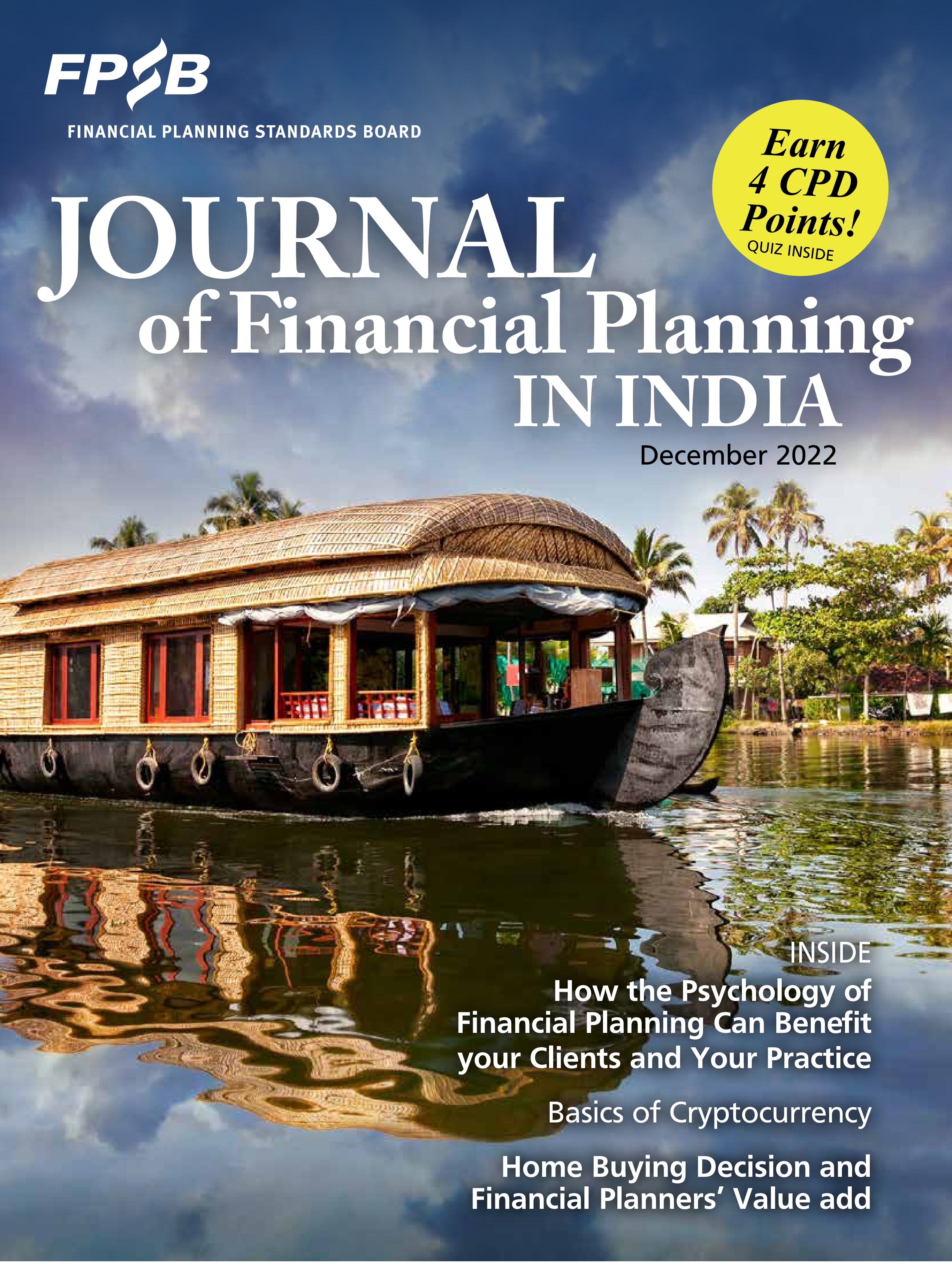

FPSB

FINANCIAL PLANNING STANDARDS BOARD

JOURNAL of Financial Planning IN INDIA

December 2022

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QUIZ INSIDE

INSIDE

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Welcome Message from Incoming FPSB Ltd. CEO Dante De Gori, CFP

Dear CFP professionals,

As the incoming CEO of the Financial Planning Standards Board Ltd. (FPSB), I would like to take this opportunity to introduce myself. My name is Dante De Gori, CFP, and I will step up as CEO for FPSB on 1 January, succeeding Noel Maye. I've been involved in the financial planning profession for more than 20 years and was the former CEO of the Financial Planning Association of Australia with approximately 5,000 CFP professionals. It is my passion and commitment to grow the number of CFP professionals across the globe, especially in India. I hope to meet many of you when I visit India and look forward to hearing how we can support you and the financial planning profession.

This month, FPSB celebrates its 18-year anniversary and the many accomplishments we've made with our network of financial planning professional bodies, like FPSB India, to build a global financial planning profession with CFP marks its symbol of excellence.

As we reflect on our accomplishments in India over the years, we have a lot to celebrate including:

- The establishment of the India CFP Professional Advisory Council to help build a vibrant CFP professional community in India;
- Strong growth of the CFP professional community, with a nearly 45% increase of CFP professionals in India since 2019.
- The National Institute of Securities Markets (NISM) accreditation of FPSB's CFP certification program, which allows CFP professionals in India offering investment advice to be eligible to register as Investment Advisers under Securities and Exchange Board of India regulations;
- Launching a new education and credentialing pathway to CFP certification to facilitate more learning and recognition opportunities for candidates of CFP certification in India;
- Transitioning to a new Learning Management System to help CFP professionals easily track continuing professional development (CPD) credits; and
- Re-introducing the Challenge Pathway to help eligible financial planning professionals accelerate their path to CFP certification.

And this year, as a global community, there has been no exception in terms of accomplishments. Through our sixth annual World Financial Planning Day, held in partnership with the International Organization of Securities Commissions (IOSCO) World Investor Week in October and with help from our India CFP Professional Advisory Council, FPSB was able to raise public awareness of financial planning and the value of working with a CFP professional worldwide. During a time of global economic uncertainty, thousands of individuals in India were reached through FPSB India's participation in the NSE Academy's bell-ringing ceremony, educational workshops, and through extensive media and social media campaigns.

Also this year, in an effort to broaden our public awareness efforts with the next generation of financial planning clients, we explored how we could partner with the Organization for Economic Cooperation and Development's Global Money Week. Global Money Week focuses on ensuring young people are financially aware and gain essential knowledge and skills to make sound financial decisions to achieve financial well-being and resilience.

Going forward, we will continue our focus to increase the value of CFP certification and grow the CFP professional community in India and around the world.

As Noel Maye steps down as the founding CEO and I become CEO on 1 January, I'm excited about where we are positioned today as a global community and look forward to our next set of achievements to advance CFP certification during 2023.

Thank you all for your support of FPSB and for your commitment to propel our profession forward with CFP certification its symbol of excellence – in India and around the world.

All the best,

Dante De Gori, CFP
Incoming Chief Executive Officer
Financial Planning Standards Board Ltd.

About the Journal

The purpose of the *Journal of Financial Planning in India* is to expand the knowledge base of CERTIFIED FINANCIAL PLANNER professionals and those interested in the profession.

Future contributions will span a variety of areas including industry interviews, viewpoint columns, insightful articles and peer-reviewed technical papers. We wish to provide content that is interesting, original and, most importantly, beneficial to CFP professionals and their work on behalf of their clients.

Journal of Financial Planning in India is published by Financial Planning Standards Board Ltd. (FPSB Ltd.)

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Call for Articles

Writing Guidelines for Contributions

Articles:

We welcome previously written work and ideas that pertain to one of the areas of financial planning: tax planning, debt management, cash flow management, ethics and legal and regulatory environment, education planning, retirement planning, investment planning, insurance planning, and estate planning.

The articles should be of about 1500-3000 words in length with the goal of having an article between 6-8 pages long within the Journal, including all photos and graphics. Articles must be written in English and be relevant to Indian CFP^{CM} professionals and/or the global CFP community.

Audience:

You are writing for people like you – other CFP^{CM} professionals! Please provide timely and accurate information that has practical implications.

Style:

The Journal of Financial Planning in India is focused on providing and promoting easy-to-comprehend, professional written work. A contributor's thoughts, comments, ideas, and graphics should be easy to understand and structured for flow.

Elements to be included for submission:

Publication date, April 2023.
Article due date: 28 February 2023.
Publication date, August 2023.
Article due date: 30 June 2023.
Send to: IndiaCFPCertification@fpsb.org
Format: When submitting an article, please include: author name(s), mailing address, email address, phone number, author picture, brief biographies of the author(s), and an executive summary.
Executive Summary: The executive summary is not a sales pitch for the article, but instead, a summary telling the reader what to expect, the purpose, the topic, the why, and the important practitioner implications. Executive summaries should be no more than 250 words.
Graphics: No more than 5 photos and graphics per article.
Endnotes/References: Please be sure to use APA formatting for references and endnotes.

