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Thu, Mar 30 2017. 07 58 AM IST

Challenge is in defining returns, expectations

Discussing how to match investor's portfolio, role of fintech in mutual funds, and more

Staff Writer

(Right to left): Vishal Dhawan, Sharad Singh, Sanjiv Singhal, S. Naren, Navneet Munot; OnlyPix/Mint

Discussing strategies for mutual fund investors were Navneet Munot, executive director and chief investment officer, SBI Funds Management Pvt. Ltd; S. Naren, executive director and chief investment officer, ICICI Prudential Asset Management Co. Ltd; Sanjiv Singhal, founder and chief operating officer, Scripbox; Sharad Singh, co-founder and chief executive officer, Valuefy Solutions; and Vishal Dhawan, founder and chief executive officer of Mumbai-based Plan Ahead Wealth Advisors. The discussion was moderated by Kayezad E. Adajania, deputy editor, Mint Money.

Kayezad E. Adajania: Markets are becoming more dynamic, and products more sophisticated. Can an investor afford to pick three or four equity funds, two debt funds, one liquid fund, and then stay invested for the next 5 years? Do I need to dynamically manage my portfolio?

Navneet Munot: It depends on each investor's individual investment objectives, overall risk-return trade off, preferences and constraints in terms of time horizon, liquidity, tax, and other things. Of course, asset allocation plays a large role. But once you have done that, a large part of the allocation must be towards strategic asset allocation and buying the right product within that. Over a longer period of time, if you stay with your allocation, remain disciplined, and keep adjusting your portfolio towards that. That will achieve a far better return than somebody who is trying to do time the market every year.

Individual goals like daughter's or son's education or retirement will not change every year. You will rebalance your portfolio but your broad asset allocation with those long-term goals is unlikely to change every year.

Adajania: Sanjiv, at Scripbox you have different baskets—one equity basket of five funds, one fixed income funds basket of three funds, a liquid fund basket and a tax fund basket. If you change the list of recommended funds, does it become too dynamic for an investor to manage?

Sanjiv Singhal: Yes, asset class is important and the product less so. We tend to approach investments from a product perspective, and part of the reason has been the absence of strong and robust financial advisory layer in India. As a result, manufacturers were playing that role in designing products that were aligned with the customer. Asset class is important. Long-term money has to beat inflation, so equities are important. In the short term, you should actually be in fixed income. So that's how our four baskets come about.

You don't have to change it every year but you should review it every year because the product components don't tend to continue on the same path as they were doing in the past. A lot of people, especially retail investors and mass investors, tend to get possessive about their holdings and that hurts them in the long run. You will be surprised to know that the funds that have delivered negative returns over last 10 years still have Rs300-400 crore invested in them. Our approach is a portfolio approach. We make sure that the customer doesn't lose any money because of this switch. Our algorithms track holdings, make sure there is no exit load impact, and no short-term capital gains tax and it is an impact-less transition for the customer.

Vishal Dhawan: We clearly see a challenge in the way we define returns. An investor is typically looking at it from the perspective of a bank deposit. So, we have discovered that the right way is to define returns in terms of a multiple of a bank deposit—1.3 times, 1.6 times, 1.2 times.... The advantage this has is that if inflation is low, deposit rates are going to be low, and therefore, return expectations also need to get reset. If you still talk about past returns being at 10%, 5% or 20%, there's a huge risk that in spite of everyone doing a great job, the investor experience is still poor because you didn't match his expectations.

Adajania: Sharad, you are one of India's largest robo-advisory platforms and you promote direct investment. Do you think investors who invest directly are equipped to take such decisions?

Sharad Singh: Whenever we talk about direct, we compare it to advisory versus non-advisory. Direct plus advisory is a great combination.Advisory is not by humans but robo-advisory. We did an experiment. We went back till 2000 and looked at various goals—these started and ended at different points. We wanted to see how much asset allocation can impact successful achievement of that goal. We put some threshold—if there was some deviation, the system would alert the user to change and build that algorithm. Even for goals where there were extreme market movements, we had a successful achievement rate of 90% plus.

Adajania: How can fintech firms make this process easier for investors?

Singhal: There are various models being tried. There's a very large gap in the number of people who are actually participating in this versus the people who should be participating. Fintech firms are creating new approaches to traditional advisory because that doesn't change. Advisers have been doing this for long—asset allocation, fund selection, and strategies. What fintech firms can do is scale up to a large number of people who would otherwise get filtered out because of the cost. So one of the things that we will see is human advisers using technology a lot more; and a certain set of customers would only use technology.

Adajania: Naren, some of your competitors have started robo-advisory kind of platforms on their websites. Will other mutual funds also be interested in getting into that space?

S. Naren: Our approach after seeing the 2007-09 period was that you have to push strategies like dynamic asset allocation, equity income and balanced advantage. Theoretically, you want the money to go out in 2007, come in 2008, go out in 2010 and come in 2011. Practically, exactly the opposite happened in my entire career. So the only way to go about it is that the mutual fund reduces or increases equity allocation in the product. That approach works much better in a country like India where everyone is not that financially literate. There are so many people who don't understand technology. Given that background, we came to the conclusion that dynamic asset allocation fund is possibly the best way. If we are able to popularize this across India, we would have done our job. It is absolutely correct that asset allocation is the right way to go. But the global experience of asset allocation is poor. We hope that over the next 5-10 years, our strategy turns out to be right because while robo-advisory is good, will it appeal to all parts of India? The answer is no. Will it appeal to people in Mumbai or Bengaluru or Delhi? Yes, certainly. So by going into this, we will serve certain pockets of urban India well, but we won't serve entire India.

Kayezad: Is technology just an enabler or can it also get into advisory?

Singh: We are robo advisors, so I would say, yes, we would get into it. As of now, you can use technology to bring in efficiency, reduce cost, and bring in a similar kind of delivery to all the investors and customers. However, some of the leading banks and wealth managers we are working with have started taking strides towards automation of even advice. One wants to capture a huge amount of market and give all investors the same quality of advice. How do you do that? You can only do that if that advice is centralized and mostly driven by technology.

Coming to what will happen in the future, I have a radically different view. Two things that are emerging fast but still in their nascent stage are artificial intelligence and virtual reality. Say, 5 years down the line, you need advice. You are depressed about your portfolio tanking 20%. I can, with the help of virtual reality and artificial intelligence, place whoever you think of as a financial wizard in front of you, to talk to you. Technology has always developed at a faster pace than we think.

Watch the discussion at: http://bit.ly/2nzAHIf