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Voices: Adam Scott, on Parting Ways with Clients

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Adam Scott

Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Adam Scott is a principal and senior investment adviser at Argyle Capital Partners in Los Angeles.

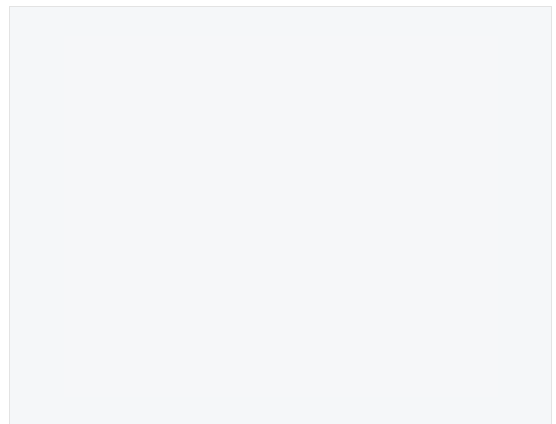
Clients can do whatever they want with their money--it's theirs after all. But when a client is ignoring advice from their adviser, and it becomes apparent that they're doing so to their detriment, in some cases it becomes necessary to terminate the relationship.

A man who'd inherited a modest amount of money from his dad became a client of mine in 2006. Originally, his investment goals and income needs were reasonable. He was an

out-of-work actor and writer who'd never earned a living, and the reality was that he wanted his \$500,000 portfolio to last him the rest of his life.

After the first several years, however, his income needs increased and he began digging into his principal. He would write checks to himself that kept getting bigger. I tried to explain to him how precarious his situation was, but he didn't want to acknowledge that his spending habits were unsustainable. Finally, I wrote him a heartfelt email telling him that we urgently needed to look at other options, including selling his house. And that's when I realized I was overstepping my bounds as a financial adviser.

When it became apparent that this client didn't want to hear what I was saying, I needed to focus on the damage the situation could do to me. It's my fiduciary responsibility to put the client's interests first, and if he's doing harm to himself on my watch, that could put me at risk of lawsuits or arbitration. In that case, the entire firm's reputation could be on the line.



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But a situation like this can be dangerous for a client as well. As an adviser, I'm supposed to be the professional in the relationship. By tolerating his bad behavior and bad decision making, I'm allowing it to continue, and that might give him the idea he's on the right track after all.

Ultimately, I had to tell this client I couldn't work with him anymore. When it comes time to make that move, it's important to remember not to take this personally--this is a business decision. You should highlight that the client hasn't done anything wrong; it's just that you need to focus on how the relationship has reached a point where it's no longer productive. And that perhaps another adviser would be a better fit. In my case, under advice from my attorney, I mailed the client a letter to inform him of the termination. That reduced the chance of emotions getting involved on either side, and, hopefully, preserving the good points of the relationship should we ever be back in touch.

Dropping this client was very difficult for me, but it's a decision all advisers have to be prepared to make. Holding on to a client who won't let you do your job can be a huge emotional drain. It can also take time and energy away from other clients and prospecting for new business. And, in the long run, it's very possible that by sending a message, this will be good for the client as well.

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