Authors of published articles will get **4 CPD POINTS**

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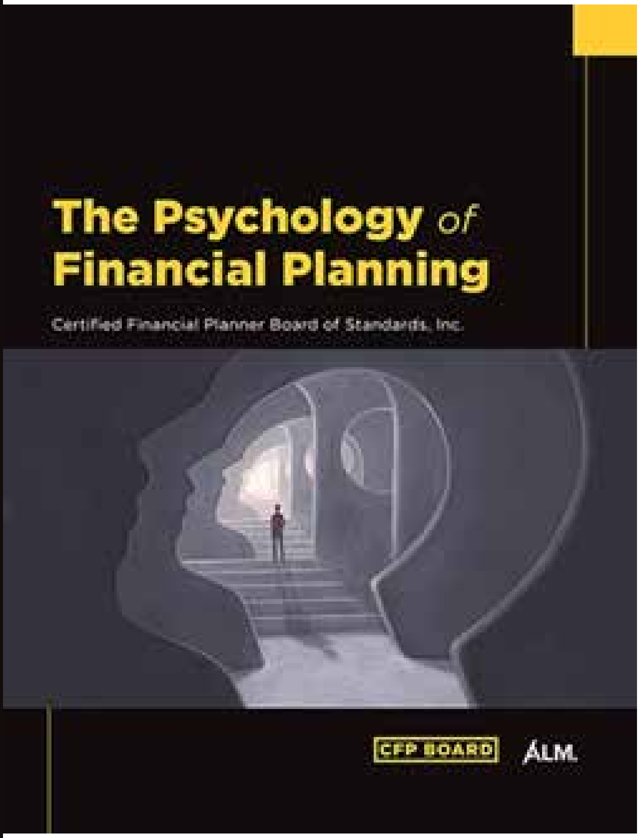
I agree to execute any documents that may be required to effect the agreements contained herein and to indemnify FPSB Ltd. for any claims, demands, or causes of action related to the licenses I have granted and all matters waived or released herein.

Our work with clients

How the Psychology of Financial Planning Can Benefit your Clients and Your Practice

By learning to identify and respond to client attitudes, mindsets and behaviors, and situations that impact decision-making — as well as learning to recognize their own attitudes, values, and biases — financial advisors can optimize their services to advance the client's financial well-being.



In April 2022, CFP Board released a new book, *The Psychology of Financial Planning.*

Financial decisions are rarely made based on logic alone. According to a Capital One survey, more than three-quarters of Americans (77%) reported feeling anxious about their financial situation in January 2020. Since then, financial experts report that consumers' financial stress has only gotten worse due to the global pandemic and subsequent record-level inflation, the latter of which ranked as a top stressor for 87% of Americans.

"Extreme market volatility often causes people to take more risks than they should," says Dr. Swarn Chatterjee, Department Head and Bluerock Professor of Financial Planning at the University of Georgia. "People tend to make the most errors when they anticipate losing money and as a result, it's becoming more important for financial planners to be able to identify these psychological shifts and advise accordingly."

An understanding of psychology has become increasingly valuable to professional financial planners. In 2021, CFP Board's Practice Analysis Study found that to effectively understand the factors that guide clients' behaviors and decision-making and respond to them with effective, actionable advice, financial planners must understand the psychology of financial planning. As a result, Psychology of Financial Planning became the eighth Principal Knowledge Domain and was first tested on the March 2022 CFP® certification exam.

To help financial planners better understand this new domain and to incorporate it into their professional practice, in April 2022, CFP Board released a new book, *The Psychology of Financial Planning*. This book is a resource to help advisors evaluate what drives their clients' decision-making. Topics addressed in the book range from client values, attitudes and biases to sources of money conflict and crisis events — as well as planner attitudes, values and biases. The theoretical and practical knowledge provided in the book can help advisors shape better client relationships and deliver the truly holistic advice required to stay competitive.

How is Psychology Related to Financial Planning?

Financial planning is an inherently emotional process for many clients. Creating and achieving financial plans involves identifying a client's personal goals, and those goals are influenced by a client's mindset and emotional behaviors. Financial planners must understand what the client wants and why — including the influencing factors — in order to evaluate all the paths that the client can take to successfully achieve their desired outcomes.

An understanding of this collective psychology — the client's, the planner's, and the influencing factors — facilitates better communication and better outcomes between the planner and the client.

Furthermore, financial planners must also recognize how their own attitudes, values and biases can impact their client relationships and services. An understanding of this collective psychology — the client's, the planner's, and the influencing factors — facilitates better communication and better outcomes between the planner and the client. This understanding can enable financial planners to ideate more solutions for their clients. As certain parts of financial services become automated, financial planners with a strong grasp of psychology can continue to differentiate themselves by providing the indispensable human element.

"Sometimes, clients spend money in ways that have nothing to do with their material needs and it's important to assess where those impulses are really coming from," says Dr. Dave Yeske, CFP®, Managing Director at independent wealth management firm Yeske Buie and Director of the Financial Planning Program at Golden Gate University. "To make progress with these clients, you need these crucial insights into the human condition."

Improving Communication, Relationships and Results With The Psychology of Financial Planning

Effective communication is a cornerstone of financial planning. To achieve effective communication, you must gain your client's trust by showing that you understand their goals and motivations. The client will feel comfortable sharing more information with you, helping you to create a plan that fits their needs.

"The quality of your client communication has a huge impact on trust and commitment," Dr. Yeske says. "Clients have a much higher propensity to share financial information and motivations when they trust you, helping you to give more effective advice."

"Financial planning is about people, and the psychology of financial planning equips financial planners with the skillset to build and deepen these relationships more effectively," says CFP Board Managing Director of Professional Practice, John Loper, CFP®, MBA.

Clients' relationships with others may also affect their financial situations. Clients may be confronting their emotions alongside their finances when facing divorce, eldercare, a terminal illness, a sudden inheritance or estate planning. Conversely, the way that clients approach their finances may complicate their relationships with others. Dr. Yeske shares that couples' individual priorities are often not financially aligned, with the Institute for Divorce Financial Analysts finding that more than one-fifth (22%) of divorced U.S. couples surveyed cited "money issues" as their main source of conflict.

Financial planners trained in psychology can often get to the root of a client's financial troubles, helping them to establish healthier habits and goals for the future.

A financial planner trained in psychology adds greater value to the advice they provide to clients navigating these emotional mazes, according to Dr. Chatterjee. He shares, for example, that many clients treat inheritance differently than they treat their earned wealth, tending to take more risks on money they have not earned through work. With this insight, advisors can better detect behavioral patterns and work with clients to assess whether their short-term desires align with their long-term financial goals and values, in turn, helping them to use the new-found capital wisely.

Dr. Sonya Lutter, Herbers & Company

Director of Research and Academy, notes that understanding the Psychology of Financial Planning gives financial planners the tools to intervene in critical financial situations that are not as often publicly discussed, such as a lack of transparency. A lack of transparency can entail financial infidelity amongst spouses, financial manipulation perpetrated by relatives, financial enablement or elder abuse. A comprehensive understanding of psychology can enable financial planners to spot the signs of financial abuse before their client begins to experience more severe consequences.

Dr. Lutter underscores the importance of treating all crises as equally important. "How we should approach someone whose spouse just passed is not necessarily different than how we approach somebody who lost their home in a financial disaster," Dr. Lutter says. "Knowing how to recognize when it's grief talking and bringing clients back into the engagement is paramount to addressing crises."

"When it comes to wealth and how we use it, the financial planner must often engage in a values-based conversation," says Dr. Yeske. "To be effective, we must inspire our clients to enact behavioral change."

CFP Board's new book, *The Psychology of Financial Planning*, sets out to provide the theoretical underpinnings and practical knowledge for each of the topics that make up the new domain. This pioneering resource will help candidates prepare for the CFP® exam, and it also will help current practitioners improve their competencies in these areas.

CFP Board's New Book Can Expand Your Understanding Of The Psychology Of Financial Planning

"This book lays out the empirical research and simultaneously offers practical tools," Dr. Yeske says. "It's not enough to see the research, you need to have practical tools that financial planners can use in their day-to-day client work. This book does both."

The book is organized into 15 chapters, divided into 6 parts that align with the 6 Principal Knowledge Topics that make up the Psychology of Financial Planning Domain:

1. Client and planner attitudes, values and biases;
2. Behavioral finance;
3. Sources of money conflict;
4. Principles of counseling;
5. General principles of effective communication; and
6. Crisis events with severe consequences.

Each chapter of *The Psychology of Financial Planning* book includes one or more case studies, with many based on real client interactions, such as navigating a client's risk tolerance and helping couples and families achieve greater financial transparency.

"All financial planning professionals would benefit from reading this book," says Dr. Lutter. "Whether they're certified, in the process of gaining certification, or not even planning to become certified, learning or refreshing their understanding of these concepts is vital."

Understanding the factors influencing client mindset, behaviors and decision-making — and the complex interplay between client psychology and planner psychology — is key to dispensing the right advice and providing personalized service.

"From a therapy perspective, the first precursor to action is awareness," notes Dr. Lutter. "Just reading and absorbing the knowledge in *The Psychology of Financial Planning* will almost surely have a positive impact on financial planners' client relationships and practices."

CFP Board's new book, *The Psychology of Financial Planning*, is an indispensable resource that provides financial planners with the knowledge they need to integrate the Psychology of Financial Planning into their practices. The e-book and print versions are available now. Learn more on CFP Board's website at CFP.net/Psychology-of-Financial-Planning.

LEARN MORE AND GET YOUR COPY OF THE PSYCHOLOGY OF FINANCIAL PLANNING BOOK

The Psychology of Financial Planning is a useful resource not only for experienced CFP® professionals and other financial advisors, but also for undergraduate and graduate students enrolled in CFP Board Registered Programs, and those planning to take the CFP® exam.

