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A PREVIEW OF THE SCRANTON SALES PROCESS

TRACK 3 OF 9

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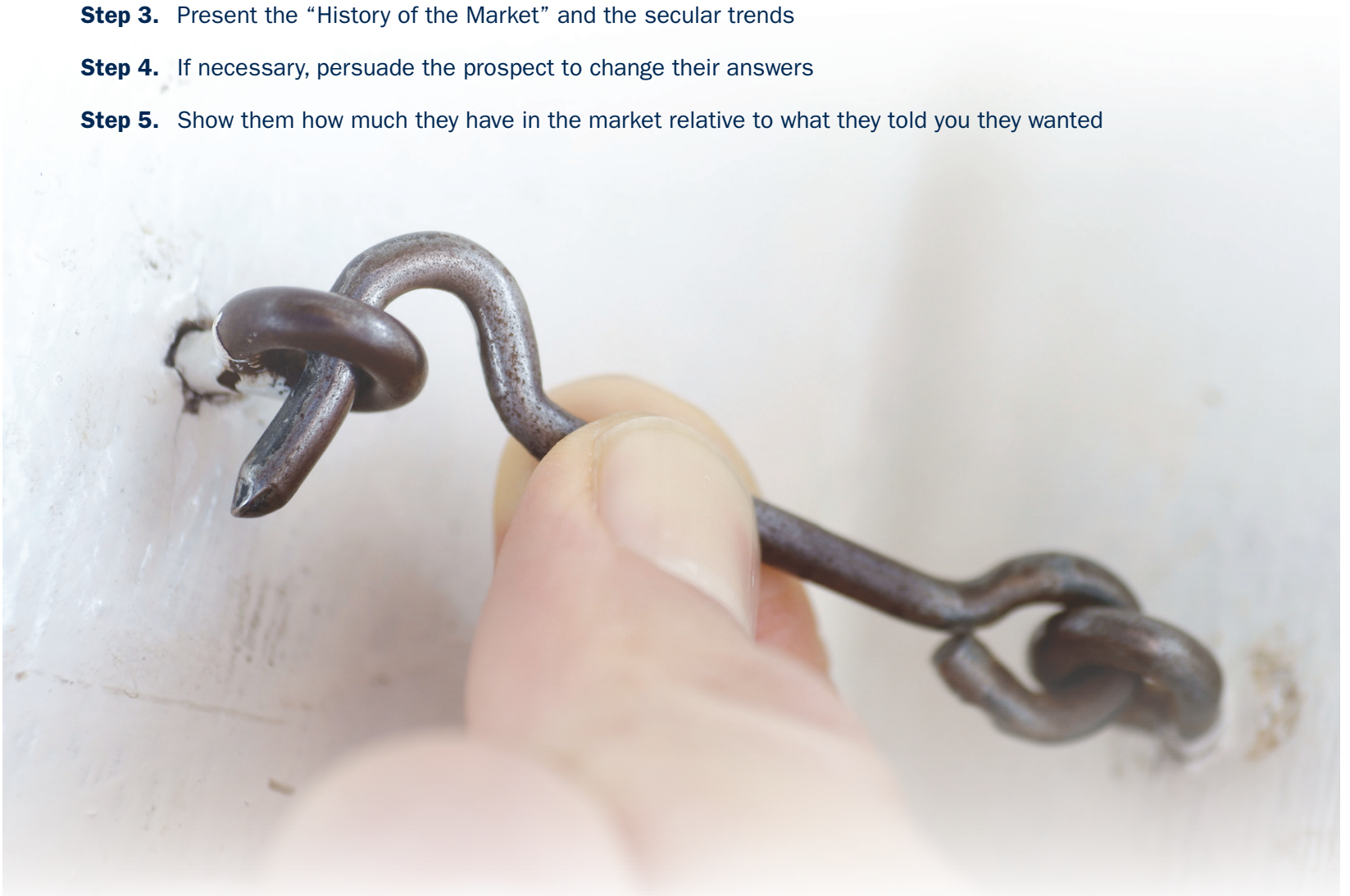
TRACK 3

TOO MUCH MONEY IN THE STOCK MARKET

The scenario of too much money in the stock market is one that you'll be able to use very effectively in at least 80 percent of your meetings with prospective clients. It's also a great track to use, preventatively (I call it "Closing the door"), to keep reasonably conservative prospects from going back into the market—particularly in conjunction with Track 1.

There are **five steps** to this track.

