Westcourt Solutions

Dealing with Adversity: How Great Advisors Navigate Portfolio Setbacks

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Dealing with adverse outcomes in clients' portfolios is one of the defining responsibilities of a financial advisor, and often the moment when trust is either strengthened or lost. While every advisor prefers to talk about performance wins, the real test of professionalism is how one handles a stock that disappoints, an interest rate or foreign exchange call that goes wrong, an investment fund that lags expectations, or a private markets fund with shaky liquidity. **Clients intuitively understand that markets are uncertain, but they judge advisors on how they respond: whether they are proactive, candid, empathetic, steady, and forward-looking, or defensive and reactive**.

Acknowledge the Problem, Early and Clearly

The first principle of dealing with adversity is to **acknowledge it** explicitly and quickly. Clients almost always notice when something material has gone wrong; what they question is whether their advisor is on top of it and willing to talk about it. A timely message that says, in effect, "We see what you're seeing, here's what's happening, and here is what we're doing," lowers anxiety and frames the discussion constructively.

That outreach should be factual, concise, and empathetic rather than apologetic or evasive. For instance: "You may have seen that the private mortgage fund we use has temporarily suspended distributions. I'd like to walk you through why this is happening, what it means for your liquidity, and how we're responding in your broader portfolio." **This kind of communication confirms monitoring, reinforces stewardship, and prevents clients from filling silence with worst-case scenarios**. A straightforward acknowledgement also separates normal market risk from true errors in judgment or process, which is a distinction sophisticated clients appreciate.

Lead the Narrative, Don't Chase It

Silence during volatility is rarely neutral; it is usually interpreted as neglect. Advisors who get ahead of bad news, whether it's a stock drawdown, a misjudged rate move, or a gated fund, take control of the narrative instead of reacting to it. Being proactive avoids the dynamic where the client has already formed a negative story before the advisor has had a chance to provide context.

Effective proactive communication typically includes three elements: clear context (what has happened and why), portfolio perspective (how big the issue is relative to overall wealth), and process (what is being monitored and what, if anything, is being changed). Even a brief update that hits those points can prevent emotional, short-term decision-making. This is especially important when news headlines are amplifying fear or when peers are complaining about similar outcomes, because clients will naturally compare experiences and wonder whether anyone is "steering the ship."

Acknowledge the Client's Experience

Adverse outcomes are not just financial; they are emotional. When a position underperforms, or capital is temporarily locked up, many clients experience a mix of regret, anxiety, and frustration – no matter their level of sophistication. Losses feel worse than equivalent gains feel good, and this asymmetry can drive clients toward impulsive decisions if their emotions are not recognized.

The advisor's role is to acknowledge that emotional reality before pivoting to charts or strategy. Simple statements like, "I understand this is unsettling; you expected this part of the portfolio to be stable and liquid," validate the client's experience and open the door to a more rational discussion. Listening carefully, without interrupting, minimizing, or immediately defending the original recommendation, is often more effective than any technical explanation in the first few minutes of a difficult call. Once the client feels heard, they are much more open to discussing trade-offs, probabilities, and long-term positioning.

Stay Candid, Not Defensive

When confronted with disappointment, it is tempting for advisors to overexplain, blame macro conditions, or emphasize that "everyone got this wrong." **Yet defensiveness, even when technically accurate, tends to erode trust because it shifts focus from the client's situation to the advisor's ego**. Clients are less interested in who is at fault than in what is being done now and what can be learned.

A better stance is candid ownership of the process without claiming clairvoyance. Phrasing such as, "This allocation has not performed the way we expected. Here's what has changed in the environment, what we've learned, and how we are adapting," acknowledges imperfection without abandoning professional confidence. It also reinforces a crucial truth: advisors are not magicians who can avoid all losses, but professionals who must manage risk, uncertainty, and trade-offs through a disciplined framework. Over time, this kind of candor builds more credibility than any attempt to protect one's "batting average."

Educate Through Adversity

Periods of stress are often the best opportunities to deepen a client's understanding of their own portfolio. **Advisors who use adversity as an educational moment rather than only a damage-control exercise help clients become more resilient investors**. When a client understands why a position behaves the way it does, they are less likely to misinterpret short-term outcomes.

This means revisiting the purpose of each sleeve of the portfolio in plain language: equities for long-term growth and inflation protection, high-quality bonds for income and ballast, alternatives for diversification and potential excess return, private markets for long-horizon opportunities, and cash for optionality and liquidity. When a segment underperforms, or a vehicle gates, explaining how that behaviour fits its design (for example, illiquidity is the price of accessing certain private opportunities, or a hedged strategy will lag in roaring bull markets) helps clients see the setback in context rather than as a categorical failure. Over time, this education builds the behavioural discipline needed to stick with a well-constructed plan despite inevitable rough patches.