LEARN MORE AND GET YOUR COPY TODAY

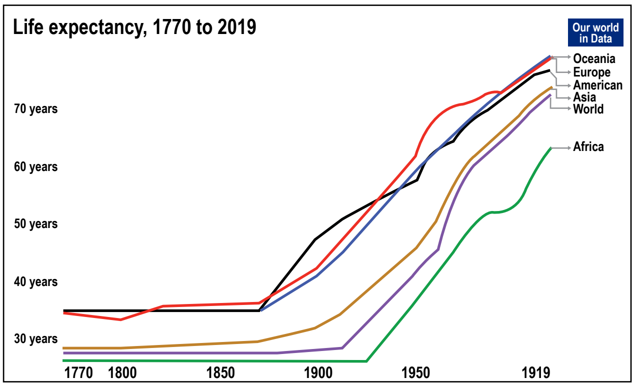
Planning for a life to 100 and beyond

Wynand Gouws, CFP®,
Weal Manager, Gradidge Mahura Investments, author of *Life to 100 and Beyond*

One of the key variables used in retirement planning is life expectancy of our clients and their spouses or partners. Financial planners may use their own estimates or use available data from the insurance industry. Life expectancy is probably one of the, if not the most important variable in the retirement planning process, ie if you are constructing a retirement plan with a life expectancy in the mid-80s, your retirement plan could be fundamentally flawed as the plan could underestimate life expectancy by 10 years or more. This can leave clients destitute in retirement.

Even though no-one can plan exactly how long they will live, as many things in our lives are outside our control, people are generally living longer today than before. This fact can be attributed to continued advancements in technology and innovations in the field of medical treatment.

Over the past century, global life expectancy has increased by more than 25 years and continues to increase. The dramatic increase in life expectancy can best be illustrated through the graph below left, illustrating the continued increase in life expectancy across the world. The



Source: *Our world in Data*

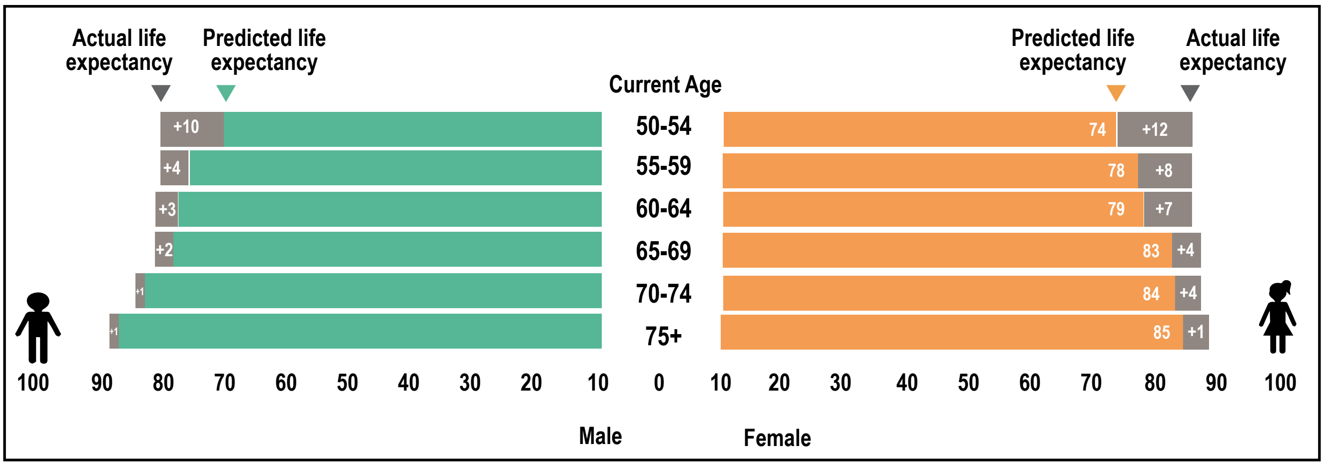
trajectory and continued increase in life expectancy is clearly evident.

The continued increase in life expectancy is captured in two recent statements. The first from the Stanford Centre on Longevity, "By the middle of this century, living to the age of 100 will become commonplace, continuing a remarkable trend that saw human life expectancies double between 1900 and 2000, increasing more in a single century than across all prior millennia of human evolution combined," and the second from Aubrey de Grey, Biomedical Gerontologist, "The first person to live to 150 has already been born". Even though these citations are from developed markets, this is a reality for the South African insured population, ie our clients.

Before we delve into the South African numbers, let's first reflect on clients' expectations. From consultations and discussions with clients, I am sure you have also experienced that most clients completely underestimate their life expectancy, ie they do not expect to live to 80, 90 or 100.

This is evidenced in research conducted by Just Retirement Life (South Africa) where clients before retirement underestimate their life expectancy by a staggering 10 years! The chart below shows what age people expect to live to, based on current awge. What is clear from the graph is that younger clients significantly underestimate their life expectancy. As clients grow older, they start realigning their expectations as they realise they may live significantly longer than they expected. Not appropriately accounting for these additional 10 years and longer could mean the difference between a long and comfortable retirement and retirees outliving their money.

From the available South African mortality statistics, it is important to develop retirement plans for living into the



Source: *Just Retirement Life (South Africa)*

Life expectancy	Male	Probability	Female	Probability 2	Joint Life expectancy
Currently 65	82	50%	87	50%	93
	89	25%	94	25%	
	95	10%	100	10%	
Currently 75	86	27		94	
Currently 85	91		72		96

Source: Just Retirement Life (South Africa)

90s and 100s. The following are the facts; a couple aged 65 has a high probability of living into the mid-90s and beyond, 35% of men are expected to live to 89 and beyond and 35% of woman are expected to live to 94 and beyond. This continued increase in life expectancy is profound and has or should have – a significant impact on how we think about life and retirement planning. It also challenges the conventional wisdom of developing a retirement plan for age 60 or 65.

We need to fundamentally rethink the traditional definition of retirement being a "line in the sand" and a retirement plan starting at 60 or 65. Increased life expectancy requires a reframing of the retirement conversation to a lifetime framework and understanding our clients' multiple chapters after the traditional and outdated "normal retirement age". It becomes increasingly important to change the conversation with clients to ensure we have a deep understanding of their lifetime plan, after 60.

A lifetime plan could include multiple chapters after 60. This could include continuing in full-time employment, part-time work or consulting, travelling and exploring, slowing down, medical care and/or frail care. Understanding clients' multiple life chapters after 60 allows developing a lifetime financial plan with multiple chapters to 100 and beyond. This can be very different to developing a traditional retirement plan for a client "retiring" at 65. The United Nations describes population ageing and increased longevity as a "human success story that gives us a reason to celebrate public health, medical advancements, economic and social development over diseases, injuries and early deaths that limited human life spans throughout history. Population ageing has been recognised as one of the four global demographic megatrends, next to population growth, international migration,

and urbanisation, which will all have a lasting impact on sustainable development". Financial planners need to have a deep understanding of not only life expectancy but also the significant advances we have seen and are likely to continue seeing in life expectancy.

If the reality has not hit home yet, you and your clients may live a lot longer than you and they planned for! Financial security starts with your Client's Life to 100 plan and should then be supported by a sound financial plan. ■

Article Credit : Financial Planning Institute of Southern Africa - Planning for a life to 100 and beyond.

A design thinking approach for financial planners:

A pathway towards holistic wellbeing

By Dr. Agna Fernandez, Associate Vice President, L&D, NSE Academy Ltd

A Holistic approach to financial planning necessitates an empathetic, creative, and an engaging approach. The environment around us makes us change our minds often about everything and everyone around us. In financial terms, the dynamic nature of the factors around us is defined as 'volatility'. However, there is a growing challenge to raise consciousness and assist clients to become aware of the problems and the behaviours leading to financial indecision and thereby to financial stress.

Educating clients is the first step towards unlocking their innate needs to be factored in for financial planning. Knowledge & Management of personal finances and coping with financial exigencies are integral to the wellbeing of an individual and the economy at large. It is here that financial knowledge aids better financial decisions, helping individuals participate in an ecosystem of financial products and services in a meaningful manner (Refer chart-1).

A truly engaging client relationship means having a gameplan to nurture clients in an ongoing way. Holistic approaches to financial planning are the need of the hour. For example, clients who must think of elderly care of their aging parents and the costs involved therein, as well as for saving for self for retirement will respond to solutions which see things more holistically. This article takes a design thinking approach towards financial planning and the nature of conversations advisors need to have with their clients, alongside suggesting few techniques to make it fruitful for both the parties.

