Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, General Impact Factor : 2.7282, Volume 09, No. 01, January, 2019, pp. 203-206

WEALTH MANAGEMENT STRATEGY: AN OVERVIEW

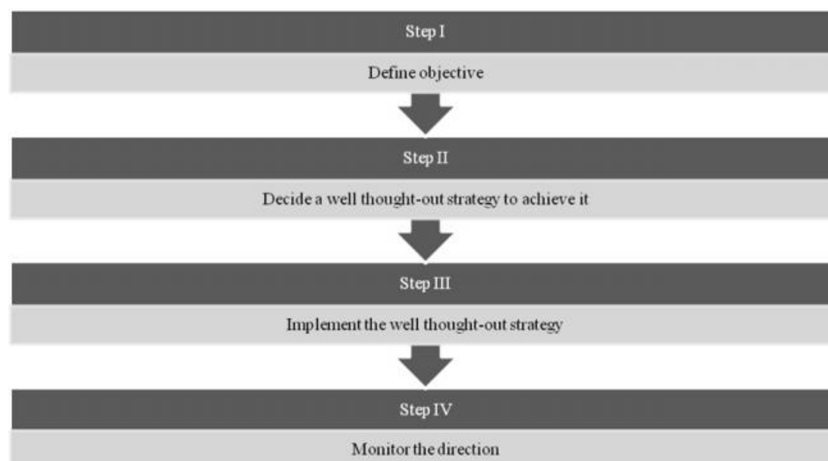
Sudhir Hiran*
Prof. (Dr.) M.L. Vadera**

ABSTRACT

Wealth management is an investment advisory service for high net worth individuals. Wealth management combines both financial planning and specialized financial services, including personal retail banking services, estate planning, legal and tax advice, and investment services. The goal of wealth management is to sustain and grow long term wealth. The worth needed to qualify for wealth management services vary among institutions, but the net worth threshold typically starts at about $20 million. Also, depending on the institution, the range of services available is highly customizable in order to meet the specific needs of the client. Wealth management clients are highly sought after by financial institutions and financial service companies. Many banks that combine traditional banking and wealth management services have specialized sales and service teams to specifically cater to wealth management clients.

KEYWORDS: *Wealth Management, Retail Banking Services, Legal and Tax Advice.*

Introduction



- There are 2 ways of managing wealth. The first method is to marry liquidity with market views and available products. We believe, this is products selling, not management.
- The second method of wealth management begins with objective. Defining objectives is the most critical part of any management process.
- Once we define the objective, we should prepare a well thought-out strategy to achieve it. An objective can be achieved through several strategies but we must select the one which will increase the probability of achieving the objective.

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* Research Scholar, Jai Narain Vyas University, Jodhpur, Rajasthan, India.
** Director, School of Business & Commerce, Manipal University, Jaipur, Rajasthan, India.

- Step three is implementation of that strategy because action is important.

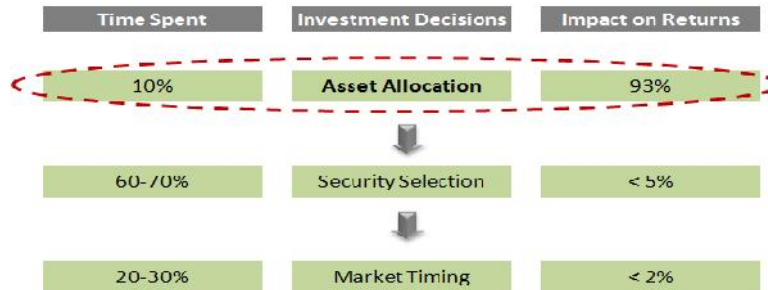
Lastly, of course, is monitoring. To generate MIS which will help us take management actions to achieve the objective.

Pillars of Wealth Management

There are 3 principles which we keep in mind while designing the solution:

- Fearless advisory is about telling you what you need and not what you want. Example: You might want a fixed deposit but you may not need a fixed deposit. The job of an advisor is to fearlessly advise you to do what you need rather that what you are looking for.
- However fearless advisory needs to be backed by data and doing this math will help us build conviction that will help us to take action
- We would like to keep this whole process from objective setting to strategy and monitoring simple and uncomplicated.

Asset Allocation



- In 1991, Brinson, Singer and Bee bower published a study about asset allocation of 82 large pension funds in US. They did regression analysis on the pension funds' stock, bond and cash selections with corresponding market indices.
- The conclusion of the study was that Asset allocation determines about 93% of the return variation between portfolios. Picking the right stocks, bonds and properties have 5% impact on returns whereas picking the right time to buy and sell has just 2% impact on overall portfolio returns.

