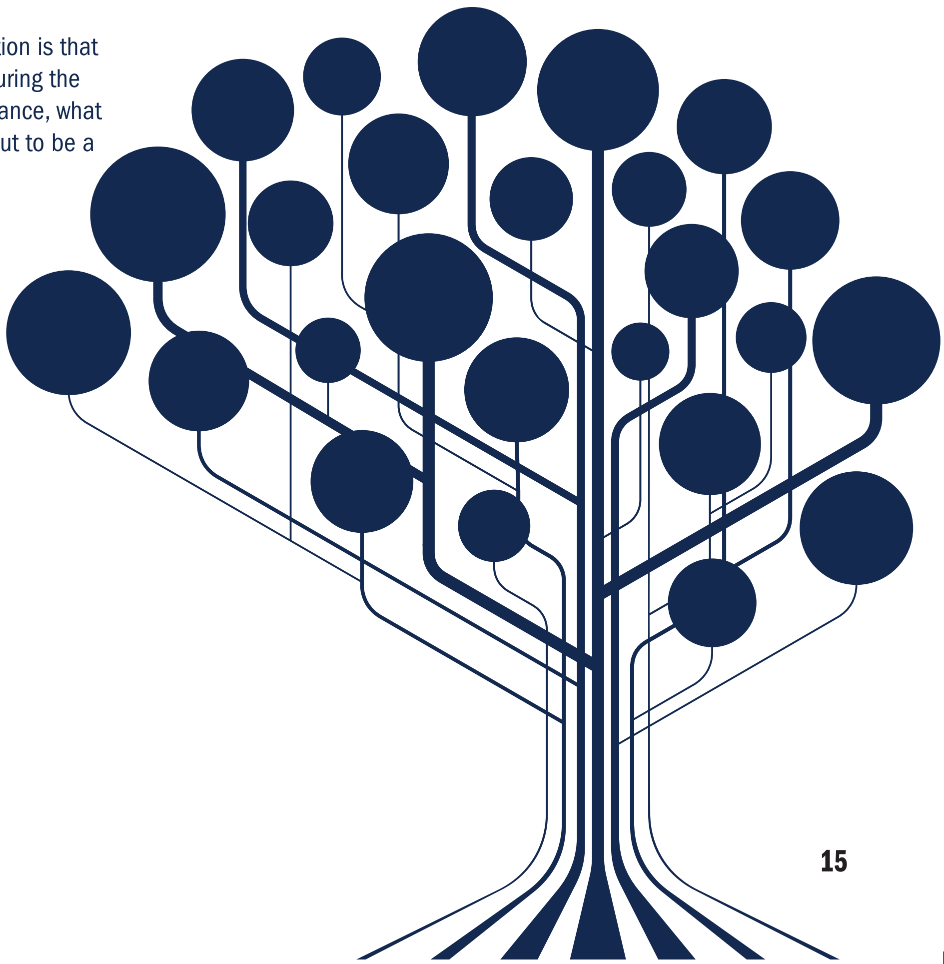
Then, based on information you will gather throughout this first meeting, the prospect will be categorized as one of the following:

- **Product Sale** – needs help with a portion of their portfolio
- **Planning Trail** – needs help with their entire portfolio
- **Garbage Pail** – someone you cannot help in any way

You should be able to discern, pretty quickly, whether the potential client is a **multiple-advisor, single-advisor, or do-it-yourself prospect.**

It will be more of a challenge to decide if the prospect is a **product sale, planning trail, or garbage pail.** If it is a product sale, the "likely" outcome is the prospect will allow you to handle some of their assets (typical of a mulitple advisor prospect). If it is a planning trail, the "likely" outcome is the prospect will allow you to handle all of their assets (typical of a singl advisor prospect).

The important thing to keep in mind with the latter classification is that you'll be constantly trying to categorize the potential client during the first meeting. In fact, your choice might even change. For instance, what you initially may think is a **product sale**, could actually turn out to be a **garbage pail.**



CLASSIFYING A MULTIPLE-ADVISOR VS. SINGLE-ADVISOR VS. DO-IT-YOURSELF

Multiple-Advisor Prospect

This prospect believes the old adage, "two heads are better than one." As advisors, we think of diversification in terms of investments. **Multiple-advisor prospects** (or M.A.P.s) however, think of diversification as diversifying their advisors. Often, they don't want to take the time to understand various strategies, so this "diversification" is their safety net.

Always ask a Multiple-Advisor Prospect...

"Please rank your advisors. Who is doing the best job, the second, the third, etc."

If you can't get them to rank, try this:

"Ok, Mr. Prospect, let me put it another way, if the president passed a law that you can only have one advisor, which one would it be? Then, if the law were appealed, which would you add back on?"

This will give you insight into which advisors are the most vulnerable. It is important to realize that it's unlikely you'll be able to help them with all of their accounts.

Single-Advisor Prospect

Single-advisor prospects (or S.A.P.s) believe there are advantages to having most or all of their investments coordinated by one advisor. Therefore, they can be our best clients over time. They can also be more resistant to change because of their deeper relationship with the current advisor. Because of their beliefs, they will typically move all their assets to us, or leave all of them with the incumbent. Because of this "all or nothing" attitude, the most important step in the sales process will be Step 4 – Building the Wedge.

If the prospect has been with their current advisor for 10+ years, it may be difficult to sway them over to you – no matter how competent you are. On the other hand, if they came to you, already dissatisfied with their advisor, it might be easier to convince them to make the switch.

Single-advisor prospects often "shop around" if they sense that they need to switch advisors – that's why it's imperative that you find out if they are simultaneously interviewing other advisors, or if they are coming to you exclusively. This might be a situation where you have to offer a second meeting in order to get a written commitment.

If so, be sure that your second appointment comes after they have interviewed everyone else. Sometimes telephone contact between the two meetings can build rapport as you coach them through the decision-making process. You have to build a strong foundation to base your financial relationship with this person – so you can't rush! If you go for the close too soon, you run the risk of losing the prospective client.

Do-it-Yourself Prospect

This prospect has taken care of their own financial portfolio for many years, and has not relied on a professional to handle their finances. Sometimes, this is because they don't trust anyone else. Other times, it is due to an over-inflated image of their own abilities. Regardless, a **do-it-yourself** (or D.I.Y.) prospect will typically want to begin a relationship with only a portion of their assets.

There is some good news – as these prospects age, they will be more inclined to relinquish more and more control over to you.

Common instances when do-it-yourselfers look for a financial planner:

1. They are about to take income distributions from their investments. The problem is they are usually clueless about how to properly invest for a viable income strategy.
2. They are concerned about the death of the "financial caretaker."
3. They are tired of managing/investing their entire portfolio. Many people find doing so after retirement to be overwhelming and exhausting. You must motivate the do-it-yourself prospect to think about hiring you by asking them this important question at every opportunity you get:

"Do you really enjoy managing your own money and investments?"

Key Point: Remember to be extremely tactful when questioning this type of prospect about their abilities.

Here's an Example...

Your approach will sound something like this:

"Mr. Prospect, it looks like you have done a pretty good job over the years accumulating money and managing your investments. Correct me if I'm wrong, but it seems as though most of your experience has been with investing in the more aggressive category of stocks or stock mutual funds."

The prospect will then confirm that his experience with conservative income generating strategies is limited, and that he doesn't really understand bonds or other conservative investments. You'll continue by saying:

"That's what I thought, Mr. Prospect. So you are at a point now where you have agreed that you need to lower your risk, but you have some potentially difficult decisions to make. You can continue to do it yourself, but that means you are going to have to educate yourself about various conservative investments and how they work. Since you are entering uncharted waters, it's going to be even more challenging than ever before to manage 100 percent of your investments. Perhaps you might want to consider using the resources of a competent advisor, who specializes almost exclusively in conservative investments, for the non-stock part of your portfolio."

CLASSIFYING A PRODUCT SALE VS. PLANNING TRAIL VS. GARBAGE PAIL

Product Sale Prospect

They will let you handle part of their portfolio, but don't yet feel comfortable handing you the reins to the entirety of their finances.
Do-it-yourself and **multiple-advisor prospects** typically turn into **product sales.**

Key Point: Product sales are usually do-it-yourselfers or people with multiple advisors.

Planning Trail Prospect

A **planning trail prospect** believes in diversifying several investments with only one advisor. A potential client may come to you having already lost confidence in their current advisor.

Single-advisor prospects usually become **planning trails**. They typically want you to coordinate their entire financial process – as you have earned their trust and confidence!

You may be asking yourself if it's possible to classify the prospect as a **planning trail** even if they don't give you 100 percent of their assets – and the answer is yes!

With **planning trails**, you should get at least ½ of their assets, and might take over a combination of different accounts. The main goal is that they view you as the "key" advisor.

Garbage Pail Prospect

When you meet with a potential client for the first time, you have to get them to focus more on the **problem** than the solution. If you are able to make them realize the magnitude of their problem, you can turn the prospect into a **product sale…**

…If you can't do this – the prospect gets labeled a **garbage pail.**

A prospect can get categorized as a **garbage pail** for several reasons:

1. The prospect might have little or no discretionary assets—so there's nothing you can do to help their financial situation.
2. Despite your best efforts to positively influence the prospect and raise their awareness of the seriousness of the situation, they may just simply not understand you.
3. The prospect could very well be "all set" and have no discernible financial problems.
4. There is also the possibility that you and the prospect just don't "click." You are too disparate philosophically.

Misclassifying the Garbage Pail Prospect

Closure is paramount! One of the biggest amateur mistakes advisors make day-in and day-out is misclassifying prospects.

You must avoid the bad habit of inviting 70 or 80 percent of the prospects back for a second meeting. Statistics will show you that you'll only be able to effectively close 30 percent of the real prospects – so why bother filling your calendar with unnecessary potential failure? This is a waste of your time and will drain your energy.

Key Point: Regardless of the reason why you classify a prospect as a **garbage pail**, categorizing them as such can be the <u>single-most</u> important thing that you can do in this process.

Here's an Example...

I had an appointment with a prospect who seemed undisturbed during our initial meeting. He had been interviewing several advisors to take on his case, but was nowhere near making a final decision.
I realized I had a decision to make: I could either say he was a waste of time and blow him off, or I could invite him back for a second meeting, which might possibly waste more of my valuable time.
Instead, I spent an additional 20 minutes in the first meeting to ask him some specific questions. I asked him why he didn't take action with the other advisors and urged him not to procrastinate.

We talked about reducing his risk and I tried to quantify the potential losses that could occur, if the stock market continued to decline during his procrastination.

During my meeting with the prospect, he finally said that he was put off and somewhat offended by my approach. He felt I was too aggressive with him for his comfort level.

You may be thinking that this was a negative outcome – but it was actually a good one. I finally obtained closure and was able to say with certainty that the prospect was a garbage pail. I knew there was a 0 percent chance that I could help him. This saved me scheduling another full meeting.

It's so important that you get the prospect to decide whether or not they are going to work with you. If I hadn't invested that extra 20 minutes to absolutely verify that the prospect was indeed a garbage pail, I would have gone home that night and wondered whether I was just taking the easy way out, and not working hard enough to get somebody who could be a potential client.

Remember, it's crucial in the first meeting that you help the prospect see that they have a serious financial problem—and that YOU are the advisor who can help them solve the problem!

It's a fine line you have to walk when it comes to the level of your aggressiveness. You want to be aggressive in these initial meetings so you don't waste time calling back prospects you have no chance of selling, yet you don't want to be overly aggressive during a closing appointment and risk losing the sale.

It's important in the first meeting that you instill a sense of urgency with the prospect. Let them know that you are genuinely concerned about their financial situation – at this stage in the game, you've got nothing to lose.

Here's an Analogy...

Imagine that you are a doctor, and you've just diagnosed a patient with cancer.

If the patient was in denial about their condition, you would be morally and ethically obligated as their doctor to push them to treat the disease quickly and properly.

It is your duty as a doctor to give your patient a wake-up call and get them to understand that they do indeed have cancer. If the cancer goes untreated, they will surely die.

We have the same moral obligations to our prospects here in the financial services arena. A prospect may come to you with a financial situation that needs a professional's attention – and that's what you're there for.

Bear in mind that even if you classify a prospect as a garbage pail, they may have potential as a client down the road. Maybe they'll be selling their home in the near future and will have a significant portion of their home's equity to invest. Or, they may be inheriting some money, which of course you could help them invest.

These reasons will give you confidence that there will be some future business between you and the prospect. Therefore, have your Client Service Representative (CSR) follow up with them on the telephone every three months to keep in touch.

Don't Just Pursue the Easy Lay-Up

You don't want to only take in prospects that seem to be easy sales. By doing so, you rob yourself of valuable income—and you rob the potential client of your unique ability to truly help them.

Multiple-Advisor as a Planning Trail

There will be times when you classify a **multiple-advisor** prospect as a **planning trail**—usually when they are approaching retirement age, or when they feel they need to obtain income from their investments.

This prospect, having a number of different advisors, doesn't have a cohesive plan coordinated at this point. Some advisors might have offered a mediocre plan at best; others might have pushed products on the prospect that weren't the best for their particular financial situation. The prospect will be actively interviewing for a competent advisor who will coordinate their financial affairs.

A **multiple-advisor** can also become a **planning trail** if they are concerned about the health of their spouse, who has been the one to coordinate with the couple's financial advisor. Should the uninvolved spouse suddenly need to learn how to manage their finances, they would need help consolidating their investments with one central advisor.

The basic rule you'll want to remember is be honest with yourself! Don't work on a classic **product sale** as though it were a **planning trail**. To turn prospects into clients, you need to focus on either the problems with their investment or with one of their advisors.

Key Point: A potential client will be deemed a **product sale** 80–90% of the time.

Home Runs

The key thing to remember with **planning trails** is this: they will be less than 1 out of 5 of your overall sales, but they will bring in the largest **net volume**—they are your home runs!

In a busy practice, you should get a **planning trail** client who will bring in $25,000 to $100,000 of total commission typically 3 to 5 times per year.

Misclassifying the Planning Trail Prospect

Misclassifying a prospect as a planning trail can become a huge problem. The prospect might eventually convert to a planning trail, but they start as a product sale. As with not classifying a garbage pail accurately, misclassifying a product sale as a planning trail can drain your energy, and will set you up for failure.

Key Point: The ultimate sale is not made in the second meeting–it's made in the first.

If you go after all their assets initially, they are likely to pull away from you entirely – so don't be greedy! Your goal is to make the prospect a client first and foremost.

If you're not sure which category the prospect belongs in—product sale or planning trail—be conservative and classify them as a product sale.

Final Thoughts on "Categorize the Prospect"

The trick is knowing that the ultimate sale is made in the first meeting—based on the quality of the track you've provided to help them understand their financial problem. We'll talk about tracks in detail later on.

Key Point: Always get prospects to decide whether or not they are going to work with you in the initial meeting.

THE SCRANTON SALES PROCESS

CHAPTER 3
USING TRACKS

ADVISORS' ACADEMY
SERIOUS RESULTS FOR SERIOUS ADVISORS

CHAPTER 3

STEP 3: USING TRACKS

Wouldn't it be a wonderful world if people, by nature, were always trying to improve their situation? If that were the case, they would be willing to change advisors simply because you have a better plan than their current advisor. Unfortunately, that's not the real world. Most people are motivated to change only when they have a significant problem. That's why tracks are so important. In a word, people are more motivated by the stick than the carrot.

Tracks are designed to help our clients realize the magnitude of the problem they have. Once they've done that, they're much more willing to make a change. Our job is to help them **discover** the problem on their own and then **discover** that we are a formidable solution to that problem.

Keep them Engaged

When using the tracks, it is imperative that you keep the prospect involved along the way. One good way to do that is to keep asking them questions like:

1. *So does this make sense, Mr. Prospect?*
2. *Do you have any questions, Mr. Prospect?*
3. *Are you starting to see a trend here, Mr. Prospect?*

Keep your prospects in the loop. Confirm that they understand and are keeping up with the discussion. Like all of us, prospects' minds can wander after a few seconds and they may start thinking about their to-do list. If they are not paying close attention, any track will lose some of its impact.

Key Point: You must solve what the prospect perceives to be the most pressing problem first. It may be obvious to you that the issue that brought them in shouldn't be their greatest concern, but they're not going to be able to hear what you have to say until you've taken care of **their** issue.

Key Point: At times, a prospect will come to you already "disturbed." The temptation is to cut to the chase and sign them up. Don't do it. Go through the track that best addresses their distress in its entirety. There is value in reinforcing their concern with good data—it cements their thoughts and it makes you look more knowledgeable.

Mr. Prospect, suppose that the president were to sign a law that made it illegal to have more than one financial advisor. Which advisor would you choose in that situation? Now suppose there was a public outcry, so the next year the law was amended to allow two advisors. Who would you re-sign?"

Key Point: Back in Chapter 2, I discussed the importance in a multiple-advisor situation of getting the prospect to rank their advisors. If they're struggling with this, as many do, try this approach.

Here's my caution regarding advisors. If you feel the need to disturb your prospect on a position taken by one of their favorite advisors, tread lightly. That may be a battle you want to take on after you've become one of their advisors.

There are 11 tracks you can utilize in the Scranton Sales Process. In the initial meeting, it's critical to quickly determine which track is most applicable for that particular prospect, though with any given client you may have to use more than one.

Determining the correct track or tracks is one of the primary purposes of the CFQ. If the client hasn't given you enough information in the CFQ to launch into a track, STOP! This isn't a game. Your time is valuable and it won't be possible to make any progress if they aren't willing to share the information you need to correctly assess their situation. Don't be afraid to verbalize this to them.

Key Point: Be careful not to "over-disturb" your prospects. You do want to motivate them to make some financial changes, however you also want to give them courage and positive reinforcement. Sometimes, if you criticize their current financial situation and investment choices too harshly, they lose confidence in their own ability to make sound financial decisions and become frozen with fear.

I want to begin by looking at the track you're likely to use more than any other.

Track 3 – Too Much Money in the Stock Market

The scenario of too much money in the stock market is one that you'll be able to use very effectively in at least 80 percent of your meetings with prospective clients. It's also a great track to use, preventatively (I call it "closing the door"), to keep reasonably conservative prospects from going back into the market—particularly in conjunction with Track 1.

There are **five steps** to this track.

Step 1. Calculate what percentage of the prospect's investments he has in stocks and stock funds

Step 2. Ask the three key questions

Step 3. Present the "History of the Market" and the secular trends

Step 4. If necessary, persuade the prospect to change their answers

Step 5. Show them how much they have in the market relative to what they told you they wanted

Step 1: Calculating Their Stock Percentage

The most efficient way to get the information you need to calculate their stock percentage is to take it directly from their statements. If you're not as good with numbers as David Scranton, don't be afraid to ask the prospect for a couple of minutes of quiet time to look over the statements.

I suggest that you take a corner of your CFQ and make two columns. Add up the total value of all the accounts in one column—use a calculator if necessary—then go back through the statements and total their stock and stock fund dollar amounts in a second column. Divide the stock and stock fund total by the account total to get their current stock market percentage.

Be careful when calculating their stock and stock fund totals. Some of the statements you'll see from the big brokerage firms can be misleading. They will often put investments like preferred stock or closed-end bond funds in the stock category.

While that might be technically correct, for our purposes we're only interested in common stock and common stock mutual funds. Also, some brokerage firms have a category called mutual funds, which includes stock and bond funds. Again, for our purposes we're concerned with only the stock fund portion.

So don't assume the pie chart, or whatever they use to give a quick overview of the account, is correct. Go through all the funds carefully.

Step 2: The Three Questions

As I've mentioned before, I liken this process to judo—the art of using the other participant's own momentum to your mutual benefit. These three questions help you diagnose how to begin moving the prospect in your direction. Ultimately, you're hoping for answers you can agree with so, in the spirit of judo, you can say, "I agree with you." When you have a couple in the room, you have the potential to get six different answers to the three questions. This increases the possibility that you'll get at least one favorable answer that you can lean on to make your point. As you're directing the questions to them, ask the person you perceive to be the weaker or quieter spouse first so they don't just parrot the stronger person's response. Here's how I might work through the process.

The first question:

"Mr. Prospect, would you consider yourself to be a conservative or an aggressive investor?"

No matter how they respond to the first question—conservative, aggressive, or somewhere in between—the second question is essential in order to understand what being a conservative or aggressive investor really means to them.

The second question:

"Mr. Prospect, I'd like to ask you a second question, and all I want here is a gut instinct answer. As you know, in the investment world, there are stocks and stock mutual funds, which are on the riskier side. And then there is a whole universe of other investment options which are, to varying degrees, more conservative. The question I have for you, Mr. Prospect, is quite simple. What percentage of your money do you think you should you have in stocks or stock mutual funds versus some combination of more conservative strategies? And again, all I'm looking for is a gut instinct answer."

Playfully push them for answers to these questions. Don't let them off the hook until you get them to respond. Stress again that you are only looking for a gut reaction and that you are going to tell them what you believe. I might say, *"I'm sure some number popped into your mind when I asked the question. What was that number?"* If you are having trouble getting a prospect to come up with the percentages, try this:

"Ok, I understand that you might not be able to come up with an exact figure, so let me ask you this—would you say the percentage you want in the market, exposed to risk, is less than or greater than 50%?"

Assuming prospect says less than 50% say,

"Ok, so definitely less than 50%. Good. So would you say it's below 25% or somewhere between 25% and 50%? Ok, somewhere between 25% and 50%. So would it be ok, Mr. Prospect, that, for the purposes of our discussion, we use 35%? Great."

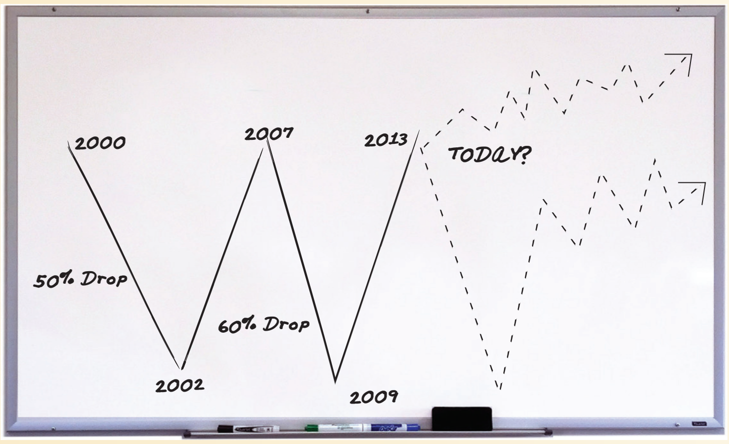
When you are asking this question, remember to ask the person you perceive to be the weaker or quieter spouse first so they don't just parrot the stronger person's response. Commonly, you get two different answers – it is imperative that you get them to agree on one number. The lower the better, so try getting them both to agree to the lower number or something in between the two. Use my language: *"For purposes of our discussion, can we agree upon XX percentage? Great."*

Remember, you already know how much they have at risk from the CFQ. If the percentage that they say they are comfortable having at risk is lower than they actually have at risk, this is what you want to hear. If not, you will have to see if they will lower it after you have done History of the Market. The third question will help you determine how they view the future.

With their answer to question two, you'll have an indication of their initial openness toward conservative strategies. Again, since you're using this track, the implication is that the prospect might already have an unhealthy fondness for the market.

The final question:

DRAW THE BIG W BELOW AS YOU'RE ASKING THE FINAL QUESTION



Ok Mr. Prospect, I'd like to ask you just one more question—and again, all I'm looking for is your gut reaction. As you know, the market did exceptionally well during the 80s and 90s. Since the year 2000 though, it's been up and down. In fact, in the seven-year period between 2000 and 2007, the market dropped 50 percent, and then recovered. Then, in the six year period between 2007 and 2013, it dropped about 60 percent before recovering. Over the last few years, it has gone up down and so on. So right now, there are generally two schools of thought about what will happen next. The first is that the worst is over and we're poised for recovery.

(This is where you draw the dotted line going up on the Big W.)

The second is that we might be stuck in the muck for a while with the market.

(This is where you draw the downward, jagged dzotted lines on the Big W)

Key Point: Draw the "Big W." As I've said often, visuals are key to fixing these important points in the minds of our prospects. As you're working through the third question, go to a board or use a piece of paper to draw this diagram. Begin with a solid V indicating the big drop and recovery from 2000-2007. Then, complete the W by drawing the 2007-2013 drop and recovery. As you talk about the two options for the future, use the dotted lines—one moving slowly upward, the other making several more drops and recoveries that all negate each other.