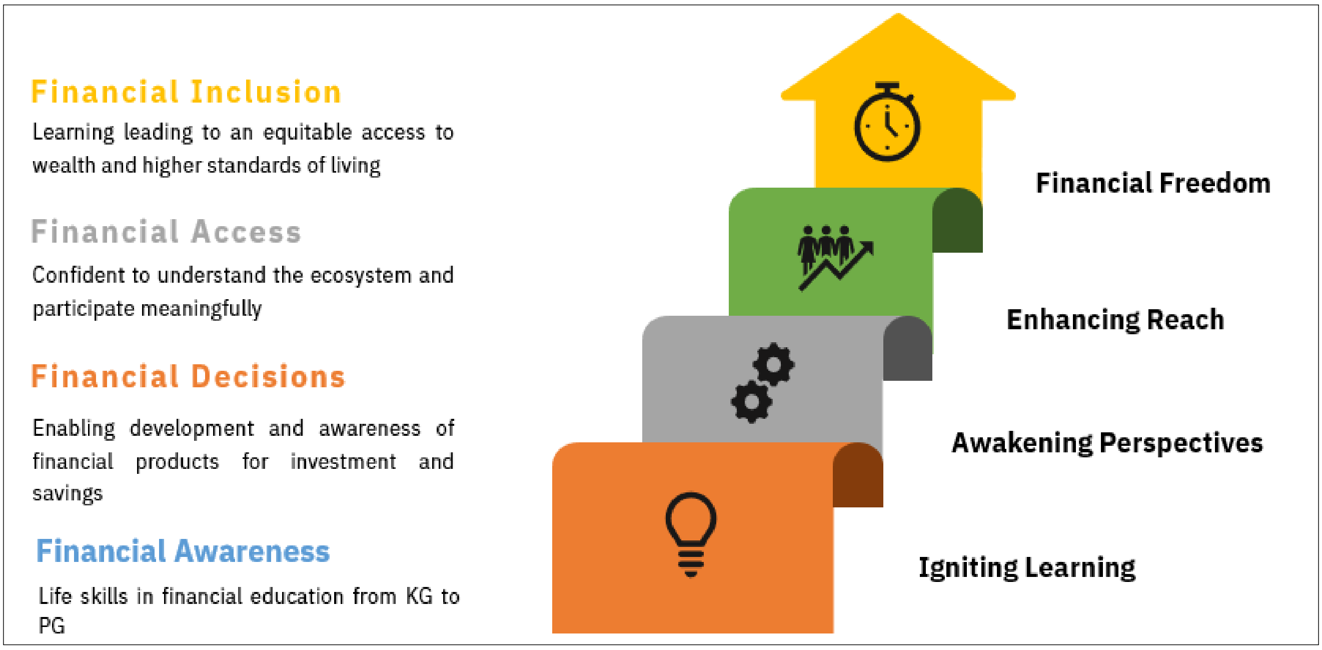


Chart-1

Source: NSE Academy Ltd.

Need for professional financial advisory services

Harnessing the expertise of financial advisors has resulted in improved readiness for retirement, higher financial assuredness, and increased sense of financial wellbeing (Azamian, Beck, Chiu & Timmerman, 2022). Professional training and experience has helped in the reduction of behavioural biases and such client accounts are more diversified in nature. Incorporating a few principles of design thinking viz., human centeredness, visualisation and prototyping can create an environment of confidence and meaning for the client.

Elements of design thinking in practice

Human centeredness helps in identifying underlying patterns of human behaviour, understanding a client's feelings, thoughts and attitude. It means seeing the world of the client from a different perspective and respecting the unique risk-based needs and lifestyle of the clients. While matching financial risk attitude to actual savings and investment behaviour activities advisors should refrain from encouraging return chasing behaviour with actively managed funds that have higher fees. Building trust and connecting with differences and real-life experiences will help clients achieve their financial goals.

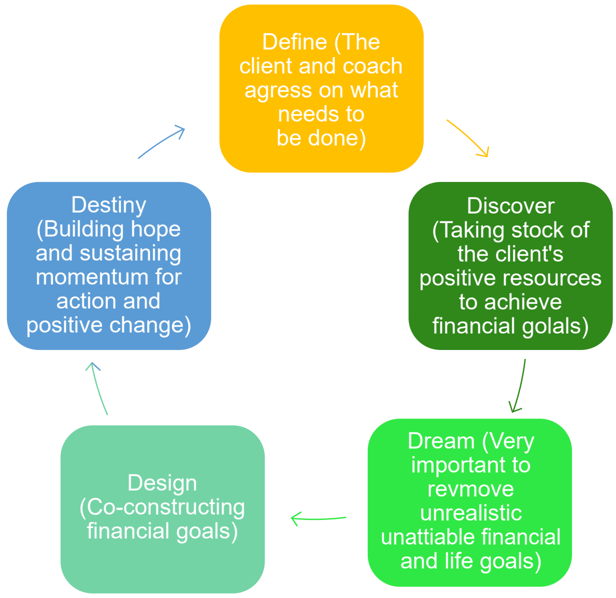
Let us evaluate the four most common money-associated emotions: security, power, love, and freedom (Goldberg & Lewis, 2000). The way money is managed by those who identify it with the associated emotion will determine whether it is managed thriftly, dynamically, or aggressively. For financial advisors this knowledge is critical to create client centric risk-based scenarios for evaluation and decision making. Let's take the instance of risk profiling.

The risk profiling exercise doesn't consider two factors a) the sociodemographic characteristics of the financial advisor and the quality of the relationship with his/her client; (b) the emotional significance that the investor attaches to money. A lot of research points out to the need for risk appetite to take into account the emotional significances attributed to money (Lippi, Lozza,Poli, Castiglionni, 2021). It is here that advisors in this realm can look at conversations from a therapeutic angle.

Financial therapy therefore helps to assess aspects of upbringing, money beliefs or relationship with money that is causing distress, sabotaging a client, or keeping them stuck. The New York Times published an article highlighting that successful financial therapists are part therapist and part financial advisors. Financial therapists can help combat fears and financially enable individuals.

Appreciative Inquiry in Financial Planning

Appreciative Inquiry (AI) is a generative process-wherein a client visualises, details, or formulates a new meaning or reality through a defined pattern of question and answers and then structures a way to get there. AI focuses on strengths by asking what will work for you? The five processes within AI integrated into a coaching framework and labelled as the 5D framework flows likewise:



Source: Adapted from Delgadillo, L. M., Palmer, L., & Goetz, J. (2016). A case study demonstrating the use of appreciative inquiry in a financial coaching program. Family and Consumer Sciences Research Journal, 45(2), 166-178.

By investing enough time with clients in the discovery and dream processes, clients will demonstrate a desire towards financial education and more enthusiastic to try out changes to external finances. An increased focus on external finances may lead to a degenerative discussion, where the emphasis could be on the issues and barriers faced by the client.

The art of visualisation

Financial coaching also requires an understanding of the meanings associated with financial practices of clients. Visualisation can be classified as an interior technique to identify a client's money scripts and record their money stories. Visualisation is a technique that can be used during a client engaging conversation to unearth issues which cannot be expressed verbally. Visualisation pushes the client beyond using words alone. Eg. In a piece of paper an animated character might represent the client, and then they could draw financially dependent people on the top right corner, visually represent financial investments, identify planned and unplanned investments through a circle etc.

Financial advisors cum coaches trained to read these visual images will recognize and fill significant gaps thrown up by the visual representation, thereby creating a truly client centric plan that encompasses three factors risk, time to risk relation (e.g. age) and volatility. Mind mapping another element of design thinking could be used to map Investments, future cash inflows, incomes, expenditures, and liabilities which could then be clustered in ways patterns emerge for laying out a plan. Varying scenarios and their outcomes can be tested using rapid prototyping another element of design thinking. This involves deep involvement by stakeholders through an iterative process of feedback, analysis, and reorganization of the portfolio with accompanying questions as:

- Does the model accomplish your financial goals – Is it need & scenario based?
- Did you experience stress on the outcomes of the model – Volatility on the expected return?
- Did you learn anything new from this model - Dynamic nature of risk and return?

The more skilled financial planners are in facilitating client's ability to articulate their fears, stories, values and dreams the more successful they can be. Financial planners should alternate between being therapists, coaches, mentors, and design specialists. Psychological factors significantly determine the decision making process (Herdjiono and Damanik 2016).

In the current era of information overload one can be easily influenced by various types of information. Financial knowledge and guidance can assist in sound financial decisions and risk mitigation. Design thinking comes in handy to unravel cognitive behaviours in the decision-making process, which can enhance the quality, confidence and meaning of advice presented to them for consideration. Financial wellbeing fosters overall wellbeing. Let's design it creatively. ■

Suggested readings:

Azamian, N., Beck, K., Hsin-Hui Chiu, & Timmerman, I. (2022). Do as i tell you, not as i do: financial advisors and personal financial decision-making. Financial Services Review, 30(1), 57–68.

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Goldberg, H., & Lewis, R. T. (2000). Money madness: The psychology of saving, spending, loving, and hating money. Wellness Institute

Herdjiono, I., & Damanik, L. A. (2016). Pengaruh financial attitude, financial knowledge, parental income terhadap financial management behavior. Manajemen Teori Dan Terapan, 9(3), 226–241

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Lippi, A., Lozza, E., Poli, F., & Castiglioni, C. (2021). How Does the Emotional Meaning Associated With Money and Financial Advisor's Characteristics Impact Investors' Risk-Taking? Journal of Neuroscience, Psychology, & Economics, 14(4), 207–221.

Our changing market place

On ESG Criteria, Digital Assets, and Digitalization

By Dennis Lau, CEO, IFPHK.

"In the last few years, the rise of various trends have impacted financial planners' practices. Environmental, Social and Governance (ESG) criteria are going full-steam, and digitalization is here to stay. In this issue, we look at what these trends are, what CFP professionals should know about them, and what the future holds," says IFPHK CEO Dennis Lau.

