FIFA Perspectives

Nov 2013

No Funny Business – is great for business

Abhenav Khettry, Vyana Wealth, Kolkata

The young and energetic Abhenav has always prided himself in being different and has achieved considerable success at a young age due to this penchant for differentiating himself from others. And so, it was really no surprise that the first Vyana Wealth Investor Round Table turned out to be - different. Read on as Abhenav shares with us the format of his first event titled "No Funny Business", reactions from his clients and participating AMCs and why he believes that "No Funny Business" is great for business

Vyana Wealth in association with Business Standard, hosted the first Vyana Investor Round Table at the ITC Sonar on 8th November 2013 in Kolkata. The event was partnered by Edelweiss, JP Morgan, Axis and ICICI Pru Mutual Fund. The event was attended by around 175 HNI and corporate clients, and was well appreciated by one and all. This was our first such event, and I think the success of this event has to do with the fact that we tried to create something different. Our event was titled "No Funny Business" - which itself aroused a lot of curiosity.

I am sharing this with my advisor friends for the simple reason that I think we can all collectively make a big difference to investor sentiment, if we take the effort to reach out to them differently, and communicate in a more interesting manner.

Abhenav Khettry, Vyana Wealth, making his introductory remarks

No Funny Business – is great for business

Being different works

How do you get investors to understand and appreciate a subject as technical as correlation between volatility and returns? Our speaker chose to explain this by showcasing Virendra Sehwag and Rahul Dravid - and ensured that clients understood the key message. How do you inspire clients to look beyond the immediate challenges of the macro environment and uncertainties around us, and to take a more positive stance on investing? Our speaker chose to showcase challenges and difficulties that people face and how they have overcome them. He took the example of four people, associated with sports, social service, films and mountaineering, who despite all the challenges that life threw at them, succeeded in overcoming them and achieving what few have. And, finally, how do you ensure that your clients go back home after the evening with a cheerful smile on their faces? We had a couple of stand up comedians who ensured this, with their fantastic performance.

A section of our audience for the event

Here is some feedback from some of my clients after the event :

I have attended several private banking meets in the past, but those have mostly been one way sessions, about their products and benefits. Today's meet dint talk about products, but more about solutions and innovations in investing. The Stand up comedians were the ACE in the pack and I thoroughly enjoyed the evening.

- a middle aged HNI investor, who has moved his complete relationship to us.

Thank you for connecting the investors with the AMC stalwarts, this was my first interaction and learnt a lot from their presentations.

- A retired 75 year old investor who had totally relied on his bankers, before moving his complete portfolio to us

I liked the lucid language and slides, which really helped us to connect the dots and understand why things happen in certain ways in the economy and markets.

No Funny Business – is great for business

- A middle aged lady, who manages her own portfolio and relies on our advice completely.

I liked the style and finesse of the evening along with a superbly executed concept with a brilliant climax of the comedians.

- A young investment banker who relies on us for his own investments.

These were some of the reactions from participating AMCs:

- An event at par with private bankers

- Haven't seen a better clientele in Calcutta for long

- The clientele was in fact better than most investor meets of Mumbai

- Never seen an IFA organized event of this scale and finesse along with publicity of Business Standard.

When clients are happy, what more can we ask for?

Details of the event

The format of the event was as follows :

1. Presentations

2. Panel Discussion

3. Q & A Session with audience

4. Stand Up Comedians

The speakers at the event were:

1. Mr Vikaas Sachdeva CEO Edelweiss

2. Mr Supreet Bhan, NSH - JP Morgan

3. Mr Karan Datta, NSH - Axis MF

4. Mr Aniruddha Chaudhuri - Head Emerging Business, ICICI Pru

5. Mr Seemant Shukla, NSH - Edelweiss

1st Speaker: Abhenav Khettry: I made the opening address sharing the growth of the company thanks to all its well wishers and clients. We have moved to 1300 clients and Rs 225 Cr of assets with branches in Mumbai and Jamshedpur apart From Kolkata. I outlined the advisory process that we follow along with the technology backup, to give a good mix of human and online interface to our clients. The advisory process emphasized upon the need identification and goal realization aspect as the products were not as important compared to the fulfilling one's investment objectives.

2nd Speaker: Supreet Bhan, Executive Director and National Sales Head for JP Morgan Asset Management. He explained the benefits of the global portfolio diversification, across assets and across Geographies with JP Morgan's international solutions. His presentation spoke in great detail of the implication of global factors on emerging market, be it debt or equities. He emphasized the need for equity in Indian portfolios as it was amongst the lowest globally.

3rd Speaker: Seemant Shukla, National Sales Head - Edelweiss Asset Management: Seemant highlighted the co-relation between volatility and returns, giving the example of Virender Sehwag and Rahul Dravid. That even though Sehwag achieved many milestones and fastest scores, but in terms of longevity and overall performance, Rahul Dravid was far ahead of him. He made the point, that India scored the highest in terms of volatility and that scared retail investors, as they prefer predictable returns. He iterated the offering of Edelweiss hedged and simple solutions like the Edelweiss Absolute Return Fund and Prepaid SIP.

