The 'Cash Hoarder' Playbook for Advisors

How to convince a cash hoarder to invest wisely.

Cash Hoarders are one type of prospect every advisor has met at some point in their career. This type of investor is hard to convince that hoarding cash also comes with risk. The Cash Hoarder is often reluctant to enter the equity markets, overly concerned with market fluctuations, and can be unwilling to work with an advisor if they feel that their fears are not being addressed.

In this playbook, we will provide the resources to help you identify a cash hoarder, how to analyze and review their portfolio, and overcome their objections. We'll leave you with a checklist to ensure you've covered everything to turn this fearful prospect into a satisfied client.

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'Doing it themselves' may be their mantra-until you assess their portfolio risk, provide them with the data, and show them why working with you provides them value.

Attributes of a Cash Hoarder

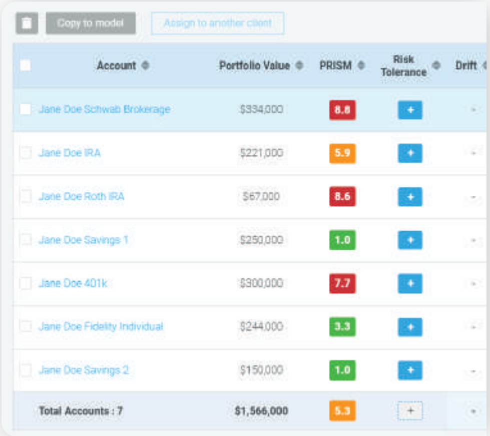
They hold a high percentage of cash (over 40%) and they may not actually have an idea of how much cash they are holding.

They may be holding cash as a means to offset/balance out riskier investments.

They may be fearful about investing in the market.

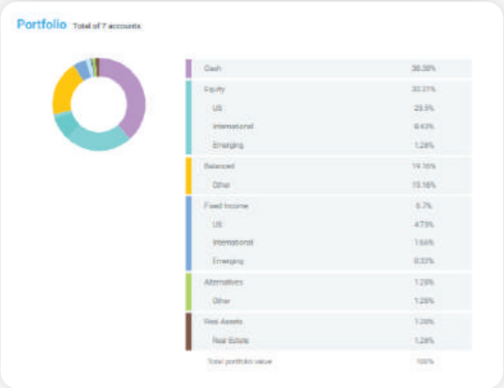
Perhaps they are worried about timing the market. They don't want to jump in and then have the market go against them so they may wait for a time they feel is right.

Playbook for a Cash Hoarder



01 **Offer them a free risk analysis/review** of their portfolio (assuming you are working with a prospect).

02 **Get all their account information** and let them know how much cash they have overall as a percentage (if they are unaware). Ask a question such as, *"Did you know that you are 40% invested in cash?"*



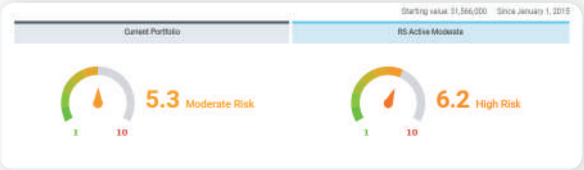
03 **Ask questions to get into the reasoning** behind their big cash position; why are they holding so much cash? You can probably preface it with the usual questions such as:

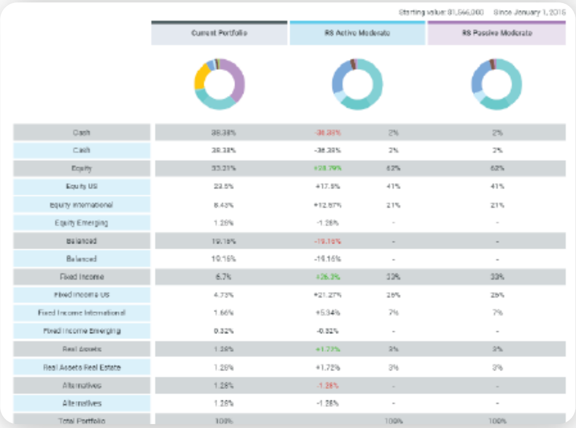
- *"Are you trying to balance out riskier positions?"*
- *"Are you trying to time the market?"*
- *"Are you afraid of the stock market and just don't understand what you should be doing to protect yourself?"*

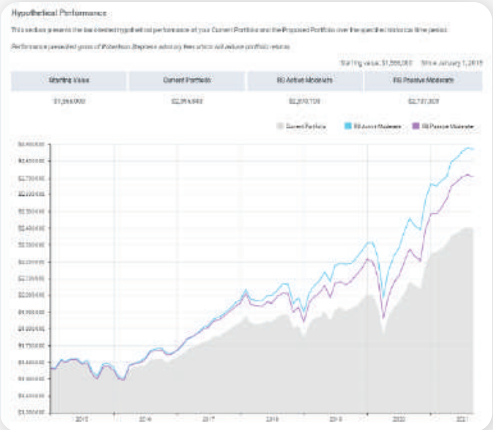
04 **Discuss their rationale** as well as the drawbacks to their approach. If they think they are balancing risky equities with cash (the "barbell approach") you can say, "*You may think you are protected with cash, but there are some drawbacks/deficiencies based on your approach that you should know about*" and explain them. Tell them what you think their target cash holdings should be and why.

05 **Discuss an alternative approach** that would offer them better performance and protection while still fulfilling their goals. It is very helpful to show the Stratifi risk reports and proposals as this will help to visually engage the clients and improve their understanding of the different types of risk.

For example, they may say they want to see relative performance over the last 5 years (or you could suggest this). When you show them a proposal comparing their portfolio with a more diversified portfolio, they will see that the difference in return is significant while taking about the same amount of risk, or even less risk, in some cases.







06 **Zone in on the opportunity cost** of holding cash and not making any adjustments. It may help to run different iterations of the comparison portfolio in the proposal to show the 'cash hoarder' different options and outcomes in order for them to see that a large cash position isn't ideal across different scenarios.

07 Hopefully, at this point, they will be open to some kind of adjustment to their cash position. When planning out the portfolio, remember to stress that markets will go up and down.

Cash hoarders tend to panic when the market drops so it is important to set expectations. If they come back saying that the market is falling, reiterate the portfolio's return expectations and their overall financial plan.

Counter-Arguments They May Bring Up

"We want to buy a house," or need to have a large amount of cash for something.

How to overcome: You can liquidate a part of your portfolio and have cash in 48 hours.

There are a lot of people who are scared of losses in the stock market and don't really understand the meaning of a diversified portfolio or how to construct one, so they come up with their own methods or portfolios like hoarding cash.

How to overcome: Showing performance graphs and risk reports to highlight the opportunity cost or potential losses of holding cash, as well as discussing your experience as an advisor, will help give them confidence in what you are suggesting.

Cash hoarders have to be communicated with regularly to reinforce the plan. You have to show them repeatedly that the huge cash position is detrimental to their goals. They have to see for themselves that their cash weighing them down and is not helping them increase their risk adjusted return over time.

Playbook Checklist

1. Offer free portfolio risk review for one of the accounts.
2. Offer a complete risk review of their entire Household. This can include a financial planning review including cash flow, mortgages, insurance coverage as well as future 401(k) plans or pensions, so that they have a clear understanding of their total financial picture, not just their investment accounts.
3. Show them how much cash they have as a percentage of their overall Household portfolio and have a dialogue with them to better understand their psychology and perception of risk.
4. Highlight the opportunity cost of holding cash.
5. Discuss alternatives that could deliver a better outcome while addressing their concerns about losses.