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Would You Hire Me if I Recommended That?

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I occasionally run into prospects that are holding totally the wrong investments, but somehow are locked into inaction and can't make a change, even if they know it is the right thing to do.

Here is a good example: I often work with Nortel Networks employees and one of them came to see me in early 2000s while Nortel stock was on its way down, but hadn't hit the floor yet. He was 55, had a small company pension (even smaller now), and only about \$200,000 in RRSP. Here is the rub, the \$200K was all in Nortel stock!

So after discussing his needs, we concluded that he needed a financial plan (he agreed) and that he badly needed to diversify his portfolio (again he agreed). Then I said he would have to sell most his Nortel stock to achieve his goal of having a diversified portfolio. He understood that but just couldn't agree to that course of action; he would not agree to sell. Why not? After talking awhile longer it came out that he did not see his portfolio as being worth \$200K, he thought it was worth \$2 million (the value at the height of the dot.com boom) and that his portfolio was only "temporally" down. So how do I convince a man who is wearing blinders and protect him from his own mistakes?

I simply said: "Let's turn this around for a moment, let's pretend you hold the \$200,000 in your RRSP in cash and you come in to hire me to manage your portfolio. Now what would you think if I recommended you put 100% of your investments into one stock, would you hire me? No of course not, but you are doing it now so why wouldn't you do then? If you wouldn't buy an investment today, then it makes no sense to keep it just because you already own it." It is at this point that the prospective client realized his mistake.

Unfortunately in this case, even though he agreed with my logic, he never took any action and is probably worse off for it. Though since then I have used that analogy many many times, whether it is a case of a too concentrated portfolio or inappropriate asset mix, and every time with great success.