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# FIFA Perspectives

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## Investment opportunity is the primary driver for us, not just currency

***Dhruv Mehta, Mumbai***

In the inaugural article of Think Global : Advisor Perspectives, Dhruv Mehta, one of India's leading IFAs and Chairman of FIFA shares with us his perspectives on why he strongly believes in global diversification of client portfolios, and the opportunities and challenges in helping investors embrace this concept as part of their investing strategy.

**WF: The concept of global diversification in client portfolios is very much in the news now given the currency volatility seen in recent months. Is this a short-term tactical opportunity given where the currency is or is there a larger and longer term strategic opportunity in terms of casting portfolios which are globally diversified?**

Dhruv: My view is that it is more of a strategic decision. Looking at the longer-term requirements of a portfolio, global diversification makes lot of sense to diversify risk as well as create diverse return streams. Just like we diversify between debt and equity because of different returns and different volatilities at different points of times, similarly global assets between geographies and diversification across countries also achieves the objective of keeping assets which have a different return profile and different volatility. The other part is that investment opportunities are generally not restricted to a particular geography. An investor would like to put his money where the best opportunities are present.

Generally investors restrict to a place where there is a home bias because you know the country, you know the companies and therefore investment gets restricted because of a home bias and also by country regulations. In recent years, regulations have been relaxed to allow Indians to invest overseas. There are also now more opportunities available in the Indian market to invest outside of India.

Another longer-term perspective is that while we know there is a lot of short-term volatility on account of currency and if we see over the last 50 years, generally we have a depreciating currency and it has depreciated about 5% to 7% on an average. So an Indian investor having all his money in a rupee asset is also a risk as your currency is depreciating. Based on all this, it makes sense for clients to diversify liberally.

## Investment opportunity is the primary driver for us, not just currency

**WF: How have your clients reacted to you when you told them about the merits of global diversification? What were some of the apprehensions or objections from their part and how did you give them comfort about this idea?**

Dhruv: The first time we started discussing these options with clients was in the year 2007 and when we started it, it was more from the perspective of diversifying your assets. In 2007 we thought that Indian markets were getting overheated and pitched diversification. Some clients who shared our anxiety about Indian equity markets getting overheated did buy into the theme, but not too many. However the experience in the initial phase was not good in the sense that in the 2008 melt down, everything came down across geographies and across asset classes. Diversification did not work in 2008 as a risk mitigating tool. After that it became more difficult from the year 2009 to explain the reason for diversification.

We again started putting efforts somewhere in 2011. It is not only from the perspective of just diversifying risk, but in 2011 the US markets were really undervalued. For the first time in 30-40 years, the dividend yields were higher than the bond yields in the US markets. The US market appeared to be a very attractive investment destination and that is when we again started pitching international investing, specifically in US equity markets.

Initially there was resistance because many clients believed that when markets go up, all go up together and when they come down, all come down together. There was some skepticism on the merits of global diversification. However, as we discussed the specific merits of the US markets, clients started seeing some sense in the view that US had bottomed out and could start turning around. We were able to get clients to invest in US equity funds in 2011 and the early part of 2012. These clients are obviously very happy with the returns they have seen over the last 12-18 months. But, right through, we have always stressed that US equities should be considered as an asset class that can potentially deliver 8% - 9% dollar returns on a CAGR basis over the next several years, primarily on the strength of the US markets. We did not pitch US equities primarily as a hedge against Indian currency risk. Our view is that US now appears to be coming out of a decade long sideways market - from 2000 to 2011, the US market basically traded sideways in a large band. Since 2011, the stage appears set for a bull market that can potentially last several years. The primary factor in this case is an attractive investment opportunity in US equities. The secondary factor is a hedge against Indian currency risk.

**WF: Do you see any trends in terms of profiles of customers who are more receptive to this theme? What kind of allocations do clients typically make towards global assets in their portfolios?**

Dhruv: It varies drastically from as low as 1% to as high as 20%. When it is in the higher range, it is because equity forms a large component of the overall portfolio and the view on US equities is more bullish than many other equity markets right now. High weightages in some cases is also due to a view on the currency aspect. The fact is that clients have been more willing to invest in US equities over the last 6 months, ever since the macro numbers showed signs of deterioration and the currency became weak.

## Investment opportunity is the primary driver for us, not just currency

One set of clients who seem particularly keen on global diversification are businessmen whose base business tends to be negatively impacted by rupee diversification. Such investors see global diversification of their financial portfolios as a good hedge for their overall assets. I think advisors will do well to study the business profiles of their own clients and see which of their clients gets adversely impacted by currency depreciation. These clients should be more receptive to diversifying their financial portfolios globally.

**WF: In terms of investment options, do you normally suggest the feeder funds from domestic mutual funds or do you actively look at the 200K option which is now reduced to 75K USD per annum?**

Dhruv: Initially we were looking at the 200k option. Over the last 2-3 years, we were trying to focus more on the US markets but then because of the number of feeder funds that have come in, we looked at those and found them a much better and easier option in terms of transactions. Most of the money has gone to the feeder funds.

**WF: What other themes do you think have potential for global diversification apart from US markets theme?**

Dhruv: US markets continue to be a strong bet, in our view. Apart from that, Europe is now beginning to look interesting and if there is a recovery in the next one or two years, valuation is in your favor.

