Foundation of Independant Financial Advisors
www.fifaindia.org
FIFA's Knowledge and Communication partner
WealthForum e-zine
The voice of India's wealth management industry
www.wealthforumezine.net

FIFA Perspectives

Nov 2012

Partnering with global and domestic leaders

FIFA was the proud Industry Partner of the Morning Star conference held on November 1st and 2nd at Mumbai. More than 20 FIFA members were present and participated in the Conference. Mr. Dhruv Mehta and Mr. Yogesh Sharma on behalf of FIFA were also special invitees at the pre conference dinner.

Mark this on your diaries : 19th December 2012

In continuation of FIFA's relationship with Confederation of Indian Industries (CII) as being the Industry Partner of it's Annual Mutual Fund Summit**,** Confederation of Indian Industry **(CII)** is now going one more step ahead and initiating a conference for the financial distribution community and organisingthe **premier** edition of **Financial Distribution Summit,** scheduled on **19 December 2012** at Hotel The Lalit, Sahar Road, Andheri (E), **Mumbai,** India. This national initiative is supported by Foundation of Independent Financial Advisors **(FIFA).** The Summit is expected to attract over 300 top professionals comprising of Chairmen, CEOs, MDs, CFOs and other Senior Managers from the financial distribution and allied financial services industry and key officials from nodal government agencies who will present their perspectives on the future of the financial distribution community. In this premier edition of the Summit, the focus will be on topics like best practices, global perspective, case studies from BFSI view point and core issues/ needs of the players. The Summit will therefore be a subject taking in the big picture and not a topic per se, thereby creating a roadmap for the positive development of the distribution community and stakeholders.

FIFA Perspectives brought to you by Wealth Forum

A caddy for life or just another financial advisor?

Shibu Das,Fine Advice, Kolkata; Founder Member - FIFA

Shibu Das is one of Eastern India's most successful advisors, who has grown his business from 12 cr in 2004 to over 340 crs in AuM today. His firm operates in the fiercely competitive HNI segment, and wins business when pitted against some of the biggest global and local banks. We asked Shibu to share with Wealth Forum what really differentiates his firm from other financial advisors. Shibu's secret of success comes from a basic question he asked himself : do you want to be a caddy for life for your clients or just another financial advisor?

The answer to that question drove him to orient his firm very differently from most - and has helped him succeed so brilliantly in the market place. Read on as Shibu explains the essence of his company's tag line - A caddy for life - and how this approach has become a key success factor for him.

WF: Your firm - Fine Advice - has a very unusual tagline : "Your caddy for life" - which is in sharp contrast to the usual taglines that focus on creating wealth, delivering financial solutions etc. Why did you pick this tagline and how do you actually deliver on this proposition?

Shibu Das: The name of my company is Fine Advice - it need not only be restricted to financial advice. We want to deliver good advice and hand-holding on all matters relevant in our clients' lives. We compete in the HNI space, and in this segment, we are up against large international and domestic banks. So, its important for us to create a strong niche for ourselves in this market segment. We thought we should position ourselves in our clients' lives as their caddy.

What/who is a caddy?

In golf, a caddy or caddie is the person who carries a player's bag and clubs, and gives insightful advice and moral support. A good caddy is aware of the challenges and obstacles of the golf course being played, along with the best strategy in playing it. This includes knowing overall yardage, pin placements and club selection http://en.wikipedia.org/wiki/Caddy

Just like a good caddy goes beyond the call of duty and offers valuable insights and support to the golfer, so too, our teams are trained to go beyond the call of duty and help our clients in any area where they turn to us for help.

Bringing in this kind of culture into the entire firm was a big challenge in the beginning. It calls for a different approach. It requires empathy - an ability to understand the other person's issues and help him in the areas he needs help. Empathy is something we instill in small yet effective ways in our office. My team has been instructed that any courier boy who comes to our office should be offered a glass of water and a cup of tea. It's a small gesture - but, it brings in the awareness among the entire team that a small gesture like this - which is what this courier boy really needs but never gets anywhere else - is what strengthens bonds and relationships.

Let me give you a few examples of this in action vis-A -vis our clients. A client was on his way to the airport with his family to catch a flight for a vacation. His car broke down and he was in a fix. He immediately thought of me and called me and asked what should be done now. I told him to relax. Within 15 minutes, my car and driver reached the spot and took him to the airport. When he reached his destination, he called me to thank me and enquired about his car. I told him not to worry about it and just asked him to send me details of his return flight. By the time he and his family returned, my driver had got his car repaired and in fact drove to the airport in his car to receive him and drop him off at his house. What's car repair got to do with money management? Nothing. But, the fact that he thought of me the moment he was in a spot of trouble is what matters most to me. His confidence that we are the people he can turn to for any help at any time, is what matters most to us

