

The future of online financial advice and mutual funds

Kunal Bajaj, the Founder and CEO of Clearfunds talks about the importance of high quality accessible advice throughout the Indian market.



KUNAL BAJAJ
Clearfunds

CLEARFUNDS.COM WAS FOUNDED ON THE PRINCIPLE of offering an advisory solution that is driven by technology and run at a much lower cost by eliminating all of the excessive trappings - and to pass on the savings to the customers. Standing for accessible, quality advice at a fair price, Clearfunds aims to facilitate transactions by using an app or an internet so that their customers can benefit from a better deal.

MUTUAL FUNDS

While putting together their business model, Kunal Bajaj and the Clearfunds team started with the belief that mutual funds should be most people's primary savings instrument rather than a traditional bank account. Mutual funds can not only beat inflation, but can also be delivered to scale and to the masses, unlike single stock advice, which, as a trading instrument is much more complex in terms of buying a selling.

"Mutual funds are not a trading instrument, and therefore once the asset allocation has been made it can be kept in place for years. Identical to the bonds and stocks bought by a fund manager, direct mutual funds offer the benefit of no annual trailing commission fee, and when Clearfunds deliver this alongside a service package based around asset allocation and fund picking, the model is highly viable." Bajaj says.

CHALLENGING THE TRADITIONAL WEALTH MANAGEMENT FIRMS

Kunal Bajaj points out India is a large country without sufficient financial advisors to serve the population's needs. With most people simply finding a financial advisor close to their home or place of employment, financial advice in India is primarily limited by geography which is not an ideal situation. As an added problem, many people find that their advisor has persuaded them into choosing a product which did not meet their needs. "Clearfunds eliminates this issue by delivering a bespoke solution for each customer which uses our internet platform," Bajaj explains.

Traditional financial advisors try to channel every client into one of 21 possible portfolios (0-100 Debt-Equity or 100-0 Equity-Debt, in five-percent steps) or outcomes, often through first impressions or physical factors. With an online financial advisor, this is not possible, and therefore more work is put into finding out more about the person themselves and their individual requirements by asking periodic psychometric questions about the stability of their employment and income stream.

"Modern technology makes things possible today that were only dreamed of a decade ago, and these advances have meant that it is now possible to obtain the essential information about the client much more rapidly than in the past. What would have taken multiple meetings and several years can now be accomplished very quickly to build up a complete and detailed profile of the client," Bajaj says.

The upshot of all this is that the industry can no longer be opaque. The way the future is headed is towards complete transparency, allowing customers to see the advisor's entire portfolio, and that is something that the industry has to learn to live with.

THE TWO-PART INVESTMENT PORTFOLIO

Bajaj states that an investment portfolio consists of two parts - the fund selection part and the asset allocation part.

When it comes to asset allocation, the individual's willingness and ability to take a risk is taken into account, with more weight being given to their ability than to their willingness in the Clearfunds algorithm. While this is not always completely fool proof, Clearfunds mirrors the process used in real life, during which the financial advisor presents the client with the portfolio that they

believe they should be getting together with the results of that portfolio for the last few years. While the advisor has the responsibility to suggest what they believe is the right asset allocation, it is, in the end, the customer's own responsibility to make the final decisions.

The Clearfunds fund selection process is more interesting however, using a specialised algorithm to determine the best possible choices. "Although a list of all available funds will show around 7,000" Bajaj says, "once all of the growth, accumulated and divided options are stripped away as well as the direct and regular plans, only 800-odd funds remain. Of these unique funds, there are only 70-odd actively managed large cap funds and 45 mid or small cap funds. For any advisor recommending the best funds for investment, it isn't too difficult to choose on which will be in the top quintile or decile for several years to come out of such a small universe."

Clearfunds' algorithm uses the price and risk history for each fund going back to its inception, putting it into a model to figure out the data's longitudinal trends to predict with a reasonable level of certainty a fund which will stay in the top quintile for at least the next 2 years. This is more precise, logical and accurate than the method used by most financial advisors who simply use a meta search, recommending a particular fund because it appears in other private banker's recommended lists.

CLEARFUNDS'S SUCCESS

Bajaj has seen Clearfunds go from strength to strength in the 12 months since the platform has been online. "We have customers across 400 cities and around \$10 million in assets under management," He says. "Betterment and WealthFront took over a year to gather their first \$10 million in the USA but now they both have billions in assets. Nutmeg has been in business for 7 years and has around 40,000 accounts and a billion dollars of assets under management."

He sees the business as a long-term project, with its success largely dependent on customers beginning to understand the value proposition, and this isn't always easy considering that some are first time customers and others have been used to having one to one guidance through the process. However, thanks to technology, the barriers to onboarding in terms of the account opening process are being eliminated which opens up limitless possibilities. ■