- Step 1.** Calculate what percentage of the prospect's investments he has in stocks and stock funds
- Step 2.** Ask the three key questions
- Step 3.** Present the "History of the Market" and the secular trends
- Step 4.** If necessary, persuade the prospect to change their answers
- Step 5.** Show them how much they have in the market relative to what they told you they wanted



Step 1: Calculating their Stock Percentage

The most efficient way to get the information you need to calculate their stock percentage is to take it directly from their statements. If you're not as good with numbers as David Scranton, don't be afraid to ask the prospect for a couple of minutes of quiet time to look over the statements.

I suggest that you take a corner of your CFQ and make two columns. Add up the total value of all the accounts in one column—use a calculator if necessary—then go back through the statements and total their stock and stock fund dollar amounts in a second column. Divide the stock and stock fund total by the account total to get their current stock market percentage.

Be careful when calculating their stock and stock fund totals. Some of the statements you'll see from the big brokerage firms can be misleading. They will often put investments like preferred stock or closed-end bond funds in the stock category. While that might be technically correct, for our purposes we're only interested in common stock and common stock mutual funds. Also, some brokerage firms have a category called mutual funds, which includes stock and bond funds. Again, for our purposes we're concerned with only the stock fund portion.

So don't assume the pie chart, or whatever they use to give a quick overview of the account, is correct. Go through all the funds carefully.

Step 2: The Three Questions

As I've mentioned before, I liken this process to judo—the art of using the other participant's own momentum to your mutual benefit. These three questions help you diagnose how to begin moving the prospect in your direction. Ultimately, you're hoping for at least one answer you can agree with so, in the spirit of judo, you can say, "I agree with you." Here's how I might work through the process.

The first question:

"Mr. Prospect, would you consider yourself to be a conservative or an aggressive investor?"

No matter how they respond to the first question—conservative, aggressive, or somewhere in between—the second question is essential in order to understand what being a conservative or aggressive investor really means to them.

The second question:

"Mr. Prospect, I'd like to ask you a second question, and all I want here is a gut instinct answer. As you know, in the investment world, there are stocks and stock mutual funds, which are on the riskier side. And then there is a whole universe of other investment options which are, to varying degrees, more conservative. The question I have for you, Mr. Prospect, is quite simple. What percentage of your money do you think you should have in stocks or stock mutual funds versus some combination of more conservative strategies? And again, all I'm looking for is a gut instinct answer."

With their answer to question two, you'll have an indication of their initial openness toward conservative strategies. Again, since you're using this track, the implication is that the prospect might already have an unhealthy fondness for the market. The third question will help you determine how they view the future.



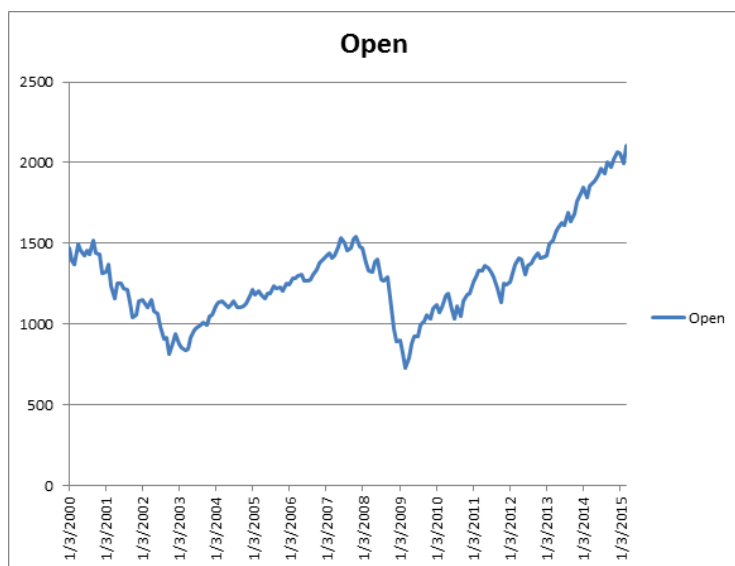
The final question:

“Ok Mr. Prospect, I’d like to ask you just one more question—and again, all I’m looking for is your gut reaction. As you know, the market did exceptionally well during the 80s and 90s. The last few years, though, haven’t been so great. In fact, in the seven-year period between 2000 and 2007, the market dropped 50 percent, and then recovered. And, of course, it dropped again after that recovery. So right now, there are generally two schools of thought about what will happen next. The first is that the worst is over and we’re poised for recovery. The second is that we might be stuck in the muck for a while with the market. In other words, we may have several more major drops and recoveries before we have our final, permanent recovery. The question I have for you, Mr. Prospect, is which scenario does your gut instinct tell you is more likely?”