Recently, an elderly client of ours called me up in a very flustered tone. He was very anxious with a notice that landed up in his house in Kolkata. It transpired that his father had very long ago dealt in a property in Delhi. A notice now reached my client, after all these years, asking him to be present at the revenue authorities office for some property tax related dues, within 2 days time, in Delhi. He was very perturbed and asked me what should be done. I told him to relax and hand over the notice to me, and go home peacefully. Within the next 2 days, we got a PoA in favour of one of my senior colleagues to represent the client, put my colleague onto a Delhi flight and handled the issue on the due date. On the evening of the due date, when I called my client to inform him that the matter has been resolved and that the revenue authorities have acknowledged their error in sending this notice, the client was elated and relieved. He asked me about my fees - I simply told him not to worry, and that its part of our job. What did it cost us? Probably Rs. 30,000 rupees and a full day's effort for one of my senior colleagues. What did it give us in return? Enormous goodwill, more business from this client, many more referrals from him, with this story being repeated to all the people he referred us to.

Another example. A lady client of ours was planning a vacation to Cambodia. She approached me a few days before her trip with a lot of questions about how to handle her portfolio when she was away on vacation. I simply told her : go enjoy your vacation, the portfolio is our responsibility. Don't allow portfolio worries to bother you on your vacation. That's our problem, not yours. The same day, we sent her a copy of Lonely Planet, which is a great guide whenever you are planning to go to unfamiliar places on vacation, with a Bon Voyage message and a reassurance that we are here to handle her money matters while she gets her well deserved break.

The point I am making is very simple - being a caddy for life, and not just a caddy for the client's portfolio, opens up a completely new dimension in your relationship with your client. Once you have this attitude permeate well into your firm, you build a lasting competitive advantage in a fiercely competitive market.

A caddy for life or just another financial advisor?

Shibu Das receives the Wealth Forum Advisor Award 2011 for Highest Net Sales of Equity Funds in the East-Metros category from two equity masters :AnupMaheshwari and Apoorva Shah of DSP Blackrock.

To know more about the Wealth Forum Advisor Awards, brought to you by DSP Blackrock,**Click Here**

WF : This is truly fascinating and inspirational. Tell us, have you actually seen evidence of such an attitude driving higher referrals and winning more business from the same clients - in other words, is this a "nice-to-have-approach" or one that helps build your business?

Shibu Das: When we started our practice in 2004, our AUM was Rs. 12 crore at the end of the first year. I had 400 clients then. Today my AuM is about Rs. 350 crores and I have 400 active clients now also, though the total clients may be higher. We have moved up the scale by getting more business from existing clients and strong referrals from existing clients. As we grew, we had the liberty to keep focusing on the HNI segment, as our existing HNI clients were happy to give us more referrals. There is every reason for me to believe therefore that being a caddy for life and not just a financial advisor has been a rewarding experience for my clients as well as my firm.

FIFA Perspectives brought to you by Wealth Forum

All clients are risk averse - how are you managing risk for them?

MukeshDedhia, Ghalla&Bhansali Securities, Mumbai; Founder Member – FIFA

Mukesh Dedhia - one of Mumbai's leading financial advisors, is also a leader in the field of academics in the financial advisory space in the country. Academicians who are practicing advisors bring to the table a very useful practical perspective to their learnings and insights. That's what Mukeshbhai has done in this interaction with Wealth Forum, where he shares his incisive insights into an aspect of financial advice that is sometimes less focused on, but which is increasingly becoming more and more relevant : risk management.

Mukeshbhai takes us through what advisors need to do to better understand risk and then apply these understandings in managing client portfolios.

WF: Why do you believe that advisors need to increasingly focus on risk management when advising clients and not just on adding alpha? In what ways would you suggest that advisors do this?

MukeshDedhia: Today we are in a volatile world. There are two sides to the coin- risk and returns. After the global crisis it has become more important to manage the risk. We are not sure if we will get the historical returns as we were used to, within a reasonable period of time. For the last five years the Indian markets have hardly moved anywhere. In 2007 the Sensex was at 18000 and today in 2012 it is still around that figure with many bouts of volatility inbetween. Similar bouts of volatility are seen in the interest rates also. There are many other factors like the commodity market especially the crude prices; the foreign currency; India's fiscal deficit etc. We are now importing inflation due to abundant global liquidity, apart from having our own inflation challenges. These considerations have become very important.

We need to look at correlation between various assets. Conventional wisdom suggests that we need to have a diversified portfolio with assets that have negative correlation. But in times of crises, this does not hold true and unfortunately the assets that were having negative correlation startexhibiting positive correlation. So in uncertain times the risk suddenly increases and we have seen the global banks like Lehman Brothers and Bear and Stearns are coming down. So many banks are folding up in the US. So it is important to manage risks.

All clients are risk averse - how are you managing risk for them?

