Ensure your financial adviser works for you

GET PERSONAL

Vishal Dhawan

WITH THE recent expose of a fraud by a financial adviser in a leading bank, there has been an increasing demand for greater regulation of financial advisers and the wealth management industry.

Over the last few years, there has been a significant effort in this direction with respect to transparency of financial products. These include Sebi removing entry loads on mutual funds, and Irda reducing charges on insurance plans.

While there is a significant likelihood that regulations governing financial advisors and wealth managers will get tighter over the next few months, it is important for investors to safeguard themselves as well, as regulations may not always be able to protect an investor completely. Therefore, protecting yourself from an unscrupulous financial adviser is critical as well.

PRECAUTIONS

It is important for investors to safeguard themselves as regulations may not always be able to protect an investor from an unscrupulous adviser.

- Focus on the appropriateness of the recommended products
- Avoid too much churn in your portfolio
- Focus on expenses on the products that you invest in
- Understand how you pay for the advice and services offered

Appropriateness

"One size fits all" solutions do not work with financial products. Many times investors and advisors spend most of their time identifying the best mutual fund/stock rather than the appropriateness of equity to the financial goal that is meant to be achieved.

Buying even a good stock or equity mutual fund may not be enough to protect you from a broad market correction. Similarly, if the objective of an insurance plan is to cover your life, focus on buying a good quality term insurance which gives you the highest cover at lowest cost, rather than an investment cum insurance product. Be careful of an advisor who is ready to get application forms from you, even before your needs have been clearly understood.

Stability

While it is critical to evaluate the performance of your portfolio against predefined benchmarks at regular intervals, it is equally important to ensure that there is limited churn in your portfolio. Change only what is absolutely necessary and only when there is a continuous period of under performance.

If your advisers ask you to change your investments all the time, question the merits of the advisory process wherein one needs to keep transacting all the time. Remember that higher transactions increase costs on your portfolio and could also lower your returns due to tax impacts.

Expenses

Since the financial products could have costs that are transparent as well as costs that are embedded, the investors need to be aware of the total costs as they could impact overall returns. A large number of traditional insurance products are not very transparent about their costs, and hence need to be avoided.

Model

Work with advisors who are transparent about the source of revenues in their business and be willing to pay a fee that is commensurate with the advice. Ask them to identify potential areas of conflict of interest.

(Vishal Dhawan is a certified financial planner by profession and founder of Plan Ahead Wealth Advisors Pvt. Ltd. He can be reached at vishal@planaheadindia.com.)