



How advisers dealt with crisis-hit clients

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- Apart from calming clients' nerves, financial planners have had to wrap their heads around covid-19's impact on various investments and cash flows
- For clients who faced job losses and deep pay cuts, planners shifted the focus towards managing cash flows

[Covid-19](#) has hit not just incomes due to job losses and pay cuts, but also investments due to market volatility and falling interest rates. The S&P BSE [Sensex](#) corrected around 32% between 1 and 23 March, while some of the categories of debt funds, which were already grappling with multiple credit defaults and negative returns, got another blow after Franklin Templeton Mutual Fund shut six of its debt schemes.

The situation was new even to professionals such as financial planner and advisers. They had to calm down their clients, while quickly wrapping their heads around the impact on various investments. "It was chaotic in March and April not just because of volatile markets, but also due to the lockdown as people were worried about their health and livelihoods, and wanted to secure everything," said Shweta Jain, CEO and founder, Investography, a financial planning firm.

We spoke to financial planners to understand how they handled crisis-hit clients, while ensuring that impulsive decisions don't result in long-term regrets.

Handling Equity Crash

Soon after covid-19 was declared a pandemic, [stock markets](#) across major economies, including India, corrected sharply. "Fear and panic set in and clients did wonder whether it was time to run away from the equity markets," said Lovaii Navlakhi, managing director and CEO, International Money Matters, a financial advisory firm.

Vishal Dhawan, founder, Plan Ahead Wealth Advisors, a financial planning firm, said one of his clients whose equity allocation was concentrated into US and Indian companies panicked when the markets in both countries crashed in March. The client said they should have exited before the crash.

"We convinced him by presenting multiple data points showing how markets have become attractive after the fall. We showed him how equity was allocated to his long-term goals, such as retirement, which were about 15 years away and sharp falls were unlikely to have an impact in the long term," said Dhawan. Finally, he stayed put.

It was easier for planners to deal with those who have been through the 2008 financial crisis. "A set of investors who were a part of the last cycle are calmer during this cycle thus far, though their incomes have got disrupted. This is a sign of better financial planning as well as having sufficient contingency funds," said Dhawan.

Most planners had to increase the frequency of communication, especially during the lockdown, to calm nerves. "Most conversations which would earlier get done in 15 minutes were taking more than an hour as investors just wanted someone to reassure them," said Jain.

It was also about assessing which investor could handle volatility. "We did suggest some clients who were really petrified to exit some of the riskier assets in a staggered manner," said Navlakhi.

Managing Cash Flows

For clients who faced job losses and deep pay cuts, planners shifted the focus towards managing cash flows.

"After addressing the immediate concerns, we focussed on the liquidity requirements of clients. We asked them to reassess their cash flow needs for the next six to nine months (increased to 12 months for retired people) and ensured that the money for that was parked in a safe place, not linked with markets," said Navlakhi. Under normal circumstances, six months of emergency corpus was okay, but the current situation required more.

For those who faced job cuts or shutting of businesses, the asset allocation was altered in line with the changed situations.

"An entrepreneur client had a manufacturing unit and a resort but both businesses faced losses and hence she did not want to take any risk. She insisted on exiting all her investments both in equities and debt to manage her cash flows. We advised staggered exit but she exited at once," said Navlakhi.

Handling Debt Crisis

With liquidity requirements going up, investors turned towards their debt fund investments. Redemption pressure increased in the debt funds in general. That's when the Franklin Templeton shocker came. The fund house found it difficult to sell underlying securities due to poor liquidity in the debt market and had to shut down six schemes, adding to the distress of investors as well as planners.

"This was a tough one, clients had to be educated about what liquidating a fund meant, what are segregated portfolios and how money is not lost, but liquidity has been hindered and that the pro-rata amount will be auto redeemed as the underlying securities of the portfolio mature or when any payout or dividend is received," said Deepali Sen, a certified financial planner and founder of Srujan Financial Advisors LLP. "Some clients were adamant about stopping SIPs in Franklin's equity funds, and we ultimately respected their free will and went ahead," she added.

Falling interest rates was another challenge but it didn't lead to much panic as the rates had been dropping for a while. The impact on some senior citizens' incomes was compensated by the drop in expenses due to the lockdown.

Takeaways

The covid-19 crisis has been a good learning experience not only for investors but for financial planners as well. "The past few months have shown us the importance of being prepared. This isn't just an excel exercise. So, it is extremely important to have these conversations with clients," said Jain.

In times like these, preserving wealth should take priority over wealth creation. Investing in the right mix of assets as per your risk appetite and goals can help you. Having an emergency corpus and health insurance for your family and yourself is also important.