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Focussing on long-term value for clients

When generating long-term investments for clients, risk management, added value and promoting unique opportunities can place smaller wealth management companies in good stead compared with larger banks. Panellists offered advice to help smaller firms build their client's bases and their revenues.

These were the topics discussed:

- *What is your investment process and philosophy? How do you deliver advice?*
- *How do clients think about risk? Does the bank profiling exercise work?*
- *What does the client really need? Typically, do they even know?*
- *Do clients invest with a proper purpose?*
- *What are some of the ways EAM / IAM can differentiate themselves from a typical private bank – especially from an investment product perspective?*
- *From a non-investment perspective – how do you service your clients and add value?*
- *How are you considering the next generation?*
- *Are charitable foundations and endowments a realistic opportunity to grow AUM?*
- *How are you helping your clients access interesting and unique investment solutions – for example in the private debt and private equity space?*
- *How do you help clients access these opportunities and how do you package these solutions?*
- *Do you buy private assets and real estate – how important is this? How do you access these opportunities?*

PANEL SPEAKERS

- **Gary Tiernan**, Head of Investments, Crossinvest
- **Arnulfo de Pala,** Chief Investment Officer, TriLake Partners
- **Tariq Dennison,** Investment Advisor, Retirement Portfolios, GFM Asset Management
- **Bryan Goh,** Chief Investment Officer, Bordier & Cie
- **Rainer Michael Preiss,** Executive Director, Client Investments, Taurus Wealth Advisors

GARY TIERNAN
Crossinvest

THE PANEL WAS HELD AT THE HUBBIS INDEPENDENT WEALTH MANAGEMENT FORUM on March 8 in Singapore. Proceedings began with panellists pondering how the smaller wealth management firms can add value for their clients in long-term investments.

"Boutique firms can offer a personal quality of service, without a bureaucratic chain of command to

TARIQ DENNISON
GFM Asset Management

slow down proceedings," noted one panellist. "Clients can be confident that smaller, independent firms are investing their money in the same way they would invest their own and be imaginative in identifying interesting investment opportunities."

Another panellist added that each client portfolio is different, based on their particular needs. He said that many banks and wealth management firms have historically employed a flawed approach to risk profiling, applying limited numerical scores to categorise a client into a generic conservative, moderate or aggressive risk category, which is then used to match the client to investments in that category.

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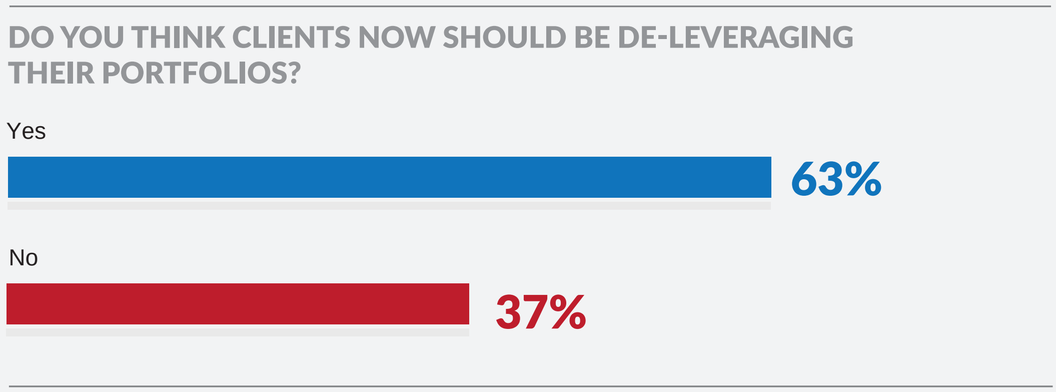


Source: Hubbis Independent Wealth Management Forum 2018

Re-calibrating client risk/reward appetite

"Client risk appetite and portfolio risk are continuous rather than discrete distributions," he argued, "so this categorisation of risk, while convenient for providers, is not beneficial to clients."

He explained that his firm's approach is to try to deconstruct a client's risk profile into risk tolerance (how much risk they are willing to take), risk capacity (how much risk they can afford to take), and risk requirement (how much risk the client needs to take).