ESG Criteria

Broadly speaking, ESG criteria are the factors that entail responsible investing. More and more investors look at the environmental and social impact of potential investments, as well as the governance of the companies in which they wish to invest. Various standards have been developed for the reporting and benchmarking of xcompanies' ESG performance, which a lot of regulators around the world have made mandatory. ESG-related investments have blossomed, prompting investors to think about their investment ethos.

ESG Criteria and CFP Professionals

Taking ESG criteria into account is a cornerstone of the CFP professional's practices, as the best interest of clients is paramount, and is enshrined in the first principle of our Code of Ethics and Professional Responsibility. This principle provides crystal-clear guidance: "[a cting fairly, honestly, and professionally in the best interest of the client is a hallmark of professionalism, requiring the financial planning professional to act honestly and not place personal gain or advantage before the client's best interest.[1]"

Indeed, the global FPSB community has long placed the client-first principle at the fore. As early as 2017, the FPSB had raised the issue of the vulnerability of senior investors with the International Organization of Securities Commissions (IOSCO)[2]. In 2019, the FPSB also issued official guidance on working with vulnerable clients. The FPSB Guidance Practice Notes provide a general and practical, principles-based approach on how financial planning professionals should work with vulnerable clients. The Notes are based on best practices, and the understanding of the collective issues related to the financial exploitation of vulnerable individuals [3].

FPSB's Support of ESG Disclosure

In 2020, the FPSB and its affiliates in Europe responded to a Joint Consultation Paper Concerning ESG Disclosures of the European Supervisory Authorities. The FPSB confirmed its support of ESG disclosures that are straightforward, easy to understand, and consistent to help retail investors make informed decisions to fulfil their investment goals and sustainability outcomes, and to facilitate financial advisers meeting their regulatory obligations to integrate clients' ESG preferences into suitability assessments and investment recommendations[4].

Green Bonds in Hong Kong

Closely tied to the Environmental theme under the ESG umbrella are green bonds. Here in Hong Kong, the Government announced in February this year the launch of HK$6 billion-worth of inaugural retail green bonds under the Government Green Bond Programme for Hong Kong residents.

The 2022-2023 Budget also speaks to the importance of green and sustainable finance. In terms of caring for the environment, green finance goes to moving the country closer to the "2060 Target" with respect to carbon emission peak and carbon neutrality. It will also drive Hong Kong forward in our carbon neutrality goal for 2050, expediting the green transformation of our economy. In terms of promoting Hong Kong's position as an international financial centre, we can help connect international capital and quality green projects[5].

Regulators have geared up for ESG criteria and green finance to become the norm. Financial planners must therefore be ready for growth in this area and arm themselves with the necessary knowledge and skills.

Digital Assets

As has been highlighted in this issue's Cover Story, digital assets such as cryptocurrencies and non-fungible tokens (NFTs) have proliferated recently. Back in 2019, Bitwise conducted a survey which showed that 76% of financial advisors had clients who had asked about digital assets[6]. Therefore, understanding digital assets and knowing about the latest developments will definitely set financial planners apart. In the US, a study earlier this year went one step further and called for digital assets to be incorporated as part of the CFP examination curriculum[7].

This new asset class is often coupled with the tremendous range of technology that enables it. Over 40% of CFP professionals around the world already said last year that financial technology is the factor that will most likely have the greatest impact on how they will work with their clients over the next five years[8].

Key Regulatory Developments in Relation to Digital Assets in Hong Kong

In 2018, the SFC issued a Statement on Regulatory Framework for Virtual Asset Portfolio Managers, Fund Distributors, and Trading Platform Operators. This mandates that only professional investors as defined under the SFO should be allowed to invest in any virtual asset portfolios[9].

In the same year, the Financial Action Task Force revised its recommendations to require member jurisdictions to license or register virtual asset service providers, including cryptocurrency trading platform operators, and subject them to the anti-money laundering obligations for financial institutions.

A year later, the SFC published its Position Paper on Regulation of Virtual Asset Trading Platforms, and officially adopted its 2018 regulatory framework for cryptocurrency trading platforms, reaffirming the exception regarding professional investors. Many of the same regulatory requirements that already applied to traditional securities brokers and automated trading systems were made equally applicable to cryptocurrency trading platform operators[10].

In December 2020, the SFC granted the first license under a voluntary opt-in regime for platforms offering trading of securities-type virtual assets or tokens[11].

Latest Regulatory Updates in Hong Kong and Globally

On 12 January 2022, the HKMA released a discussion paper on cryptocurrencies and stablecoins that sheds light on the regulator's views, priorities, and proposals to expand the regulatory framework in Hong Kong. In particular, new legislation may be required for stablecoins, as some do not have a stored value facility, rendering them outside the existing regulatory regime [12].

On 28 January 2022, the SFC and HKMA issued a joint circular on intermediaries' virtual asset-related activities, which contain actionable items for compliance. The HKMA and IA also issued separate circulars on the same day to provide guidance on virtual assets and their related activities. For a brief summary, please refer to the segment on cryptocurrencies in this issue's Cover Story.

At its meeting on 9 March 2022, the IOSCO Board agreed to establish a Board-level Taskforce to spearhead the IOSCO's engagement on matters related to fintech, including cryptocurrencies. The new Task Force will replace the Fintech Network, of which the FPSB is a part. This indicates a major strategic shift in response to the magnitude of the regulatory challenges, and the need to ensure the IOSCO remains effective and responsive to the deepening challenges that fast-changing technology brings to financial markets.

Digital Badges

The IFPHK has not lagged behind in digital adaptation, and in mid-2021 we rolled out digital badges and e-certificates for CFP professionals, AFP professionals, and QRA holders to enable round-the-clock verification of their professional qualifications. Supported by blockchain technology, the digital badges and e-certificates provide an instant, mobile, and secure way to authenticate an individual's IFPHK status.[13]

Consistent with our principles of raising the professional standards of the financial planning industry, the IFPHK will revamp our e-learning platform to better suit the training needs of the industry. It is expected to be launched in the third quarter of this year.

eMPF Platform

In terms of digitization in the area of retirement planning, the long awaited eMPF platform will launch soon. Creating a one-stop electronic platform for MPF scheme members to manage their MPF accounts across various MPF schemes, the online and mobile eMPF platform offers users a wide range of real-time, secure, and paperless functionalities, such as accessing accounts, switching funds, and consolidating accounts. Employers and self-employed persons can make contributions through the platform, reducing paperwork, human error, and time spent through standardized and automated processes. The sequential transition of trustees begins in 2023, with the eMPF platform expected to come into full operation in 2025 at the earliest.[14] ■

Article Credit : IFPHK Publications - On ESG Criteria, Digital Assets and Digitalization

[1]Principle 1 of the IFPHK Code of Ethics and Professional Responsibility
[2]https://www.fpsb.org/news/global-financial-planning-community-sees-client-first-duty-care-best-way-protect-elders-seeking-financial-advice/
[3]https://www.fpsb.org/news/financial-planning-standards-board-issues-first-guidance-practice-note-support-financial-planners-working-vulnerable-clients/
[4]https://www.fpsb.org/position/fpsb-europes-response-to-esas-joint-consultation-paper-concerning-esg-disclosures/
[5]https://www.budget.gov.hk/2022/eng/budget27.html
[6]https://www.cfp.net/knowledge/industry-insights/2021/06/the-rise-of-digital-assets-understanding-this-emerging-asset-class
[7]https://www.riaintel.com/article/b1wjf36gw4v3mf/a-crypto-report-challenged-the-cfp-board-dont-bet-on-it-changing-anything
[8]https://www.investmentexecutive.com/news/industry-news/collaboration-with-clients-will-provide-greatest-financial-planning-value-fpsb-survey/
[9]https://www.sfc.hk/en/News-and-announcements/Policy-statements-and-announcements/Statement-on-regulatory-framework-for-virtual-asset-portfolios-managers
[10]https://www.sfc.hk/-/media/EN/files/ER/PDF/20191106-Position-Paper-and-Appendix-1-to-Position-Paper-Eng.pdf
[11]https://www.ia.org.hk/en/legislative_framework/circulars/reg_matters/files/Cir_dd_28.01.2022.pdf
[12]https://www.reedsmith.com/en/perspectives/2022/01/hong-kong-monetary-authority-on-cryptoassets-and-stablecoins
[13]https://www.facebook.com/official.ifphk/posts/3908633129258497
[14]https://www.mpfa.org.hk/en/empf/overview

Basics of Cryptocurrency

Rahul Bhurat, CA, CFP

The concept of money has changed significantly from ancient times to the modern era - from goods used in barter, to precious metals such as gold and silver, to modern day paper and electronic money. There is now a more recent entrant into the league of money - cryptocurrency.

What is cryptocurrency?

The modern-day paper and electronic currencies are issued and controlled by central banks. While this system has been in place since the 1700s, the global financial crisis of 2007-08 brought to fore a major anomaly, i.e., unlimited money printing by using monetary policies to stem a financial turbulence.

In a traditional banking environment, the banks and the clearing houses are tasked with the responsibility of completing the

transfers by verifying the authenticity of the payer and payee, ensuring that the payer has sufficient funds and updating the banking ledgers to avoid any duplicate transactions. The cryptocurrencies aim to solve these problems in their own way using the techniques of cryptography and distributed ledger on blockchain. To verify authenticity, cryptography uses advanced codes in order to transmit data securely to ensure that only those for whom the transaction is intended can receive, read, and process the data. This also ensures that the same balance of currency is not spent more than once (typically called a "double spending problem").

