Sticking your neck out in fickle times

India's wealthy are beset by private banks who pump in house products without offering a true picture of the country's capital market or the strategic opportunities to tap it. Anurag Seth at Quant Capital Advisors says the focus instead should be on solutions.

Providing an overview of available investments based on investment conviction is of more value to a client than simply providing a product designed to produce a certain return, says Anurag Seth, director and head of global wealth management at securities and brokerage firm Quant Capital Advisors.

"It is rare for us to see a client who uses only one private bank," says Seth, former head of Standard Chartered's wealth advisory business in India.

Instead, he says, clients typically go to four or five institutions at a time, in some cases only choosing one product or service from each.

Seth agrees this is an "irrational approach", and argues that if banks' only frame of reference is the products they themselves produce, they cannot provide a full overview of the market and therefore cannot possibly build optimum portfolios.

This is exacerbated by the fact that there are few people in the industry with any longevity, which creates fast adviser turnover.

"Many of our clients will have had four managers within just a few years of starting up their portfolio."

Quant Capital Advisors' approach, says Seth, is to present clients with an overall view of the market's direction, which is typically derived from the company's own research reports, and then suggest ways in which those clients can tap the available products available in the market to benefit.

SOLUTIONS NOT SALES

In other words, he suggests, Quant provides investment solutions rather than investment sales.

It is a role that is supported by its ability to search for, and group together, the best products in the market.

ANURAG SETH
Quant

"Clients will get a market view from across the industry, including foreign banks and institutional equity. But there is nobody to put that into perspective and say how it will impact the portfolio," Seth says.

"What's the harm of sticking your neck out and saying you will charge the client a fee if the market delivers what you expect? What's the point of charging a client if the market does not perform?"

At Quant, this advice extends to include clients' borrowing requirements, where, Seth says, it can go to multiple banks and canvas for the best rates.

Private banks that do not provide advisory, for either making money or borrowing it, could see margins shrink to just 1% as markets becomes more commoditised. This would follow a trend that has already been seen in the insurance industry.

up with "a concrete view that a certain market will go up, or down". It did just this with a report on Indian equities early last year, analysing prospects for the market with Narendra Modi as Indian prime minister or without him.

"We said people had ignored the signs of India's economic recovery before Modi – but they were thinking that the moment he came in things would change," says Seth.

"But now those same people are saying that nothing has changed, and the recovery is not so robust. Yet even with all that doom and gloom they are revising GDP growth up from 6.2% to 7.9%."

Quant's view was that the question of who took over was less important than whether India could withstand the threat of a rating downgrade. If the country was downgraded, it argued, it would promote even a Modi-less government to promote reform.

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SEPARATING SALES AND ADVISORY

"Sales and advisory cannot function together," Seth says. "Clients appreciate a platform that can be a solutions provider. We have been dealing with private banks and public banks as product advisers. Our role is to give them solutions that other platforms are not able to provide."

To that end, Quant looks at a variety of different asset classes, including domestic and international equities, debt, property and commodities, and comes

Although Quant primarily focuses on the Indian equity market, it aims to offer a global view and can also provide solutions to clients who want to disagree with its relatively bullish in-house take on India's market prospects. "When we started six years ago we set out to differentiate ourselves in terms of how our advice is generated and how it is transmitted to clients," Seth says. "We will not tell a client we have a different product, we will say these are our views on various asset classes [Indian and global equities, property, equity, debt and commodities] and recommend the entire portfolio be based on that view."

At the moment Quant favours thematic investment. Seth believes this will hold the company in good, long-term stead. However, he will not lose sleep if any clients do not agree with Quant's in-house view.

"We won't have an issue with someone who wants to take their money out of India and invest in the US. If one market is not delivering they have to go to another one, and it's the same with commodities. I can't say to a client that their portfolio has declined because the gold price is down, I have to find them something on the commodities side that will work for the portfolio."

At the moment, however, Quant is advising clients to keep their money in India, as Seth says there is no real reason to look for offshore investments. The country's campaign for financial inclusion, which was introduced by Modi in mid-2014, will help in this regard, but take time to bear fruit, he suggests: "Ninety-nine percent of people are not yet financial included ... we have opened many accounts in the last 12 months but half of them are empty."

"Since markets are looking promising and people are betting on Modi there's not enough reason to take money out of India. Everyone is trying to play the India game through inbound and domestic investment," he says. "We believe the Reserve Bank of India will be more comfortable if the rupee stays in its current range for a longer time." ■