"In other words, we may have several more major drops and recoveries before we have our final, permanent recovery. The question I have for you, Mr. Prospect (Point to the two dotted lines in the BIG W), *is which scenario does your gut instinct tell you is more likely?"*

The best case scenario would be getting favorable answers to all 3 questions: "I'm a conservative investor, I think I should only have a very low percentage of my money in the stock market and I think the stock market's going to be stuck in the muck for a while." Unfortunately, this doesn't happen all that often, which is why the next step, a review of market history, is so important. And even if you get all the right answers, you should still make an abbreviated historical presentation to cement their "gut instinct" answer and increase the prospect's confidence. If you need to get them to lower the percentage answer they gave you to Question 2, the next step, History of the Market, can help.

Key Point: Beware of "portfolio schizophrenia," where the prospect says they believe that the market will be stuck in the muck for a while, but still wants to leave 70 percent of their funds in the market. Be ready to challenge that contradiction up front.

Step 3: Present a History of the Market

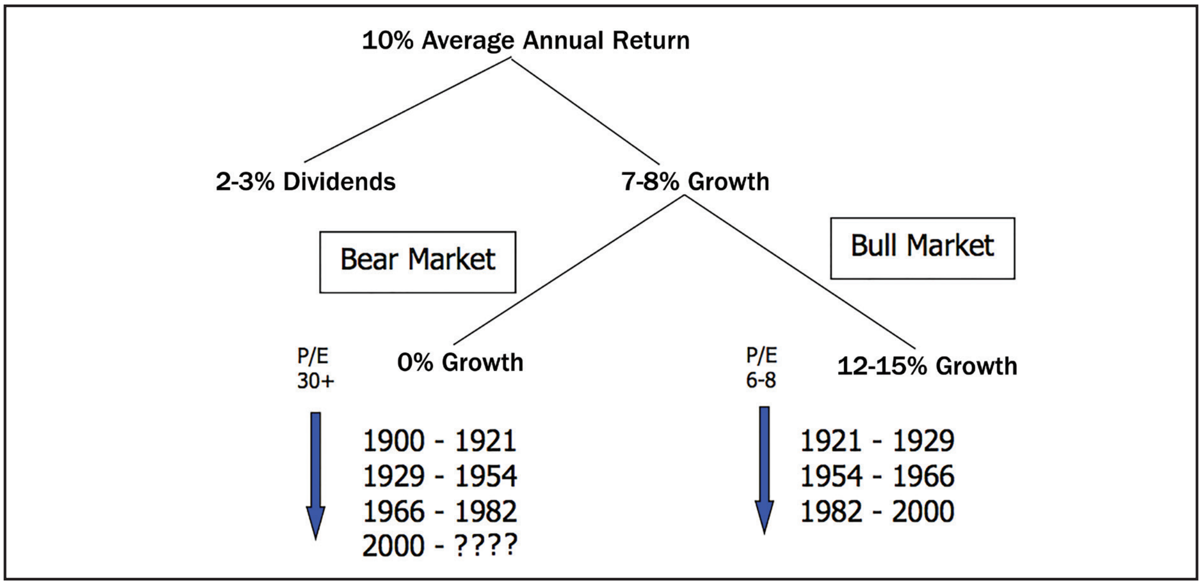
One of the beauties of my sales approach is that it's educational. Time after time, I've found that once prospects learn about the secular trends in market history, more often than not, they will conclude on their own that the secular bear market is not over yet (The Discovery Process). The point of the presentation is to get them to understand that, historically, a FULL market cycle, which I define as a secular bear plus a secular bull market combined, means that it takes about 35 years to go full cycle.

Definition: My definition of a secular bear market is an elongated period of time that has 0 percent growth, usually for a period of 20 plus years.

Here's how I would begin my presentation:

"Mr. Prospect, do you believe, generally speaking, that history tends to repeat itself more often than not? Great. Perhaps it might be helpful to take a couple of minutes and review a couple of important historical trends."*

***I assumed a "yes" response. A no response means don't proceed. You may have a garbage pail.**



Draw this graph for the client as you go through this presentation.

"Let me ask you, Mr. Prospect, what have you heard that the stock market returns on average over the long run? That's right, about 10 percent. Of that 10 percent, about 2–3 percent a year, on average, is from dividends and 7–8 percent per year is from growth. But if you break down that 7–8 percent, you'll find that number can be misleading because the returns come in clumps. I have a client who is a heavyset fellow and quite a comedian. One day, we were having a meeting and he told me he and his wife go jogging an average of 10 miles per week. I had a tough time believing him, but I didn't want to say anything. The punch line was that his wife jogs 20 miles a week and he doesn't jog at all. This was his humorous way of telling me you have to be careful of averages. The same is true of the stock market."

"I'd like to show you if we go back in history, there are huge periods where the growth of the market is 0, and other huge periods where the growth of the market is 12–15 percent."

"If you look in this left-hand column, from 1900 to 1921 we had a period of time where the growth rate in the market averaged 0 percent. Then, we had a period from 1921 to 1929, known as the Roaring 20s, where the market did incredibly well. Then, of course, the market crashed in 1929 and we had a 0 percent growth period from 1929 to approximately 1954. Then, after 1954, the market did well again and we had a good bull market from 1954 to 1966. Then, starting in the late 60s, the market began to struggle again with a 0 percent growth period from 1966 to 1982. And as we all know, the greatest bull market in US history started around 1982 and went until 2000. That's when the wheels started to come off—they came completely off in 2008 with a historic plunge. The market's recovery since then is presumably unsustainable since it has been supported at an unprecedented level by low interest rates and other government intervention. The secular bear will again continue when stimulus can no longer be injected into the markets."

"So, Mr. Prospect, according to this, approximately how long is the average bear market? That's right, about 20 plus years. How long is the average Bull market? That's right, except for the 1921 to 1929 period, the other two average about 15 years. So, it takes about 35 years for the market to go full cycle."

"Now, it's important that you understand that during these secular bear markets—the 0 percent growth periods—that the market doesn't just stay flat lined, but instead experiences a lot of volatility. Typically, in one of these secular bear markets, you may have several 20-50 percent drops and subsequent recoveries. But, only when you look back 20 plus years later, do you realize all the good years and bad years washed each other out"

"Now, don't get me wrong. A lot of extremely active traders can make money during a period like this. It's just that your average conservative buy-and-hold investors go for a heck of a roller coaster ride to get 0 percent growth. Even Warren Buffett, who is arguably the buy-and-hold guru, once said that buy-and-hold strategies don't work in a market like this."

"So, Mr. Prospect, let me ask you. Do you think this is likely to be the first time in over a century that we recover from the secular bear market in less than 13 years? Or do you think it's more likely that we might continue in this secular bear market for years to come and be stuck in the muck?"

If they agree that it's going to be stuck in the muck, go to step 4, where we work on getting them to change their answer to the second question (if necessary).

If you've got a tough nut who still thinks recovery is on the short-term horizon, here's the approach to take.

"Ok, Mr. Prospect, what's interesting here is that we've looked at slightly over a century of historic market trends and, quite frankly, if we went back to the 1800s, do you care to take a wild guess what the trends looked like back then? That's right, Mr. Prospect, about the same 20 plus year cycles."

"So, my question to you is, today when you turn on CNBC or read the Wall Street Journal or any financial publication for that matter, what do you see and hear that is so positive, wonderful and optimistic, that would lead you to believe that this is the first time in about 200 years that the market is going to recover this quickly?"

If he comes up with some points that he believes to be legitimate, take a look at the section on overcoming objections. On the other hand, if he agrees that there is nothing on the horizon that looks all that great, then I would say:

"You know, Mr. Prospect, you've done a good job accumulating money for yourself during your working years. You've arguably been very successful and gotten promotions throughout those years. And I would have to imagine that a pessimist wouldn't have had the success you've had, so you must be a pretty optimistic person. And that's a great quality to have in life. My only concern is that, sometimes, optimism can get in the way of realism. So, do you think it's possible that perhaps it's optimism, and not realism, that caused you to say the worst was over and recovery was coming soon? (Assuming agreement) Yes, me too."

"So, being realistic, do you ***really*** *think that the worst is over, or is it more likely that history is going to repeat itself and we'll be stuck in the muck for a while to come?*

Optional: *"Mr. Prospect, one of the things that I have done extensively is study the history of the stock market. In fact, I have studied it to a greater extent than virtually any other financial advisor I've ever met. I am part of a national study group consisting of more than 100 independent financial advisors. It always intrigues me when we have a new member who came from one of the big brokerage houses or some other captive firm. Inevitably, on the first day, we'll start to discuss market history and some of its predictable, repeatable cycles. What amazes me the most is that these financial advisors typically sit there with gaping mouths because they are actually hearing this information for the first time."*

"The reason I think it is so fascinating for a lot of these financial advisors is that if you really study the history of the stock market, you will find that certain trends tend to repeat themselves over and over again. This information could be useful in trying to look forward and figure out what you think the market might do in the years to come, based on historical trends."

At this point, they should be moving toward you to the degree that you can finally acknowledge, "I agree with you." Occasionally, if I'm still sensing resistance and I'm dealing with a more sophisticated or analytical investor, I will integrate some points from the section titled Track 3 — Advanced.

This presentation was first created for a person who initially thought the market would recover. But what if they answered that "the market is going to be stuck in the muck"? In that case, here's the approach I might take to introduce market history:

"You know, I agree with you Mr. Prospect. I think the market is going to be stuck in the muck and your gut instinct answer is right on the money. Sometimes, Mr. Prospect, your gut instinct is your best answer. And, I'd like to give you a couple of additional technical reasons why I agree with your market prognosis."

I'll then go through a slightly abbreviated version of market history. You might think, why do that if they're already tracking with you? I do it to cement their answer and build up their confidence that their gut instinct is right. And, it serves to make you more credible in their eyes.

Key Point: Someone might point out that the Dow was 2,500 points higher in 2007 than it was in 2000. Your answer is that the Dow isn't the most reliable indicator of the market as a whole. It only measures 30 top stocks and a strong performance by any one of them can skew the numbers. When you look at the S&P 500, which most will argue is a better indicator of overall market performance because it measures the performance of the top 500 companies, you'll see that it barely rose above its 2000 level by 2007.

Key Point: If a prospect questions anyone's ability to predict the future, be sure to stress that it's not your personal crystal ball that's predicting a 20 plus year bear market – it's 200 years of stock market history: a much more compelling argument.

Step 4: Change their Answers (If Necessary)

Once your prospect has acknowledged that it appears likely that the market will be stuck in the muck for some time, you need to revisit the answer they initially gave to the second question. Obviously, if they said they thought it was appropriate to have, say, 60 percent in the market and that's equal to or above what they actually have in the market, you want to get them to move this number down based on their new understanding of market history and what could be a poor market prognosis. Even the conservative investor, who might have had an answer in the 25 percent range, or lower, is worth asking again. It's not uncommon following my presentation of market history, that a conservative prospect will determine that they don't want any funds in the market.

If you're having trouble getting the number down, this is a good time to introduce the Rule of 100. The rule is a good way to prove your point regarding the percentage the prospect should invest in the stock market. Simply put, the Rule of 100 says an investor should subtracts their age from 100 and the result is the maximum percentage of assets they should allocate to the market.

I like to use the Rule of 100 to subtly help paint a visual picture for my prospect that creates a lot of separation between them and their advisor. I tend to envision a very long conference table with the prospect, the Rule of 100, most of the financial world and me, all at one end, agreeing on a very low percentage of stock market exposure. Way down at the other end is their current financial advisor, sitting by himself because he is the only one who thinks it's ok to have a high percentage in the stock market.

Step 5: Demonstrate the Disparity

The final step should be the simplest. You have their buy in and they've given you a percentage that they think they should have in the market. Now, all you have to do is show them that while they've said they want X percentage in the market, they currently have Y. (See the diagram on the next page)

You want to begin showing them the disparity by reminding them the percentage of their money they said they would feel comfortable having in stocks, or stock funds, which are at risk for loss. Go to your white board or notepad and ask:

"Mr Prospect, a few minutes ago, I asked you how much, percentage wise, of your investable assets you would feel comfortable having at risk in the stock market and you said X."

Example: $1 million total assets

75% Safe= $750,000
25% Risk= $250,000

You should always begin by asking the prospect if they have any questions about the history of the markets. After you answer them, write this percentage with the word "Risk" next to it. Draw a line under it, like a fraction, and then say,

"Therefore, this means you want Y (the remaining percentage that equals 100%) safe."

Write this percentage under the risk number and write the word "Safe" next to it.

"In your case, Mr. Prospect, X percent equals (convert to dollars) that you have at Risk and Y equals (convert to dollars) that you have Safe."

Write these dollar amounts next to each. Dollars tend to have a bigger impact on people's psyche than percentages.

Next, turn to him and ask,

"Would you care to know where you actually stand with your current investments?"

Assuming they say yes, do the exact same thing you just did right next to the other numbers and say,

"You actually have X percent at risk, which equals X dollars at risk and Y percent safe, which equals Y dollars safe. How does that make you feel?"

25% Safe= $250,000
75% Risk= $750,000

Let the "disparity" sink in for a few moments.

This is a critical time in the process where you need to be prepared to respond properly to what they say next, or prompt them to say something if they just sit there. Your goal is to get them to ask you for your commercial. Try to get them to make the commitment to reduce their risk to the percentage they said they would be comfortable at. Don't get drawn into recommending product. At this stage in the Sales Process, you must get them to agree to lower their risk by balancing the equation. There is no investment recommendation – keep them focused on the dollar amount that would need to come out of the risk money they currently have, to go over to the safe money to get them to the percentages they said they would be comfortable with. After all, there is no sense discussing the future investment strategies if there's no money to invest. If you keep getting questions on where to invest the money, simply say this:

"Mr. Prospect, I understand your curiousity on what you would do with the money once the holdings have been sold and you have cash. Many of my clients asked me that same question when they first came to see me, so I'm going to tell you just what I told them. Right now, all I'm trying to get you to make a decision on is reducing your risk. I've found that the human brain works best when making one decision at a time. Right now, it doesn't matter what you do with the cash that comes from the liquidation of these investments – put it in a money market, bank account, stuff your mattress with it, or bury it in your back yard – it doesn't matter. Let me ask you, Mr. Prospect: If you sold off (insert dollar value they would need to sell from the risk side to reduce the risk number to the percentage they said they would be comfortable at) and held the cash anywhere, would you have solved your risk exposure problem, yes or no?"

No matter what they come back with, remember: All you want them to agree to is that they need to reduce their risk. Whether you do it for them, they do it or their current advisor does it, isn't important right now.

If they agree, then you can say,

"Great! That's all I wanted to help you with was getting that decision made. Congratulations! Now, I guess the next decision you might be considering is, who's best suited to help you make this risk reduction."

If the track has been used properly, you're ready to move on either to a wedge or to your commercial and the close. I suggest you familiarize yourself with Chapter 4, Wedging, and Chapter 5, The Commercial, to have some ideas of what objections you might get here and how to overcome them, perhaps even before they arise.

THE SCRANTON SALES PROCESS

CHAPTER 4
THE BOOK OF WEDGES

ADVISORS' ACADEMY
SERIOUS RESULTS FOR SERIOUS ADVISORS

CHAPTER 4
THE BOOK OF WEDGES

Although we talk about wedges separately, wedges are really part of the tracks. The tracks disturb the prospect on their investments. The wedge teaches the prospect that it's really their current advisor's "cancerous philosophies" that are causing their investment problems.

The wedges are not to be thought of as something separate, but rather as something that should be interwoven into the appropriate track. Think of the track as the science and the wedge as the art. If, after a track, the prospect indicates they want to go back and discuss the situation with their advisor, that's an indication you didn't execute a good enough wedge.

Wedges are important with every case, but are crucial with single-advisor prospects because of the depth of the existing relationship. Think visually of a wedge. In a wedge, the top part is gradually increasing, but the bottom part is gradually trending downward. Think of that as an indication that a wedge needs to be reasonably subtle, so you're not beating up the advisor. I think of it as if you were underwater with someone else. If you pushed them downward, yes, they would go down, but at the same time you would float upward. What you're trying to say in building a wedge is, as a female advisor from the south that I know says, "You can't blame your advisor. I know he's really trying - it's just that he has limited tools at his disposal. Bless his little heart, he's trying." Now, obviously, as a male advisor from the Northeast, I can't use those exact words, but that's the concept I'm trying to convey.

When you're building a wedge, you're answering the question, "Why?" "Why is it possible that my trusted advisor for so many years could have made what now seems to be such a simple and foolish mistake?" Remember, they've known him for a long time and he is the incumbent. You're brand new.

The spirit of the wedge is to explain that the problem lies with their current advisor's business model.

The following is a list of wedges that can be used and interwoven with the tracks:

1. **The Broker Analogy**
2. **The Guidance Counselor Analogy**
3. **The Pilot Analogy #1**
4. **The Pilot Analogy #2**
5. **The Ferrari Analogy #1**
6. **The Ferrari Analogy #2**
7. **The Baby Analogy**
8. **The Airplane Analogy (with holes)**
9. **Stuck in the 1990s Mentally**
10. **The Driving Analogy**
11. **Chasing Yields**
12. **Fee-Based Wedge**
13. **The Captive Investment Advisor Wedge**
14. **The Career Life Agent Wedge**
15. **The Doctor Analogy #1**
16. **The Doctor Analogy #2 (to be used while closing)**

Many of these analogies have specific purposes, or are used in response to specific prospect responses. In some cases, we have more than one wedge that achieves the same purpose. In that case, you as the advisor need to determine which ones you feel most comfortable with.

Wedges 1 & 2 — The Broker Analogy and The Guidance Counselor Analogy

**The first two wedges are typically used in tandem.
These are designed to be used against the commission-based advisor.**

"Mr. Prospect, I agree with you that you should probably only have about 30 percent of your money in the stock market, but I'm really not surprised that your current broker has you at 70 percent. If you think about it, that's why stock brokers are called stock brokers—they typically favor stocks."

"Imagine if you graduated from college and you went to the guidance counselor looking for career suggestions. You described yourself as a really, really, really conservative person. Do you think that guidance counselor would ever recommend that you become a stock broker if you described yourself in those terms? Of course not. So you see, only somewhat aggressively minded people ever become stock brokers in the first place. Then, they go to work for the brokerage firm and, of course, we all know that brokerage firms make more money when their brokers sell stocks. So, the brokerage firm's profit objectives are to use their research departments to reinforce that broker's already aggressive beliefs."

Wedges 3 & 4 — The Pilot Analogies

These analogies are to be used when a prospect says, "My advisor told me my portfolio was conservative." Or even worse, "My broker says that I have conservative stocks." The pilot analogies are often used with what we call "The Teeter-Totter" as an illustration.

Analogy 3

"Mr. Prospect, sometimes I think most stock brokers are like airplane pilots. Have you ever been on an airplane where you hit an air pocket and everyone gasps and looks around at each other? For us, that can be quite a startling experience. Well, I think that the pilot is sitting in the cockpit and hasn't even spilled his cup of coffee. He is totally unaffected by the air pocket we just hit. The reason is because he hits air pockets on a daily basis—he is immune to them. We, on the other hand, are bothered by air pockets."

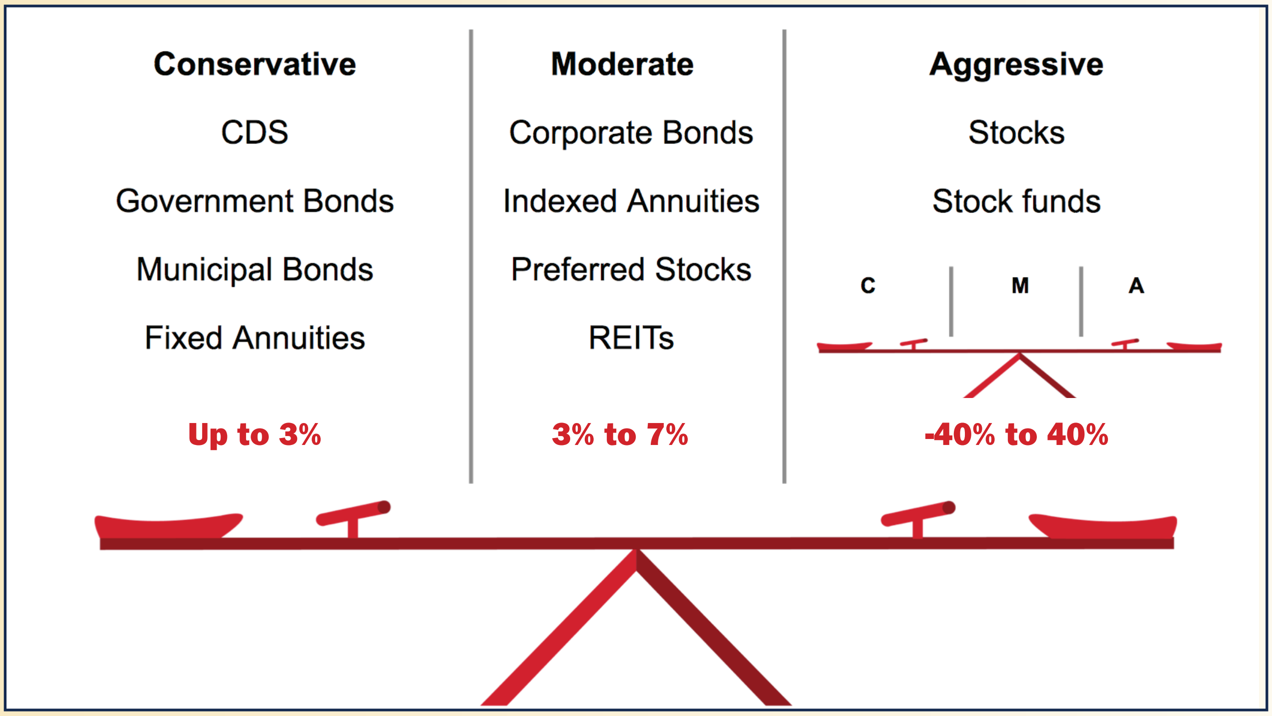
"I often think the same is true with your stock broker's risk taking. If you think about it, your stock broker is probably incurring losses in some investment in some client's portfolio virtually every day of the week. As a result, stock brokers can become immune to the risk."

"Many clients tell me their definition of the word conservative differs greatly from their stock broker's definition. More importantly, they tell me my definition of risk and safety tends to be much more in line with theirs. The reason for this is because my average client is approximately 70 years old. As a result, I tend to think about risk and safety a lot more like they do."

Analogy 4

"Mr. Prospect, I know that your advisor said that your portfolio is conservative. Of course, the word conservative has different meanings to different people. You and I probably both know some very conservative people who would never dream of getting a private pilot's license because it's too risky. But, if you were to ask a commercial airline pilot if he is conservative, obviously he would say that he is. Why? Because compared to his friend, who is a military fighter pilot, or his friend who is an acrobatic stunt pilot, he truly is conservative. So you see, Mr. Prospect, the word conservative is simply a word that has different meanings for different people."

The Teeter-Totter (if necessary)



You'll want to draw this illustration while using the following words:

"Mr. Prospect, I envision the investment world as consisting of three areas. On the left are the insured instruments, the things that have virtually no risk. On the right, you have the riskier part of the investment world, consisting of stocks and stock mutual funds. And in the middle, we have a group of things that have some risk, but are generally considered to be more conservative than the stock market."

Now, if I feel the prospect needs more data than this, I will continue.

"On the left are bank CDs, government bonds, fixed annuities, and municipal bonds. In normal times, these are expected to return up to 3 percent. Of course, as we said before, the stock funds on the right, over time, are expected to return an average of 10 percent a year and the returns come in clumps. It takes approximately 35 years for us to feel reasonably assured that we will approach that 10 percent return. So, clearly, any money that you aren't going to need for 35 years can go here on the right, if you have the risk tolerance for it."

"In the middle would be corporate bonds, indexed annuities, preferreds and REITs. And this category, generally speaking, tends to average a 3–7 percent return per year."

If the prospect indicated that his broker said he had "conservative stocks," then, graphically, I might break down the stock portion of the teeter-totter into subdivisions, including conservative stocks, moderate-risk stocks and aggressive stocks. And while I'm doing this, I might say:

"But it seems like what your advisor has done is he's subdivided the stock market into conservative, moderate and aggressive. It's obvious to me that this is the portion of the teeter-totter in which he works. So, when he said that you had conservative stocks, it means you're on the conservative portion of the aggressive end."

"So, clearly, having 70 percent of your funds in the stock market is not conservative."

Wedge 5 — The Ferrari Analogy

Another analogy that works very well for me is the Ferrari analogy. I find this to be particularly useful if during the wedging process, the prospect starts to defend his current broker. This analogy gracefully takes the blame away from the broker and puts some of it back on the client.