A distributed ledger in simple words literally means that the ledgers recording the transactions are decentralized and distributed among a wide variety of people across the globe and are not controlled by a central authority. Hence, it helps eliminate intermediaries by recording the transaction across different locations thereby making it extremely difficult to hack or manipulate the records. Reduction of various intermediaries results in another benefit - being fast and cheap. In most developed countries traditional methods such as card payments and cheques are still the dominant form of payments. Once the transaction is initiated, the money usually takes one to three business days to arrive. Further, the costs of using card payments are high i.e., 2%-4% of the transaction value. Cryptocurrencies aim to solve this problem by reducing the transfer time to a few minutes and the cost to negligible irrespective of the size of transaction.

Today, Bitcoin is one of the most popular cryptocurrency accounting for more than 40% of market capitalization of the entire cryptocurrency market. The supply of bitcoin through complex program coding is capped at 21 million coins i.e., there can never be more than 21 million bitcoins in circulation, whereas the central-bank-controlled currencies can be printed freely. We have seen this during 2021, when the central banks across major economies printed currency out of thin air, thereby causing the existing cash-in-hand to significantly lose value and inflation to skyrocket during 2022. Scarcity is one of the key benefits of bitcoin.

In our day-to-day life, we have seen that when something becomes popular and is adopted by a lot of people, more and more people start adopting that same thing making it even more popular. This is called the "network effect". Best examples are - Whatsapp or Facebook (Meta). Bitcoin is currently going through the same network effect - more people want to own bitcoin because bitcoin is owned by many people. Bitcoin is not the only cryptocurrency, however, due to its popularity, "cryptocurrency" and "bitcoin" will be used interchangeably in the remainder of the article.

What is the legal position across the globe?

Cryptocurrencies are still in nascent stage and majority of the lawmakers across the globe haven't clearly defined the legal position with respect to the use of cryptocurrencies for transaction or for investment as an asset. According to pro-cryptocurrency voices, banning cryptocurrency denies the people to invest in an alternative to capital markets, real estate, and gold in order to keep up with the increasing inflation and changing economic cycles. The dissent group argues that the value of these tokens is very volatile and can cause investors to lose money. Since the authorities cannot track the flow of money, it can be easily used for illicit activities. Making cryptocurrencies as a legal tender on par with respective local currencies encroaches on the central bank's authority of monopoly over money which is not likely to be given up.

As it currently stands, United Kingdom, Denmark, France, Germany, Iceland, Japan, Mexico, Spain, India etc., are some of the countries where there are some forms of positive regulations, thereby making trading and investment in cryptocurrencies legal. Other countries are in the process of developing legislation to do the same. Countries such as Algeria, Bangladesh, China, Egypt, Iraq, Morocco, Nepal, Qatar and Tunisia have absolute bans on cryptocurrencies. With more and more countries realizing that it is impossible to have an absolute ban, the trend is towards regularizing it as an asset class with sufficient safeguards. While, El Salvador and Central African Republic have made Bitcoin as a legal tender in their respective jurisdictions, other countries are far from taking this drastic step.

Other notable developments in this field include the following:

- Berkshire Hathaway bought $1 billion worth of stock in a digital bank focusing on cryptocurrencies.
- Financial giants such as Square and PayPal are making it easier to buy and sell cryptocurrency on their popular platforms, while companies, including Square, Tesla, Microstrategy, Marathon Digital Holdings, Nvidia. etc., have collectively invested hundreds of millions of dollars in Bitcoin and other digital assets.
- Bitcoin and Ethereum Futures Exchange Traded Funds (ETFs) are already operating in Canada, US and Europe and are providing an opportunity to traditional capital markets to gain exposure to Bitcoin and Ethereum without directly investing in those cryptocurrencies, thereby unlocking huge liquidity flows into crypto space.
- Newer products such as Non-Fungible Tokens (NFTs), Decentralized Finance (DeFi), Metaverse etc., have attracted hundreds and thousands of new investors in this space.
- Data analytics indicate that due to the significant drop in prices during 2022, HNWI across the globe are accumulating Bitcoins at an unprecedented rate.
- Until 2020, the holders of Bitcoin were usually limited to the developers, crypto VCs, tech-savvy retail investors, market makers and risk-on hedge funds owever, in the last couple of years some institutional players across the globe have taken some sort of exposure to crypto markets.

Bitcoin as a currency or a store of value? Argument of Bitcoin vs Gold?

There are various attributes of money defined by economists - acceptability, scarcity, divisibility, portability, durability, and resistance to counterfeiting. Analysis of bitcoin, gold and paper currency against these attributes is as follows:

Attributes	Bitcoin	Gold	Paper currency
Acceptability	Low - but increasing	High	High
Scarcity	High	Moderate	Low
Divisibility	High	Moderate	Moderate
Portability	High	Low	Moderate
Durability	High	High	Moderate
No counterfeiting / no double spending	High	Moderate	Moderate

As we can see from the above table, while paper currency is highly acceptable within a society given that it is issued by a sovereign authority, there remain risks relating to unlimited supply, divisibility, counterfeiting etc. Cryptocurrency comes close to satisfying almost all the attributes of currency except the fact that it is not issued by a sovereign authority and hence lacks acceptability among masses. A currency is useful only if it can maintain its value over time in comparison to goods and services in the economy to ensure stability. Until the cryptocurrencies' price volatility is stabilized, it is unlikely that these will be adopted as a legal tender for large retail transactions on a day-to-day basis.

Historically, precious metals including gold and silver were used as currency due to their acceptability and other inherent physical attributes, however, it was also cumbersome to carry large amounts of such metals. Paper currency was introduced as an improvement to this; however, it requires manufacturing and storage and is easy to counterfeit. The value of paper money was derived from the value of gold backing it. However, after removal of gold standards, the paper currency issued is not backed by any gold but only by the faith of the people in the economy.

Bitcoin as a store of value:

Store of value describes any asset that can maintain its value over time without depreciating, such as precious metals or some currencies. To understand this, we must ignore day to day volatility in the price of Bitcoin and take a long-term view. Bitcoin was introduced in 2009 when its price was less than US$1. Since then, the price has increased beyond US$60,000 in November 2021, and then has declined to almost one-fourth of it, US$16,833 as on November 15, 2022.

Being relatively new, bitcoin has seen significant increase in its price since inception, which is unlikely to occur in the future. Throughout most of bitcoin's history, speculation was the primary driver of Bitcoin's value. However, with the increase in adoption of this new asset among masses and higher acceptability as an investment class among large institutional investors, it is expected that volatility will reduce.

Asset	Total market capitalization (US$ billions)
Gold	10,798
Silver	1,076
Bitcoin	400
Total cryptocurrency market	987

(source: companiesmarketcap.com and tradingview.com)

The table above shows the total market capitalization of bitcoin and total cryptocurrency market versus gold and silver. While gold and silver are mature markets, bitcoin and other cryptocurrencies are beginning to attract funding from large institutional investors. Given that there is a significant gap between market caps of precious metals and bitcoin and while bitcoin may or may not surpass the market cap of gold, it certainly seems to have potential to multiply from its current market price thereby providing handsome returns to those institutional investors (assuming gold's price remains constant).

It is also worthwhile to note the fact that while there are billions of investors including central bankers holding gold on their balance sheet, there are less than 100 million separate account holders holding bitcoin (according to blockchain.com). This implies that there is significant scope for penetration and growth once positive regulations are enacted globally and a stable marketplace develops.

Investment in cryptocurrencies

Unlike real estate, gold or to an extent stock market, a cryptocurrency's value is not underpinned by any intrinsic value. It is a code backed by logic or a smart contract and hence the value is determined by only one thing: confidence. Confidence that there will still be demand even when the price keeps rising. A cryptocurrency's value is based purely on speculation which is very different to a company's stock where the share price will move depending on how the business performs. However, within the stock market the closest comparison of a cryptocurrency is to the new economy or tech stocks where the value of the asset is largely intangible and is based on expectations of future turnaround of the concept. It is important to recognize that there is not a complete regulatory framework in this area and hence, market participants use the psychology of FOMO (Fear Of Missing Out / greed) and fear. One should not invest in cryptocurrencies if the aim is to get rich quick. We might have heard stories that someone invested a few thousand dollars in a project and has become a millionaire in a couple of years. However, equally true and unknown are those stories where people have lost those thousands of dollars in a downward volatility.

While there is no clear rationale of the rise and fall in the prices of cryptocurrencies, it is important to note that most blockchain technology companies are in their early stages. Hence, investing in companies utilizing blockchain technology has the same risks as investing in a tech start-up. Like in any start-up, the risk-reward ratio is high. The key is identifying such projects at an early age by performing due diligence on the nature of the project, the problem it intends to solve, the team, tokenomics, token vesting schedules, partnerships, project timelines and public announcements. Owning some cryptocurrency can increase your portfolio's diversification since cryptocurrencies such as Bitcoin have historically shown almost no price correlation with the stock market. Bitcoin has had its own 4-year cycle (popularly called halving cycle where the mining rewards are nearly halved every 4 years).

From a financial planning perspective, any investment in such assets cannot and should not be linked to a life goal in your financial plan. Like traditional assets, it's best to treat cryptocurrency as a long-term investment to give you the best chance of making money and never invest more than you can afford to lose.