“Ok, I understand that you might not be able to come up with an exact figure, so let me ask you this – would you say the percentage you want in the market, exposed to risk, is less than or greater than 50%?”

Assuming prospect says less than 50% say,

“Ok, so definitely less than 50%. Good. So would you say it’s below 25% or somewhere between 25% and 50%? Ok, somewhere between 25% and 50%. So would it be ok, Mr. Prospect, that, for the purposes of our discussion, we use 35%? Great.”



If the spouses are in the room, you have the potential to get six different answers to the three questions. This increases the possibility that you’ll get at least one favorable answer that you can lean on to make your point and, again, in the spirit of judo say, “I agree with you.” As you’re directing the questions to them, ask the person you perceive to be the weaker or quieter spouse first so they don’t just parrot the stronger person’s response.

The best case scenario doesn’t happen all that often in the real world, which is why the next step, a review of market history, is so important. And even if you get all the right answers, you should still make an abbreviated historical presentation to cement their “gut instinct” answer and increase the prospect’s confidence.

Key Point: Playfully push them for answers to these questions. Don’t let them off the hook until you get them to respond. Stress again that you are only looking for a gut reaction and that you are going to tell them what you believe. I might say, “I’m sure some number popped into your mind when I asked the question. What was that number?” If you are having trouble getting a prospect to come up with the percentages, try this:

Key Point: Draw the “Big V.” As I’ve said often, visuals are key to fixing these important points in the minds of our prospects. As you’re working through the third question, go to a board or use a piece of paper to draw this diagram. Begin with a solid V indicating the big drop and recovery from 2000-2007, then the solid line headed down. As you talk about the two options for the future, use the dotted lines—one moving slowly upward, the other making several more drops and recoveries that all negate each other.

Key Point: Of course, your job will be easier if you get favorable answers to these questions. “I’m a conservative investor; I think I should only have a very low percentage of my money in the stock market and I think the stock market’s going to be stuck in the muck for a while,” is the ideal scenario. I’m really hoping for at least two out of three.

Key Point: Beware of “portfolio schizophrenia,” where the prospect says they believe that the market will be stuck in the muck for a while, but still want to leave 70 percent of their funds in the market. Be ready to challenge that contradiction up front.

Step 3: Present a History of the Market

One of the beauties of my sales approach is that it's educational. Time after time, I've found that once prospects learn about the secular trends in market history, more often than not, they will conclude on their own that the secular bear market is not over yet. (The Discovery Process) The point of the presentation is to get them to understand that, historically, every trend lasts about 15-20 years, which means that it takes 35 years to go full cycle.

Definition: My definition of a secular bear market is an elongated period of time that has 0 percent growth, usually for a period of 15-20 years.

Here's how I would begin my presentation:

"Mr. Prospect, do you believe, generally speaking, that history tends to repeat itself more often than not?" Great. Perhaps it might be helpful to take a couple of minutes and review a couple of important historical trends."*

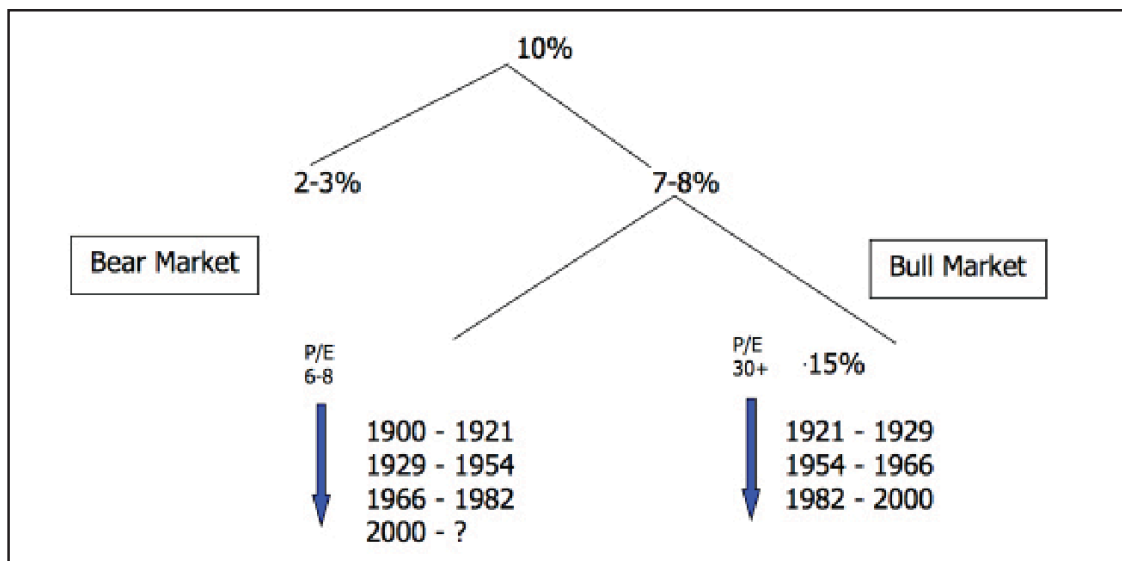
*I assumed a "yes" response. A no response means don't proceed. You may have a garbage pail.

