How Genuine is Unsolicited Aid?

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Always take free investment advice with a pinch of salt

Yesterday Arun sent me a mail,stating that the SBI Life Manager is saying investing in equity mutual funds is not good anymore, because of the 10 per cent long-term capital gains tax imposed on equity after April 1, 2018 basis Budget 2018 announcement. Instead, the manager went on to say "there is a fantastic ULIP plan that will double your money in three years and returns are tax free!"

Two years ago, a new prospect visited us having invested in a close-ended real estate structured product which was created for five years and expected to deliver 18 per cent annual returns with a five-year lock in period. Today, (the date of maturity), the underlying investment has not been able to generate returns from two builders. The company has sought SEBI approval for extension of the project for another six months and the investor needs these funds to fund his retirement income. He is left with no other option but to wait when the funds are made available to him.

Five years ago, another prospect met us with 20 endowment policies crafted to mature meticulously every year after retirement to fund his retirement phase. While the thought of providing for a recurring tax free income source during retirement was great, but were there no better options that were less heavy on the wallet to create the same retirement kitty and did not impact the cash flows of the individual so much? The returns were tax free, but did not beat inflation.

There is one common thread in all the above examples, miscommunication, misrepresentation of facts, self-gain intent to earn big agent fees, huge fund management charges and high administrative charges all packaged in the name of investment solutions.

Remember—there is no such thing called a free lunch!

Ketaki and Pawan have three loans outstanding with a toal amount of ₹1.80 crore and their combined take home income is ₹40,00,000 which means, their loan eligibility should be a maximum of ₹1,40,00,000 and equal monthly installment (EMI) should not exceed ₹1,16,000. But their monthly EMI is ₹1,35,000 which far exceeds a safe zone of 35 per cent of take home income to be utilised towards loan repayment. They have a daughter whose higher education is about to begin in three years and they have zero savings in financial assets. But they own five properties and is thinking of buying their dream villa this year. How can they possibly fund their daughter's overseas education with only fixed assets to meet the same, fund their retirement and also their daughter's marriage?

Trust is the most crucial aspect in financial advisory and it is built only when the advice is genuine

As a financial advisor, the logical step is to show how to reduce the outstanding loan amount with their current situation not affecting cash flows, liquidity and current lifestyle needs and ensure there financial goals are met.

Health corpus planning for senior citizens

Planning for reverse mortgage options for the elderly

Planning for life transitions, divorce, business sale, start-ups

All the above examples require genuine advice, technical and behavioural competence, experience and trust— all of which are not linked to a product.

A fiduciary advisor will make the client remember the advisor for helping them solve their specific issues in the need of the hour and not the advisors commission.

Trust is the most crucial aspect in financial advisory and it will only be built when the advice is genuine and there is a fee charged for it.

Working in the fiduciary interest of the client provides

- Lifelong trust
- Address the need of the individual
- Helps the investor move forward in their path to financial freedom

So the next time, the nicely dressed bank manager approaches you, be careful. True and unbiased advice is simple and logical; and often needs to be heard from the friend, guide and planner who will be beside you for life.

The author is a SEBI registered investment advisor