4th Speaker: Aniruddha Chaudhuri, Head Emerging Business - ICICI Prudential Asset Management: Mr Chaudhuri spoke about the herd mentality of investors, and how money chases asset classes during different phases and cycles of the markets. He spoke about the benefits of staying invested for the long term and how their schemes over considerable periods of time had performed relative to their benchmarks. He emphasized on basics that investors should follow and not get disillusioned with market noise and volatility as that was the nature of equity markets.

5th Speaker: Karan Datta, National Sales Head - Axis Mutual Fund: Karan had a very different and innovative presentation. He spoke about challenges and difficulties that people face and how they have overcome them. He took the example of four people, associated with sports, social service, films and mountaineering, who despite all the challenges that life threw at them, succeeded in overcoming them and achieving what few have.

His presentation was a refreshingly different and the audience loved it, giving him the loudest applause of the evening.

The Panel Discussion consisted of:

Mr Vikaas Sachdeva, CEO Edelweiss, Mr Supreet Bhan ED of JP Morgan and Mr Karan Datta, NSH of Axis MF.

The panel was asked the following questions, which they answered brilliantly:

1. Despite the markets recovering to 21,000, most portfolios hadn't recovered, how long is long term and is making returns all about timing?

2. What impact will change in Governance have on the markets and sentiments

3. Why do FIIs look at Indian more favourably than we ourselves do?

4. What is a return, that investors should be satisfied with and should expect from Mutual Funds?

5. What should be a long term asset allocation of an investor?

As you can see, these were very generic questions, the panellists answered them very well and had satisfied the audience.

Supreet Bhan, Vikaas Sachdeva and Karan Datta answered client questions brilliantly

The panel was followed by the two stand up comedians of the group Kalkutta Komedians: Anirban Dasgupta and Vaibhav Sethia. They had the audience listening to every last word and their act was very well received, it had the audience in splits and gave a grand closure to the First Vyana Investor Round Table.

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No Funny Business - is great for business!

For us, apart from putting a big smile on our clients faces and helping them understand the world of investments better, we also got to meet many prospects - friends of our existing clients who came along to our event - because it promised to be different - by enlightening and entertaining at the same time. We've already got good incremental business from our existing clients after the event. Doing things a little differently looks like a winning combination - for clients, for AMCs and for ourselves : its certainly No Funny Business!

FIFA Perspectives Nov 2013

Not convinced about mutual funds? Here's a solution for you.

Brijesh Dalmia, Dalmia Advisory, Kolkata

In the inaugural article of this new column called Straight Talk, Brijesh Dalmia - one of Eastern India's most successful advisors and a trainer and coach to thousands of advisors across the country - had discussed what it really takes to build a successful retail distribution model (Click Here).

In this article, he takes a step back and squarely addresses an issue that has been playing on the minds of several thousand IFAs (or, should we now say IFDs, as Mr. Ramesh Bhat suggests) who were once active in MF distribution, but are no longer that convinced about the business. The issue is simple : are mutual funds worth distributing? The straight talking Brijesh shares his views on why he believes many IFAs have lost their confidence in this business and what they really need to do to move forward from where they find themselves.

I have met close to 15000 advisors in the last 4 years across the length and breadth of the country. I have met some of the most successful advisors in the industry having hundreds of crores of AUM. I have also met several advisors who are not so big but have understood the power of mutual funds and are focussing big time on it. Unfortunately, I am also meeting a large number of advisors who are still not confident about mutual funds as the main product in their profession and are still relying upon traditional products for their bread and butter.

Incidentally, I also find that most of the noise around commissions, performance and industry is being made by in-active and lesser active advisors in mutual funds. The serious ones are simply busy in increasing their AUM's and taking responsibility for their actions.

5 reasons why many advisors have given up on mutual funds

As regards the lesser active advisors, I attribute the following reasons for their inability to accept mutual funds as a good tool for clients and their own future security.

- **Past -** Most advisors still have a baggage of high commissions they used to get earlier. Advisors are simply not able to accept the fact that reduced commissions make it worth selling mutual funds. Any which way - B15 cities commissions are already high now. Still, there is high resistance. I doubt the high commissions paid during NFO's will be restored, if they are looking at that.
- **Performance** - Last 5 years have been bad for the industry in terms of performance. Most advisors are simply blaming the AMC's and markets for this. They are not taking the onus on themselves that they went overboard in selling equity and sector funds.

- **Insecurity about trail** - They are doubting that trail can go away. Rather than making the most while the sun is shining, they are concerned about something which may never happen. I don't claim that trail will always remain but I have my doubts as to which financial products will have commissions left if commissions from mutual funds are withdrawn completely.
- **Investors acceptability** - There is definitely a drop in investors' confidence in mutual funds due to performance in the recent years. But there is no dearth of investors in India. The penetration is too low in India with respect to Mutual funds. Moreover, its the advisors responsibility to educate investors. Every industry has its good and bad days.
- **Ego** - Lastly, ego is a big reason of many advisors shunning mutual funds. They have taken it personally, and are mentally now against SEBI, against AMC's. It will not help.

