

## When it's okay to question your adviser

**Tinesh Bhasin**

- Quizzing your financial planner on a portfolio's performance is fine but make sure you do the right return comparisons and have a fair expectation
- Comparing short-term returns of direct equity investments to the portfolio that a planner has built is fallacious

In the second week of July, a senior executive with a private firm called up Malhar Majumder, partner, Positive Vibes Consulting and Advisory, a financial planning firm. The caller was unhappy with his existing adviser as his portfolio was down around 20% in the past few months, and wanted to avail of Majumder's services.

The potential client had a 10-year relationship with his existing adviser. When Majumder looked at his portfolio, he didn't find any unnecessary investments like unit-linked insurance plans (Ulips) or too many mutual funds. "Given the requirement of the client, any adviser would have done the same. I told him that if it's about returns, he shouldn't change his adviser," said Majumder.



**When sticking with your financial planner is right**

- 1 Sets the right expectations for your money goals
- 2 Keeps you from trendy investments or panic redemption
- 3 Admits a mistake to you whenever it is made
- 4 Is proactive in protecting your investments
- 5 Handholds you when asset classes underperform, portfolio drops

Photo: iStock

Other planners have had similar experiences recently. "We do get potential clients who think their existing planner has not done enough due to which portfolio returns are suboptimal. But, lately, such cases are on the rise," said Vishal Dhawan, founder, Plan Ahead Wealth Advisors, a financial planning firm.

The primary role of a financial planner is to help clients meet their goals by analysing different factors and identifying suitable asset classes. They are supposed to focus on mitigating risk, and not suggest products that offer the highest returns. But this doesn't mean that a client should not raise the issue of portfolio performance with the adviser.

### **DO THE RIGHT COMPARISON**

Investors have started taking stock of their portfolios as there is uncertainty around jobs and businesses. Common queries from them include how long the contingency fund will last, if the portfolio can help them sustain longer in case of a job loss, and whether there are enough funds if they want to start a new business.

But with medium-term returns in the present scenario depressing, investors may feel discontented. The average category returns from most large-cap equity funds are flat in the past one and three years, and in the red for most mid- and small-cap funds. What could be adding to this discontent is comparing the returns from recent direct stock investments with the returns from long-term portfolios. According to planners, many investors dabbled in direct stock investment during the lockdown and may be sitting on handsome profits made between 1 April and 29 July, as the Sensex is up 29% in this period.

One of Majumder's clients was unhappy about the returns from his mutual fund portfolio. He redeemed the investments to trade in futures and options (F&O). "The client is absolutely confident of making 3-3.5% monthly returns (36-42% annually) through F&Os," said Majumder.

Comparing short-term returns of direct equity investments with the portfolio that a financial planner has built is fallacious. Also, consistently making profits in direct equity investment is not possible.

### **UNREALISTIC EXPECTATIONS**

Unrealistic return expectation is one of the common problems that planners face when investors approach them. "Clients expect that equities will give them 15-20% returns annually, and it would be linear (they would get that return every year). I have to make them understand that equities are volatile and every year the returns will differ," said Melvin Joseph, a Sebi-registered investment adviser and founder of Finvin Financial Planner.

It's tricky to onboard investors who are unhappy with their existing planner because the portfolio returns don't meet expectations. The same clients could raise similar issues with the new adviser.

It's the responsibility of the planner to set the return expectation right. "If a client has expectations of 15-20%, we tell them historical data shows that it's not possible in a diversified portfolio," said Deepesh Raghaw, a Sebi-registered investment adviser and founder of PersonalFinancePlan. One of the ways investors should set their return expectation is by looking at average inflation. It would help calculate the real rate of return. For equities, it should be 3-4% above inflation.

Another way is by looking at the fixed deposit (FD) rates of public sector banks, which have the highest safety. At present, State Bank of India's one-year FD is giving 5.1%. In July 2019, the rate was 7%.

"Investors should expect equity returns to be one-and-a-half times of SBI FD rates. In the current scenario, they would be about 8%. If the FD rates are at 8%, equity returns expectations should be 12%," said Dhawan. But if an adviser hasn't set expectations right, there's nothing wrong in the client questioning the performance.

### **PROACTIVENESS OF ADVISERS**

For close to two years, debt funds have been facing problems of rating downgrades or companies defaulting on payments. One of the biggest blows came when Franklin Templeton (FT) Mutual Fund announced winding up of six debt schemes in April this year. Some advisers have been active in moving clients' debt fund investments to schemes that have over 85% AAA-rated papers in their portfolio. But those who did not saw clients' money getting stuck. "While no one knew that schemes would be wound up, there were signs of stress due to the quality of papers. If an adviser didn't move out of it, there's nothing wrong if the client questioned the planner," said Arnav Pandya, financial planner and founder, Moneyeduschool, a financial literacy initiative.

Raghaw and Majumder shifted most of their clients before the FT episode. But both have a few clients whom they couldn't ask to move out of the funds in time as their portfolios were not reflecting on their software. They owned up the mistake. Clients were unhappy but continued with them.

Planners are supposed to take certain decisions in the interest of clients. But there are many occasions when their calls may go wrong. So before you think about changing your planner because of returns, consider whether he has been acting in your best interest or not.