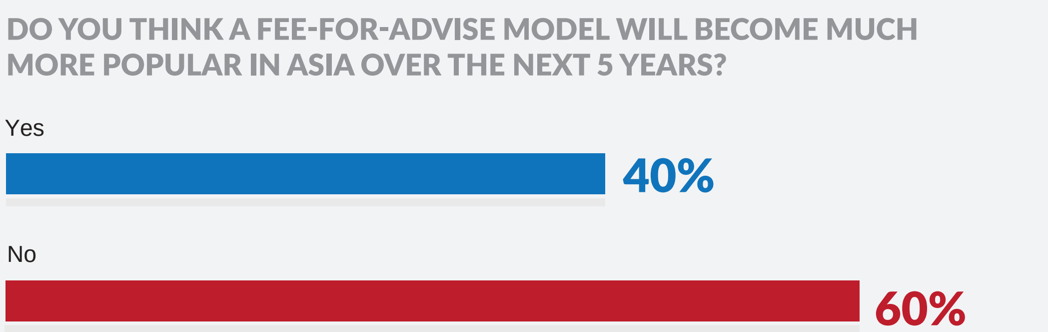
"A risk profiling exercise that attempts to distil these into a single description is in great danger of describing none of them well," he concluded. As an example, he noted that HNWIs often have a combination of low-risk tolerance, but with a high-risk capacity and only have a low-risk requirement. Therefore, a questionnaire combining these questions could come out as 'moderate' or 'balanced', which fails to describe the client at all.

Transparency leads to trust

"Transparency is vital in upgrading the client experience," explained another panellist. "Clients must see that commission does not drive us, but if our fees are linked directly to performance, it demonstrates that we are incentivised to make money for the client."

Another panellist added: "There is a potential misalignment between client and provider in charg-

BRYAN GOH
Bordier & Cie



Source: Hubbis Independent Wealth Management Forum 2018 ing performance fees. "This can lead to over-reaching in the hope that investments will make a good return. And another issue is that it can make investors risk-averse and unwilling to go below the high-water mark, as accounts will not pay out."

One expert then gave the example of crypto-currency and blockchain technology, highlighting the importance of educating the client and warning that it is still a 'buyer beware' market.

"We should see our role as advisory, explaining opportunities and risks, rather than trying to sell to the client," he expounded. However, another panel colleague said that risk is a function of how much a client buys of a certain risky asset relative to his portfolio. "It is not necessarily about certain investments being risky or not risky," he argued.

Funds – like run-of-the-mill burgers?

Panellists went on to discuss the purchase of funds as opposed to direct market access. "Every fund has a shelf-life depending on the market environment," explained a panellist. "We should be looking ahead, dynamically forecasting market performance instead."

Another panellist then asked why exchange-traded funds (ETFs) are not as popular in Asia as in the US. "It is simply because the wealth industry cannot charge big fees selling them," explained one expert. "Yet an ETF can be the most economical and efficient means of accessing a certain market segment."

One detractor portrayed the ETF market as analogous to buying a burger from a big-brand outlet - people know exactly what they will get as the burgers are all the same. "As independent wealth advisers, we can however instead cater to individual needs, which would be analogous to ordering a gluten-free, vegetarian, nutritious burger."

There is nevertheless a strong focus on short-term performance in Asia, one panellist noted. "But sometimes," he explained, "there is a need for short-term underperformance to elicit significant returns in the long-term. Clients are coming to us and paying us for our judgement."

ARNULFO DE PALA
TriLake Partners

"THERE IS A NEED FOR SHORT-TERM UNDERPERFORMANCE TO ELICIT SIGNIFICANT RETURNS IN THE LONG-TERM."

RAINER MICHAEL PREISS
Taurus Wealth Advisors

Future-proofing wealth management

Panellists were then invited to give their most insightful predictions, suggestions and warnings to small wealth management firms. "I think after 2008 it has become very clear that our economic models will not work, that what we learned in school and textbooks are maybe not so relevant anymore," a panellist began. "We need to study the fundamental modes of the economy especially as it relates to how interest rates and inflation interact."

Becoming regulation-savvy is essential, argued another panellist, as pressure is building to move to a transparent fee-only model in Hong Kong and elsewhere in the region, following global evolution.

"Although there is resistance," the panellist explained, "in the early 2000s the US had to adapt to new regulations, and many traders lost their jobs because they could no longer hide their fat margins. We can all agree that it was actually in the industry's best interest. Europe followed soon after, and sooner or later we will have to catch up here."

"It is important," warned another expert, "to rein in risk when markets are booming; putting all the eggs in one basket when that basket is performing well sets the client up to fail if the bottom suddenly falls out."

"Risk is a liquid concept," continued another panellist, "which needs to be actively managed. Educate yourself regarding possibilities, for example in cryptocurrency, rather than relying upon media hype."

"Fixed income, which clients in Asia seem to be addicted to, will cease to be the safe cash cow it has been for the last 35 years," one panellist cautioned, "so we suggest clients should be more selective and cautious with it and instead take equity risk."

"It is a very good time to be a contrarian," remarked another panellist, "to increase allocation to less favoured and under-valued sectors rather than stick to the tried-and-tested." In conclusion, one panellist quipped: "Historically, most people have the most money in the wrong asset class at the wrong side of the cycle. To many investors, the most preferred asset class is in fact, debt." ■