On the contrarian side, I would say some amount of allocation either to the ASEAN geography or a China fund will also be good as I think China valuations are at 2008 levels. There is some bad news of a China slow down but I would say that you could go a little contrarian stance and have a smaller exposure.

# If you want to fly, get on to the flight first

***Brijesh Dalmia, Dalmia Advisory, Kolkata***

Brijesh Dalmia is not only one of Eastern India's most successful advisors, but is an active IFA trainer and coach, having conducted sessions for thousands of IFAs across the country. He is known for his straight talking style - and is known to deliver his high conviction messages which are sometimes difficult to digest, but most often bang on. In this article, Brijesh discusses what it takes to build a successful retail distribution business.

## Can I become big with a purely retail model?

Thousands of IFA's across the country are always in dilemma if they are doing the right thing by focussing on retail business. Specially, when focus of several conferences and speakers is to build a business model on High Networth Individuals. Many IFA's who come to such conferences seeking motivation are left confused on their own business model which is completely retail oriented. They see these successful IFAs with AuMs in hundreds of crores and keep wondering : how will I ever get to those numbers with a purely retail base?

"Hold on" is my advice. Your retail business is capable of giving you growth beyond what you currently perceive as possible.

I have met thousands of advisors across the length and breadth of the country. Most advisors do not have approach and relationship skills that are perhaps needed when dealing with wealthy individuals. Does it mean that they cannot become successful advisors? Does it mean that they cannot have a good business model in retail ? I don't think so. An advisor can build a sustainable, quality and profitably business model in retail space.

## Retail has its merits, and its own challenges

- There are several advantages of retail business -
- It is less risky as compared to other business models.
- It is more 'regulation proof'.
- Assets are more sticky (long term) which results in higher revenue.
- Higher loyalty of clients.
- Less impacted by market / economic downturn.

Yes, it has its own challenges as to higher servicing, meeting constraints, lower revenue per client, etc. But this doesn't mean one has to worry about being in retail space.

# If you want to fly, get on to the flight first

What most advisors forget is that, a small client can over a period of time become big. It's only a matter of time. By default, out of 100 retail clients, 10-20 will become HNI in 5-10 years. If the advisor keeps on servicing these clients, he will also be able to grow over time. Remember, we grow with the growth of our clients. The key is patience, good advice, good service and quality relationship with the clients.

## The grass always looks greener on the other side

The grass always looks greener on the other side. Retail advisors are highly influenced by bigger city HNI based advisors who talk jazzy language, have attractive persona and travel by high end cars. What they forget is that behind all this is decades of hard work and dedication. It did not happen overnight for them. Most of these advisors also started with small clients who over time became big. Ask any of these leading IFAs whether or not they gave at least 10-15 years of fully dedicated efforts to build their advisory business before they became successful - and the answer will be yes in all cases. No successful advisor ever became successful by treating this as a part time vocation, or by questioning his or her business model every now and then.

Yes, some advisors have successfully focussed on HNI Clients and family office concepts but that is not the end of the story. This is in no way suggest, that one cannot build a retail model. There are so many advisors in the country who are sitting on 2000-3000 SIP's from small clients and have built an asset base of over 100 crores......all from retail clients. If they can, why can't others do it.

## 10 point recipe for retail growth

Retail offers big scope. My sense is that most advisors are doing more of clerical work and not selling and advisory. Here is my 10 point program that I would advocate for advisors who wish to grow in the retail space :-

- Work 8 hours a day seriously as a financial advisor. If you are doing other things, that's wonderful - but ensure that you give this business 8 hours a day, every day.
- If you have 100 retail clients and a total AuM which is a fraction of the "100 crore big league", don't get disheartened and doubt your model. Work well with these 100 clients and make conscious efforts to acquire more clients - whether big or small - and you will find a growth path emerging in front of you. If you keep your focus, one day you will become big because some of these clients will become big.
- Don't call anybody your client if you do not derive even Rs.1,000/- as revenue every year.
- Sell SIP's to all your retail clients. The day you will have a SIP book of 500 plus and Rs. 10 Lacs monthly, you will grow in no time.
- Move completely away from a recent returns based product selling approach to a goal based solution selling approach. You will find clients relating to this a lot more and you will also find your servicing time dropping considerably, thereby allowing you to meet more prospects and grow your business.
- Meet all your clients atleast once every year. Otherwise don't call them your clients.

## If you want to fly, get on to the flight first

- Focus on mutual funds. Also sell them life and general insurance products.
- Hire a back office staff and start using technology.
- Once you have hired a back office person, start going out of your office and meeting at least 2 clients or prospects every day. If you do this regularly, you will be surprised to see how your growth path opens up in front of you.
- Read one hour a day to gain knowledge and expertise. Without this, you will lose your clients who become big over a period of time. Big clients need a knowledgeable advisor.

**If you want to fly, get on to the flight first.**

If you want to grow, have clients first. They will automatically grow and you will grow with them.

All business models are good. It depends upon your individual strength, limitations, capabilities, effort, etc. Our industry provides huge opportunities. Have patience, serve your clients well and you will grow much more than you can imagine today.

All the best.