Is Your Glass Half Empty or Half Full?

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How do you think your clients feel when they leave your office or get off the phone with you — optimistic or pessimistic?

The answer may lie in how you define your investment process for clients (and embrace a wider wealth management process as well).

Consider these questions:

1. Do you talk to your clients about investment winners and losers?
2. Do your lead your clients to believe that you can help them "beat" the market?
3. Do you tell your clients that they need to "time" getting in and out of the market to capture big opportunities or avoid big losses?
4. Are you always looking for the next "great" investment or risk reduction solution?

If you've answered "yes" to any of these questions you are almost certainly consigning your clients to frequent pessimism—if not despair.

Optimism begins with accepting what you can and cannot control, backed by a real understanding of why markets work over the long term.

Optimists believe in the power of innovation and human capital. They believe:

1. People are continually trying to improve products and services
2. They start businesses when they have a valuable product or service to offer
3. They need capital to grow their business
4. Investors lend capital to these businesses expecting a percentage of future revenues
5. Economies--made up of all these companies—plan to grow over time
6. Investors should reap the returns

Can you see the difference between a pessimistic viewpoint and an optimistic viewpoint? Pessimists focus on the noise of day-to-day investing. Optimists focus on the long-term potential of companies and markets to create wealth.

Nick Murray, in his book The Game of Numbers, states:

"Optimism—the idea that the world is in a permanent state of long-term change for the better—is central to the way successful advisors process human experience. Optimism is, in fact, the only long-term realism. It is the only worldview which squares with the historical record."

The historical record is this: If you invested $1 in the U.S. Stock Market in 1927 and just left it alone, that $1 would have grown to $2,603 by the end of 2011.

While you can never be certain about market direction in the short term, it is possible for companies to grow over the long run and provide a positive return on investment. Across all the traumatic world events over this time period, from the Great Depression to World War II to the Great Recession of recent years, you would have still earned a solid return by investing and staying invested in the total market.

A pessimist's viewpoint, however, is that in order to generate a return on your investment you have to outsmart and beat others. And if you fail at this endeavor then you are the loser. Nobody wants to be a loser, so these clients are continually on the lookout for better products, advisors or investment approaches.

But, what if the optimists are right? What if the human entrepreneurial spirit really does create new and better services which lead to the growth of economies and nations? If that is the case, then your clients are playing a "game" they don't need to.

Be mindful of the culture you are creating with your clients. Many advisors and clients are realizing that the process of investing isn't so complicated after all, and more and more investors are adopting a "core" market-based piece for their investment portfolios.

Nobody likes volatile or down markets, but it's much healthier and wiser to take an optimistic approach. Your clients will thank you for it.

Implementing an optimistic investing strategy cannot guarantee a gain or protect against a loss. In some instances stock pickers do succeed in outperforming market rates of return.