"Mr. Prospect, let's say you went into an automobile dealership to buy a car. You explain to them that you want a large vehicle that's dependable, safe, and good in the snow and carries a lot of cargo. The salesman runs off and says he has the perfect car for you. He comes back with a 2-seat sports car. You and your wife look at each other in dismay and tell the salesman this is not what you want."

"You repeat that you want something that is dependable, safe in the snow and has lots of cargo space. The salesman apologizes profusely and comes back with another vehicle. The problem is, the second vehicle is also a small sports car. As you get up and walk out of the dealership in disgust, you look up at the sign on the front door. The sign says, 'Ferrari.'"

"Can that salesman be blamed for trying to sell you a sports car if that's all he sells? Of course not. The blame really should be on you because you were in the wrong dealership."

"I believe the same is true with stock brokers. If you are 30 or 40 years old and have 100 percent of your money with a stock broker, perhaps that's fine. But, if you are retired and need to have more conservative investments, having all of your money with a stock broker could be a mistake. We have already decided, Mr. Prospect, that you only want to have 30 to 40 percent of your money in the market. As a result, that is the amount you should have with the stock broker."

"The remainder should be with a firm like ours, somebody who specializes in more conservative investments. Now, of course, if you have enough money for two cars and you already have that dependable and reliable car, then it is okay to buy a sports car as a second vehicle. But, if you are going to take all the money that you have and allocate it for an automobile purchase and go out and buy just a sports car, it won't work."

"It will be fine on a nice sunny day when the roads are dry and the top is down and the wind is blowing through your hair, but as soon as the first snowflakes drop, you are going to spin out and crash. Unfortunately, that is what happened in the spring of 2000 and again in 2007, beginning the downward slide that followed. The market had done very well through the 90s, so you never got hurt having 100 percent of your money with the stock broker. But, then the first snowflake fell as the market crashed and that's when you began to spin out."

(Optional) *"Mr. Prospect, what a lot of my clients tell me is that two heads are better than one. They like the fact that they have a stock broker managing the more aggressive part of their portfolio and a conservative-money specialist managing their more responsible, income-producing assets."*

Wedge 6 — The Ferrari Analogy #2

I find this wedge to be extremely useful when talking to a prospect who has a variable annuity with living guarantees.

"Imagine you went into a car dealership and I was the salesman. You tell me that you want a car that is safe, handles well in the snow, and carries a lot of cargo. I come out and show you a two-seat sports car. You say that the car can't possibly be safe. I tell you that the sports car has roll-bars which will protect you if the car rolls over. However, those roll-bars come at an extra cost to you. Then you say that you want a car that's good in the snow. I explain that the car comes with two sets of tires: summer and winter. Unfortunately, those winter tires are going to cost you extra. Finally, you tell me that you needed a car that will carry plenty of cargo. I show you the trailer hitch that attaches to the car, but once again—this costs extra."

"Let me ask you Mr. Prospect, if you wanted a safe car that's good in the snow and carries a lot of cargo—is that what you really got? Or did you end up getting a sports car that cost you a lot extra, and was only jerry-rigged into the kind of car you wanted?"

Wedge 7 — The Baby Analogy

The baby analogy has become one of my favorites because it really applies to people who are right brained. This analogy compares the seasons to the stock market cycles. Say this to the prospect:

"Imagine it is June. I am a newborn baby, and you are two years old. We are sitting here in the summertime together. We are in New England, where the weather stays warm throughout June, July, August, and September. When the beginning of October comes, it gets a little chilly. Then, all of a sudden, we get that three or four day period in mid-October when the weather warms up again: an Indian summer. Being a newborn, I tell you that I'm glad that the fluky cold weather has passed. You call me silly, and explain that the cold weather is far from over. It is going to get a lot colder before it gets warmer again. Think about it; you know that because you've already lived through a couple of full seasonal cycles—I have not."

"Think about how this relates to the investment markets. A newborn is similar to anyone who's been in the market for 35 years or less. You, Mr. Prospect, have maybe 20 or 25 years in the market. Therefore, you are like that newborn baby who hasn't really been through a full seasonal cycle yet. The same is true of the broker. Unless a broker has been in the business for 35 years, they haven't seen a full cycle either."

Wedge 8 — The Airplane Analogy

This can be used in two instances. First, as we used it during Track 5 when the previous advisor switched the prospect from long-term to short-term bond funds, so he wouldn't lose as much when interest rates rose. It can also be used when their previous advisor was concerned about market conditions and moved them from growth stock funds to value stock funds, knowing that the value funds wouldn't lose as much when the market dropped.

"You know, it's almost as if your other advisor is thinking that there is nothing else out there for you in the investment world except stock funds. And it also seems that he is saying, 'Gee, I've got two airplanes, both of which have holes in the wings. I'm going to put my client in the plane that has smaller holes in the wings so it will take longer before it crashes, and hopefully we can find a runway in the meantime."

"Well, my philosophy is a little bit different, Mr. Prospect. If I saw two airplanes with holes in the wings, I wouldn't put you in either plane to begin with. Does that make sense?"

Wedge 9 — Stuck in the 1990s Mentally

This analogy works well to describe America's addiction to the stock market in the 1990s. It can be used when the prospect has a broker who got into the financial business during the heyday of the 1980s or 90s. It can also be used with the do-it-yourselfer when most of their own personal investing experience came during that same 80s and 90s period. The latter example goes as follows:

"Mr. Prospect, would it be correct to say that 30 years ago, you didn't have nearly as much money in the financial markets and probably didn't pay attention to them that closely? Ok, so it sounds like most of your investing experience came during the 1980s and 90s and since. Well, perhaps that explains your reasonably aggressive allocation. A lot of investors, like you, and even a lot of financial advisors, who got into the business in the 1980s and 90s, suffer from what I like to call "being stuck in the 1990s mentally." When an investor or financial advisor really started to study and learn about the financial markets during the best bull market in US history, they almost always tended to have a bias toward stocks. And frankly, that bias served them well up until the year 2000. But since then, it's been a completely different story."

Wedge 10 — The Driving Analogy

I use this analogy with a prospect who is either reasonably well read concerning financial issues, or is buying into the rhetoric he has been fed by his financial advisor. It is used to get a prospect to understand that there are no hard and fast rules about investment allocations in the financial world. It goes as follows:

"Mr. Prospect, I know that the "financial planning textbook" says that it's ok for you to have 40-50 percent of your money in the stock market at your age. Many of those textbooks were written in the 1980s and 90s when we were all taught that everyone needs to have some money in the stock market, as an inflation hedge. That percentage allocation was recommended because, at your age, you have a reasonably long life expectancy and therefore, a reasonably long intended holding period. During those decades, we were taught that the most important determinant of how much risk you should take has to do with your time horizon or intended holding period. Unfortunately, I believe strongly that is only half of the equation. The second half of the equation is that as human beings, we only want to take risk if and when we think that there is a chance of getting rewarded for that risk. Don't you agree? Of course. And as we discussed earlier, it doesn't appear that we will be rewarded for the risk over the next few years. Sometimes, we need to know when to deviate from the textbook."

"Let me make a silly analogy for you. Let's say that you just got your driver's license as a brand new driver. You were stopped at a red light and then it turned green. According to the driving manual, that means you may proceed. But let me ask you, if you saw a car speeding up on the cross street trying, unsuccessfully, to beat their red light, what would you do? Would you blindly and robotically go through your green light knowing full well that you might be broadsided? Or would you make a commonsense departure from the textbook and wait for this fool to pass in front of you before you proceeded? Well, sometimes as a financial advisor, it's also important for us to know when to make a commonsense departure from the 'financial planning textbook.'"

Wedge 11 — Chasing Yields

This wedge can be used for prospects whose advisors have put them into excessively long-term bonds, to be able to generate a higher yield, when that income is not needed. It can also be used for high-yield bond funds or closed-end bond funds.

"You see, Mr. Prospect, one of the things a lot of stock brokers love to do is what I call 'chasing yields.' In other words, because this high interest rate looks attractive to you, some stock brokers might recommend very long-term bonds. They know that you are going to look at your investment statement every month and your eyes will gravitate toward that right-hand column, "Current Yield." When you see a nice big number there, you're going to feel better about your broker and less worried about fluctuations in the value of your account. Unfortunately, he may have not adequately described the extra interest rate risk you're incurring."

Wedge 12 — Fee-Based Advisor

This wedge should be used in conjunction with one or more of the other wedges when the prospect has too much money in the stock market. It's used exclusively when the previous advisor is charging a fee for investment management. And it goes as follows:

"Mr. Prospect, I'm not surprised to see you with a 70 percent stock market exposure. Your advisor's business model is to charge a fee to manage assets. When you think about it, an advisor needs to have you in a reasonably aggressive portfolio to justify an annual management fee. Let me ask you, if your advisor had you mostly in conservative investments, such as bonds, with a buy-and-hold strategy, could he really justify charging you this annual fee every year? Of course not. In fact, most of the fee-based managed portfolios that I see have at least 60 percent of the account in stocks at all times. So again, I'm not surprised to see you with 70 percent market exposure."

(Optional) *"So, what I tell investors is, if they decide, as you did, that 30 percent is a reasonable stock market exposure, then it's ok if you'd like to have that 30 percent with a fee-based investment manager. But clearly, you'd want to take the more conservative, non stock-market 70 percent, and go to a conservative investment manager who does not charge fees."*

Wedge 13 — The Captive Investment Advisor

This wedge is used when a prospect has an investment advisor who is with a captive company that has proprietary products. Ameriprise, Fidelity and Edward Jones, for example, are three of the most common. It goes as follows:

"Mr. Prospect, I can't help but notice that most of your holdings here consist of XYZ company proprietary mutual funds. I'm not surprised to see that, because your advisor is a representative for XYZ company and carries an XYZ business card. He may be able to offer other investments, but he seems to have you mostly in proprietary funds. Realistically, do you think that these XYZ international, XYZ large cap and XYZ bond funds are all rated the absolute best in their respective categories? You're right. Probably not. But again, because your advisor works for XYZ, I'm sure they expect him to sell mostly their products."

Wedge 14 — The Captive Life Agent

This wedge should be used when someone is a career life agent with a captive life insurance company, such as Northwestern Mutual, New York Life and the like. And it goes as follows:

"Mr. Prospect, I'm not surprised to see you with 70 percent of your money in stock funds. Your advisor is an employee of XYZ company, which is primarily a life insurance company. Now you may not know this, but most captive career agents who work for a company like this are considered to be first and foremost life insurance agents and, secondarily, investment advisors. In fact, most have minimum production requirements for insurance sales, but not investment sales. So, in essence, your advisor works as a full-time insurance agent and a part-time investment advisor. So, again, I'm not surprised that he has you with your current allocation."

Wedge 15 — The Doctor Analogy #1

This is the newest wedge that I use and I actually consider it to be the most direct approach because it talks about the different business models that advisors might have. And here it is, hot off the presses:

"Different advisors in our business tend to have different business models in terms of how they work and what they recommend. Now, I don't expect you as a layperson to know about this, but it seems obvious to me that your current advisor specializes in the stock market (or mutual funds, or whatever you deem the specialty to be). Think of it this way—imagine if you went to four different medical experts to get opinions about the back pain you were having. You might end up with four different opinions about the best treatment option. If they were all from similar branches of the medical profession, then you would be confused and frustrated. But, if I told you that the four experts consisted of an orthopedic surgeon, a chiropractor, a physical therapist and an acupuncturist, you would understand why you got four different treatment recommendations."

"Unfortunately, most laypeople, like you, don't understand the sub-specialties in the financial world as well as they do those in the medical profession. And, unfortunately, in the financial field, some advisors tend to stay married to a business model long after it stops working."

(Optional) *"Perhaps the thing I'm most proud of in my career is that many years ago I had the courage to change my business model when I knew that my previous model was no longer in the best interest of my clients. You see, I too specialized in stocks and stock funds back in the 1990s. Since then, because of my extensive studies of market history, I've changed my model to specialize in more conservative, non-stock-market strategies. Since making that decision, my business has grown exponentially because I had the courage to change my model in the best interest of my clients. Unfortunately, some advisors are more married to their business model than doing what's in the best interest of the client."*

Wedge 16 — The Doctor Analogy #2

This analogy is typically not used as a wedge. In fact, it's used during Step 6 of the Sales Process, The Close. If it is needed, it might be an indication that you haven't done a good enough job wedging earlier in the meeting. It is used primarily when the prospect objects with, "I want to talk to my advisor." It is designed to get the prospect to realize that their advisor will not be able to say anything at this stage to make them feel more comfortable. It attempts to get the prospect to realize that they really only feel the need to go back to their previous advisor out of loyalty and because of a long-term relationship. This is used most often with a single-advisor prospect.
Use language similar to the following:

"Mr. Prospect, in light of what we have talked about today, do you agree that you need to make some changes in your financial picture?"

If the prospect says no, then you need to go back and work more on the track or wedge. However, if the prospect says yes, you may continue. Use language similar to the following:

"Mr. Prospect, you have a tough decision to make. You have been with your broker now for a long time and have a wonderful relationship. You have trusted him and, let's face it, you really don't know me. So, the first thing you could do is go home and do nothing. Based upon what you just said though, I don't think that's going to happen. It would be silly to do nothing at this point knowing what you know now."

"The second thing you could do is go back to your current advisor to get his input on what we discussed today. But, let's think for a moment about what your advisor might say. Mr. Prospect, what is the first thing he could say when you tell him about your newfound knowledge and information? That's right, he could defend his initial recommendations—in essence telling you why you should stay with the allocation you currently have. But, let me ask you—knowing what you know now about some of these historical market trends and the different business models of various advisors, do you really think that he's going to make you feel any more comfortable if he uses this approach? No, I don't either. In fact, I almost think that you might get a picture of him holding pom-poms in his hand like a cheerleader yelling, "Go, go stock market!"

"So what else could the broker say instead? That's right, he could acknowledge that you're too aggressive and need to make some changes. In essence, he could say, "I'm so glad you came in today to see me. You are in a far riskier allocation than you should be at this stage of your life. I'm not sure how we could have overlooked this, but I'm so glad you brought this to my attention. We need to make some major changes in your portfolio quickly." Well, Mr. Prospect…if he committed this obvious oversight, do you really think that you're going to feel any more comfortable? The concern, of course, with that would be just as if you had gone to a doctor. Imagine if you went to the doctor for a routine physical and you had to remind the doctor to take your blood pressure because last year he forgot to do that. And then, you had to say, "Gee, doc, don't forget to check my cholesterol levels because two years ago you forgot to do that." And then you had to add, "Oh, and doctor, please don't forget to do my EKG exam because three years ago you forgot to do that." Clearly, you wouldn't have a lot of faith in that doctor any longer and would probably start looking for a new physician."

"Clearly, you want a doctor who knows what tests he should be taking so you don't have to worry about it. Let me ask you, in the financial world, do you want an advisor who is going to advise you or do you want to have to advise your advisor? I guess you could keep coming to my programs every three months because that's about how often we come back to your town. You could keep coming in for the Free Financial Physical each time, have me give you some good advice, then take that advice back to your stock broker or your current advisor, to make the appropriate changes. Unfortunately, I still think that would be a lot like going to the doctor and having to remind him what tests he needs to take."

THE SCRANTON SALES PROCESS

CHAPTER 5

THE COMMERCIAL

ADVISORS' ACADEMY

SERIOUS RESULTS FOR SERIOUS ADVISORS

CHAPTER 5
STEP 5: THE COMMERCIAL

So when should you give your commercial to the prospect? ONLY ONCE THEY'VE ASKED YOU FOR IT, and not a moment earlier. I tell advisors that they need to avoid "vomiting" their commercial on the prospect. Prospects are expecting a sales pitch. If you give them your commercial too early, they'll interpret it as a sales pitch and be put on the defensive.

When I first started in the financial industry, I was taught to start with my company's commercial and how great it was. I quickly realized that this early in the meeting, nobody cared about my commercial or my company because they had not yet been able to determine what was in it for them. A lot of so-called sales coaches will tell you to use the "assumed" close (a version of karate). As a proponent of judo, I completely disagree. By waiting for the prospect to ask you for your commercial, you can be assured that they are ready for it, and are prepared to listen to and absorb it.

If you've done a good job with the tracks and the wedges, prospects will often ask for your commercial without a lot of prompting. **For example, they might ask:**

"Could you help me fix this?"

Or

"What should we do next?"

"Tell me how much you would charge to help me with this."

Or

"Tell me about your company."

Sometimes, however, you might get fairly far into the first meeting and feel like the prospect is adequately disturbed and that you've used your wedges successfully, but the prospect just doesn't seem to be asking you for your commercial. In this case, I'll entice the prospect to ask me for my commercial with the following simple words:

"So, Mr. Prospect, do you have any questions for me?"

Sometimes, they'll ask me financial questions that could pull me off my track, such as:

"Do you think we need long-term care insurance?"

Or

"Do you think we should have living trusts?"

With questions like this, it can be tempting for an advisor to give lengthy answers to show off their knowledge in a particular area. It's important that you fight this urge and keep your answer to 60 seconds or less, so you can stay on track and continue to entice them to ask for your commercial. I might say:

"At your asset level, yes, you might want to look into long-term care insurance. What I do for my clients is send them to a long-term care insurance specialist with whom I have a good relationship who can consult with them at no charge. So, Mr. Prospect, do you have any other questions for me? Anything else you can think of."

Or

"Living trusts are not necessary, but they are a nice thing to do for your heirs because they simplify the estate settlement process. What I do for my clients is send them to a local estate planning attorney with whom I have a good relationship for a free consultation on the appropriateness of living trusts. So, do you have any other questions for me that you can think of? Any at all?"

Sometimes it may take four or five tries, but eventually the prospect should ask you for your commercial. With a more challenging prospect, persistence is key. If you start to veer off track, refocus the prospect by giving them a quick recap of everything you've gone through in that first meeting. Remember, you must deflect diversions quickly! If, after four or five tries, they still haven't asked you for your commercial, it could be because:

1. They could be naïve. Some people might think that you are simply doing pro bono work and not trying to get new clients (thankfully this is rare).

2. They don't think they have enough money to work with you. Maybe they believe that you only work with mega-wealthy investors and think that you won't want to work with them. If you suspect this, you might want to tell a story about a non-wealthy client whom you helped with a small amount of money.

3. They believe that you are going to try and take over all of their money. In this case, you might want to reassure them that you have many clients who have investments with you, as well as elsewhere.

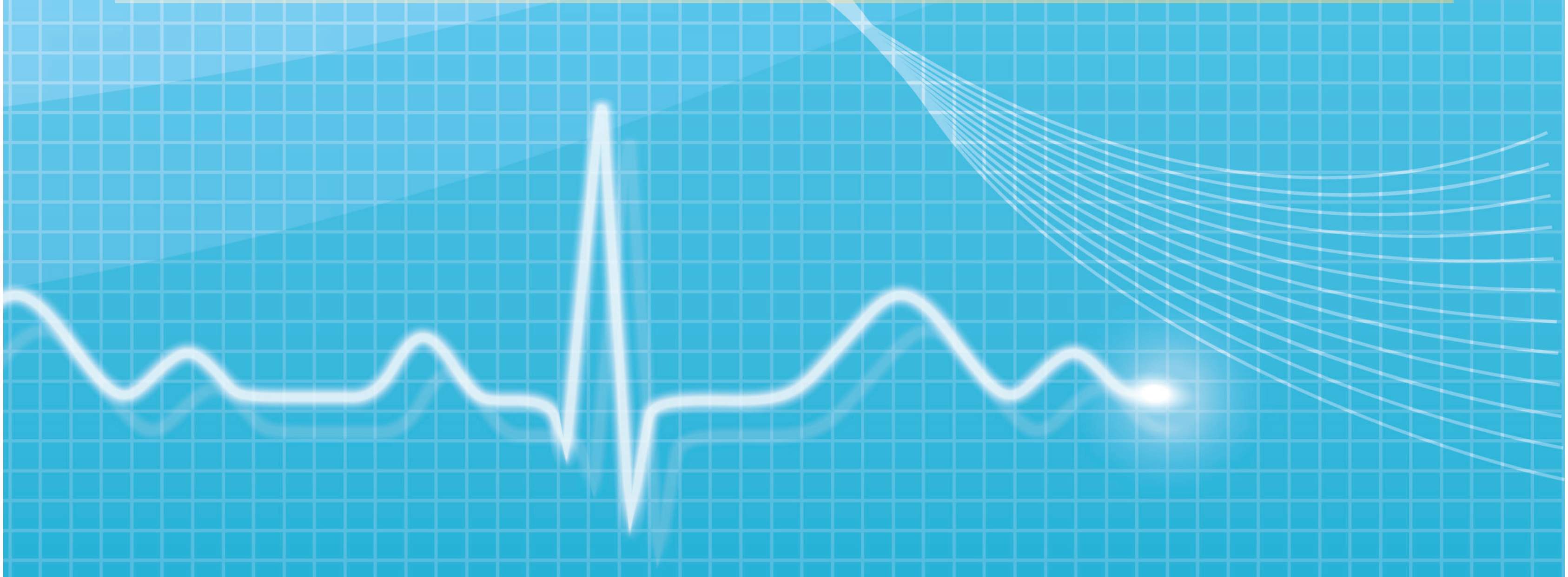
4. Finally, people might not want to work with you because they think you're going to charge them too much for your services. You might need to hint that, for many of your clients, you don't have to charge an asset management or planning fee.

If you absolutely cannot get the prospect to ask you and you're 50 minutes into the meeting, confident that they know they have a problem and are motivated to solve it, then get them to commit by saying:

"Mr. Prospect, there are two kinds of people that come to these Free Financial Physicals. The first is the kind of person who just wants the free information and plans to go back to their current advisor or back home and solve the problem themselves. We get those people every week and that is certainly fine with us because that's what these Free Financial Physicals are for."

"But, I also get a second type of person. Yes, that person is here for the Free Financial Physical, but they are also often here for a second reason—they are interviewing me. They are interviewing me as a potential financial advisor."

"Now, Mr. Prospect, don't let me put words in your mouth here, but I am starting to get the sense that you are in the latter category rather than the former. Is that true?"



At this time, either they are going to say yes or no. If they say no, then you know they are a garbage pail. If they say "yes," then it gives you a wonderful opportunity to reconfirm that with them and say:

"Now, once again, don't let me put words in your mouth but is that one of the reasons that you are here? Great, then perhaps I should take a moment and tell you a little about myself and my company."

So, what exactly is your commercial? It's your two-minute spiel on how great you are and how great your company is and why they should do business with you. You need a tailor-made commercial that is specific to your background. There are several factors about yourself that you'll want to relay to the prospect, but not necessarily in this order:

- **Independent:** *"I'm completely independent, which means I can offer you virtually any financial instrument that exists. I am unbiased and not limited to any particular financial companies."*
- **Conservative:** *"I specialize in the universe of conservative income-generating strategies. In other words, I specialize in everything other than the stock market."*
- **Focus on Retirees:** *"I work exclusively with retirees and people nearing retirement."*
- My Process: *"Let me tell you what I do for my clients. The first step would be for me to become broker of record on your account, so that I can begin to help you. The second step is to help you decide what you are going to keep, and what you are going to liquidate to lower your risk. Once we make that decision, I would bring you through what I call my 'Conservative Money 101 Tutorial.' During that presentation, I'll talk about all eight items and go over the pros and cons of each, how they work, and their expected returns. Then, you'll be able to give me some informed feedback, which will be helpful. For example, you might tell me that you like five of the items and dislike three. Then, and only then, will I be able to put together some recommendations for you – a combination of several of these conservative, income-generating investments with which you'll feel comfortable. And only once you agree and feel completely comfortable with an allocation, will we implement it."*

  (Optional) *"It's never happened, but if we got through the entire process and you decided you didn't like any of the options, I guess you could transfer the money back to your previous advisor and it wouldn't cost you a dime. It's kind of, sort of, like a money-back guarantee."*
- **How I Get Paid:** *"I believe strongly that you shouldn't be paying a fee to manage your conservative investments. The good news is that if you were to work with me, it wouldn't cost you anything. Now, don't get me wrong – I do get paid, it's just that it doesn't come directly out of your pocket. The best analogy I can think of is how travel agents used to get paid. It wasn't too long ago that if you bought an airline ticket, the cost to you was the same whether you bought it direct from the airline or through a travel agent. But, you knew that if you bought it through the travel agent, that agent was getting paid through a commission from the airline. The same is true in my business. With most of these instruments, the compensation is built in. With a CD, I get paid from the bank; with an annuity, I get paid from the insurance company; in the case of a bond, my payment is also built in. If we focus on the conservative stuff, there won't be anything out of pocket for you. If there is an exception, here or there, where there's a visible fee or commission, it will obviously be my job to inform you of that upfront."*

The following are some additional/optional things that you can sprinkle into your commercial. Be sure to focus on your personal strengths.