Cryptocurrency is one of the areas where people are strongly opinionated on whether one should invest or should stay away from investing in cryptocurrencies. Such opinions largely relate to one's bias and risk appetite - aggressive or passive. However, a successful investor or a portfolio manager would be the one to keep his/her bias aside and judge an investment purely on data. Example - one might dislike Apple phones or even Elon Musk, however, if the stocks of Apple or Tesla show strong fundamentals and are expected to rise significantly according to one's technical analysis, bias should be kept aside and suitable allocation should be made in the portfolio to increase portfolio value. Similarly, one might not expect to be invested in cryptocurrency space, however, if it helps to grow one's portfolio significantly within the overall portfolio risk (with proper research), and within the given timeframe, it would be too uncompetitive to ignore such an investment allocation.

What to look for in a Crypto exposure?

Cryptocurrencies are fast-paced, and it is important to keep oneself always updated. The cryptocurrency markets operate 24x7 for 365 days. Any news in |the world can have an impact on the market. Smart investors would do well to conduct the due diligence on liquidity of a crypto asset, the demand of its business, the crypto exchange involved and the credentials of account intermediaries. Some investors also develop the buy and sell strategies even before they enter t he trade. Such investors have a good deal of emotional detachment and remain nimble-footed. This market thrives on the human emotions of fear and greed. The ones who go beyond the fear and greed phases of the market, are the ones who truly multiply their crypto portfolio.

The questions to ask oneself before investing in cryptocurrencies are:

- Do I understand what I am investing in (have I done sufficient due diligence) and how bitcoin and the crypto market work?

- Am I happy with the level of risk compared to the overall portfolio risk?
- Am I happy to invest only a small amount of my disposable income and be prepared to lose?
- Do I know the fact that only a small number of cryptocurrency projects will ultimately flourish, and the rest will shut down?
- Am I reasonably careful to not fall into the traps of a third-party luring or promising a certain return on certain days (scams)?
- Do I make sure not to click on unknown links or share personal information elsewhere to ensure I don't fall into possibilities of cyberattacks, phishing, or theft?

While there are some very good advisors and portfolio managers who are active and provide specialized services in crypto space, most others do not have the required expertise and ethical conduct. There are scams and liquidity rug-pulls (refers to when large token holders create artificial demand by spiking prices, then new investors find saddled with those tokens when liquidity snaps). A genuine cryptocurrency financial advisor understands the nuances of cryptocurrencies and can help clients make informed decisions about whether this nascent asset class fits into their portfolio, and how it might ultimately help or hinder them from achieving their financial goals.

While there is a significant upside potential to investing in cryptocurrencies, there are also risks involved such as regulatory concerns, volatility, lack of basis to value these assets, lack of trusted investment vehicles and cyberattacks. ■

Disclaimer: The writer has investments in cryptocurrencies and manages a portfolio of cryptocurrencies on behalf of his clients. Please do your own research before investing in cryptocurrencies. The writer is a Chartered Accountant, Certified Financial Planner and holds a certificate in the application of blockchain technology from MIT.

Dilemma of property rich parents

By D.V. Suresh, CFP

Almost every home in India has a child or two settled out of hometown, either in a foreign land or in a city away from hometown. This opens up the challenges that the parents go through especially when they have properties or physical assets.

For most parents the investment avenues earlier were Fixed Deposits, Post Office Savings, Gold mostly in the form of jewellery and then the tempting investment in Real Estates namely, lands and buildings. Be it for value appreciation or for getting rental incomes many opted for Lands and Buildings. Some parents planned to sell these properties and use the proceeds either for children's higher education or for their marriages. However, in most cases the education and marriages are met with available resources and the need to sell the properties usually never came up, therefore continued to be held in its physical form.

With the passage of time, these properties have acquired values and continue to be held on with the hope that one day children will get back and take over and manage these properties. This has been the thinking of most parents.

Is anything wrong in this thinking? Is holding on to these properties a good choice? Or is expecting the children would return to look after your assets is wrong?

Not really. However, one must take a practical look at situations with an open mind. Parents have let children explore opportunities and have set them free to achieve their dreams and goals in their lives. Worldwide it's a rat race for survival, so children are going through all that is required to keep pace and survive in this world. Therefore, expecting them to return and look after properties is probably a thing of the past and not of the present generation. The new generation is intelligent, strong and capable of achieving and fulfilling their dreams. Definitely not undermining the respectful achievements of the parents.

In most cases the children of today are neither dependent on parents for money nor do they want anything to do with the properties back home in India.

The challenge here is how do parents manage these properties? And how do they intend to pass them on to their children?

Whether it is to buy a property or to sell a property, the hurdles one must face to get through with the documentations and settlements is no mean task. Facing these issues today when parents are alive is a challenge. Therefore, is it right on the part of parents to expect children to leave their jobs or get a break from their jobs to visit India or their hometowns, especially when parents are not around anymore? The very thought seems farfetched and impractical.

How can such situations be handled? By not worrying, by not bothering children and finally and most importantly by not complicating the succession.

Unlike, earlier times, the investment avenues are wider, and the financial assets are easily accessible and yield better tax efficient returns compared to rental incomes. Not to mention the hassles of collecting the rent, paying tax on rental incomes and the hassles of repairs and maintenance in addition to payment of property taxes. One would probably end up getting less than 2% as rental returns on an average depending on the location of the property.

AVERAGE RENTAL YIELDS (%)	
City	Average Rental Yields (%)
Delhi	2.47%
Mumbai	2.55%
Bangalore	3.80%
Pune	2.67%
Chennai	2.81%
Kolkata	3.73%
Hyderabad	3.84%
Source: Magic Bricks	

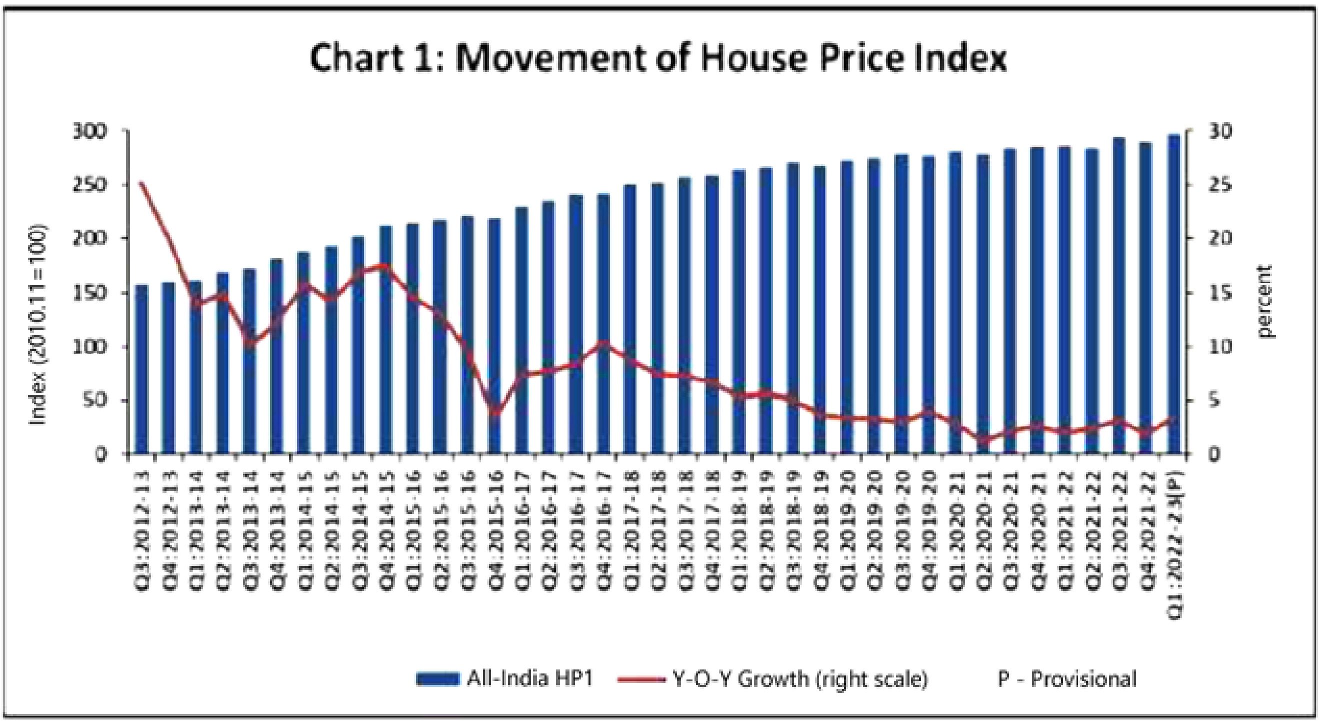
This chart highlights the low rental values as percentage returns on investment value of the properties. These figures are gross and we have to deduct the respective annual property taxes and repairs and maintenance costs if any, which eventually reduces the rental yields.

This chart highlights the low rental values as percentage returns on investment value of the properties. These figures are gross and we have to deduct the respective annual property taxes and repairs and maintenance costs if any, which eventually reduces the rental yields.

Further, the Reserve Bank of India in its August 2022 press release All India HPI recorded an annual growth (y-o-y) of 3.5 per cent in Q1:2022-23 as compared to 1.8 per cent in the previous quarter and 2.0 per cent a year ago; the y-o-y movements in HPI varied widely across the cities - ranging from a growth of 16.0 per cent (Kolkata) to a contraction of 4.0 per cent (Bengaluru).