When it comes to the investor he is finally concerned with the returns. Our job as advisors is to look at the risk aspect. Risk profile of assets is also a dynamic variable - which very few of us really appreciate and apply. When we look at beta, beta is a historic number. Conventional wisdom suggests that equity is riskier than debt. Take an example of 2009, when the index was low at around 8000 and the interest rates were also low. If you look at risk dynamically, you will appreciate that debt in that circumstance was in fact riskier than equity, as the possibility of loss of capital from debt funds due to increases in interest rates was perhaps higher than loss of capital from equity funds when market P/E was in single digits. Our job as advisors is to understand how the risk and return profile of various asset classes keeps changing, in response to macro developments. Making our clients understand risk of asset classes at that point of time is more relevant than a fixed notion of risk of each asset class.

This highlights the scope for tactical allocation that takes into account risk management. There is always a debate between tactical and strategic asset allocation. Investors always ask about the value that the advisor added. When you are passive, you are not adding any value you are just rebalancing your portfolio by asset allocation. Asset allocation is required. I don't want to say that we time the market very well but we can definitely understand the risk, the relative risk at different points of time. Advisors can measure this relative risk and thus will be able to add value, which is important. They need to keep a watch on the equity markets, interest rates, commodity markets, crude oil prices, gold prices and foreign currency movements as these factors will have impact on different assets in different ways at different points of time.

WF: In the industry, we often talk about SIPs for retail investors and strategic asset allocation with periodic rebalancing for HNIs. Is there a meaningful role for an advisor to go beyond this and into either tactical asset allocation or any form of risk management strategies?

MukeshDedhia: Absolutely. If an investor has been doing a SIP for 10+ years and he has accumulated over a crore of rupees, you can't still talk about just continuing with that SIP alone. Yes, he should continue with the SIP, but the advisor must understand that the portfolio is large today in absolute terms. The advisor must think not only about continuing the SIP but also about protecting the capital already created. Keeping the portfolio in a long only position, is like a naked position as the investor is not protected on the downside and you need to protect that value. NAVs of funds had crashed up to 80% in the last fall. In Japan even after 20 years the markets are not recovering. In China, which has the maximum GDP growth, the markets are doing very poorly. You cannot just talk about long term and do nothing about protecting the capital that has been so painstakingly built up.

WF : What protection strategies would you suggest advisors consider in this context?

MukeshDedhia : Advisors must be open to considering structured products that are suitable to their clients' needs and which help in protecting the downside. The advisor has to manage risks continuously even in structured products. Market risk and credit risk has to be managed. The advisorhas to check the issuers, their credit ratings and their past experiences. Then also a diversification would be required.

Structures need not always be viewed from a return perspective. They have their utility in helping an investor avoid making a market was falling in 2008 or more recently when we saw a sub 16000 level last year. Many investors panicked in these falls and exited their equity fund holdings. If instead they had structured products that gave them downside protection, they would have the confidence to ride out the volatility and gain from the subsequent upside. The benefit of structured products is mainly risk mitigation rather than chasing returns.

WF: We've talked about what advisors should do in terms of risk management. The other big stakeholder in risk management is the fund manager to whom the money has been entrusted. What role do you see fund houses discharging in this aspect?

MukeshDedhia: We normally create client portfolios on the basis of certain asset allocation which is based upon some expected returns from various asset classes and the risk profile of our clients. As I had mentioned earlier, the return expectations and risk profiles of asset classes themselves are dynamic and not static - and advisors must recognize that in their overall asset allocation decisions.

The market reality is that in the retail world, most often clients are just buying products without the benefit of a proper asset allocation process like what I have just mentioned. Here the role of the fund manager is more important as he is managing the portfolio on a day-to-day basis. He knows the risk factors. In the last one year, dynamic income funds have become popular, as the fund manager is able to change the duration of the portfolio taking into account the various things happening in the economy.

Initially the equity fund always had large caps and mid caps as exclusive product sets. But now there are Dynamic funds or Equity opportunities funds or multicap funds and they have been more popular because in a portfolio you need to have a dynamically changing mix to take the advantages of changing market situations. Certain flexibility today needs to be given to the fund manager and if he can move across assets classes also and does his job well, investors could prefer those types of funds.

If you look at Edelweiss Absolute Return fund, which is an equity fund that uses derivative strategies among others, in 2011 when the NIFTY crashed by 24% this fund was down only by 2.3%. These types of funds will participate to the extent of about 60% to 70% of the upside but on the downside it is able to very well protect you. When you take different cycles it can be a winner over a long only fund. Today if you take a three-year history it has performed better than the large cap funds. We need fund managers who not only participate in the upside, but look for strategies to protect on the downside too.

We have to understand one reality - all clients are risk averse, irrespective of what the risk profiling document says. Once we understand this, we will automatically pay a lot more attention to risk management than only focusing on the alpha generation possibilities.