- Number of Years in Business
- Designations
- RIA / Series 7
- Grew up locally
- Family
- Active in the community — committees, etc.
- Mentored / Trained Other Advisors
- Number of employees

And anything else you can think of that will give you credibility.

THE SCRANTON SALES PROCESS

CHAPTER 6
THE CLOSE

ADVISORS' ACADEMY
SERIOUS RESULTS FOR SERIOUS ADVISORS

CHAPTER 6
STEP 6: THE CLOSE

So, now we're at the point in the sales process where you've disturbed, and wedged, and the prospect realizes that they have a problem. They've asked you for your commercial and you've given it. Now, there is that period of awkward silence where you're wondering what they're thinking and whether you did a good enough job for them to choose to become your client. Again, a lot of so-called sales experts will encourage you to use some type of "assumed close" (karate). The problem is that if the prospect is really not ready to be closed at that time, you might put him on the defensive and never get him back. In the spirit of judo, I believe in taking a very non-threatening approach by asking a very open-ended question:

"So, tell me, Mr. Prospect, where do we go from here? What's your next step? You tell me."

Sometimes, if you've done everything well, they will be ready to move forward. They might say something like:

"Well, you tell me. Do you have some paperwork for me?"

Obviously, if this happens, it's time to get the paperwork. And what do I mean by paperwork? Well, I don't mean paperwork for a product sale at this point. What comes first is either a change of broker record on an account or an ACAT transfer. The most important sale is that they buy you.

Realistically, though, that doesn't always happen. In many cases, they've come in to see you thinking everything is ok and simply seeking a second opinion. In a 1½-hour meeting, you've turned their world upside down and they might be feeling a bit overwhelmed, like a deer in the headlights.

The following are some of the most common responses and/or objections that you might get at this time:

1. **I'm sorry my spouse couldn't be here today. I need to bring this information home to him/her.**
2. **My spouse and I really learned a lot from you today. We need to go home and talk it over.**
3. **I think we need to go back and talk to our advisor about this.**
4. **I have a great relationship with my CPA/attorney and I want to run this by him.**
5. **I want to talk to my children and see what they think of this.**
6. **We plan to interview some other advisors before we make a decision.**
7. **I can't commit to you until I know where you're going to invest my money.**
8. **And, last but not least, the infamous "I want to think about it."**

Now, let's take some time and go through each of these one-on-one and see how to overcome each of these objections.

Objection 1 – I Need to Bring this Information Home to My Spouse

Despite our best efforts to encourage both spouses to be present for the initial meeting, sometimes, at the last minute, one simply cannot make it. When only one of the two spouses does show up for the meeting, I don't feel I can call it off—I feel I have to continue with whichever spouse could attend. I do this knowing full well that I will probably have to have a second meeting with both present and repeat a lot of the information I shared at the first meeting.

So, when this objection is actually voiced by the prospect, it comes as no surprise. The best thing that you can do at this time is simply suggest another complimentary meeting that both spouses can attend, at which time you can reiterate the information and delve into it a bit further.

"Mr. Prospect, may I make a suggestion? I feel badly that your spouse could not make this meeting today and I hate to have you feel the pressure of being the messenger when you go home. Besides, we both know what usually happens to the messenger. So, what might make sense here is for me to have the two of you come back in, when you both can make it, so that we can go over this again in a little more depth. This way, he or she can get it straight from the horse's mouth."

Objection 2 – My Spouse and I Really Learned a Lot from You Today and We Need to Go Home and Talk it Over.

Many times, both spouses have agreed before the meeting that they weren't going to make any decisions or sign any paperwork today until they've had a chance to talk it over. However, you may have done such a masterful job in the meeting that each of them is separately thinking that this is a good idea and they should move forward. Nobody is willing to make the first move, however, because of their previous agreement with each other.

In this case, I encourage you to leave the room for two or three minutes and at least give them a brief moment alone. This doesn't always work, but many times it does. If you're in their home, excuse yourself and use the bathroom. If you're in your office, pretend you need to talk to your assistant for a moment and leave the room. You just may be surprised when you re-enter that they'll proclaim that they're ready to sign on and move forward with you. If this doesn't work, then please see how to overcome Objection 8—I want to think about it.

Objection 3 – Need to Go Back and Talk to Our Advisor

This objection is most likely an indication that you need to go back and use more wedges with this particular prospect. Wanting to go back to their current advisor is a clear indication that you didn't sufficiently answer the question, "Why?" Additionally, you're going to want to go back and use the ultimate wedge, Wedge 16—The Doctor Analogy. Hopefully, this will get them to realize how silly it is to want to go get a second opinion from the same person who gave them the first one.

Objection 4 — I Have a Great Relationship with My CPA/Attorney, and I Want to Run this by Him.

The key to overcoming this objection is to be subtle, yet convince them that what they're doing is analogous to going to a doctor to get advice on a legal issue.

The following is an example of some words I might use:

"Mr. Prospect, let me ask you—is your CPA/attorney also an investment advisor or just someone whom you've known a long time and respect? (Assuming the CPA/attorney isn't an investment advisor) Well, in that case, I can't imagine that he's going to feel comfortable giving you any advice in this area. I know that if you were to come to me for a second opinion on a specific tax or legal recommendation that he made, I would feel obligated to defer to him since he is the expert in that area. If I had questions, I might get your CPA/attorney on the telephone to clarify some issues, but would most likely end up deferring to him, the expert.

At this point, I might suggest calling the CPA or attorney right then, or at least setting up a joint telephone conference with him and the prospects at a later date. If this works successfully, then at least I can be involved in, and have some control over, the conversation. If this does not work successfully, please see Objection 8 — I Want to Think About It.

Objection 5 — I Want to Talk to My Children and See What They Think

This is an objection I get much less frequently than the others. In fact, I hardly ever hear it. However, if you do get this objection, the best thing that you can do is to try to set up another meeting with the prospect and child (or children). If this is not feasible due to scheduling difficulties, then set up a telephone conference with the child at a time when the prospect is in your office.

Objection 6 — I Want to Shop Around

This is an objection that is very difficult to overcome at this stage. If you try to convince a prospect that he shouldn't shop around, you might make him suspicious and he might start to think you're trying to hide something. So, I believe, that the best thing you can do here, is to determine whom they plan to shop around with and coach them in terms of how they should shop and the kinds of questions they should ask. But, again, most importantly—don't be afraid to ask them who else they plan to interview and who they have already interviewed. If you can get this information, then you can start to wedge preventatively against your competition.

Let's say I have a prospect who is determined to shop around with three other advisors. I will wedge fairly hard against two of them, but I'll find one to kind of, sort of, befriend. If you try to wedge against all of them, you start to lose credibility in the eyes of the prospect.

The dialog might go something like this:

"Mr. Prospect, I'm glad that you're taking this decision seriously and taking the time to investigate all your options. I've coached hundreds, if not thousands, of people just like you and helped them make these decisions before, so I think that I might be able to help you. Whether you end up choosing us or not is secondary. My most important concern is that you pick the advisor who is the right fit for you. Truthfully, I'm not sure if Advisor A is going to be a good fit for you. The reason is because he is with ABC brokerage, which is similar to XYZ brokerage, where your current broker works. It might be a little bit like going from the frying pan into the fire."

"Now, generally speaking, Advisor B would be a better fit, except that his business model is to charge a fee for investment management. With your goal to lower your stock market exposure to 30 percent, I'm not so sure he is the best fit for you, specifically. If you like him enough, you may decide to have him invest that 30 percent that is going to remain in the market, but you'll still have to find another advisor for that 70 percent."

"Now, given the short time that I've known you and what I perceive to be your goals, my experience tells me that Advisor C is the one advisor, aside from us, that might be a good fit for you. It's my understanding that, just like us, they specialize in more conservative strategies. (Now you don't want to build up Advisor C too much, so you might want to find one small flaw, such as…)

"Although I have heard recently, that they tend to work more with bond funds instead of taking the time to research individual bonds with a buy-and-hold strategy. I don't know if this rumor is true, but it might be worth asking them during the interview."

Or

"Although I believe someone told me recently that they've really started to hone down their specialty and focus almost exclusively on annuities. Now, annuities are fine financial tools, but they only comprise two of the eight options we're going to be exploring. I don't know if this rumor is true, but it might be worth asking them during the interview."

"Finally, I would encourage you to use this interviewing process to find out about their knowledge and philosophies to determine their compatibility to yours. We know, for example, that you only want to have 30 percent of your money in the market. Without offering up that information, I might ask them about what they think is a reasonable stock versus bond allocation for somebody in your situation. Clearly, if they say 50 percent or more in stocks, that could serve as a warning sign or indicate a basic philosophical incompatibility. I'd also test their knowledge about market cycles. I'd ask outright what their best guess would be about what the market might do over the next five years. They might try to avoid the question, but I would encourage them to give you an answer based upon their best gut instincts. If they think that the worst is over and the market is on the upswing now, then that might, once again, serve as a warning sign."

It's obviously a bit more difficult if the prospect does not yet know the people with whom he will be interviewing. In this case, you still need to wedge preventatively, but, in a way, you're wedging against a ghost.

In this case, I would wedge against:

- All stock brokers
- All fee-based advisors
- All advisors who don't have the same licenses you do
- All advisors who are not independent
- All advisors who don't work exclusively with retirees
- All advisors who don't have the strengths you highlighted in your commercial

Objection 6 – I Want to Shop Around Continued

Here's an example of some language I personally might use:

"Mr. Prospect, I'm glad that you're taking this decision seriously and taking the time to investigate all your options. I've coached hundreds, if not thousands, of people just like you and helped them make these decisions before, so I think that I might be able to help you. Whether you end up choosing us or not is secondary. My most important concern is that you pick the advisor who is the right fit for you. Since you want to lower the stock market exposure in your portfolio, the first thing I would do is stay away from the huge national brokers and advisors. They tend to have "one size fits all" plans. For the same reason, if you're considering advisors who charge an annual fee, I would encourage you to find the rare advisor who specializes not in stock market strategies, but in the more conservative strategies that suit your purpose. I would limit my search to advisors who are completely independent because their recommendations will be unbiased. An independent advisor is more apt to take a personal interest in monitoring your portfolio, and making adjustments in accordance with your goals."

"Additionally, you might want to find out whether they work with all age groups or specialize in people approaching retirement, like yourself. Obviously, I would give preference to the latter category. Now, you're also going to want to ask about the number of years of experience they have working as a retail investment advisor. Personally, I believe that while 20 years or more of experience is preferred, at least 10 years is essential. Also, I would encourage you to ask them about their licenses. Some advisors are licensed only for insurance and annuity products. In addition, other advisors have registrations that allow a much broader array of solutions to an individual's needs. These would include those who have passed the FINRA series 65, series 66, and series 7 examinations."

"Finally, I would encourage you to use this interviewing process to find out about their knowledge and philosophies to determine their compatibility to yours. We know, for example, that you only want to have 30 percent of your money in the market. Without offering up that information, I might ask them what they think a reasonable stock versus bond allocation is for somebody in your situation. Clearly, if they say 50 percent or more in stocks, that could serve as a warning sign or indicate a basic philosophical incompatibility. I'd also test their knowledge about market cycles. I'd ask them outright what their best guess would be about what the market might do over the next five years. They might try to avoid the question, but I would encourage them to give you an answer based upon their best gut instincts. If they think that the worst is over and the market is on the upswing now, then that might, once again, serve as a warning sign."

A big part of your goal in using dialog similar to that above is to create little land mines that an inexperienced advisor, with whom they might be interviewing, might step on. Simply put, if you can identify all of the wrong or bad things an advisor might say, you've done the absolute best you can to wedge against a ghost.

The last steps to take, in either case, are to find out when they plan to complete their interviewing process with the other advisors and then schedule a meeting or telephone conference with you, afterward. Use your judgment as to which type of meeting you choose to ask for, based upon the seriousness of the prospect.

"Mr. Prospect, I'm not sure how these other advisors can make a recommendation after having only met you once.

(Continue with the dialog below in Objection 7)"

Key Point: Oftentimes, the prospect will come back saying that one or more of the other advisors had given them a proposal or suggested allocation in the first meeting, or suggested a second meeting to do so. This same prospect might ask you to do the same or seem frustrated with your unwillingness to do so. Frankly, this is a wonderful opportunity to help the prospect make an enormous paradigm shift and to eliminate that competition. Here are some words I might use:

Objection 7 – I Can't Commit to You Until I Know How You're Going to Allocate My Funds

Try these words:

"When I'm coaching people on how to interview advisors, I often tell them that if any advisor has the audacity to make a recommendation after only one meeting, that they should grab their wallet and run, not walk, in the opposite direction. This is an indication to me that advisor, somewhere behind the scenes, has a specific business model or set of recommendations that he makes to virtually every prospective client, regardless of their situation. He has a specific package of investments that he typically sells. A true advisor, who is completely independent, would need to take you through an interview and educational process over the course of several meetings before a specific set of recommendations could be made. Through this process, you and the advisor would work together to determine which investments, out of the universe of conservative investments, are most appropriate for your goals and objectives. As a true independent advisor, I'd be committing malpractice if I tried to make specific recommendations this early in the game."

Objection 8 – I Want to Think About It.

"I want to think about it," most often, is not a real objection. Instead, it's a smoke screen for another objection or an indication of total confusion on the part of the prospect. Keep in mind that it's very possible that the prospect came to see you thinking everything was ok and looking only for a second opinion. In one meeting, you turned his world upside down. You've presented to him one solution only, which is you. You've also given him a lot of information and done a lot of talking. He may be thinking that he needs to go home to peace and quiet, without you talking at him, and think about what his options truly are and whether you are the best choice.

Keep in mind, though, that the prospect is a layperson and may not really know how to go about making these financial decisions. Left to his own devices, he may get his decisions out of order, get confused, and become overwhelmed. It's no wonder why most prospects who give the objection, "I want to think about it," go home and do absolutely nothing. We know, however, that the four decisions the prospect needs to make, in order, are as follows:

1. **Do I need to liquidate some investments to change my allocation?**
2. **Do I need to leave my advisor?**
3. **Are you the advisor best suited to help me solve this problem?**
4. **Which investments should I consider purchasing with the money from the funds I've liquidated?**

If we can help the prospect make the first three decisions, in order, then we can keep him from getting confused and overwhelmed. If he chooses us as the replacement advisor, then we can take him through an educational process to help him make the fourth decision.

Objection 8 – I Want to Think About It Continued

Therefore, it is our job to determine which of the first three decisions he has made, which ones he has not, and coach him along on making the remaining decisions. Sometimes, by taking him through this process, the prospect might make a decision to move forward with you in that meeting. Other times, the prospect may just be the kind of person who really does not like to make decisions in the spur of the moment, or who has made mistakes with snap decisions in the past and has promised himself that he would go home and think about it and not make a decision today. In the latter case, your efforts in coaching the prospect through this decision-making process have not been wasted. Why? Because you've helped him, the layman, start to work through his decision-making process in the proper, logical order.

Here's an analogy you might be able to relate to—when you were in school, in any given day, you may have had two different teachers who gave you homework assignments. Perhaps one allowed you to start your homework assignment in the last five or ten minutes of class, while the other did not. Let me ask you—which of the two homework assignments were you most likely to do first when you got home? If you're like most people, you would have completed the assignment that you had already started. You would gravitate toward that assignment because your brain had already begun to move down that track. You had some momentum, where the other assignment was more intimidating because you were starting from scratch.

You must dig down to find the real objection

Whenever I get the, "I want to think about it," objection, I always feel like I must dig down deeper to get to the real objection.

The following is the approach that I typically use:

"Mr. Prospect, I've coached hundreds, if not thousands, of people just like you and helped them make these decisions before, so I think that I might be able to help you. Whether you end up choosing us or not is secondary. So, I'd like to start by finding out which decisions, if any, you've already made, as opposed to any you might be getting hung up on. First, based upon what you've learned here today, have you decided, for the most part, that you need to make some material changes in your portfolio (If the prospect says no, go back to the track. If he says yes, continue)?"

"Ok, Mr. Prospect, knowing what you know now, are you beginning to think that your current advisor might not be the best one to help you solve this current problem (If he says no, then go back to the wedge and perhaps use the Doctor Analogy. If he says yes, continue)?"

"Ok then, Mr. Prospect, is sounds like where you might be getting hung up is on your third decision, which is really whether I am the one best suited to help you solve this problem. Is that the item you were referring to most when you said you wanted to think about this decision?"

Most often, if the prospect says yes to the first two questions, he will also agree with your prognosis on the third. You can actually see him breathe a sigh of relief because, in essence, you read his mind and don't seem to be upset or insulted by his hesitation. So, now you can continue to help him by digging down one level deeper, brainstorming and making an all-inclusive list of his options for solving this problem (you're helping begin his homework in class). I would use the following words and while I'm speaking, write a list of all the options on a board or piece of paper.

"Mr. Prospect, I'd like to take a moment with you then and help you brainstorm about all the options you might have—including me—to help you solve this problem. So, Mr. Prospect, what's the first thing that you could do? That's right; you could go back to your current advisor. What else could you do? Yes, you could do nothing and stay right where you are. What else could you do? You could use me. What else? That's right; you could shop around for advisors. What else? Yes, you could do it yourself. You could go to Schwab or a discount brokerage like that and do it yourself. Anything else? Ok, you could talk to your son-in-law, who's a chief financial officer for a corporation. Can you think of anything else? Well, I think we've covered most of the options. Let's go through them one at a time and see which ones make sense."

So, the writing on a board or paper might look like this:

- Current advisor
- Do nothing
- Me
- Shop around
- Go to Schwab
- Talk to son-in-law

These are the typical types of things that will be on the all-inclusive list. It's your job to go through each one with a prospect and eliminate all the options that don't really make sense.

The dialog might go as follows:

"Mr. Prospect, one of the options here is to do nothing. But, let me ask you—knowing what you know now, in your heart do you really think that doing nothing is the best solution? (If he thinks it might be the best solution, you need to reinforce the tracks). Of course not—may I cross that out on the board? Great."

"Another thing you could do is go back to your current advisor. But, knowing what you know now about his business model, do you really think that is the best solution? (If he says yes, go back to the previous section on overcoming the objection on their current advisor). Ok, then should I cross that one out also? Great."

"Now, you can also go to Schwab or a similar company and do it yourself, but correct me if I'm wrong, it just seems as though most of your investment experience has been with stocks and mutual funds, not the various conservative, income-generating instruments we've talked about today. So, I guess you could go take some courses or read some books and learn about these various instruments, but let me ask you: without any real-world experience in these types of investments, do you really want to risk your life savings going it alone? I agree. So, may we eliminate that option? Great."

"So, let's talk about your son-in-law. Does he manage money for individuals or is he more into corporate finance? (The prospect says he's into corporate finance, but does a great job with his personal investments). That's great, Mr. Prospect, but do you think the investment strategies he uses for himself, being 25 years younger, are the same strategies that would be appropriate for you? Of course not. Another thing you might want to consider, is that a lot of my current clients have told me that they are not sure they would want their son or, even more so, son-in-law, involved in their personal financial matters. So, in light of all this, do you really think this is the best option? (If the prospect still thinks it might be the best option, and then please see the previous objection, "I want to talk to my children"). Ok then, should I cross this one out on the board? Great."

"Now, another option, Mr. Prospect, is you could shop around for advisors. Now, I guess that you could go to the Yellow Pages and pull out the names of a half-dozen advisors who seem qualified. You could create a list of interview questions for these advisors and spreadsheet all their answers. After the interviewing process, you could analyze the data and make a decision, but let me ask you: is that something that you really feel the need or are looking forward to doing? (If the prospect says yes, then please see the previous objection, "I want to shop around")."

At this point, or sometimes even earlier, the prospect will look at the board or piece of paper and say jokingly, "You've eliminated all the options except for you." In that case, I would say:

"Well, let me ask you, Mr. Prospect, based on what you've heard today, is there any reason you wouldn't want to use us? Please, be straightforward with me. Is there anything we said today that doesn't make sense to you? Conversely, is there any reason at all that one of these other options might seem better to you? Keep in mind that although it's never happened, we could get through our entire educational process with you and, I guess, you could decide you don't like any of the options. You could transfer all of the money back to your previous advisor and it wouldn't cost you a dime. Here's my philosophy—if you're committed to me, I'm committed to you. In other words, I don't care if it takes us 10 meetings for you to feel comfortable with a particular allocation, provided you're committed to us. So, based upon this, is there really any reason we shouldn't move forward?"

At this point, you're probably completely out of ammunition. Either the prospect is going to say yes or they're going to say that they really, truly, just want to think about it. In that case, I would encourage them to set a goal, in terms of a time frame, for thinking it through and making that decision. If you've drilled down this far and there are no other objections, they hopefully will admit that they are 95–99 percent with you and just want to sleep on it. If it really, truly, is an "I want to sleep on it" objection, then their goal in terms of a time frame should be no more than one or two weeks.

Your final step in the process is to schedule a follow-up meeting or phone call after the time frame they indicated. Which approach you use depends upon your interpretation of their seriousness.

THE SCRANTON SALES PROCESS

CHAPTER 7

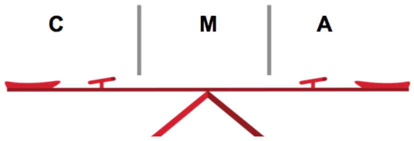
BANKS, BONDS, INSURANCE COMPANIES

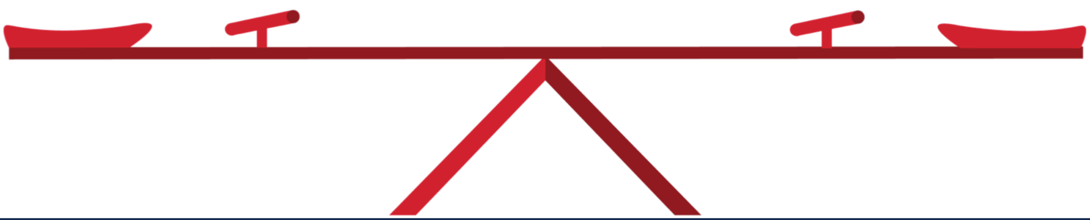
CHAPTER 7

STEP 7: BANKS, BONDS, INSURANCE COMPANIES

After you have made the "close" with the prospect, you are now almost at the point where you must educate them on the various financial tools you have in your arsenal. I call this step "Banks, Bonds, Insurance Companies (BBI)." Again, this step comes after you've obtained a written commitment from the prospect. I believe BBI is the only presentation you should make when introducing product to a new client. Until this point, however, the most you've shown the prospect is the teeter-totter.

Conservative	Moderate	Aggressive
CDS	Corporate Bonds	Stocks
Government Bonds	Indexed Annuities	Stock funds
Municipal Bonds	Preferred Stocks	
Fixed Annuities	REITs	
Up to 3%	**3% to 7%**	**-40% to 40%**





Wait a minute, there's one more thing you have to do.

After the close and the commitment, there's still one more step to take before we launch into BBI. It probably deserves recognition as a separate step, but for now, this is the explanation. Ultimately, BBI isn't the solution to the prospect's problem. Liquidating his cancerous market investments is the key to that. That's why you have to discuss what to liquidate and what to keep, prior to going into the BBI.

Only once you've talked to them about what to liquidate and what to keep, so you know the amount of cash that you will be working with, can you do the BBI. Note that both the liquidation discussion and the BBI will come in a second or third meeting.

Why BBI is the best presentation you can make

I have consistently been excited about Banks, Bonds, Insurance Companies and I am confident that it is the best presentation you can make when you get to the product stage.

There are several reasons why:

- From a compliance standpoint, you are doing a wonderful thing for the prospect (now your client) by showing them a universe of conservative options. The regulatory authorities like it when you educate people.

- You are letting the client choose the annuity on their own. Again, the regulatory authorities like it because they prefer that you be unbiased. We give a client the options and the client makes a choice.

- From a sales standpoint, I like the presentation because if you give a client a choice in what instruments they want to use, they cannot have any objections. But, if YOU recommend the annuity, they can have objections.

- The client still goes through a discovery process when you get to the solution stage. You can't tell them that the indexed annuity is a great tool; you need to let them discover on their own that it's a tool they'll want for part of their portfolio.

- In most scenarios, the client chooses at least two or three different solutions as a combination. This way, the client is buying into a plan, NOT a product. As a result, the client is thinking macro and therefore, is unlikely to get analysis paralysis on unnecessary details.

- The fixed indexed annuity sells itself. More often than not, the client will pick the indexed annuity as one of their favorites. Actually, over the last three years, there were only two instances when I did this presentation (out of hundreds) when the client did not pick the annuity as one of their favorites.

- You're showing the client the universe of options. You're sending the message that the client does not have to shop around because they can get it all here. There is no other advisor who can show them a conservative option you don't offer.