Source: ^"Determinants of Portfolio Performance II, An Update" by Gary Brinston, Brian D. Singer and Gilbert L. Beebower, Financial Analysts Journal May-June 1991

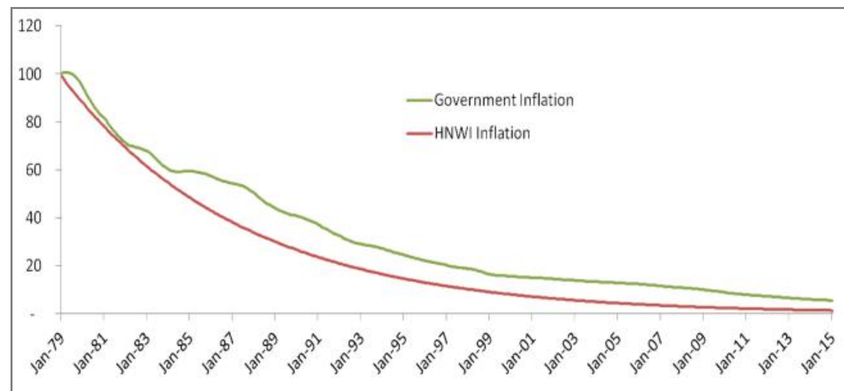
* Average time spent on these activities by our clients in last 10 years

- Asset Allocation is the bedrock of our advisory process
- As per a study conducted by economists from US, it is the **asset allocation** which is the single most important decision that determines the fate of your investment portfolio.
- The conclusion of the study was that Asset allocation determines about 93% of the return and security selection & Market timing have just 7% impact on returns
- But what we have noticed is that, most people spend 90% time on security selection & Market timing which has just 7% impact on returns and hardly 10% of the time is spend on the asset allocation which has 93% impact on returns
- This is why asset allocation is key and we should spend maximum time on asset allocation.

What are the risks that every investor faces?

- While devising your asset allocation there are two kinds of risks that your wealth faces. Inflation risk & volatility risk.
- If we choose predominantly debt oriented portfolio we will avoid volatility but will not be able to beat inflation and erode purchasing power of our hard earnt savings. If we choose a predominantly equity oriented portfolio then volatility will create a lot of stress in short term and we may not be able to stick to our path.
- So we need to find the right asset allocation that will manage both these risks.

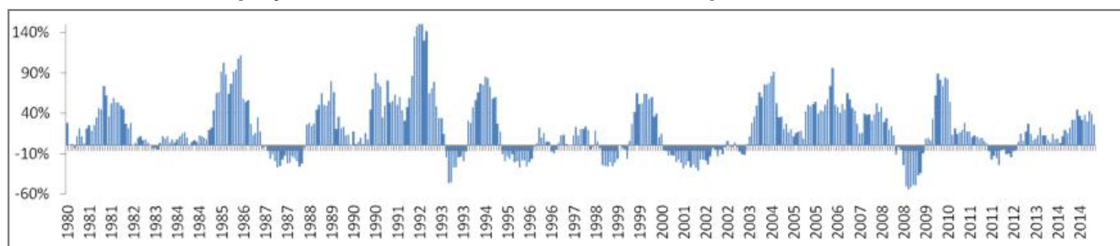
Inflation – The Silent Killer



In the last 35 years,

- Government inflation has eroded 94% of purchasing power
- At HNWI inflation rate of 12%**, it has eroded 99% of purchasing power**
- That's the reason why it is called Silent Killer because not many people speak about it.

In the Short term, Equity can be Volatile but it reduces over a period of time.....



- This slide talks about how volatility risk plays out over a period of time.
- The average return from equity has been 17% p.a. Which is the black line in the graph.
- You will notice that, as your investment tenor increases from 1 year to 5 years to 10 years, The volatility reduces and probability of 17% p.a. Substantially increases.
- We have all heard staying invested for long term helps. Here are the numbers that prove that staying invested in equities for long term works.

Conclusion

- Advisory approach; not transactional
- Fearless advisory (holding your ground with humility)
- High conviction backed with data and uncomplicated process

Advisory

- Fix goals and objectives
- Show impact of goals
- Utilize building blocks of strategy
- Construct strategy
- Impact of changed strategy = value created for clients
- Create a safety net through trusts
- Create an estate plan
- Implement through gap analysis
- Review through cheat sheets

Goals

- Reach a value objective in time
- Generate 12% + returns
- Build an unencumbered safety net
- Ensure near zero transmission loss through Estate Planning

Strategy-Focus On

- Asset allocation
- Asset class views
- Mutual Funds and Analytics
- Structured Products and Expertise
- Leveraging by 20%
- Financial Planning Expertise
- Taxation Advisory
- Making it simple and easy to understand
- Creating conviction
- Encouraging strategy meets with clients & family
- Reviewing through monthly meets

References

- Anand Rathi Wealth Strategy
- Asset Allocation research Source: ^"Determinants of Portfolio Performance II, An Update" by Gary Brinston, Brian D. Singer and Gilbert L. Beebower, Financial Analysts Journal May-June 1991
- Average time spent on these activities by our clients in last 10 year
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