Handling Illiquid and Alternative Investments

Gated private funds and underperforming alternatives are particularly challenging because they combine disappointing returns or liquidity with structural complexity. Many investors only truly grasp gating provisions, valuation lags, and capital-call schedules when they experience them firsthand. **The gap between the initial marketing message and the lived reality is where frustration often arises**.

In these situations, the advisor's job is to translate structure into consequences. That includes explaining why a manager may gate – to avoid forced selling into distressed markets, to honor equal treatment of investors, or to align with the fund's governing documents, and what that means for the expected timing of distributions. **It also means putting the affected position in proportion to the client's total balance sheet so that a 5-10% illiquid sleeve doesn't feel like a 100% crisis**. Expectation-setting for illiquid and alternative investments must happen both before and during the investment; using plain-English illustrations of liquidity risk, valuation uncertainty, and the potential for delayed cash flows can reduce future surprises.

Use Setbacks as Feedback Opportunities, Not Just Bad Luck

Every bad outcome is also a data point. Advisors who treat adverse events as feedback rather than pure bad luck continually refine their process. The question shifts from "Why did this happen to us?" to "What does this teach us about how we make decisions?"

That might mean revisiting currency-hedging practices after FX volatility, reassessing manager selection criteria after repeated stock-picking disappointments or updating liquidity-budgeting frameworks after an uncomfortable experience with gated funds. **It may also involve enhancing risk-profiling and discovery to better understand**

a client's true tolerance for drawdowns and illiquidity, which often differs from their stated preferences in calm markets. Documenting these lessons and sharing them with clients ("Here is what we've changed in the process as a result of this experience") signals humility, learning, and continuous improvement.

Keep Clients Informed and Involved

Clients feel more in control and are less likely to act rashly when they know what is happening and why. Volatility is the main trigger for clients to contact advisors, and structured, frequent communication tends to improve satisfaction and retention. **Simply put, people handle uncertainty better when they feel they are in an ongoing conversation rather than waiting in the dark**.

For advisors, that suggests an intentional communication cadence: scheduled reviews, interim notes when conditions change, and occasional thematic pieces that explain current risks and opportunities, always tied back to the client's own plan. Bringing clients into the process by asking how their goals, spending needs, or risk comfort may have shifted reinforces that wealth management is a partnership, not a product. When clients feel heard and informed, they are more inclined to stay the course and less inclined to overreact to short-term noise.

Re Centre on Diversification and Patience

In the midst of disappointment, it is easy for clients to fixate on the "problem" position and ignore what is working. A core responsibility of the advisor is to re-centre the conversation on the whole portfolio and the long-term plan. **The objective is to move from a single-position post-mortem to a portfolio-wide evaluation of risk and progress toward goals**.

Diversification and asset allocation drive much of long-term portfolio behaviour. A well-diversified mix can reduce drawdowns and smooth the path of returns, even though individual holdings will periodically struggle. **Diversification is not a promise that nothing will go wrong; it is a design choice to ensure that no single mistake or market shock dominates outcomes**. Patience is the necessary complement: diversified portfolios, held over appropriate time horizons, tend to be rewarded despite interim volatility and negative headlines. Framed this way, patience is not passivity; it is an active, evidence-based choice to let the structure do its work.

Offer Concrete, Forward Looking Actions

Even when the best course is largely to stay the course, clients appreciate constructive next steps. These might include tax-loss harvesting to improve after-tax results, incremental rebalancing toward undervalued areas, or modest changes to liquidity buckets to better align with upcoming spending needs. **The key is to distinguish disciplined, process-driven adjustments from reactive overhauls that simply mirror recent performance**.

Pairing an honest diagnosis ("this position didn't meet expectations") with a clear forward plan ("here are the specific steps we're taking and how we'll monitor them") restores a sense of agency for both advisor and client. That forward orientation helps shift the conversation from "what went wrong" to "what we are doing about it and how we will make better decisions from here." It reminds the client that adversity, while uncomfortable, is also the raw material from which better processes and more resilient portfolios are built.

Advisors Aren't Magicians, and That's the Point

Great advisors do not promise to eliminate losses, foresee every rate move, or pick only winning managers. **Instead, they offer something more durable: a disciplined process, a diversified design, candid communication, and steady behavioural coaching through good times and bad**. Over full cycles, these qualities matter more to outcomes than any single tactical call.

Dealing with adversity means engaging early, listening deeply, educating clearly, and leading clients back to their long-term goals when short-term setbacks threaten to derail them. When advisors navigate inevitable portfolio stress with humility, transparency, and professionalism, they not only preserve client capital; they strengthen the advisor-client partnership itself. Over a full market cycle, that relationship capital is often the most valuable asset of all.

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