- Because all of the items you're comparing are time frame committed, the annuity cannot be singled out as illiquid. If the prospect tries to single it out as such, you can respond, "Well, yes, Mr. Prospect, everything we're talking about on this board today involves a 5- to 15-year time commitment."

Use Full Disclosure

At the end of BBI, you pivot to the annuity application. Interestingly, most of the time, the client makes the decision to move forward with the allocation without asking you any of the details about the annuity or the other investments. That's an ideal scenario, where the client doesn't feel they need all the details to make a decision. However, in the spirit of full disclosure, you will have to make sure that you weave all the details of the annuity into the application process.

Use Common Sense

You must obey a compliance disclaimer when you get to BBI: use your common sense and only talk about products for which you are licensed! You need to modify my example to tailor it to your own capabilities (For example, if you're Series 6 licensed, don't talk about individual securities. Instead, talk about bond and preferred stock unit investment trusts).

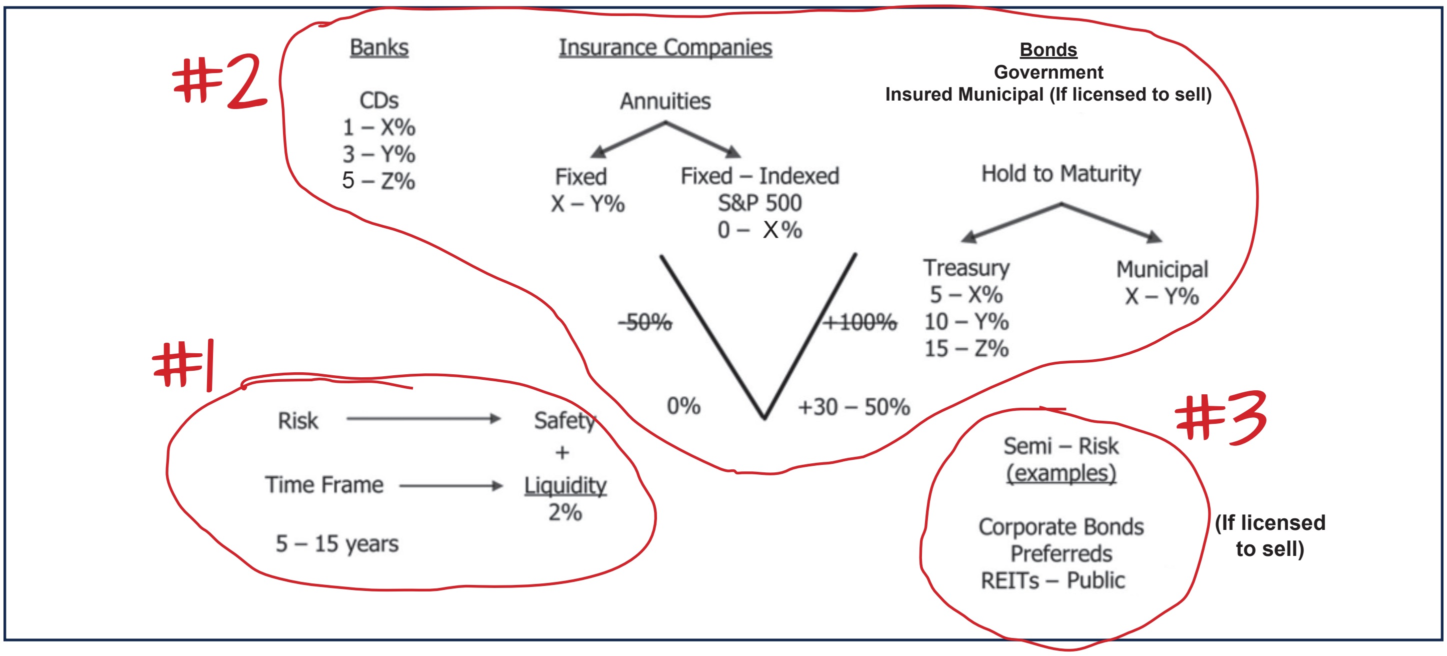
You will talk with the client about things that have virtually no risk – insured products like CDs, government bonds, municipal bonds and annuities. Then, you'll get into products with semi-risk like corporate bonds, preferred stock, and publicly traded REITs, but remember to use common sense because sometimes semi-risk items are not appropriate. (For example, if you have a client as a result of Track 1, you probably don't want to talk about the semi-risk items. You typically don't want to increase someone's risk).

If you're talking about IRAs, don't talk about tax deferral being a benefit of an annuity because the IRA is already tax deferred. However, if you're talking about non-qualified money, then you do want to stress the fact that annuities are tax deferred. Same goes for tax-free municipal bonds. If you're talking about qualified money—don't even bring them up. You would never put a tax-free bond in the IRA.

Also, you need to be familiar with the current rates of return of all the insured and semi-risk instruments you'll be offering to your client. As you'll see later in this section, the rates are an integral part of the educational presentation you'll make as part of the BBI process.

The following diagram should be drawn on a white board or a piece of paper in front of the client while going through the BBI tutorial. Please be sure not to pre-print this illustration because it will come across as a canned sales talk. It's important that you recreate it each time, giving the impression that it is a presentation tailor-made for that particular client.

Also, I use the same format for this diagram each time and encourage the client to take notes.



The following is the verbage that I would use in a complete BBI presentation:

"Mr. Prospect, the first thing I would like to do with you is review a basic rule of investing. There are basically two ways to make money on your investments. The first is to take risk, and the second is to commit to a time frame to conservatively earn more on your money. Think for a moment about why that is. The opposite of risk is safety. The opposite of committing to a timeframe is to have liquidity. Well, Mr. Prospect, if you want both safety and liquidity combined in an investment, the best you are likely to do is about X percent in a bank account. Now, I know you didn't hire me as your financial advisor to make you X percent—you want to make more than that. In order to do that, you could give up safety and take on risk—that's the approach you're going to utilize for the 30 percent you want to remain in the market. Or, you can say, "Well I don't really want to give up safety. I'd rather give up a bit of liquidity and commit to a timeframe to conservatively earn more on my money." That's the approach we're going to use for the other 70 percent of your funds, those which you do not want to take market risk. We're going to commit to a timeframe to conservatively earn more on your money."

"Well, at this point you're probably wondering how long of a time frame? Generally speaking, timeframes go anywhere from 5 years to 30 years. A lot of bonds, for example, are 30 years. Realistically though, in your case, we're probably going to focus more on the shorter side. I'm going to guess that, pretty much, everything we're going to be talking about on the board today, is going to be somewhere in the 5- to, oh, maybe, 15-year timeframe. Now, I realize that even 15 years is getting out there a little bit, but there are two things you need to know about timeframe committed instruments. The first is that you can always take your interest as income at any time. The second is that you can generally liquidate any of these investments before they mature—it just means you might have to incur a penalty or loss if you do. So, in summary, everything we're going to talk about on this board today is going to have between a 5- and 15-year commitment. You're going to be able to take income from these at any time, penalty free. Does that make sense Mr. Prospect? Do you have any questions on that, Mr. Prospect?"

If the prospect hesitates at this time, and/or disagrees with the time commitment, **you cannot** proceed. In that situation, I would go back and explain that there are three options:

- Risky and liquid
- Timeframe committed and conservative
- Safe, liquid, low yielding

I would get the prospect to agree that he should take a combined approach and, to some extent, use all three strategies. Then, I would get him to acknowledge which of his strategies is the lesser evil and which is the greater. Then we would affix percentages to each of his strategies. Once, and only once, the client agrees on a dollar amount to be allocated to the timeframe committed instruments, can we continue.

"Mr. Client, as I said a moment ago, we are going to start today by discussing the insured instruments, then delve into a category I call semi-risk. Now, you and I know that the term semi-risk is an oxymoron—either you have risk or you don't. Obviously, what I mean by semi-risk is that it is generally considered to have less risk than the stock market, but is not as conservative as the insured items."

"There are three issuers of insured instruments. There are banks, insurance companies and the government. Of course, banks issue CDs, insurance companies issue annuities and the government issues bonds. I'd like to take a moment to compare and contrast banks and insurance companies. They both take your money, invest it, and try to earn a profit. They're both financial intermediaries that stand in the middle and guarantee you against loss. In fact, both banks and insurance companies are insured by some type of government program. Of course, banks are insured by the FDIC and insurance companies are not. Instead, they're insured by our state's insurance guarantee fund. The FDIC insures banks up to $250,000, and our state insurance guarantee fund insures accounts up to $xxxxxx (please be sure to check your state limits). So, again, banks and insurance companies are very similar."

"Although they're similar, there are some differences. First, insurance companies can allow your money to grow tax deferred. Second, banks generally have one way of crediting interest according to what the Federal Reserve chairman does with interest rates. Insurance companies, as we'll see in a moment, have different ways of calculating interest. The third difference is that, unlike banks, insurance companies can actually guarantee a lifetime income. So, again, they are very similar, but with three major differences."

"Now, let's talk about the government. Generally speaking, there are two types of government bonds. First, are those issued by the federal government called treasuries. The second are those known as municipal bonds issued by a state, town, or municipality. Now, some municipal bonds are backed by the full faith and credit of the state government and/or are insured. Others are not. Obviously, in putting the municipals in the insured category, I'm talking about the former and not the latter. Also, it's important to remember that if any of these bonds are liquidated before they mature, you could sustain a loss. So, generally speaking, we only want to buy bonds we think we can hold to maturity. Right now, 5-year treasury notes are paying X percent interest, 10-year treasuries are paying Y percent and 15-year treasuries are paying Z percent. Concerning the municipal bonds, their big claim to fame is that the interest earned is generally income tax-free at the federal level. Generally speaking, municipal bonds are paying somewhere between X percent and Y percent interest. Now, granted, those yields aren't terribly exciting, but it is important to remember that they are federal income tax-free."

"So, let's go back to CDs for a moment. They're pretty straight forward. 1-year CDs are paying X percent interest, 3-year CDs are paying Y percent and 5-year CDs are paying Z percent. One advantage that CDs have is that they are a little shorter term. Therefore, they could be the ideal place for monies that are awaiting other investment opportunities."*

"Now, let's talk about annuities for a moment. There are generally two methods that insurance companies use to calculate interest. The first is the fixed method and the second is the indexed method. The fixed method is similar to CDs and is based upon the prevailing interest rate environment. So, based upon interest rates right now, you might earn somewhere between X and Y percent. The indexing method works differently and, quite frankly, I think it's something you might find interesting and useful for some part of your money (this is as close as I get to annuity breath). Indexed annuities have the same protection against loss as the fixed annuities. The difference is that the interest is calculated in each year based upon the performance of the stock market for that year. But, again, you're insured against market losses. By the way, when I say the market, I mean that the returns are tied to some market index, most commonly the S&P 500. Let me give you an example. Generally speaking, in any given year, you can earn anywhere from 0 to X percent interest with an indexed annuity. In a year in which the index decreases, you'll gain 0 percent, but you won't lose anything. In a year in which the index increases, you won't get all of the gains, but will share in the gains. In recent years, we've seen some returns as high as X percent or more. Now, I think the reason that these have become so popular over the last decade is because of what has happened to the stock market over that period of time. Between the years 2000 and 2007, the market dropped 50 percent and then recovered. Now, Mr. Client, I don't know whether you've ever done the math, but if you lose 50 percent, you need to gain a lot more than 50 percent during the recovery to get back to where you started. How much? 100 percent. That's just the way the math works because if a dollar gets squashed down to 50 cents, then that 50 cents has to double to get your dollar back. So, that doubling process represents a 100 percent gain. So, again, the theory here is that if you could eliminate the 50 percent loss and turn it into 0, you don't have to make the entire 100 percent gain on the recovery to do well. In fact, if you only made 30 to 50 percent of the gain on the recovery side, you would have done quite well—earning a cumulative return of 30 to 50 percent over a 7-year period. Not bad for a period when the market had a 0 percent return. So, again, that's the reason I think these have become so popular over the last decade or so."

"Ok, Mr. Client, that wraps up the insured items—before we move on though, I'd like to ask you to rank these for me. Based upon what we talked about today, which of these do you like the best, the second best, and which do you like the least? Also, are there any of these that you would like to eliminate at this time?"

Key Point: This is the first of three places in the BBI presentation where it's important to stop and ask the prospect to participate and give their opinions. Commonly, the client will give a ranking of these items that makes sense to you, but, if not, you can always offer your opinions to the client using the following words:

"Mr. Client, would you like to know how I would rank these? Great. I would rank these as follows… and this is why. So, Mr. Client, would you like to keep your ranking or adjust it based on my rationale? Great."

**X, Y and Z are so you can insert current percentages.*

Now, you're going to get into the semi-risk portion of the presentation. There is no standard verbiage for this part of the presentation. It varies based upon your business model and what you like to offer. As I said before, it also varies based upon your licenses. A lot of times, with more conservative clients, you won't even use the semi-risk portion of the presentation.

If you do choose to present the semi-risk options, the presentation starts as follows:

"Ok, Mr. Client, let's proceed into the semi-risk category. These items are generally considered to be more conservative than common stocks. As I've said before, however, it's important to stress that the semi-risk items do carry the risk of default. Generally, there are three players in the semi-risk market…"

Once you have presented the semi-risk instruments that you use in your business model, it's time to close the semi-risk portion of your presentation by asking a question:

"Mr. Client let me stop and take your pulse for a moment on these semi-risk items. Again, because these have default risk, I want to stress that it's completely up to you which of these—if any—we choose to use. So tell me, are there any of these semi-risk items that you would like to withdraw from consideration today? Of the remaining semi-risk items, how would you rank these—which do you like the best, which do you like the least?"

Key Point: This is the second key question you simply can't overlook in the BBI presentation and, as before, if the client gives you an answer you don't really agree with, you can change the answer by using the following words:

"Mr. Client, would you like to know how I would rank these? Great. I would rank these as follows…and this is why. So Mr. Client, would you like to keep your ranking or adjust it based on my rationale? Great."

Now it's time to coordinate the balance between the insured items and the semi-risk items as follows:

"Mr. Client, how much of this money do you think should be in some combination of the insured items versus the semi-risk items? What does your gut instinct tell you?"

Key Point: This is the third question in the BBI presentation that you simply must include. Again, the answer can be changed by using the following words:

"Mr. Client, would you like to know how I would balance these? Great. I would balance these as follows…and this is why. So Mr. Client, would you like to keep your allocation or adjust it based on my rationale? Great."

At this point, you have the client's percentages for insured items versus semi-risk and his rankings and preferences for the items within each category. Now, all you need to do is create a final percentage allocation among the categories. I would start by asking him if he is thinking of any particular allocations.

If he is, we can work with those and if we disagree, we can suggest a change using the following words:

"Mr. Client, would you like to know how I would allocate these? Great. I would allocate these as follows…and this is why. So Mr. Client, would you like to keep your allocation or adjust it based on my rationale? Great."

If he has no allocation in mind, currently, I would simply go ahead and suggest an allocation that I think makes sense. On this, as my first suggestion, I would tend to err slightly on the conservative side with my recommended annuity allocation. By the time we've gotten this far, typically the client is agreeing with my allocation.

If I sense that he is, I attempt to get the commitment from him by saying:

"Mr. Client, are you ready to give me the green light on that allocation today?"

At this point, the client usually says yes. In that case, I'll go and get the annuity application. As I said before, in the spirit of full disclosure, I'll now have to weave the details of the annuity into the application process. Conversely, if he says he's not prepared to give me the green light on the allocation today, I really don't care because he is already a client anyway. If he needs time to think about it, that's fine and we can schedule another meeting.

Key Point: Generally speaking, annuities will sell themselves as a part of a sensible allocation. Notice that I haven't mentioned bonuses or income riders yet. I see that as the "sizzle"—something I don't need to sell the product, but rather a plus that I use later as icing on the cake.

THE SCRANTON SALES PROCESS

CHAPTER 8

TRACKS 1,2,4,5

CHAPTER 8
TRACKS 1,2,4,5

Track 1 – Too Much Money in the Bank

This track can be used with a prospect who has significant funds in a bank account or low-yielding financial instrument. The goal is to illustrate that those funds are actually at risk of erosion through inflation and taxes.

Key Point: If you have several tracks that could be used for a prospect, use **Tracks 2-5** first. They instill a greater sense of urgency.

Here's the outline for track 1:

Step 1.	**A Broad, Open-Ended Question (BOEQ).**
Step 2.	**Is Safety or Liquidity Keeping the Money in the Bank**
Step 3.	**(If Necessary) Change their Answer to Safety**
Step 4.	**Quantitative Portion of the Track**
Step 5.	**Radical, Attention-Getting Statement (RAGS)**
Step 6.	**The Checking Account Analogy**
Step 7.	**The Mini Wedge**
Step 8.	**Get Them to Determine How Much of the Money Needs to be Liquid Versus Time-Frame Committed**

Step 1: The BOEQ

The BOEQ I use is pretty basic:

"Gee Mr. Prospect, I couldn't help but notice that you have about $100,000 sitting in the bank. I'm just curious—why so much?"

If they have some valid reasons, such as purchasing an expensive car, some real estate, or paying for a grandchild's college education, you might need to pick another track. Frequently, however, you won't get a meaningful answer. In that case, move on to Step 2.

Key Point: If their answer to the BOEQ is, "That's why I'm here," don't short cut the track; use it to affirm their decision.

Key Point: If the prospect says that the money is in cash temporarily, and it recently came out of the stock market, their intention might be to put some of it back into the market when things calm down. If this is the case, you need to go to Track 3 to close the door on this option.

Step 2: Safety or Liquidity

Most people keep large amounts of cash for two reasons: a need for liquidity or safety.

Here's how I launch the discussion:

"Mr. Prospect, I find there are generally two reasons why people keep a lot of money in the bank. The first is safety and the second is liquidity. Which of those is your primary reason for having this money in the bank—safety or liquidity?"

If their answer is "liquidity" then go to Step 3. If they answer "safety" you can skip to Step 4.

Key Point: Make sure you use the word **primary.** If you don't stress that you're looking for the primary reason, they will give you both answers—safety and liquidity.

Step 3 (if necessary): Changing Their Answer

If your prospect says "liquidity," not only are they ultra-conservative, but also excessively nervous. So, we must help them change their answer from liquidity to safety. I do this by creating a ridiculous worst-case scenario to illustrate how much money they would really need to ensure their safety.

Here's how it might go:

"Mr. Prospect, let me run through a situation that could happen, but would be extremely unlikely. Suppose you were driving your car into the garage and your foot slipped off the brake. By an unfortunate chance, your fuel oil tank was located in the back of the garage. Your car ran into the oil tank and pushed it through the back wall of the garage. The ensuing fire burnt a portion of your home, caused smoke damage to all the contents, totaled your car and warped your driveway. And, to add injury to insult, you were hurt badly enough to require surgery. That is a truly bad day. Now, let's total everything up and see what all of this will set you back in terms of cash reserves. We'll add up the cost of a new driveway, oil tank, and the deductibles on your medical, auto, and home insurance."

By going through all the consequences, your prospect will see that even a disaster of this magnitude can be handled with about $30,000 in cash.

"So, Mr. Prospect, in light of this, do you really need all those liquid assets or is it possible that the reason to keep some of those reserves is primarily safety?"

Step 4: Do the Math

At this point, it's time to show them in quantitative terms just how much they're losing to inflation and taxes.

Pull out a piece of paper and do the math, and as you're writing, use language like this:

"Mr. Prospect, I'd like to show you the economic effects of having $100,000 in the bank at this time. At a X% interest rate, you're earning about $X,XXX per year in interest. Between state and federal income taxes, you're paying about 1/3 to the government—approximately $X,XXX. Mr. Prospect, what do you think the annual inflation rate is? About 4 percent? So, you're losing another $4,000 of purchasing power to inflation every year. The net economic effect is that you are losing roughly $X,XXX per year, which is equivalent to about $XXX a month."

Key Point: When you're explaining the effect of inflation and taxes, make sure you translate the percentages to dollar amounts. Percentages simply don't have the psychological impact that dollars do.

Step 5: Radical Attention Getting Statement

Now that your prospect has seen how much money they're losing in black and white, use a RAGS to drive your point home. This is Step 5.

"So, Mr. Prospect, as strange as this may sound, economically, the single best thing you could do with this money is go out and spend it all today. Why? Because with the effects of inflation, you'll never be able to purchase more goods and services with this money than you can today. Obviously, I'm not recommending you spend it all today because we all need money to fall back on. But, speaking purely economically, that would be the best thing that you could do."

Step 6: The Checking Account Analogy

Now, your prospect should be getting the feeling that his long-term interests aren't well-served by keeping his money in the bank. The checking account analogy, Step 6, ties right into the banking theme, while putting his losses in terms that make sense.

"So, Mr. Prospect, let's say I opened up a local bank and I really wanted to earn your business. So, I convinced you that we had strong financials and would provide you with tremendous service. We might even give you a free toaster, just like the old days. The only fee we charge at the bank is a small monthly checking fee of $XXX. So, let's just sign here and we'll get that account opened (push over a piece of paper as if it were an agreement). What's wrong, Mr. Prospect? You wouldn't want to open up an account at my bank under those terms? Ha ha. Of course not. I knew you wouldn't. But, economically, that's exactly what's happening today at your bank. It's costing you $XXX a month to keep that money in there. Does that make sense Mr. Prospect?"

Step 7: Mini Wedge

By making it clear that keeping the money in the bank is equivalent to paying a hidden monthly fee, you've already begun to drive a wedge between the prospect and his bank. Finish it off with Step 7, the mini-wedge. I call it a mini-wedge because, in most cases, you're not wedging so much against another advisor, as you are against an institution.

"The reality, Mr. Prospect, is that neither of us should be surprised by the fact that keeping money in the bank is expensive. The bank is an intermediary—a financial middleman, if you will—and they are in business to make a profit. It's no wonder that if you went to that bank to get a $100,000 mortgage, they would charge you interest, several percentage points higher than what you're now earning on your $100,000 account."

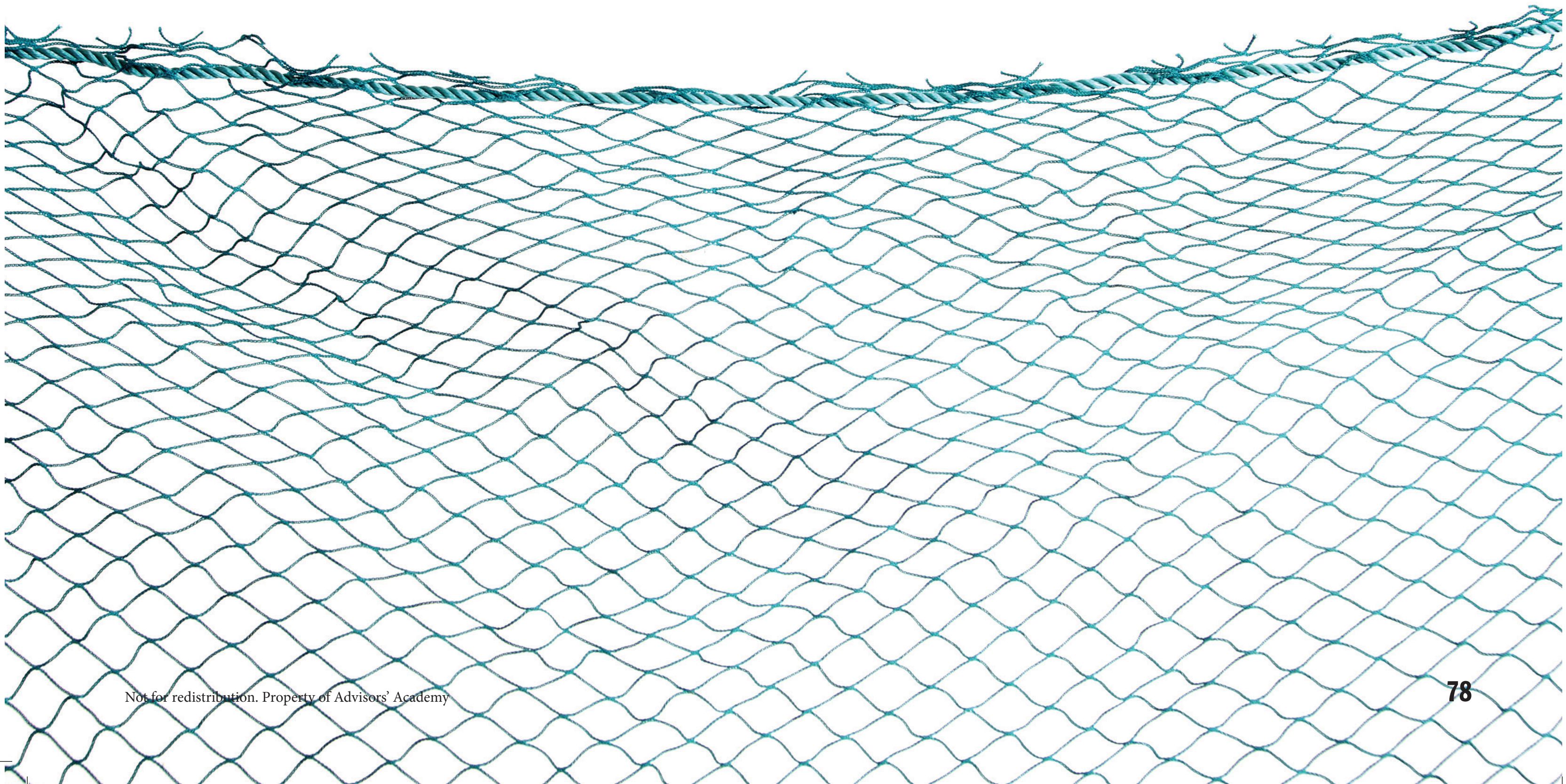
Step 8: Seal the Deal

You've demonstrated the fact that keeping this much cash is a losing proposition and wedged against the bank. Now it's time for Step 8—getting the prospect to state how much of their money should be kept for liquidity and how much is simply there for safety.

