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Investment Profiles of Senior Clients Can Be Misconstrued

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In their own way, words are nothing but metaphors indicating the objects they epitomize. Every word can be viewed as a metaphor representing something beyond its simple spelling and articulation. This is particularly true for some of the language featured in the industry standard new account form.

Terms such as *"Long-Term Growth", "Short Term Growth, Income", and "Growth and Income"* fail to aptly portray a client's investment objectives. The latter goes beyond these verbalizations, as an individual's investment objective is a direct function of his/her own *multiple* needs. Unfortunately, the investment objective check box offers clients a *single* category of investment that can be correlated with their objectives.

Tolerance to risk exposure is also another factor that must have a high correlation with a client's investment objective. For this reason, compliance departments and branch managers actively review exception reports to determine if the risk associated with each transaction in a client's account is suitable with their investment objective. For example, a client with an "income" objective could invest in a wide variety of income-oriented products—ranging from high-yield debt to US Treasuries. However, risk tolerance and investment objective must be taken into consideration concomitantly in order to ascertain whether or not the chosen investment suits the client's profile.

Time horizon is another key aspect when determining investments' suitability. FINRA suitability rule (Rule 2111), which went into effect in 2012, added the "time horizon" factor to the client's investment profile existing list. The new term, which indicates the expected number of months, years or decades a client plans to invest to achieve a particular goal, seems difficult for many clients and even advisors to grasp. This is because most individuals do not invest to attain a specific goal, but rather for "the long haul." Once a client states her "time horizon" on the new account form, that number will become an essential component in determining investment suitability.

A client's age is also taken into account by compliance when reviewing exception reports. This is especially true for investors over the age of 65. However, many are unaware that *age is a factor* for their investment suitability reviews. The recent regulatory climate has made "senior investing" a hot topic. As recently as October 15, 2015, FINRA began soliciting comments on a proposed rule addressing financial exploitation of seniors. Specifically, the new rule would require firms to make reasonable efforts to obtain contact information of a trusted non-account holder. In April 2015, FINRA instituted a "Securities Helpline for Seniors" designed to assist senior citizens who may have questions or concerns about their brokerage accounts.

Communication Helps Protect Senior Clients

The regulatory environment is such that there is significant added scrutiny on senior account transactions. As a result, many firms are actively flagging client trades in senior accounts for suitability purposes. The same trade executed on behalf of a client with identical investment objectives and risk tolerance, but below the age of 65, would likely go unnoticed. Suitability factors that are particularly relevant for seniors include:

- Risk Tolerance
- Liquidity Needs
- Investment Objectives
- Time Horizon
- Tax Status
- Income Changes

Most seniors don't consider themselves to be in a special category when it comes to investing. Many of them are often experienced, well-read, intelligent investors who have seen much of the market volatility over the last 40+ years. However, because many are desperately seeking yield to generate income, due to the current low interest rate environment, they can become especially prone to making high-risk investments. Ultimately, the regulators are trying to shield them from investing in products that are difficult to understand and carry a high degree of risk.

While FINRA has not yet clearly stated that certain products are not suitable for seniors, their concern focuses on products with long holding periods. Consequently, an advisor purchasing a 30 year Treasury bond for a senior citizen client would not only raise a flag with compliance, but the same transaction would like be prohibited at some firms. Although such a transaction might be very appropriate for the investor, it would receive compliance approval only if the client has specified a "time horizon" of 30 years.

The truth is that most clients do not state a set date or number of years in their account profile's time horizon window, but more likely discuss it in a conversation with their advisors prior to making the investment. Such vital information is rarely conveyed to the compliance department, which consequently ends up flagging the trades. Unfortunately, the end result is often confusion and frustration for the advisor, the compliance department and the client, who is often brought into the conversation.

Best Practice

So what can an advisor do to facilitate a suitable transaction in a senior investor's account that is likely to be flagged? The answer lies in communication. The advisor should document client conversations preferably in a customer relationship management (CRM) system that can be viewed by both supervisors and compliance. Even if the senior transaction is unsolicited it will still raise a red flag with the broker dealer. As such, the advisor should make every effort to document conversations, especially with senior investors.

Contacting a senior investor and to explain that a simple transaction, such as purchasing a Treasury bond, will not be approveddue to their age is an uncomfortable conversation that can easily alienate the client and cause him to move to another firm. However, in cases when a senior client may be investing in more complex or high-risk products, she will more likely be grateful for an extra eye looking out for her best interests.

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