

How to handle the current scenario

The current market scenario is unprecedented in the lives of most financial services intermediaries. Advisors who set up shop in the last five years probably never imagined that this kind of stock market behaviour could ever happen. Even those in the trade for a longer period of time, who have seen sharp market downturns as in 1994 and 2000, are finding it difficult to handle the present scenario. Each time such situations arise, we tend to think that it's all over for us, it will never be the same again. But if history is anything to go by, we will see good times again sooner or later. Till that time comes, we must survive this crisis and the following ideas may help.

Accept it

Many advisors are still feeling that the market will go up the way it has come down. They are not ready to accept the fact that the crisis is deeper than they presume. The sooner they realise this, the better. We must come out of the 'denial' mode. We all know for sure that it will take a while to regain lost ground. By accepting this fact, we can move forward faster and prepare ourselves for the good times.

Asset allocation

The inflows in equity schemes are almost negligible at this point of time. Any fresh money that is coming in is going into debt oriented schemes. The asset allocation of investors is taking a U-turn. A portfolio which was highly tilted towards equity schemes a year back is now highly tilted towards debt. This is happening because of an erosion of valuations, a withdrawal of equity investments due to the fear factor, and fresh investments going towards debt. If we all know that the allocation to equity was high in Dec 2007, then what about the current allocation to debt for the same client? Advisors need to explain this to their respective clients. If higher equity allocation resulted in massive losses, higher debt exposure may not provide enough returns and miss out on the potential future rally in equities. Asset allocation remains the most powerful strategy for a client to achieve his financial goals and the advisor must educate the client on this front.

Knowledge

Surely, the activity level has gone down. We have a lot of time on our hands which can be used for gaining knowledge and sharpening our skills. There is no end to acquiring knowledge which is a differentiating factor in the financial services industry. Advisors should dedicate some time to upgrading their knowledge base which can add a lot of value going forward.

Earnings

The last 4-5 years were extremely good and rewarding for distributors. High volumes with decent margins on distribution business was taken for granted. While the markets may return to normalcy over a period of time, my sense of understanding says that with stricter guidelines, technological advancement and more informed investors, the earnings of distributors may not reach the same levels with the same volumes. This means that distributors will have to work harder to earn the same income. In order to combat this situation, distributors must improve in-house systems and processes, increase their product offerings, improve efficiency so that more clients may be handled and provide more value-added services.

Put client's interest first

The current situation will test our nerves and real character. We must put the client's interest first. The client's money must be safeguarded before thinking about one's own interests. It pays in the long run. While all of us will agree on this, there may still be scope to work harder in this area.



Don't exit

Many distributors have already exited this business and many more are thinking in the same direction. This may not be a wise idea. Every business has its ups and downs. It is during tough times that stronger players emerge winners. Financial services remain an attractive business to be in. It's a phase of time which will eventually pass. Yes, we have to work harder during these difficult times, but those who do, will survive this period and reap rich dividends.

(Mr. Brijesh Dalmia has expressed his personal views in the above column. He is a CFPSM and director, Dalmia Advisory Services Pvt. Ltd., which provides financial planning and wealth management services to its clients. He can be reached at brijeshdalmia@gmail.com)