"So, the question again, Mr. Prospect, is how much of this $100,000 do you really think you need here for liquidity purposes versus how much is here exclusively for safety reasons?"

It is crucial to get them to acknowledge that safety is keeping some of the money in the account or instrument, because only when they name **a specific amount** that's there for safety do you have the prospect in a position where you can work with them.

Key Point: Once your prospect has determined the amount of money they need for liquidity and is ready to reassign the amount they had been holding for safety, be conservative in your recommendations. For example, if the prospect indicates they want to keep $25,000 for liquidity and invest $75,000, recommend that they start with $50,000. Otherwise, your prospect is likely to get nervous and develop cold feet.

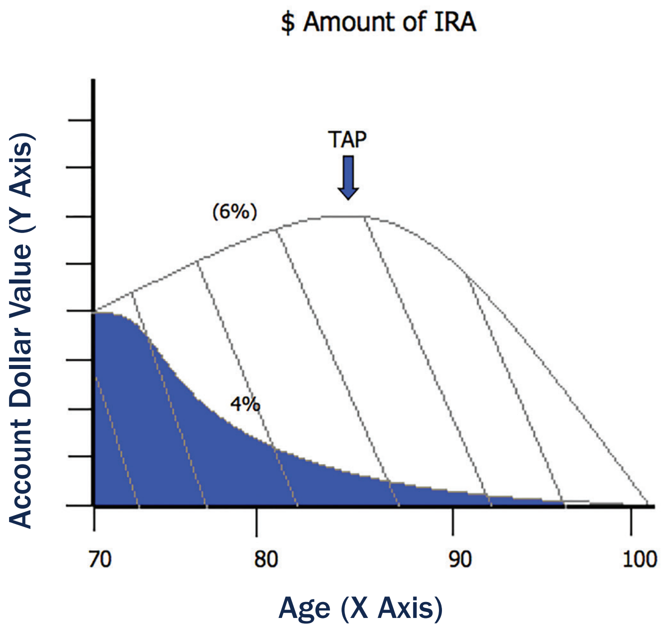


Track 1a – The TAP (Turn Around Point)

Track 1 works well for cash and other low-yielding, non-qualified instruments. A different approach is required for qualified money since you can't subtract taxes to make your point. Track 1 can be sufficient with IRAs and the like in a very low-interest environment because you can show a net loss using inflation alone. In periods of higher interest, however, the TAP presentation is an excellent tool.

The beauty of Track 1a is that "a picture is worth a thousand words." You can show a prospect the huge difference a small differential in interest earned can make on their usable wealth over a lifetime.

Utilize a graph similar to the one pictured here to illustrate the TAP track. This graph assumes a 4 percent return on the prospect's current IRA and a prospect who is not quite 70 years old yet. You'll need to adjust your graph to fit the prospect's specific situation.



Here's how I might talk about the Turn Around Point:

"Mr. Prospect, right now, from what you told me, you're earning about 4 percent in your IRA/401K. I'd like to take a moment and show you, graphically, the impact of that rate of return on your account over your lifetime. In a few years, you're going to have to begin to take required minimum distributions (RMDs) from this account (at age 70½). Those distributions start at slightly under 4 percent a year and increase annually. So, with a picture being worth 1,000 words, I'd like to show you how that affects your account."

"The X-axis represents your age, starting at 70 and going to 100. The Y-axis is going to represent the dollar value of your account. So, at 4 percent interest, at age 70, your required distribution will just about equal the interest you're earning. Shortly thereafter, your required distribution will exceed the interest, so your account will begin to decline in value. As a result, the value of your IRA over your lifetime will decrease, like this (the first line on the graph). So, in essence, Mr. Prospect, what I call your Turn Around Point, the point at which the minimum distributions exceed the interest earned, comes almost immediately. Let's say, hypothetically, that you could earn 6 percent instead of 4 percent. Your account would continue to grow through your 70s and into your early 80s. Then, toward your mid-80s, your minimum distributions would finally exceed your interest and the Turn Around Point would occur. As a result, our account value would look like this (draw the second, higher line). So, as you can see, Mr. Prospect, your required minimum distributions in your mid 80s will be more than double what they would be if you were earning 4 percent and the differential will be even greater thereafter. In essence, by increasing your return from by 50 percent (4 percent to 6 percent), we've increased the amount of usable income and wealth that you and your family can enjoy by 200 percent or more. Because of this fact, Mr. Prospect, the goal of most retirees, like you, is to postpone their Turn Around Point for as long as possible."

Track 1a – The TAP (Turn Around Point) Continued

If the prospect has his funds in an IRA, that's pretty much the end of the track. If it's a 401K, add this second component explaining why they need to roll it over to an IRA, so the advisor can manage it.

You might say something like this:

"Mr. Prospect, there are generally two reasons why people typically roll their 401Ks over to IRAs soon after they retire. The first is they want to have a wider variety of conservative investment options suitable for retirees available to them. The second is they want to reduce the impact of income taxes that their heirs would owe at their death. Concerning the first reason, there are seven or eight potential conservative, interest-generating investment vehicles designed to produce income for retirees. Unfortunately, virtually none of these vehicles exist inside a 401K. Most 401Ks have a whole bunch of different stock funds to choose from, one or two bond funds and a fixed interest fund."

Key Point: You may have to use a bit of Track 5 on bond funds here to get the prospect to understand that bond funds are not the same as individual bonds.

"Mr. Prospect, it shouldn't be a surprise to any of us that 401Ks are structured this way because they are designed for working individuals who want growth for the future. Think about it. If you owned the company and had to pay for the accounting and administrative costs for the plan, would you want to have to pay those costs for retirees who have long since retired, or would you prefer that they roll their money over and close out their account at retirement? You see, I believe that's the reason 401Ks are structured for workers who want growth, not retirees who want safety and income. In fact, I believe the only reason these 401Ks have a fixed interest fund is so they can say that they have provided you with a safe haven and reduce their probability of getting sued. So, again, Mr. Prospect, that's the first reason most people roll their 401Ks into IRAs, so they can have a wider variety of income-generating investments to choose from."

"Now, as far as income taxes at death are concerned, generally speaking, your children would have to pay those taxes on a 401K within five years of your death. However, if that money were in an IRA, your children could defer those taxes over their life expectancy. So, again, Mr. Prospect, those are the two reasons people roll them over to an IRA, as soon as possible, to have more income-generating investment options and tax advantages at death."

Track 2 – Too Much Money in One Stock

This track is written for a prospect who has concentrated a disproportionate portion of their investments in one stock. There are 12 steps to this track.

Step 1.	**The BOEQ (broad open-ended question)**
Step 2.	**Threat of Another Enron, Worldcom, AIG, etc.**
Step 3.	**Tell a Personal Story**
Step 4.	**Companies Mean Revert**
Step 5.	**The Book, *In Search of Excellence***
Step 6.	**The Dow Story**
Step 7.	**One Rogue Accountant**
Step 8.	**The Prudent Man Rule**
Step 9.	**The Capital Gain Objection**
Step 10.	**The Step Up In Basis Objection**
Step 11.	**The Blender Analogy**
Step 12.	**The Liquidation Plan**

Step 1: The Broad Open-Ended Question

As in Track 1, the BOEQ is pretty basic.

"Gee Mr. Prospect, I couldn't help but notice that you have a lot of money in this one stock. I'm curious, why so much?

He may come back with a favorable answer, such as, "That's why I'm here," or, "They wouldn't let me liquidate until I retired." But, if it's an answer like, "I just have it," or, "I'm comfortable with it," then it's time for Step 2.

Step 2: Threat of Another Enron/WorldCom/AIG

To begin the discussion, simply ask them:

"Mr. Prospect, are you at all concerned that your stock might experience another Enron/WorldCom/AIG situation?"

Step 3: Tell a Personal Story

Step 3 follows right on the heels of the Enron/WorldCom/AIG question. Tell a personal story about someone who went through an Enron/WorldCom/AIG -like experience.

Here's how it might go:

"You know in 2001, Mr. Prospect, I had someone here in my office who had about 80 percent of his liquid net worth in WorldCom stock. I tried hard to get him to understand the risks of having so much tied up in one stock. Finally, after an hour, we decided to part ways and agreed to disagree. I never saw him again. I have often since wondered about him. I fear that he may have lost 80 percent of his net worth and had to go back to work. In our meeting in 2001, this fellow was convinced that nothing bad could ever happen to WorldCom, but he failed to take into consideration the dramatic effect it would have if he were wrong."

If you have your own personal story by all means use it. If not, use mine in the third person (I have a friend who...).

Step 4: Companies Mean Revert

This is a good first step, but it will likely take more to convince your prospect to part with his favorite stock.

So, head in a slightly different direction:

"Mr. Prospect, realistically I would agree with you that it's unlikely your company, XYZ, will meet with the same fate as WC. It's possible, but hopefully will never happen. But you know, even if companies don't fail, no company stays on top of its game forever. Think about what IBM did in the late 80s and early 90s, when it lost market share and its stock dropped for a very long time. More recently, think of GE or Pfizer. Those companies were part of what we called the "Nifty 50" from the 70s. These are the companies that the smartest people on Wall Street thought would never go down because they were the leaders in our country. Now their stocks are worth a fraction of what they once were."

Move right into step 5.

Step 5: The Book, *In Search of Excellence*

"Mr. Prospect, have you ever heard of the 80s book by Peters and Waterman entitled 'In Search of Excellence?' What that book said is that all companies 'mean revert.' In other words, they revert to being average. What the book says is that over time, excellent companies become non-excellent, non-excellent companies become excellent and that no company stays on top of its game forever."

Step 6: The Dow Story

"Mr. Prospect, let me give you a simple example of this. As you know, the Dow Jones industrial average consists of 30 stocks. Arguably, these are the 30 largest companies in our country. Do you know how many of the 30 companies in the Dow today were in the Dow back in 1929? Just one—General Electric. What happened to the others? They become non-competitive and either went out of business or were gobbled up. Remember the retailer Woolworth? It was in the Dow in 1929. Now it's out of business because K-Mart took over. Now K-Mart is out of business because Wal-Mart is dominating the scene."

The point I'm trying to make with the book and the Dow story is that top companies don't stay on top and inevitably their company, XYZ, will become a part of that trend. Create the thought that no matter how good the stock looks now, there is a great chance that it won't be so attractive down the line.

Step 7: One Rogue Accountant

Here's another way to strengthen your case by once again heading in a slightly different direction.

"You know, Mr. Prospect, corporate America isn't what it used to be. It used to be that you could go to work for a company and stay there your entire career and that these companies thought long-term. Today, however, with all the pressures from Wall Street, it's a different world. Companies put so much pressure on themselves to show profit increases quarter after quarter. So let me ask you, how many accountants do you think there are in the XYZ accounting department? About 50? Do you think it's possible that maybe one of those 50 accountants misinterpreted the CEO's and CFO's pressure to show increased profits? And do you think it's possible that one accountant could have interpreted the words, "Do whatever it takes to show increases in profits," in an inappropriate way? And what if that one accountant fudged a number or two here or there? Is that at all possible Mr. Prospect? Of course it is. What would happen if the headlines the next day in the Wall Street Journal said, "Accounting scandal at XYZ?" Do you think the stock might drop significantly and stay down for a long time? Of course it would. And that's my concern whenever anybody has a high percentage of their net worth in one stock because you never know when and if that could happen."

Once again, it's time to take this up one notch with Step 8.

Step 8: The Prudent Man Rule

"In fact, Mr. Prospect, the government passed a law about holding more than 5 percent of anyone's money in one stock. It says that if I was acting in the capacity of a fiduciary, managing the money for another person, I could be held legally liable if I put more than 5 percent of the account in any one stock and the account lost money. The rationale goes that any man generally considered to be prudent in financial matters wouldn't invest more than 5 percent in any one company, thus the name, "Prudent Man Rule." Now the good news is that, since you're just investing your own money, you could put it all in a penny stock if you wanted with no legal ramifications. But I guess my only thought is that if it was a big enough deal for this rule to be created, wouldn't it be prudent for us to adhere to it voluntarily?"

Step 9: The Capital Gain Objection

At this point you've made a strong case and hopefully planted some doubt. Your prospect will likely have objections and objection number one is usually "What about capital gains taxes?"

Here's how I handle that one:

"Mr. Prospect, I know that you would hate to have to sell this and pay capital gains taxes, but in the investment world there is a saying that says "you shouldn't let the tax tail wag the investment dog." Investment decisions should be made based upon their own merit and what's appropriate for the investor, and taxes should be secondary to that. Additionally, capital gains rates are now at or near their all-time low of 15 percent and will probably go up in the future. That actually makes this a good time to consider realizing capital gains."

Step 10: The Step Up in Basis Objection

Objection number two is usually about the loss of the step-up in basis. This objection is raised when a prospect says that he would like to be able to hold this stock until his death so that his heirs get a step up in basis, i.e. capital gains tax forgiveness at death.

Here's the approach I take:

"Mr. Prospect, since the beginning of our income tax system, we've always had in our tax codes this feature of capital gains tax forgiveness at death. So people have gotten used to it and think of it as a permanent feature in the tax code. But let's face it—nothing is permanent about the tax code. We've had plenty of experiences with the tax code where the government issues a "temporary" tax increase, which then never goes away. In fact, once a tax benefit is taken away, it seldom returns. What concerns me, as well as a lot of well-known tax professionals, is that the government has been trying for years to capture more and more estate taxes. This current exclusion may go away soon—forever. As Washington hungers to collect more and more in taxes, they've discovered that taxing the deceased is easier than increasing costs on the living. I don't know when or even if this will happen, but you have to weigh the possibility in with your decision."

Step 11: The Blender Analogy

Now you tie all these pieces together with the blender analogy.

"So, Mr. Prospect, what do you get if you take all these factoids—the fact that all companies mean revert, that we really will never know if there is one corporate accountant that fudges numbers, that it is generally considered imprudent to have more than 5 percent of your money in any one stock, that XYZ is at a relatively high point now, relative to the market, that capital gains rates are low, that the tax forgiveness at death might get taken away—what do you get if you put all these into a big blender and push the button? Doesn't the end result kind of sort of imply that you probably shouldn't have this much money in XYZ stock?"

Don't look for miracles here. There's often a big emotional attachment to a particular stock, possibly because it's performed well for him over the years or he worked for the company. Your goal here is to get them to make some admission that they should make some change.

Key Point: If you have a really tough prospect, you might have to settle with an agreement that his company stock probably won't outperform the general market by any significant measure. In this case, by simply diversifying within the stock market, he can lower his risk without sacrificing return. Subsequently, you could take him through Track 3 to help him discover that there is an even better plan.

Step 12: The Liquidation Plan

If you've gotten your prospect to cross the finish line and admit that he should liquidate at least a part of his stock, it's now time to take off your sales hat and put on the advisor cap. You need to work with the prospect to determine how much of that stock the prospect is willing to liquidate at this time, and then create a liquidation plan in stages for the future.

For example, a plan might have two dimensions to it. One might be that they liquidate a certain amount of stock each year. But the second might be that they accelerate the liquidation if the stock hits certain price points at different stages.

Track 4 – Holding Long-Term Individual Bonds

We've all seen situations where a 75-year-old prospect has recently purchased a 30-year bond from a stock broker. The chance of that prospect actually living to age 105, or until the maturity of the bond, is remote. In most normal interest rate climates, that's not a big deal, but in today's low interest rate climate, it is.

Here's an example of a track to discuss with a prospect in this situation:

"Mr. Prospect, when you buy individual bonds, you have two important guarantees. First is a fixed rate of interest for the life of the bond and second is a guaranteed repayment of the face amount at maturity. Of course, both guarantees only exist if the issuer does not default on the debt. If you need to liquidate an individual bond before maturity, you can do so through a broker in the secondary market. The value of that bond will be based upon whatever the market can bear, which might be more or less than what you paid for it. Of particular concern right now is that interest rates are the lowest they've been in more than 50 years. Most people agree that in time, interest rates are going to have to go back up. When interest rates increase, that's considered to be the primary factor that causes bonds to drop in value. That's why it's conventional wisdom that anyone buying bonds right now should plan to hold them to maturity. Of course, in order to hold this bond to maturity, you're going to have to hold it for 30 years or until age 105."

At this point, the prospect is going to realize that's a little ridiculous because they won't be living 30 years from now when the bond matures. The most common response you'll get is that they plan to hold the bond until they die; they're getting the income right now and are happy with it. They might even say that when they die, their children will hold the bond until it matures. When you're in this situation with a client or prospect, you need to make the following important point:

If they have one child who is going to be the beneficiary of all their assets, then maybe that child can indeed hold this bond to maturity. But, if they have several children, it's unlikely that will happen. The real world dictates that it is unlikely that all of the children listed as beneficiaries will agree on whether or not to hold or sell the bond. Typically, when there are more children, the assets get liquidated as the estate settles.

After explaining this to the prospect, finish by saying:

"Mr. Prospect, if you happen to die when interest rates are higher than they are right now, then your children are going to lose money. These bonds will be worth less at your death than face value. Do you agree?"

"Mr. Prospect, if you truly need 100 percent of the income from these bonds to live on, then there is not much we can do at this point. You see, if we go to shorter term bonds right now, your interest income will decrease. But, if you don't really need all of this interest on a regular basis, then why put your heirs in a situation where they are forced to take a loss?"

The Wedge – Brokers Love To Chase Yields

"You see, Mr. Prospect, one of the things a lot of stock brokers love to do is what I call 'chasing yields.' In other words, because this high interest rate looks attractive to you, some stock brokers might recommend very long-term bonds. They know that you are going to look at your investment statement every month and your eyes will gravitate toward that right-hand column, "Current Yield." When you see a nice big number there, you're going to feel better about your broker and less worried about fluctuations in the value of your account. Unfortunately, he may have not adequately described the extra interest rate risk you're incurring."

"I have some clients who had to chase yields because they had to get maximum income from every penny on their balance sheet. You, however, are in a very fortunate position. You have been smart enough with your investments over the years and have been a disciplined saver, so you have enough money on your balance sheet."

"You don't need to chase yields to get maximum income from every dollar that you have, which means you have the luxury to focus on the total return. It's great that you might be getting a 7 percent yield, but if the bond value drops at an average of 3 percent per year, your total return is only 4 percent."

"Wouldn't it make more sense to have a 6 percent bond that is shorter term that you could hold to maturity and get the entire 6 percent?"

At this point, either the prospect is going to be motivated by your argument or they simply are going to tell you that they don't care. There are some people who really aren't concerned about it because they worked for everything that they have and they are not concerned if, upon their death, their estate takes a loss.

Key Point: Don't be worried about convincing the prospect that if they just sold their bonds and replaced them with shorter maturity bonds, they would be in a more secure position. That's a simpler decision for the prospect to make. You will still have the opportunity, subsequently, to present them with all of the conservative income-generating options.

But most folks in the generation that we focus on are going to be somewhat concerned at this level and you probably will be able to motivate them to shorten up the bonds a bit. This is a little tougher when you have a single-advisor prospect because then you'll really need to be strong on building the wedge. Otherwise, they will go back to the other broker and suggest that he buy them shorter term bonds, based on your recommendation, but without your help.

This particular track is effective approximately 50 percent of the time. Typically, you will have more success with tracks 1, 2 and 3. You will also have more success with the following track on bond funds.

Track 5 – Bond Mutual Funds

Most prospects don't understand the differences between individual issues of bonds and bond mutual funds. If a prospect owns bond mutual funds, they lose both the guarantees inherent in individual bonds.

Here's a sample track:

"Mr. Prospect, when you buy individual bonds, you have two important guarantees. First is a fixed rate of interest for the life of the bond. Second is a guaranteed repayment of the face amount at maturity. Of course, both guarantees only exist if the issuer does not default on the debt. If you need to liquidate an individual bond before maturity, you can do so through a broker in the secondary market. The value of that bond will be based upon whatever the market can bear, which might be more or less than what you paid for it. Of particular concern right now is that interest rates are the lowest they've been in more than 50 years. Most people agree that in time, interest rates are going to have to go back up. When interest rates increase, that's considered to be the primary factor that causes bonds to drop in value. That's why it's conventional wisdom that anyone buying bonds right now should plan to hold them to maturity."

"Bond funds are different from individual bonds in a couple of ways. First, unlike individual bonds, the interest that they pay on a regular basis is not guaranteed—it can change. Second, bond funds do not mature—they go on forever. That means that you cannot hold a bond mutual fund to maturity and get any guaranteed face value back. So, if you are in an individual bond and interest rates rise or the bond drops in value for any reason, you'll take a paper loss. As long as you hold that bond to maturity, it would only be a paper loss. But, if you own a bond fund and interest rates rise or the bond fund drops in value for any reason, it could be a permanent loss."

Key Point: In today's low interest rate environment, you might want to take a look at the maturity dates from the Morningstar report. If the bonds are extremely short term (a maturity of 1 to 2 years) then maybe they're okay, but it's still a bond mutual fund and nearly all bond mutual funds are risky because of today's low interest rate environment.

Key Point: When you analyze the Morningstar report, don't confuse maturity with duration. Duration is a mathematical calculation which is not equal to maturity; the maturity of bonds will always be longer than the duration. It is the maturity date that you want to focus on.

Based on hundreds of cases, this track has a very high probability of success. Also use this track if people have preferred stocks or REITs (real estate investment trusts). These behave in a similar fashion. Simply explain that these are high-dividend options that, although they are stocks, act more like bonds. So, when interest rates go up, they drop in value. Explain very carefully that, like the bond mutual fund, it is impossible to hold preferred stock and real estate investment trusts to maturity and get a guaranteed face value back.

If the other advisor has your prospect in short-term bond mutual funds, use the following dialogue:

"Mr. Prospect, it's good that your advisor recently moved you to very short term bond funds. It means that when interest rates go up, that bond fund will not drop in value nearly as much as the long-term bond fund, but it will still drop in value somewhat. Personally, I would rather not see you in any bond funds.

The Wedge – The "Airplane" Analogy:

"You know, it's almost as if your other advisor is thinking that there is nothing else out there for you in the investment world except bond funds. And it also seems that he is saying this: 'Gee, I've got two airplanes, both of which have holes in the wings. I'm going to put my client in the plane that has smaller holes in the wings so that it will take longer before it crashes, and hopefully we can find a runway in the meantime."

"Well, my philosophy is a little bit different, Mr. Prospect. If I saw two airplanes with holes in the wings, I wouldn't put you in either plane to begin with. Does that make sense?"

Closed-End Bond Funds – The Riskiest Bond Funds of Them All

Closed-end bond funds are traded like stocks on the stock exchange. How can you tell if a bond fund is closed-end? Most open-ended mutual funds have a ticker symbol that has five letters in it. Closed-end bond funds have a ticker symbol that only has three letters.

Here's an example of the dialog you might use with a prospect:

"Mr. Prospect, a closed-end fund has a limited number of market shares as opposed to an open-ended fund that has an unlimited number of shares. When you put money into a regular open-ended mutual fund, the fund creates more shares. If you take money out of a regular open-ended mutual fund, the fund now has fewer shares. With a closed-end fund, if you want to buy shares, someone else needs to sell their shares—if you want to sell shares, then someone else needs to buy them from you, just like when you buy or sell an individual stock."

"That means the closed-end funds are much more susceptible to the forces of supply and demand. We know that bond prices, on an open-ended fund, could be selling at a premium or discount relative to face value at any time. All individual bonds could be selling at a premium or discount relative to face value at any time. That will be defined as their market value."