Optional: *"Mr. Prospect, one of the things that I have done extensively is study the history of the stock market. In fact, I have studied it to a greater extent than virtually any other financial advisor I've ever met. I am part of a national study group consisting of more than 100 independent financial advisors. It always intrigues me when we have a new member who came from one of the big brokerage houses or some other captive firm. Inevitably, on the first day, we'll start to discuss market history and some of its predictable, repeatable cycles. What amazes me the most is that these financial advisors typically sit there with gaping mouths because they are actually hearing this information for the first time."*

"The reason I think it is so fascinating for a lot of these financial advisors is that if you really study the history of the stock market, you will find that certain trends tend to repeat themselves over and over again. This information could be useful in trying to look forward and figure out what you think the market might do in the years to come, based on historical trends."

"Let me ask you, Mr. Prospect, what have you heard that the stock market returns on average over the long run? That's right, about 10 percent. Of that 10 percent, about 2-3 percent a year, on average, is from dividends and 7-8 percent per year is from growth. But if you break down that 7-8 percent, you'll find that number can be misleading because the returns come in clumps. I have a client who is a heavysset fellow and quite a comedian. One day, we were having a meeting and he told me he and his wife go jogging an average of 10 miles per week. I had a tough time believing him, but I didn't want to say anything. The punch line was that his wife jogs 20 miles a week and he doesn't jog at all. This was his humorous way of telling me you have to be careful of averages. The same is true of the stock market."

"I'd like to show you if we go back in history, there are huge periods where the growth of the market is 0, and other huge periods where the growth of the market is 12-15 percent."



Draw this graph for the client as you go through the presentation that follows.

“If you look in this left-hand column, from 1900 to 1921 we had a period of time where the growth rate in the market averaged 0 percent. Then, we had a period from 1921 to 1929, known as the Roaring 20s, where the market did incredibly well. Then, of course, the market crashed in 1929 and we had a 0 percent growth period from 1929 to approximately 1954. Then, after 1954, the market did well again and we had a good bull market from 1954 to 1966. Then, starting in the late 60s, the market began to struggle again with a 0 percent growth period from 1966 to 1982. And we all know that the greatest bull market in US history started around 1982 and went until 2000. And, of course, the bear market that we’re currently in started in 2000 and continues today.”

“So, Mr. Prospect, according to this, approximately how long is the average bull market or bear market? That’s right, about 15-20 years. So, it takes about 35 years for the market to go full cycle.”

“Now, it’s important that you understand that during these secular bear markets—the 0 percent growth periods—that the market doesn’t just stay flat lined, but instead experiences a lot of volatility. Typically, in one of these secular bear markets, you may have several 20-50 percent drops and subsequent recoveries. But, only when you look back 15-20 years later, do you realize all the good years and bad years washed each other out?”

“Now, don’t get me wrong. A lot of extremely active traders can make money during a period like this. It’s just that your average conservative buy-and-hold investors go for a heck of a roller coaster ride to get 0 percent growth. Even Warren Buffett, who is arguably the buy-and-hold guru, has said that buy-and-hold strategies don’t work in a market like this.”

“So, Mr. Prospect, let me ask you. Do you think this is likely to be the first time in over a century that we recover from the secular bear market in less than 15-20 years? Or do you think it’s more likely that we might continue in this secular bear for years to come and be stuck in the muck?”

If they agree that it’s going to be stuck in the muck, go to step 4, where we work on getting them to change their answer to the second question (if necessary).

