Removing the blind-spot in portfolio advice

Providing advice that goes beyond hunting for short-term returns requires a structured investment process that focuses on risk, not just performance, says Paul Gambles of MBMG Group in Thailand.

The right response to challenging investment climates, such as the so called 'new normal' environment that has prevailed since the GFC, is analysis rather than panic – especially for professional advisers and wealth managers.

Sometimes, in the real world of investing, despite what others are doing, this might result in no changes at all to a portfolio, or small, incremental changes which will, in fact, make a huge difference over time.

This plays to the process at MBMG Group's investment division, MBMG Investment Advisory. "We have always felt that all too often clients and advisers tend to just focus on returns," says Paul Gambles, a co-founder of the group, which cuts across investment advisory and family office services.

Other aspects of the offering include accounting, corporate solutions and insurance broking.

To address the tendency to behave in this way, he and his colleagues have formalised the process that underlies how the firm delivers advice to clients.

At the heart of this is a focus on analysing a portfolio and explaining its risk, not just looking for quick performance.

This philosophy is rooted in a simple fact: clients can control risk, but they can't control performance and return, explains Gambles.

RELEVANT RISK

MBMG's solution is a proprietary tool the firm calls 'PRisM' (Portfolio Risk Management). This is its own risk-evaluation software, which applies historic asset-class data to model the outlook for any investment portfolio based on the worst prior outcomes in comparable situations.

Whilst the historic asset class data spans almost 400 years, it is combined with a dynamic proprietary correlation matrix between asset classes that constantly updates in real time. For example, at the moment, Gambles

PAUL GAMBLES
MBMG Group

infers a high degree of downside correlation between property, equity markets and also corporate bonds, especially those further down the quality chain. "We think that these assets currently offer very little diversification in a major correction."

Armed with PRisM, clients' portfolios are now constantly reviewed along these lines, in an objective way to inform asset allocation advice and decisions. The results also form part of the regular portfolio updates produced for clients.

This is a proactive evolution of the more common way to measure risk, Value At Risk (VaR) – a statistical technique to quantify the financial risk within an investment portfolio over a specific timeframe, and therefore the chance of potential losses.

Yet Gambles believes VaR has its flaws. "It's open to manipulation and the data-set is not necessarily meaningful," he explains.

NEW INSIGHTS

Where MBMG's approach can make a real difference is when its advisers talk to new or potential clients, and they analyse their existing portfolios.

"It often comes as a shock to [investors] to understand what the real risks are," explains Gambles. "We get a sense that most advisers [at other firms or banks] don't look at the portfolio in terms of how much money clients might lose."

This gets more important the wealthier a client gets. Inevitably, the more money someone has, their priority becomes protecting it rather than growing it.

Ultimately, explaining to clients what risk they are taking to generate the return they want is a more honest conversation, based on reality.

"This is at the core of what we do; our process is also a USP that helps differentiate us," adds Gambles.

FEES IN FOCUS

MBMG has also been a pioneer within the Thai market in terms of spearheading fee-based global advisory services – to both locals and expats alike.

This is essential in helping to reinforce the value proposition. "We cannot be paid by product manufacturers, so we are focused on providing analysis that leads each client to select the right platforms or products for their situation," explains Gambles.

Among the custody options it offers are private banks, non-life platforms and online broker accounts.

The decision simply comes down to one of suitability. While private banks are the most flexible and provide the most options, if a client doesn't need derivatives, for example, then a simpler platform might suffice, and be more cost-effective.

MBMG might even use life insurance wrappers. "If these are offered on a zero-cost or rather zero commission basis, to be honest they are still difficult to beat in terms of their cost-effectiveness," he adds.

But the options for investors are starting to increase, based on the securities watchdog's commitment to opening up the Thai market in the next few years.

As this happens, a wider range of investment strategies will be made available that are more geared towards the Thai market.

For example, foreign fund houses which have had simple feeder fund structures in place with local asset management companies might see more scope to broaden their direct distribution.

"We can then potentially help people bridge the knowledge gap for distributors and their clients," says Gambles.

LIKE-MINDED

Finding individuals who can deliver this and at the same time who share the MBMG culture and mind-set is a priority for the firm as it looks to expand its current team.

Yet this might prove to be a challenge; Gambles doesn't see any other advisory firm operating this way in Thailand.

In fact, addressing the limitations in capacity in the firm's bid to create more bandwidth has been one of the drivers behind it spending so much time developing its systems and processes.

But Gambles recognises the pitfalls of getting complacent. "The priority will always be to look after our existing book of business," he says.

"Even as we have moved from more of a mass affluent offering to servicing HNW clients and also towards a family office style."

This has also resulted in the firm seeing considerable success in bringing on board some Thai-based UHNW families, he adds. ■