"Closed-end bond funds are even more volatile. If the bonds themselves are selling at a premium to face value, then the closed-end bond fund itself can be selling at an even bigger premium—a premium which is relative to the market value of the bonds. Conversely, if the market value of the bonds drops, and they're selling at a discount, then the market value of the closed-end bond fund could be selling at an even further discount."

"Let's say that par value for a whole bunch of bonds might be $100 million. If market conditions change so that the NAV (Net Asset Value) of the bonds is $110 million, the market value of the closed-end fund itself might be worth $120 million. Conversely, market conditions could change so that the NAV of these bonds drops to $90 million, but the market value of the closed-end fund could drop to $80 million."

"Additionally, Mr. Prospect, there is another concern that I have about these closed-end bond funds. Most of these bond funds carry leverage. They can typically borrow up to 30 or 40 percent of the portfolio to buy more bonds. We know how leverage works, Mr. Prospect. When things are going up in value, leverage enhances your return. When things are dropping in value, leverage hurts you."

"Most of the time closed-end funds take out floating-rate loans. That means when interest rates go up, they are getting hurt on two levels. The bonds drop in value and the cost of carrying the loan goes up because it's a variable interest rate. In other words, they are getting squeezed."

"Mr. Prospect, in order of importance, I am most concerned about your closed-end bond funds. Secondly, I am concerned about your open-end bond funds. The last concern that I have is about your long-term individual bonds."

The Wedge – Stock of a Company that Owns Bonds

"Mr. Prospect, I'm not surprised to see these closed-end bond funds in your portfolio, because you're working with a stock broker. Brokers typically favor stocks, not bonds. So when you asked him for bonds, he didn't put you directly in bonds, but instead put you in the stock of a company that owns bonds. That's exactly what closed-end bond funds are, the stock of a company that owns bonds.

"As much as open-end bond funds and long-term bonds are problems, closed-end bond funds are the worst right now. Almost 100 percent of the time, when you explain the risks in closed-end bond funds, you will succeed in getting people out of them and switched over to you. That's why this track has a very high probability of success.

THE SCRANTON SALES PROCESS

CHAPTER 9

TRACKS 6,7,8,9

(THE SECONDARY TRACKS)

ADVISORS' ACADEMY

SERIOUS RESULTS FOR SERIOUS ADVISORS

CHAPTER 9
TRACKS 6,7,8,9

Track 6 – Fees (a Secondary Track)

Generally speaking, most people believe that it's ok to pay fees, providing that they're getting value. That's why this track is considered to be a secondary track, because it has to go hand-in-hand with another track, which indicates lack of value (Tracks 1-5).

In the financial world, people can easily buy an index fund almost for free. Therefore, in order to add value, most investment managers try to outperform the most relevant index. Despite their efforts though, most are not successful. It's in those cases that you have an opportunity to use Track 6.

So in other words, fees are problematic only if the prospect's current advisor is not out-performing the most relevant index. If they brought them, take a look at the prospect's account statements. If not, ask them if they can remember when they started the account and what their initial investment was. Your goal is to determine if their advisor's performance can justify his hefty fees. In most cases, the answer is no and you'll be able to demonstrate to the prospect that they are basically paying him for nothing.

Key Point: Unless your prospect knows the figure, you'll need to secure three consecutive statements in order to calculate the management fee they're being charged.

Step 1. **Determine the value of the fee-based asset management account today.**

Step 2. **Determine the current level of the most relevant market index.**

Step 3. **Determine when they opened up this managed account with their advisor and what was it worth at that time (alternatively, if that initial information isn't available, you can use another point in time).**

Step 4. **Determine what the level or the most relevant market index was on that date (you can use our Dow and S&P 500 cheat sheets for simplicity).**

Step 5. **Determine the percentage increase or decrease of the account over that time period compared to the percentage increase or decrease in the most relevant index.**

Track 6 — Fees (a Secondary Track) Continued

For example, let's say they got in three years ago when the S&P was 1,400 and now it's 2,100, and they started with $500,000 in the account and now it's worth $712,500. The index grew by 50%, which would have resulted in $750,000. They are worse than the index by $37,500 – that's real money. The prospect would have done much better if they had invested in a Vanguard S&P 500 Index Fund with much lower fees or even an S&P Exchange Traded Fund.

"Mr. Prospect, let's see how your managed account performed during this rising market. Let's assume you had an initial account balance of $500,000, and over a three-year period, the S&P 500 rose from 1,400 to 2,100—a 50% increase. However, your account at the end of that period showed a balance of $712,500 ($37,500 less than 50% growth). There are S&P index funds that you can invest in with virtually no fees that would have served you much better. But, to top it off, you've paid approximately $37,500 in fees for the privilege of underperforming the market. And because of compounding, each year you lose more and more ground. Does that sound like a good deal to you, Mr. Prospect?"

Now suppose the S&P went from 1,400 down to 940 in that same time period, and their account went from $500,000 down to $320,715. They could have bought a simple Vanguard S&P Index Fund, with virtually no fee, and had saved fees and performed more in line with the market. Instead, they chose to underperform and pay approximately $15,000 in fees.

"So Mr. Prospect, let's see how your account performed during a declining market. The S&P went from 1,400 down to 940 in a three year period—a 33% drop. Your account, however, went from $500,000 to $320,715—a 36% decline. That loss is bad enough. To add insult to injury, not only did your fund underperform the market, but you could have purchased a Vanguard S&P 500 Index Fund or S&P500 Exchange Traded Fund and performed better and saved almost $15,000 in fees. It's knowingly taking money out of your account and handing it to Wall Street."

Key Point: Please keep in mind that the key to this track is to talk in terms of dollar amounts, NOT percentages! You need to break down the fees into dollars they are paying per year and multiply it by the number of years they've been with this advisor. Likewise, it's important that you express, in dollar terms, the cumulative amount by which the advisor underperformed the appropriate market index.

Key Point: The simplified track outlined above is a correct reflection of account performance only if the prospect has made no contributions or withdrawals since inception. Otherwise, a financial calculator will be required.

Key Point: Be fair and reasonable in calculating what the most comparable index would have done. In other words, if a portfolio is 70 percent stock and 30 percent bonds, be sure to calculate only the 70 percent in stocks using the method described above. The other 30 percent should be calculated based upon a reasonable rate of return for bonds over that period.

Mutual Fund Wrap Accounts — "Getting Double Dipped"

The next major fee issue has to do with wrap accounts with mutual funds inside them. Remember, mutual funds have built-in annual expenses, usually between 0.5 and 1.5 percent a year, that pay for the management. If the prospect is paying the broker another 1 or 1.5 percent to manage the mutual fund portfolio, their total expense could be approaching 3 percent. It's extremely difficult, even in a bull market, to make good money when you are paying 3 percent a year in expenses.

Typically the language that you would use with a prospect in this situation is:

"Mr. Prospect, if I were managing an individual stock portfolio, I would have to charge you 1.25 to 1.5 percent a year. The reason for the charge is I would have to research all these different individual companies, monitor them and make changes as we went along. In fact, monitoring and researching these individual companies would represent maybe 80 percent of what I would have to do in your portfolio. In this particular case, your broker has subcontracted that responsibility to the manager of each of these mutual funds. That's why you are paying 1 to 1.5 percent built-in expenses inside the mutual funds. That expense primarily is going to the fund manager to do the research and to make the trades on a regular basis."

"The unfortunate part is that your broker is doing only the macro allocations, which comprise less than 20 percent of the work, yet charging you a full fee as though he were managing the entire stock portfolio himself. I believe if you are going to pay a fee on mutual funds, it should be much lower. For example, it wouldn't be a problem if the fee was maybe 0.25 or 0.5 percent a year, but the reality is that your fee is 1.5 percent."

Conservative-Money Fees

Another great sales opportunity for you is when you find a prospect paying fees on conservative-money. I simply tell people that, philosophically, I'm against these types of fees. I believe that people with bonds or bond funds should only pay a management fee on an actively managed fixed income portfolio with individual securities. It's even worse if they have more than a small amount of cash in the portfolio. If people pay a fee on that cash, they're actually losing money on the money market account.

Use an approach like this:

"Mr. Prospect, remember what we said about buying bonds in a low interest rate environment? If you buy bonds now, you should be prepared to hold them until maturity. Of course, with more astute management and analysis, an RIA that specializes in bond portfolios can better calculate risk/reward, and determine under what circumstances it's better to collect bond interest now, compared to bank savings rates, even if it means selling at a lower price later. In this case, a reasonably priced, fee-based advisor can be a great benefit."

Here's additional language that has proven successful for me when people are paying fees on conservative-money (if it applies to you):

"Mr. Prospect, I guess what it comes right down to is my philosophy is just different from most advisors. Most advisors determine how much they charge, based upon how much the prospect is willing to pay. I disagree. I strongly feel that advisors are morally and ethically obligated to only charge fair and reasonable fees."

"You see, most financial advisors are lucky to meet with about eight or ten clients a week and that is it. A big reason why, is they may have no staff or perhaps one part-timer. As a result, they have to do a lot of work on their own that I don't have to do."

"Because I reinvest into my business, my staff works as a team. Because of that, it frees my time so I can do what I love best—eight hours a day, five days a week. That is, having meetings and helping folks, like you, solve their financial problems. Currently, because of the way I have set up my business, I see about XX clients a week. That basically means all I need to do is help as many people as I possibly can and make a fair living while I'm doing it. I don't have to try to get rich off any one of my clients."

That last statement (about not getting rich off one client) should come at the end of your scenario on fees. It's another way to separate yourself from every other advisor and it's really a great wedge against the competition! It also gives you an opportunity to brag a little bit about your organization and that you employ a big team behind you.

Track 6a – Variable Annuities

As we all know, variable annuities contain sub-accounts that look and smell a lot like mutual funds. Because of this, they have significant market risk. Over the last decade or so, many insurance companies have come out with "living guarantees" in the form of income riders. On the down side, the total fees on these annuities are often as high as 2-3 percent, not including the sub-account charges. Unfortunately, many of the very same clients that own these programs don't really understand the limitations of the income rider. Moreover, many of the advisors who sell these products don't fully understand the negative financial effects of "reverse dollar cost averaging."

Now, these variable annuities certainly are not all bad. In fact, until 2005, I would occasionally use these for clients where they were appropriate. During that time, we as advisors had to help our clients make a choice. If the client wanted a lump sum guarantee against loss, then the indexed annuity was more appropriate. However, if the client preferred an income guarantee, the variable annuity would be a better recommendation.

With the advent of income riders on indexed annuities in 2006, I now believe we can offer the best of both worlds. As a result, I've not personally sold variable annuities for several years. In my practice, if I can help a prospect realize that he should only have 30 percent or so in the stock market, then I prefer to use individual stocks or ETFs. If an advisor wants to use variable annuities as part of his business model, those can be a substitute for the individual stocks or ETFs. However, I strongly believe that variable annuities have no place in the 70 percent or so that a person might want in a combination of conservative strategies.

When I come across a variable annuity that I believe is inappropriate for the client, I use the following 10-step approach:

1. **Use Track 3 to help them discover the risks of too much market exposure.**
2. **Ask the prospect to explain his understanding of the income rider and its associated guarantees.**
3. **Calculate and disclose the internal fees in terms of $. (We usually recommend calling the VA carriers and letting them tell the client the fees.) The questions to ask:**
   - **M&E Charge**
   - **Current Value**
   - **Income Value**
   - **Income Rider Fee**
   - **Total of <u>all</u> fees on the VA**
   - **How Income Rider works (roll up, pay out, percentage, singular or joint)**
   - **Surrender Charge**
4. **If necessary, explain how the income rider actually works.**
5. **The Ferrari Analogy #2/The Guardrail Analogy.**
6. **If the prospect is currently taking income, through systematic withdrawals instead of a lifetime income under the income rider, explain the effects of reverse dollar cost averaging.**
7. **Close for a change of broker of record on the variable annuity, on the basis that you will explore with the prospect, all of the internal, as well as external, methods of risk reduction. This only works if the Agent has a series 6 or 7 license. We now advocate at least 65/66 model as well.**
8. **"Close the Door" on the bond funds and fixed-interest fund using a bit of Tracks 5 and 1.**
9. **Compare the surrender change percentage to get out of the VA now, to the remaining charges to wait until it is out of surrender. Ask the prospect to decide which is more appropriate for them.**
10. **If the prospect agrees to pay the penalty and get out early, then explore the external methods of risk reduction when presenting the BBI presentation.**

<u>WARNING:</u> There are suitibility considerations when moving a VA to an FIA. Be sure of the following <u>before</u> the client agrees to 1035 a VA to an FIA.

1. **Is there a <u>guaranteed</u> benefit to the client?**
2. **Always answer "Yes" to the suitibility question: "Is this a replacement?"**
3. **Know the "Rules" for replacement for the carrier you intend to use.**

Detail on Step 4 – If Necessary, Explain How the Income Rider Works

Have you ever heard the old adage, "If it's too good to be true, it probably is"? Well, that may also apply to variable annuities – tell your client as much.

Here's a sample dialogue:

"You said that you're guaranteed to get 6 percent interest per year. According to the Rule of 72, after 12 years, your account will double. So after 12 years, your $100,000 would be worth $200,000. I want to explain to you the limitations of those accounts and how they work. That $200,000 number is called an income base. In other words, it's a base used to calculate a guaranteed lifetime income stream. If after 12 years, the actual sub-accounts under perform 6 percent and therefore the account value is less than the income base, you could choose to invoke the income guarantee. But here's the catch: there is no lump-sum guarantee against loss. In other words, at any point in the future if the market is down and the sub-accounts are down and you want to get out, you cash out at whatever those accounts are worth. You are not going to have any guaranteed repayment of principal."

"Part of the reason these plans appeal to insurance companies is because they know you're probably not going to cash out the account in a lump sum, and they're going to get that 2 percent fee forever. The point I'm trying to make is that if you end up with a loss on the account, you're probably going to be stuck in this program for the rest of your life – which means that the insurance company is going to continue to charge you that 2 percent per year for the rest of your life."

Detail on Step 5 – Wedges: The Ferrari Analogy #2/The Guardrail Analogy

The client most likely asked the advisor for a conservative investment program. Instead, he put him/her in these variable annuity sub-accounts knowing this is not a conservative product. So what the advisor did to accommodate them was to put the prospect in a plan and build a guarantee around it, at an extra cost.

Use this analogy with your prospect to explain that idea:

"Imagine you went into a car dealership and I was the salesman. You tell me that you want a car that is safe, handles well in the snow and carries a lot of cargo. I come out and show you a two-seat sports car. You say that the car can't possibly be safe. I tell you that the sports car has roll-bars, which will protect you if the car rolls over. However, those roll-bars come at an extra cost to you. Then you say that you want a car that's good in the snow. I explain that the car comes with two sets of tires: summer and winter. Unfortunately, those winter tires are going to cost you extra. Finally, you tell me that you needed a car that would carry plenty of cargo. I show you the trailer hitch that attaches to the car, but once again – this costs extra."

"Let me ask you, Mr. Prospect, if you wanted a safe car that's good in the snow and carries a lot of cargo—is that what you really got? Or did you end up getting a sports car that cost you a lot extra and was only jerry-rigged into the kind of car you wanted?"

At this point, you've presumably planted that seed in the prospect's mind that they should seriously consider getting out of the variable annuity. Here's another analogy to use with your prospect:

Guard Rail Analogy

"I don't want you to be reckless with your allocation and be as aggressive as you are. Your goal is to reduce your risk and I don't want you to have a false sense of security because of these guarantees. It's like going across a bridge. You drive across it and it feels good knowing there are guard rails to protect you. But you don't drive recklessly at 120 miles per hour just because there are guard rails there, right? You still have to be prudent and hope at the end of the day you never have to use those guard rails. But it's nice to know that they're there in case you need them."

"That's how I look at the variable annuity. If this were a true 6 percent guarantee, where after 10 years you cash it out and get your money in a lump sum, I think you could throw caution to the wind. But that simply isn't the case. You still need to be prudent here with your allocations. At the end of the day, you hope that the income rider was not needed, but was just there to fall back on in a worst-case scenario."

Detail on Step 6 – Explain the Effects of Reverse Dollar Cost Averaging

Talk about this if the prospect is taking income from the variable annuity on a regular basis. Reverse-dollar cost averaging is a zero-sum game. Putting money into a mutual account every month is a good idea because you're buying more shares when it's down and fewer shares when it's up. Conversely, reverse-dollar cost averaging (i.e. pulling money out) is a bad idea because now you're selling more shares when the market is down and selling fewer shares when it's up. By doing this, you're taking your average sales price and pushing it down.

YOU WANT TO BUY LOW AND SELL HIGH!

Detail on Step 7 – Close for a change of broker of record on the variable annuity, on the basis that you will explore with the prospect all of the internal, as well as external, methods of risk reduction (Remember, this can only be done by those holding active series 6 or 7 licenses)

There are two things you can do for your prospect: lower their risk internally within the variable annuity, or lower it externally, via a more conservative product. Obviously you'd like to convert the prospect over to a product that's within the universe of conservative options. Reassure the prospect that once you become broker of record, you will be able to lower their market exposure using either method.

Detail on Step 9 – Disclose the early withdrawal penalties and compare to the remaining fees and charges if held to maturity

This is the point at which, if you've done the first eight steps properly, the only thing potentially holding the client back from getting out of the variable annuity is the prospect of the surrender charges. In Step 9, your goal is to help the client make a paradigm shift and get him to realize that he may actually save money by getting out early.

Let's say, for example, that there are five years remaining in his surrender charge schedule. Typically, at that point, the surrender charges would be approximately 5 percent. But let's say that the annual mortality, expense and administration charges, including any fees for the riders, are only 2 percent per year. That equates to 10 percent worth of cumulative remaining fees over the next five years if the prospect stays to term. So from a compliance standpoint, the client does indeed have a 5 percent surrender penalty if he gets out now. But, economically, he's actually saving 5 percent over the course of the remaining years by getting out early. In essence, the "surrender penalty" is simply a prepayment of approximately half of the remaining built-in charges, should he stay to term.

Ideally, if the client is going to get out of the variable annuity early, I want him to make that decision because he feels it's no longer suitable for him. I don't want to entice him with a bonus on a replacement annuity as a way of "covering" the surrender penalties. After I finish Step 10, my BBI presentation, I may choose to present the bonus feature, at that time, as icing on the cake.

Track 7 – Taxes (a secondary track)

Just as most people don't change advisors solely because their fees are too high, they also don't typically change advisors if taxes are the only problem. This is because most people believe that it's not an investment advisor's job to save tax. Track 7 works only once you've gone through other (primary) tracks and shown the prospect that his investments aren't suitable for him. Then, in addition, you can show the prospect how he is paying too much tax – and their current advisor is not helping them in that area.

Know Your Way around the Tax Return

There is no one particular track, per se, for income taxes. The most important thing about this track is that you have to know your way around the tax return forms. You should be familiar with the 1040 form. Basic understandings of Schedules A, B, and D are necessary too.

Know Where Various Tax Brackets Kick In

You need to have a general idea of the taxable income levels where various tax brackets kick in for married couples, as well as for singles. In other words, after the prospect subtracts all his exemptions and deductions, he gets to the taxable income. That's the most important number for determining the prospect's marginal tax bracket. (For simplicity, I recommend carrying a cheat sheet). The biggest opportunity is the jump between the 15 percent and the 25 percent brackets.

Educate the Prospect about Voluntary versus Involuntary Taxes

Involuntary taxes are from sources that cannot be sheltered, such as income from employment, pension income, IRA RMDs and taxable Social Security benefits that cannot be avoided. Voluntary taxes are from things such as interest, dividends, capital gains and IRA distributions in excess of RMDs.

Because of the progressive nature of the tax system, sometimes the voluntary income sources might comprise as little as 20 percent of your income, but might generate as much as 40 percent of your income tax. Sometimes, just educating the prospect about this and informing him that 40 percent of his income taxes are truly voluntary, is sufficient to trigger a change.

Schedule B/Schedule D Opportunities

You may have clients with a lot of taxable interest income on Schedule B. Often this will be from bank deposits and CDs. These types of situations are opportunities where municipal bonds, or a fixed or equity-indexed annuity, can be a tax-effective alternative. If the clients report income on the lower part of the Schedule B as dividends, it might be due to stocks, mutual funds or similar investments. Keep in mind, though, that these may be taxed at a reduced capital gains rate. Remember, mutual funds can actually lose money in a given year, but still distribute a dividend, which is taxable, and a capital gain distribution, which is taxable.

Track 7 – Taxes (a secondary track) continued

Educate Prospects on Their Pockets of Money

One of the most significant ways you can help people when it comes to taxes, is to educate them regarding their pockets of money. For these situations, I recommend that you discuss how current cash flow needs should affect the amount of risk they're taking on various pockets of money. Advise people to take income from their most conservative investments; investments that aren't required for income for a few years can be more aggressive.

If your clients are in a high tax bracket and are in their 60s or younger, and they have both qualified money and non-qualified money, they probably want to start taking cash flow from the non-qualified money first. This would give them more tax efficiency and let their IRAs grow tax-deferred. This means that the IRAs can be a little more aggressive and the non-qualified money would have to be more conservative because that's the pocket of money from which they are taking income.

People over age 70½ must take minimum distributions from their IRAs. Any extra needed cash flow should generally still come from their non-qualified accounts. Still, prospects begin to take less income from their non-qualified money after age 70½. This means that they really need to flip-flop their risk in their pockets of money at this age. In other words, of the money they accumulated over the years, they have had the most aggressive investments in qualified accounts and most conservative in non-qualified accounts. Now that minimum distribution time is here, the opposite is true. The most conservative investments should be in the IRA because the government is forcing them to take income from that source; the more aggressive investments can be outside the IRA. This is something that some stock brokers may miss, so it is to your advantage if you know this.

When Does a Dollar Equal a Dollar-and-a Half?

The aforementioned strategies are particularly advantageous to the prospect when they're currently paying some, but not the maximum amount of income taxes on their Social Security benefits. You need to know the general methods the IRS uses to calculate taxation on Social Security benefits (again, a cheat sheet will be helpful). For these prospects, reducing their gross income by $1.00, using any of the strategies above, can actually reduce their taxable income by $1.50 or more. This is because they're in that range where each dollar reduction in taxable income leads to an additional reduction in the taxable portion of their Social Security benefits.

Shift Qualified Money to Lower Tax Bracket

If your prospects have a lot of qualified money and are not age 70½ yet, there might be some opportunity to take money out in the lower bracket. Let's say you have a prospect that is in a 10 or 15 percent tax bracket right now, but you know that eventually the minimum distributions on their qualified accounts are going to push them into the next bracket. It might make sense for you to ask them to consider taking some of the qualified money now for income to the extent it is taxed at a lower bracket.

A Real Life Example: Taxable Income is – $37,000

I had a gentleman in my office the other day who had a ton of rental property—he actually had a $37,000 annual loss on his taxes. In other words, his taxable income was minus $37,000. In this case, I went ahead and showed him that he could take $37,000 a year out of his IRA, completely tax-free. He had about $1 million in the IRA and, in a few years, his minimum distributions were going to push him up into a higher tax area. This is an extreme example of someone who should take out qualified money early.

Strategies like this earn you respect and build your credentials with the prospect, but you're better off tying any tax strategy to a more prominent financial concern. What I did for the gentleman above was turn the tax talk into a discussion on risk. I explained how he might want to be a little more conservative with his IRA money if he was going to be taking withdrawals and taking income at this time.

Be extra cautious when you are talking specifics about taxes. Talk generally and then run your ideas by somebody with more experience and credentials. If you do not have a lot of experience in taxes, then work in conjunction with the prospect's CPA. Before you contact the CPA, always make sure the CPA doesn't also manage investments.

Motivate Them with the Historically Low Capital Gains Rates

Ironically enough, one of the most common ways to use taxes in a scenario is to remind prospects of today's low capital gains bracket. Here, your emphasis is not on saving them taxes this year; it is on saving them taxes over their lifetime if they liquidate the stocks right now.

Does this seem different than what you would think? Remember that retirees are long-term thinkers; they are not concerned so much about today. They'll sacrifice today for the long term. Sometimes if you can show them that paying a bit extra in taxes today will save them on their taxes in the long run (because of the much higher potential capital gains rate), then they will take action.

Summary

This scenario provides an opportunity to couple investment strategies with tax-saving tactics that are sure to motivate your prospect to make a change. It is important for you to understand the different tax brackets which your prospect falls into—you will be more helpful when you know how much it will take to move them into the next bracket. You should also discuss the importance of having the appropriate amounts in their different pockets of money. And remember, taxes are only a secondary scenario.

