FINANCIAL PLANNING

http://www.financial-planning.com

Populist Rage at Banks Leaves Clients Cold

By Howard J. Stock, *Bank Investment Consultant*

January 28, 2010

The rhetoric was unmistakable: Big banks are bad.

“Each time a CEO rewards himself for failure, or a banker puts the rest of us at risk for his own selfish gain, people's doubts grow,” President Obama said Wednesday in his first State of the Union address. “Each time lobbyists game the system or politicians tear each other down instead of lifting this country up, we lose faith.”

But while that sentiment echoes a populist rage that has been stoked by politicians and the national press for months, from what their clients are saying, advisors in the heartland don’t believe the hype.

Jeremy Schmidt, a Raymond James [RJF] advisor at the DHS Wealth Management Group in Macomb, Mich., decried Obama’s “demonizing” big banks, something he says worries his clients. “Half of all Americans now own equities, so when you attack Wall Street you’re also attacking Main Street. I was a little disappointed with that rhetoric. Now is a time for healing, not grandstanding.”

Schmidt, whose team manages $200 million for 600 households, complains that much of the market’s recent volatility is a direct result of political posturing, and it isn’t helping. “We’re communicating to clients that a lot of shirt-run volatility is coming from politically driven events.”

Schmidt isn’t the only advisor who wants politicians to knock it off. “Most people are angry and they blame Wall Street, but no one’s moving in and out of stocks because of it,” says Jeff Joiner, a Raymond James advisor at the $500 million Farmers National Bank in Danville, Ky. “It’s just not on their radar screens.”

In Danville, a small town of 15,000 people in central Kentucky, Joiner’s clients are more concerned what impact a politically expedient revenge tax might have on their portfolios. “They’re concerned that Obama’s proposals might lead to a significant decline in value and what might happen to dividends if these measures led to a lack of profitability,” Joiner says. “To alleviate fears, I point out that we knew there would be some regulation, and that it’s highly unlikely that Obama’s proposals will make it through as their current version.”

Some of Joiner’s other clients are more opportunistic, and think that this might be a good time to pick up these stocks, but those people are in the minority. “I don’t have many clients in financials right now," he says.

Out in Burlington, Iowa, Mike Schwenker, program manager and financial consultant for Sorrento Pacific at Farmers and Merchants Bank and Trust, also reports that clients have yet to don pitchforks and torches.

“I’ve heard virtually nothing with regard to bonuses and fees. There’s no real concern about stocks either,” he says. “We’ll sell clients Bank of America [BAC] and Citigroup [C] stock if they want it, but we’ll talk to them at the same time about the importance of diversification, communication that helps mitigate negativity regarding large financial firms. We educate clients on the front end, so we don’t get many questions.”

Mistrust is the first word that comes to mind when someone mentions Wall Street, Schwenker concedes, but then a lot of things Wall Street has done over the years has made people skeptical. A measured approach will see us out of the current crisis, Schwenker believes. “There are lots of good opportunities if you buy quality, you diversify and you try not to get emotional,” he says.

Jim Fuhrman, senior financial consultant for Sorrento Pacific at Phoenixville Federal Bank and Trust in Phoenixville, Pa., has had some questions from clients about their exposure to financial services companies in some mutual funds, and in those cases he has reduced those clients’ exposure. But a lot of that happened early in 2008, so it’s old news as far as his clients are concerned.

Fuhrman’s more bullish clients are actively considering increasing their exposure to some large financial services companies they feel have been unfairly undervalued by political posturing, but the advisor remains cautious. “It really depends on the company,” he says. “Some are great opportunities going forward, but others still have a lot of exposure through bad lending practices.”

Either way, Fuhrman notes that client questions represent a great opportunity to reeducate them about the fundamentals of investing and what that means to their specific goals. “The market can be a huge distraction,” he says.