If you’ve got a tough nut who still thinks recovery is on the short-term horizon, here’s the approach to take.

“Ok, Mr. Prospect, what’s interesting here is that we’ve looked at slightly over a century of historic market trends and, quite frankly, if we went back to the 1800s, do you care to take a wild guess what the trends looked like back then? That’s right, Mr. Prospect, about the same 15-20 year cycles.”

“So, my question to you is, today when you turn on CNBC or read the Wall Street Journal or any financial publication for that matter, what do you see and hear that is so positive, wonderful and optimistic, that would lead you to believe that this is the first time in about 200 years that the market is going to recover this quickly?”

If he comes up with some points that he believes to be legitimate, take a look at the section on overcoming objections. On the other hand, if he agrees that there is nothing on the horizon that looks all that great, then I would say:

“You know, Mr. Prospect, you’ve done a good job accumulating money for yourself during your working years. You’ve arguably been very successful and gotten promotions throughout those years. And I would have to imagine that a pessimist wouldn’t have had the success you’ve had, so you must be a pretty optimistic person. And that’s a great quality to have in life. My only concern is that, sometimes, optimism can get in the way of realism. So, do you think it’s possible that perhaps it’s optimism, and not realism, that caused you to say the worst was over and recovery was coming soon? (Assuming agreement) Yes, me too.”

*“So, being realistic, do you **really** think that the worst is over, or is it more likely that history is going to repeat itself and we’ll be stuck in the muck for a while to come?”*



Key Point: Someone might point out that the Dow was 2,500 points higher in 2007 than it was in 2000. Your answer is that the Dow isn't the most reliable indicator of the market as a whole. It only measures 30 top stocks and a strong performance by any one of them—Exxon Mobil in this case—can skew the numbers. When you look at the S & P 500, which most will argue is a better indicator of overall market performance because it measures the performance of the top 500 companies, you'll see that it barely returned to its 2000 level by 2007.

Key Point: If a prospect questions anyone's ability to predict the future, be sure to stress that it's not your personal crystal ball that's predicting a 15-20 year bear market - it's 200 years of stock market history: a much more compelling argument.

At this point, they should be moving toward you to the degree that you can finally acknowledge, "I agree with you."

This presentation was first created for a person who initially thought the market would recover. But what if they answered that "the market is going to be stuck in the muck"? In that case, here's the approach I might take to introduce market history:

"You know, I agree with you Mr. Prospect. I think the market is going to be stuck in the muck and your gut instinct answer is right on the money. Sometimes, Mr. Prospect, your gut instinct is your best answer. And, I'd like to give you a couple of additional technical reasons why I agree with your market prognosis."

I'll then go through a slightly abbreviated version of market history. You might think, why do that if they're already tracking with you? I do it to cement their answer and build up their confidence that their gut instinct is right. And, it serves to make you more credible in their eyes.

Step 4: Change their Answers (If Necessary)

Once your prospect has acknowledged that it appears likely that the market will be stuck in the muck for some time, you need to revisit the answer they initially gave to the second question. Obviously, if they said they thought it was appropriate to have, say, 60 percent in the market, you want to get them to move this number down based on their new understanding of market history and what could be a poor market prognosis.

But, you also need to go back to question two, with the conservative investor, who might have had an answer in the 25 percent range—or lower. It's not uncommon following my presentation of market history that a conservative prospect will determine that they don't want **any** funds in the market.

Step 5: Demonstrate the Disparity

The final step should be the simplest. You have their buy in and they've given you a percentage that they think they should have in the market. Now, all you have to do is show them that while they've said they want X percentage in the market, they currently have Y.

This is a good place to introduce the Rule of 100. The rule is a good way to prove your point regarding the percentage the prospect should invest in the stock market. Simply, the investor subtracts his age from 100. The answer is the maximum percentage of assets he should allocate to the market.

I like to use the Rule of 100 to subtly help paint a visual picture for my prospect that creates a lot of separation between them and their advisor. I tend to envision a very long conference table with the prospect, the Rule of 100, most of the financial world and me, all at one end, agreeing on a very low percentage of stock market exposure. Way down at the other end is their current financial advisor, sitting by himself because he is the only one who thinks it's ok to have a high percentage in the stock market.

If the track has been used properly, you're ready to move on either to a wedge or to your commercial and the close.

This is just a small sample of our turnkey sales process that's been proven to help our advisors attract new business so they won't have to chase it.



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