Track 8 – Coordinating an Income Generating Plan

Coordinating a cohesive financial plan can frequently be a primary scenario. It often occurs when prospects come in to interview you; they already know they need some financial expertise. Perhaps they are just retiring and they know they need to withdraw money from their investments, but they ask you, "Mr. Advisor, our primary concern today is to find out if we can afford to retire and how." When you hear this, it's a good signal that there is a major change going on in their lives and you might have a good opportunity.

If you're working with a do-it-your-selfer, this might be a good chance for you to help them with some part of their portfolio. If they have another advisor, then you know there is a reason why they have not gone to them with this question. Often, it's because their other advisor is really just a stockbroker or investment representative at the bank, not a financial planner.

How to Answer, "Can I Afford To Retire?"

When prospects ask me if they can afford to retire, I get on the board and tell them about the "X* percent rule." I tell them that for every $1 million, they can only get about $XX,XXX of annual cash flow safely; that is X percent of the total balance. I tell them that some advisors could possibly squeeze out X percent, but I would rather be more conservative at X percent. If you only need X or X percent cash flow per year, then you can focus more on total return and having a better inflation hedge.

With these prospects, use the board or pad of paper and calculate how much income they could receive. Add in Social Security as well as other pension income and give them the total. Then they can usually answer their question themselves, as to whether or not they can afford to retire.

Risk vs. Conservative-Based Capital

These retirement affordability discussions end up being a great opportunity to talk about the difference of managing risk-based capital versus conservative-based capital. People burdened with concern about being able to afford retirement don't always bring it up; sometimes you have to bring it to their attention. You can mention that if they plan to retire in the near future, they should be lowering their risk and focusing on generating income. Then, focus their attention on which pocket of money they should draw income from first. This gives you an opportunity to talk about taxes and which pocket they should pull cash flow from first. This "risk management" discussion will quickly become the crux of this track.

Oftentimes, these types of prospects have been do-it-yourselfers for a long time. As do-it-your-selfers, they have probably specialized mostly in stock mutual funds in the 80s and 90s and built some wealth. They have seen their wealth decrease over the last few years and are really not enjoying managing their money as they did before. Additionally, many are now clueless as to how they should invest for income.

If, for some reason, the prospect is reluctant to admit that they are inexperienced with income-generating investments, try the following:

"Please don't let me put words in your mouth, Mr. Prospect, but I'm starting to get the feeling this might be the reason you're here. It seems like you've done a wonderful job building your assets during your accumulation years. Correct me if I'm wrong, but it seems that most of your experience is in stocks and stock funds, not income-producing investments, right? Have you ever bought individual bonds or annuities before? What about REITs or preferreds? Alright, correct me if I'm wrong, but is that part of the reason you're here today?"

**X=current percentages*

The Suicide Financial Strategy – "Reverse Dollar Cost Averaging"

You will come across some clients who utilize a financial strategy that I call financial suicide. These are people who are typically retired and are already taking income. They often have most of their money in stock mutual funds and are taking systematic withdrawals on a monthly basis. I think, if they are doing this and you handle it properly, there is a high probability that you can turn them into a new client.

Approach this type of prospect as follows:

"Mr. Prospect, it looks like you are selling shares on a monthly basis to get income. In the months that the market is higher, you have to sell fewer shares to get your desired income. In the months where the market is down, you have to sell more shares to get your desired income. What this is doing is taking your average sales price and pushing it down. Does that make sense Mr. Prospect?"

"You have probably heard of dollar cost averaging before. Dollar cost averaging is when you put a flat amount of money into a stock fund every month. In the months the market is down you are buying more shares. In the months that the market is up, you are buying fewer shares. That takes your average purchase price and pushes it down and makes it lower. That is a good thing because your goal should be to buy low and sell high; dollar cost averaging helps you buy low."

"However, the problem is that you are doing what is called reverse dollar cost averaging; you are selling twice as many shares when the market is down and fewer shares when the market is up. In other words, you are getting the average sales price and pushing it down. So you are not selling high, but selling low. Does that make sense?"

As with all scenarios, remember to sprinkle your discussion with plenty of questions to keep them involved and to clear up any misconceptions that may arise.

"Most retirees have enough money in conservative investments that generate income. This way, they can live off the income alone and not be forced to sell any securities, on a regular basis, to generate income. Mr. Prospect, studies have shown that even if you are taking only 6 percent per year from a stock mutual fund, there is a significant risk that you could run out of money before your life expectancy. This is because of the reverse dollar cost averaging that we just talked about."

You should also remind them how long the average retirement is these days. Most people still don't realize that they need to plan for a 25-year retirement—that's just the average.

Often, much to my surprise, this reverse dollar cost averaging strategy is utilized by stockbrokers. I think, out of pure laziness, the broker will set people up in one of these fee-based mutual fund advisor accounts and just take systematic distributions. This is a great chance to discredit their current advisor and to position yourself in a different light as a conservative-money advisor.

Summary

This scenario helps you approach the prospect who is often interviewing you. When a prospect is concerned about retiring, this is a great opportunity for you to transition them into products with less risk and help them prepare an income generating plan. Help your prospect realize they need to plan for a 25-year retirement and be conservative in how much they take out of their different pockets of money. Help them realize that although they have done a good job managing their stocks and stock funds, their paradigm is now shifting. They are drifting into unknown waters, alone, at a time when mistakes could be the most costly.

Track 9 – Financial Management for the Surviving Spouse

Sometimes, when you first meet a prospect for the Free Financial Physical, you are not sure why they are there. Perhaps you have tried your best to motivate them and they're unflappable. Perhaps you sense that they've come for a valid reason, but you can't figure it out. If they are in their late 70s or early 80s, their reason for coming often has to do with them beginning to feel their mortality – especially husbands who have been do-it-your-selfers their entire lives. They begin to be concerned about what their wife would do if they were no longer there to manage the money. Multiple-advisor clients will often have the same concern. The reason they have multiple-advisors is often because they really don't trust any single-advisor. This mistrust causes them to be active in their finances and to coordinate what their many advisors do. But, they do worry that if they died, how would their spouse manage the funds.

One indication that you're dealing with this type of prospect is that they will ask you interviewing types of questions. They may ask personal questions such as where you live and how many children you have, how you charge fees, what your qualifications are, and so on.

The Do-it-your-selfer is Worried about Death

As you answer their questions and talk about your corporate philosophy, it might be a great chance to say the following:

"Mr. Prospect, many of my clients have managed their own financial portfolios for many years just like you have; they come to me later in life for additional help. They still want to be making the decisions and be in control of their financial picture, but they want additional resources. In the back of their mind, they are worried that perhaps, one day, they may no longer be able to manage their funds themselves or, even worse, they may no longer be here and their spouse would be responsible for managing the money."

"A lot of these people find it helpful if they have an opportunity to build the relationship with me before this time comes. This way, after a few years, I will have a chance to earn their trust. Then, if something does happen, they feel a lot more comfortable relying on me as a financial advisor. Is this something that you have thought about?"

Just saying these words can open an entire conversation, and they may readily admit that's why they're meeting with you. It's most important that you recognize these situations and bring the issue out into the open. A lot of us will walk right past this type of hidden agenda and totally miss the sales opportunity. Once they admit this is their main concern, they'll feel better and talk much more freely with you. You can build your credibility here by talking about couples you've worked with where the financial manager passed away and you helped the surviving spouse coordinate income and manage the affairs.

The Uninvolved Spouse

You may need to focus more on the spouse that is not active in the couple's financial matters and try to educate him/her.
The financial person in this particular relationship, most commonly the husband, has probably tried to get the wife involved for a long time; he has probably been frustrated because he wants her to be involved in the financial decisions, but she has no interest.
These situations play into our philosophy of educating clients and finding ways to build their confidence about making sound financial decisions

How to Make Them a Client NOW

This is my approach, which you might find useful:

"May I make a suggestion? You're here interviewing me as a fall back plan in case, at some point in the future, you can no longer manage your own money, correct? Ok, well let me share something with you that a lot of my clients have found useful. Think about how tough it would be for your wife if you should suddenly pass and all of a sudden she must handle all of the finances. Obviously, she would be distraught, not thinking clearly, and not in the proper mental state to make any major decisions. So, if all you had done to prepare her was give her my business card and a note telling her to go see me after you've passed, she probably wouldn't feel very comfortable coming to me."

"A lot of my clients tell me that they find it better to start a relationship with me now—even if just on a small scale—before anything happens. Imagine, if over the course of your lifetime, I had the opportunity to build your trust and your wife saw that. Then, should anything happen to you, she would feel a lot more confident coming to me, knowing that you and I had some experience together—and that you trusted me and felt confident. Don't you think that would make it a lot easier for her?"

Most of the time people say "yes."

Here's Another Way

Sometimes, if the do-it-yourselfer husband is in his late 70s/early 80s, he is more aggressive in his investments. If the wife hasn't really managed the money, she tends to be more conservative and doesn't really feel comfortable with his more aggressive approach. A good opportunity, at this point, might be to help her invest a portion of her money, which is a great opportunity to start a relationship.

Here's how to handle this situation:

"May I make another suggestion, Mr. Prospect? I noticed that you are more aggressive when it comes to your investments, yet your wife seems to be more conservative. If she is more comfortable being more conservative with the investments, then perhaps it would be a great way for us to start a relationship by investing a portion of her money. That way, you can get a feel for how I do this over the next few years—thus building your confidence and earning your trust. And if something should happen to you, your wife would feel a lot more comfortable with me."

You Must Let the Financial Manager Maintain Control

The key here is to assure the couple's financial manager, the husband, that you will let him make the decisions over the next couple of years while you educate both of them. He has to feel comfortable that you have the interest and desire to educate and help his wife.

This is where a tutorial approach like Banks, Bonds, Insurance Companies can really impress him to the point where he will feel comfortable with you. You see, most advisors don't have the patience to educate or work with do-it-your-selfers. They certainly do not have patience to educate a spouse who is not knowledgeable in financial matters. This is where you have a great opportunity to separate yourself from the other advisors and show you care.

Summary

This scenario is helpful when you finally realize what has motivated your prospect to come see you—they are concerned about who will handle their finances when they no longer can. You can ease their concerns by explaining how you have helped many couples in the past, and that you have the experience to help them. Make sure you educate these prospects and help them find the confidence to make a change.

THE SCRANTON SALES PROCESS

CHAPTER 10
TRACK THREE ADVANCED

ADVISORS' ACADEMY

SERIOUS RESULTS FOR SERIOUS ADVISORS

CHAPTER 10
TRACK 3 – ADVANCED

Price/Earnings (P/E) Ratios

There's more to be mined from this history of the stock market. Ask your prospects if they are familiar with price-to-earnings ratios. Go back to the board and write, "price ÷ earnings." If somebody is reasonably sophisticated, then they understand P/E ratios.

If they are not, then explain to them the following:

"Mr. Prospect, every stock that exists has a price-to-earnings ratio. It's simply the price of all the outstanding stock divided by the corporate earnings or corporate profit. Clearly, a company is going to sell for more than its annual earnings. If it just sold for its annual earnings, then after one year you could buy the company and have all the money back that you paid for it. So the 'P' is almost always going to be higher than the 'E'."

"But, if you're looking to buy a stock, the lower the P/E ratio, the better the value. When that ratio gets too high, it typically means the price of the stock is very high in proportion to its annual earnings."

"One key fact that I learned in my studies is that at the peaks of these stock market trends, the P/E ratios would get up right around 30. In the year 2000, P/E ratios got up to almost 40. However, I also found that at the end of the bear markets, in these troughs, the P/E ratios would get down below 10, often as low as 6 to 8."

"An important thing to understand is, in 200 years of stock market history, the market has never broken through its previous peak until 16 plus years have passed, until P/E ratios have gotten below 10 and at least 3 major drops and recoveries have occurred."

"Mr. Prospect, do you know where P/E ratios for the stock market are right now?"

Again, give prospects time to think and react to your question. The more they respond and the more they interact with you throughout this presentation, the stronger your relationship with them will be.

"They are right about at X. That means the price is still about Y times what it should be to justify a permanent market recovery."

Here's a critical portion of this history. You've led the prospect to the dramatic conclusion of the story.

Here it comes:

"Now the neat thing about P/E ratios is that there are only two ways to get from over 30 down to less than 10. Either the price has to drop significantly, which would mean a Dow Jones Industrial average of around 4,000, or corporate earnings would have to increase 3 to 4 times."

"Let me ask you Mr. Prospect, do corporate earnings increase 3 to 4 times overnight? Of course not. This is exactly why the average bear market is usually 20 plus years. That's how long it takes for corporate earnings to triple to justify the new inflated stock prices, which exist at the end of bull market."

You've provided a lot of information at this point—it's dramatic. People need time to absorb it and gather their thoughts.

Pause again and continue helping them understand by using an analogy:

"Think of the P/E ratio changing this way. It's like having a grandchild. You buy new clothing for the grandchild, often buying it at least one size too big. Well, the parents have two options. Either they can shrink the clothing down so that it fits them now, (i.e. the stock market drops significantly), or they wait until the child grows into the clothing, (i.e. corporate earnings grow into the current stock price)."

Sometimes, at this point, you may want to throw in an example that hits home with the prospect.

If you know the prospect owns a business or owns some rental property, use the P/E ratio to get them to understand this by drawing an analogy to whatever business they can relate to:

"There was a prospect who owned an ice-cream parlor. The ice-cream parlor earned $100,000/year annual profit or earnings. If P/E ratios were about 30, would you be willing to pay $3 million to buy that parlor?"

Use that analogy with that question and people will look at you as if you're crazy. They would never pay that much.

You could use a similar analogy with rental properties or many other types of businesses. If you start by asking people what would be a reasonable price for any business or rental property, with $100,000 of annual earnings, usually you'll get an answer somewhere between $500,000 and $1 million. In other words, 5 to 10 times earnings.

If you use an appropriate analogy and get to the conclusion, then the next question is simple:

"Mr. Prospect, doesn't it make sense that the bear market cannot have any meaningful recovery until P/E ratios get down fewer than 10?"

"Think about it, Mr. Prospect. If you are valuing an investment, all that should matter is the profitability and the potential of that investment. Does the name of the investment matter at all? Of course not. That's what is beautiful about price-to-earnings ratios, Mr. Prospect. You could use those whether you are talking about rental property, the ice cream parlor down the street, or any stock on NYSE or NASDAQ that is listed in the Wall Street Journal."

What to Say if They Ask Why These Trends Repeat

Sometimes a prospect might ask why you believe these trends tend to repeat themselves. Answer by discussing the psychology of people and human nature. Explain that, when it comes to financial matters, every person is motivated by two emotions: fear and greed. At the end of a bull market, like we had during the 1990s, greed takes over. People buy stocks purely out of greed and push the market up to levels which it perhaps never should have climbed; they pushed P/E ratios up to ridiculous levels. Then, as the market peaks out and starts to drop, the fear kicks in and people start to sell.

The stock market also trades in certain ranges. In the 1930s and 1940s, the Dow Jones Industrial Average generally had a range of 100 to 350. In the 1970s, the range reached 600 to 1,000. Today we appear to have a range of 14,000 to 18,000. Every time the market moves up around the top level of the range, a new group of investors becomes impatient with any losses, so they start selling out of fear. They drive the market back down toward the lower number in the range.

Then, some good news comes out and the market starts to climb. Now, a couple of years have gone by and there is a whole new group of people who perhaps have become impatient with their losses and they sell. The market tumbles back down again. Basically, these ebbs and flows continue until every person who gets impatient with losses is filtered out. Only then can the market begin a meaningful recovery.

Advanced Wedging – More Tools to Help Distinguish You from the Average Advisor

This is the language I use to get this point across:

"Like I said, Mr. Prospect, I have studied this history more than any other financial advisor I know. You see, the problem is that most financial advisors, if they know it at all, only have the history of the stock market from 1926 to the present. Although that is valuable, it's helpful to look well beyond that as well."

"The information before 1926 is very difficult to find. In fact, you actually have to research it and piece it together yourself. That's because in 1926, a Chicago research company called Ibbotson started to track just about every statistic concerning the stock market."

"This is why most financial advisors have difficulties determining whether or not these trends are truly repeatable and predictable. They will say they cannot count the period of 1929 to 1954. The reason is because that was the Great Depression. We now have financial safeguards in our country—Social Security, unemployment benefits, the FDIC, etc.—so hopefully we will never have another Depression."

"So, your average financial advisor rules out the 1929 to 1954 bear market. Now you have one bear market remaining from 1966 to 1982. Well, Mr. Prospect, can you take one long-term bear market and extrapolate a trend from that? Of course not."

"So the average financial advisor basically throws up his or her hands at this point and says that the market is random and you can't draw any conclusions. That's why I wanted to research the market farther back, before 1926, to see whether this trend repeated itself or was idiosyncratic."

This is a good opportunity to raise concern about the prospect's advisor and their thoroughness. Many prospects openly share the fact that their broker exclusively relies on their firm's research. This is an opportunity to present yourself as a more credible resource.

You can accomplish this by saying:

"So, let me ask you, Mr. Prospect, if you were the CEO of Fidelity or Merrill Lynch and you were passing your research results down to your brokers or your financial advisors, would you want to talk to them about a 20 plus year bear market? Of course not. The reason is your company as a whole would lose a lot of business."

"As a result, I believe information about the history of the stock market before 1926 is intentionally eliminated from what these firms teach their financial advisors. And you know what, Mr. Prospect? I ran out of room here on the board, but if I hadn't and I went all the way back to 1800, this trend would look the same."

Now prospects sense that you're different. You need to explain what makes you different and why that difference is good news for them. Be careful here because this is my story.

You will need to talk about your background here:

"Now, here's the difference between me and most advisors. Most financial advisors started off as salespeople. Maybe they sold cars or office equipment. They were good enough in sales that eventually somebody from a financial firm recruited them and then they had to learn the financial planning side. So, they started off primarily as salespeople and secondarily as financial advisors."

"I'm the opposite. I started off with a degree in mathematics and got into the financial world right from the start. I have a master's degree in financial planning. As a result, I tend to do a lot of my own research. Most other advisors who are not as technical tend to blindly accept the research that their firms offer them. They don't bother to do their own."

Overcoming Objections Associated with Track 3

"But Aren't the Markets Different Now that We Are a Global Economy?"

"We have always had globalized, growing financial markets, in terms of geography. When the stock market started in our country, arguably back in the 1700s, we were only really settled on the east coast. As we started to move west, the market started to grow and we started to create markets in the middle and western part of the country. Now it just so happens that we've got financial markets in a lot of emerging markets—across Europe and into Asia, Africa and so on. So historically, the markets have always been growing in terms of geography. My point is that during all of these bear markets in history, there have always been people who believe that 'it's going to be different this time' because the markets are growing. There are more people and more investors in different parts of the country and different parts of the world. Despite that, every bear market we've had has still been 16 plus years."

"Aren't the Markets Different Now Because of Technology?"

"During the bear market from 1900–1921, there were a lot of people who thought the market would recover quickly. Their rationale was that we had railroads, and the railroad infrastructure had grown significantly. Now people on the west coast could buy goods and services from the east coast. The market was expanding. Most people believed that this would be the first time in history that the stock market would recover quickly. They were wrong—we had a 21-year bear market."

"In 1929, we saw the trucking industry develop. Trucks enabled goods to be delivered even faster than by railroad and to more rural locations. Goods and services could be sold to almost anybody. People thought that surely this time the bear market wouldn't last so long. Once again, they were wrong—we experienced a 25-year bear market."

"The manufacturing industry boomed in the 1950s and '60s. Things became more automated and goods and services were being produced at a faster pace. Again, people believed this would definitely be the first time in history that the market would recover sooner than it ever had. But, same as before, they were wrong. This time we had a 16 year bear market."

"But Isn't the Stock Market Undervalued Now?"

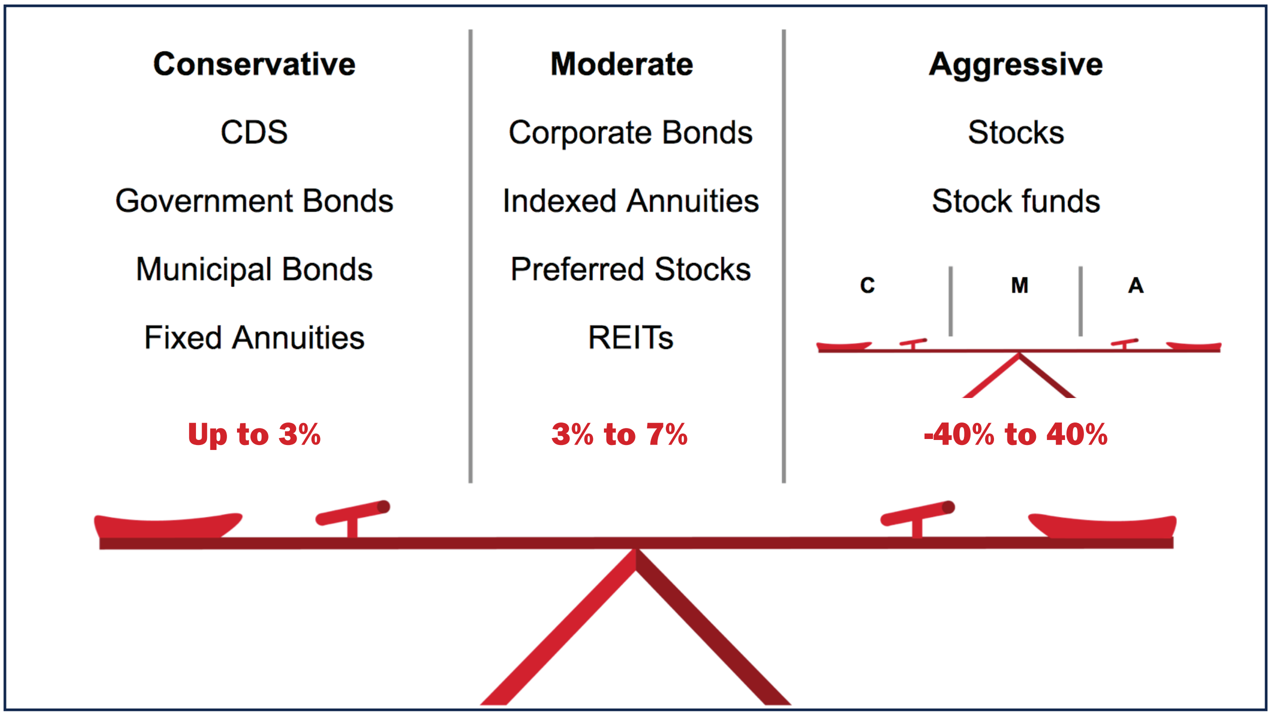
For this objection, refer to the previous section on P/E ratios in Track 3 Advanced to point out that the market is not undervalued at this time.

"But My Broker Says I Have Conservative Stocks."

If your prospect tells you that they have conservative stocks, explain to them how that's an oxymoron. All stocks have risk. "Conservative" stock just means that you're going to lose less when the market drops, but it doesn't mean it's going to make money in a down market.

In the financial world there are three major categories of investments – conservative, moderate and aggressive.

Draw this teeter-totter for your prospect to illustrate your point:



What brokers do is subdivide that aggressive section into three categories: conservative stocks, moderate stocks and aggressive stocks. So when a stock broker says that he has a prospect allocated conservatively, he means that he's placed them in the conservative section of the aggressive category.

"But At My Age, Don't I Need to Have Money In Stocks As a Hedge Against Future Inflation?"

To overcome this objection, all you really need to do is remind the prospect that the definition of a secular bear market is a 0 percent return for a very long period, and then use the following words:

"So, Mr. Prospect, let me ask you, is 0 percent return really a good hedge against inflation?"

"My Broker Says it's OK Because I'm in the Stock Market for the Long Term"

"Well Mr. Prospect, did your broker happen to tell you how long is "long term?" Again, keep in mind that it takes 35 years for the stock market to go full cycle. So yes, I agree that any money that you want to spend 35 years from now could be allocated toward the stock market."

"I Can't Commit to You Until I Know How You're Going to Allocate My Funds."

"When I'm coaching people on how to interview advisors, I often tell them that if any advisor has the audacity to make a recommendation after only one meeting, that they should grab their wallet and run, not walk, in the opposite direction. This is an indication to me that that advisor, somewhere behind the scenes, has a specific business model or set of recommendations that he makes to virtually every prospective client, regardless of their situation. He has a specific package of investments that he typically sells. A true advisor, who is completely independent, would need to take you through an interview and educational process over the course of several meetings before a specific set of recommendations could be made. Through this process, you and the advisor would work together to determine which investments out of the universe of investments are most appropriate for your goals and objectives. As a true independent advisor, I'd be committing malpractice if I tried to make specific recommendations this early in the game."