Such advisors are losing out themselves. Yes, the industry is also not growing due to lower no. of distributors left in the country. But essentially, these advisors are not realising the power mutual funds can have in their income and future security. Trail is powerful. More powerful than one can imagine. Product wise, mutual funds beat most other instruments. It's only a matter of time when mutual funds will make a comeback. Those who are active today will benefit out of it (not those who are not focussing on mutual funds right now).

A 10 crore AUM gives a trail income of around 5 lacs a year (taking average of 0.50% pa.). For earning 5 lacs, one needs to have a renewal premium base of 1 crore in life insurance, or sell 5 crore fresh fixed deposits or post office schemes annually. Not an easy job at all.

3 things you must do now

Those who are not confident about mutual funds I ask them simply to do the following :-

a. Meet 2-3 serious mutual fund advisors in their city and understand why they are focussed on mutual funds.
b. Ask themselves - Is doing fresh business of 5-10 crores in alternative product easy year after year. Anyways, no one stops them to sell alternative products along with mutual funds. There is scope for all the products.
c. Do you have AUM of 5 crore today - If yes, I am sure you are motivated enough to focus on mutual funds. If not - on what basis you have decided that Mutual funds are not good? Meet 2 advisors having 5-10 crores of AuM and your perception will change. My advice- First achieve an AUM of 5 crores and decide for yourself whether Mutual funds work good for you or not. No point complaining without doing anything.

I will be straight in saying that the current revenue in mutual fund is very attractive and pays well for the efforts we do. Mutual fund is today a lifeline for 100's of advisors in the country. I wish, it becomes the lifeline of 1000's of advisors.

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FIFA Perspectives

Nov 2013

There is a big gap in offshore feeder fund product offerings

Surya Bhatia, Asset Managers, Delhi, says that there is a big gap in the suite of offshore feeder funds that are currently available in our market, which fund houses would do well to plug. Surya - one of Northern India's most successful advisors, worries whether investors are considering global funds now for the right reasons, or perhaps the wrong reasons. He believes advisors have a crucial role to play in ensuring that their clients invest globally for the right reasons and not the wrong ones. Read on as Surya explains the 4 key points he urges advisors to help clients with, to ensure that they invest successfully in global markets.

Our experience with global diversification is that the concept seems to be much better appreciated among well travelled, globally aware HNIs. I don't think there is anything in the products that suggests they are not suitable for retail investors - its just that HNIs who travel overseas and are more aware of global trends can relate to global investing a lot more.

I think global funds - or feeder funds that invest into global funds have their merits from a portfolio diversification point of view and perhaps 5-10% of portfolios can be allocated to these funds within an asset allocation. However, there are a few things that we must keep in mind when we discuss global investing with our clients.

1. Is the product appropriate for the need

We keep discussing the currency hedging aspect as a key benefit of global investing. No doubt, there is a hedge - but what really matters is the need for which you are adopting this strategy. If for example, your client's son or daughter plans to study overseas 3-5 years from now, your client may want to hedge the currency aspect, because there is a known outflow in dollars some years down the road. But, the issue is that most if not all the feeder funds on offer in our market are equity based products. So, while you may hedge the currency, you are taking a market risk on a foreign market. Would you normally invest in an equity fund for a higher education need 3 years from today?

I think there is a big gap in the feeder funds product suite in the market today. What we really need, for clients who intend sending their children overseas for higher education, is low risk feeders. That way, you get the currency hedge you are seeking, without unnecessarily taking on a market risk in the bargain.

2. Is recent performance the key influencer?

The last two years have seen a combination of weak Indian markets, strong global equity markets and very weak Indian currency. When you put all this together, the differential in returns between domestic equity funds and global feeder funds is very stark. Clients who get influenced by only these recent performance numbers, must be guided properly. They must understand that going forward, the currency could go either ways in the short to medium term. Expecting only a one way street is not a reasonable expectation. Likewise, expecting that Indian markets will only go down and global markets will only go up from hereon is also a bet which could go either way. Ultimately, the decision on global investing is one that has to be driven from a diversification objective within an overall asset allocation and not in the quest of near term performance on the back of recent strong performance.

There is a big gap in offshore feeder fund product offerings

3. Do your clients understand the tax implications?

Many investors don't fully appreciate that global equity feeder funds do not enjoy the same tax treatment as domestic equity funds. They are taxed akin to debt funds. You will get an indexation benefit, but the fact is that there is a tax incidence on long term holding, unlike domestic equity funds. Its important to ensure that your clients understand this before taking a decision to invest.

4. Look for asset classes not available in India

I think it makes a lot of sense to look internationally for asset classes that you think add value to client portfolios but which are not currently available in our market. One such category we are looking at are REITs - real estate funds that invest for stable rental income and some capital appreciation in the long term. I know there is now a move to finally bring in REITs into our country - but, for this to really succeed in our market, we need a far more transparent real estate market in India than what we have at the moment.

To sum up, I think investing globally makes sense as a portfolio diversifier, especially for HNI clients who can relate more easily to the concept. It is however important to ensure that clients invest with the right expectations and for the right reasons - and that is where we as advisors have a crucial role to play.