On a sequential (q-o-q) basis, all India HPI increased by 2.2 per cent in Q1: 2022-23; while Delhi, Kolkata, and Jaipur recorded sequential contraction in the index, it rose for the remaining cities.

A closer look at the below chart clearly indicates the fall in the growth rates of property prices. Under these circumstances, it becomes important to consider better options rather than holding benefit of converting physical properties into financial assets especially for those looking for rental incomes:



on to real estate as a long-term investment.

Generally, physical properties are bought and held for longer times. Similarly, one must hold on to financial assets also for long term. Not only one can enjoy the fruits of the investments but also the valuation growth of the financial investments.

There are many instances of persons who are property rich and cash poor. There are many people depending on rental incomes from properties. The rental yields are very poor for the capital invested or for the value the property carries. Many face cash crunch even for their regular living. There are instances of parents depending on remittances from children for their survival, while they are sitting on illiquid properties which are very high in values.

Here is an effort to showcase the There are many financial assets which can yield between 8% to 12% when held for long term under guidance of financial professionals.

Another option for older couples, without children, having a single property and looking for regular income is to look judiciously at the option of Reverse Mortgage offered by some banks.

For those looking to buy properties for transferring to their children, it should be done in a way that they enjoy the fruits while alive and allow the property to remain in financial asset form and have them move into the hands of the children smoothly through a proper succession plan.

One may also be compelled to ask about risk in financial assets. Yes, the markets are always volatile. But the

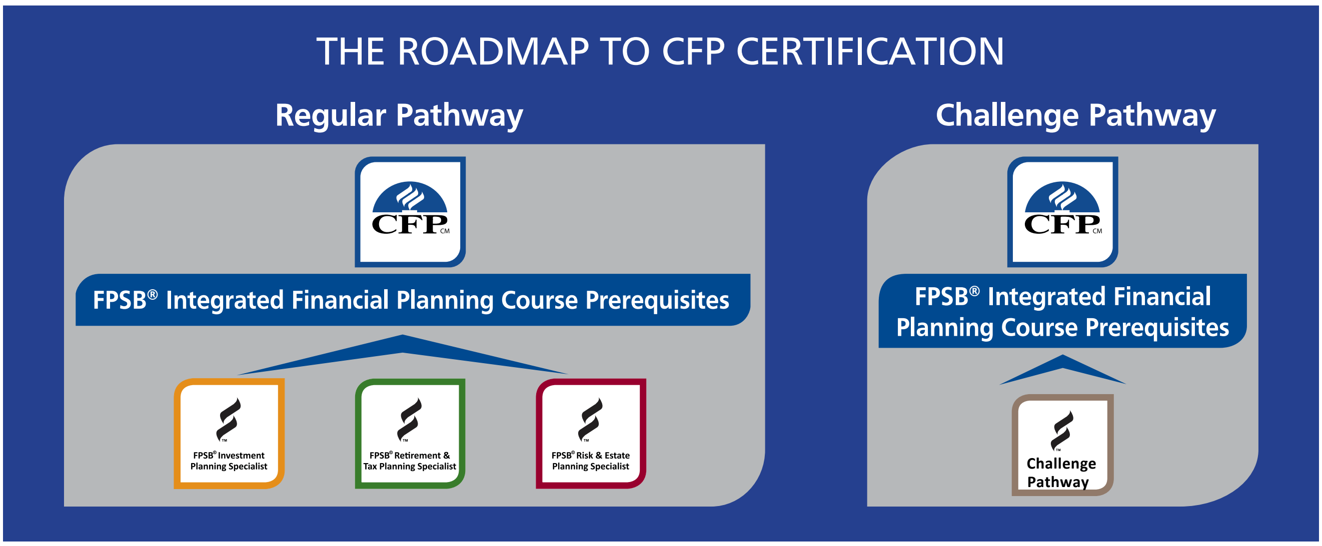
	Property	Fixed Deposit	Financial Asset*
Investment	₹ 1,00,00,000	₹ 1,00,00,000	₹ 1,00,00,000
Yearly Income			
Rentals @ ₹ 20000/pm	₹ 2,40,000	₹ -	₹ -
Interest Income @ 6%	₹ -	₹ 6,00,000	₹ -
Annual Withdrawal @ ₹ 50000 per month	₹ -	₹ -	₹ 6,00,000
Tax Exemption Limit	₹ -	₹ -	₹ 1,00,000
Taxable Income	₹ 2,40,000	₹ 6,00,000	₹ 44,444
Tax on Income @ 20%	₹ 48,000	₹ 1,20,000	NIL**
Net in Hand	₹ 1,92,000	₹ 4,80,000	₹ 6,00,000
Investment Appreciation	Yes	No	Yes

**For Calculation purposes the Financial Investment return is taken at a moderate 8% assuming investment is done in Mutual Funds. The withdrawals are monthly, and the Taxable Income shown is the growth component which is taxable. **Since the taxable income is less than the exemption limit under capital gains the Tax on Income is shown as NIL.*

volatility can be seen across all the asset classes. You don't go and sell if the gold prices fall, because you have the faith that gold prices will go up if held on. You don't go and sell properties because you know the prices will recover one day and you hang on to it. Just apply the same logic for financial assets too and one will never regret. Holding on to financial assets with a proper planning will ensure growth irrespective of market volatilities.

Thus, would it not make more sense to convert these physical assets into financial assets? Enjoy the tax efficient regular income from these investments unlike in Rentals or Fixed Deposits, and finally distribute among children or successors with ease and utmost transparency through simple nomination backed by a proper WILL. This is to ensure that family members do not get into litigations for the sake of improper planning by the parents. ■

The author is a CFP Professional and AMFI registered MFD, and a Member of the CFP Professional Advisory Council in India.



CFP CM

National Institute of Securities Markets (NISM), has renewed accreditation of FPSB Ltd.'s CERTIFIED FINANCIAL PLANNER certification


NiSM

National Institute of Securities Markets

(An Educational Initiative of SEBI)

Certificate of Accreditation

The Certified Financial Planner awarded by Financial Planning Standards Board Ltd. (FPSB Ltd.) has been accredited by NISM for a period of 2 years with effect from March 1, 2022, under Regulation 7(2) of Securities and Exchange Board of India (Investment Advisers) Regulations, 2013.

Date : 01-03-2022
Place : Mumbai

Dr. C K G Nair
Director

Press release

Our shared wisdom

Goal-based investing approach: is it a post-pandemic new norm?

By Ron Miura, CFP

Since the beginning of the year 2022, the stock market has been in a market turmoil due to political conflict between Ukraine and Russia, as well as rising price of oil, energy, and commodities. Likewise, the world is facing the mid to high single digit inflation, i.e., >8% in the US, >5% in Singapore, >7% in Thailand and slower economic growth compared to the past few years. The traditional investment portfolio which has consisted of both bond and equity does not hedge against this recent hyperinflation. It means the traditional investment portfolio has failed to diversify their investment and lose their value of money. Short-term market turmoil would tend to discourage clients to stay invested in the longer terms and it would make some clients worry and rush to sell assets due to their fearful emotion. It's no surprise some clients fail to plan for their financial goals. Clients' emotions would make clients judge the market prematurely and derail clients' multiple financial goals even though clients fully understand the basic principles of investment theoretically which means "investment time horizon should be as long as possible".

Recently the new investment concept: "goal-based investing approach" is emerging. What is the definition of goal-based investing approach?

According to Investopedia, "goal-based investing involves a wealth manager or investment firm's clients measuring their progress towards specific life goals, such as saving for children's education or building a retirement nest-egg, rather than focusing on generating the highest possible portfolio return or beating the market".

Why does goal-based investing matter to clients? Goal-based investing approach can empower clients to make commitment to their multiple life goals. Clients' typical financial goals include university funding costs, retirement planning as well as residential property purchasing planning. Furthermore, some of the high-net-worth individuals might include wealth succession planning as well as overseas tax optimization planning. As clients' family members migrate into the high-taxed jurisdictions for study and/or working, their life goal planning usually goes beyond Singapore. Clients have invested in both movable and immovable assets in other English-speaking countries which is deemed as high-taxed jurisdictions.

Especially CERTIFIED FINANCIAL PLANNERS™ and clients – they need to pay additional attention to inheritance tax when clients implement wealth succession planning overseas. CFP® professionals need to uncover clients' multiple needs and goals to align with clients' overall wealth management strategy. Even though clients are facing capital market uncertainty now, they do not have to beat the stock index benchmark in the short term. Achieving clients' life goals in the long run is paramount.

Clearer multiple financial goals can help clients to find the appropriate investment strategy. Usually, university funding costs take relatively long-time horizon, i.e. 10 to 15 years, whereas retirement planning takes a much longer horizon, i.e. 20 years to 30 years. Although CFP® professionals need to refer to clients' level of risk tolerance according to the regulatory requirements, value at risk should also be considered to understand what level of temporary investment loss that clients can accept. Once clients' multiple financial goals are understood, CFP® professionals can start constructing the systematic investment strategy and determine the allocation of asset class, i.e. equity, gold, cash, bond and other private markets. To purchase the property, clients must set aside for the down-payment fund. Therefore, the investment strategy requires shorter time horizon i.e. around 5 years and asset allocation needs to be focused on more liquid assets.

Investing in the longer time horizon is the key for successful investing. That's because the longer the time horizon, the higher the probability of investment success. It is feasible for investors to invest regularly in the diversified investment portfolio in the longer term. Sometimes, rebalancing the investment portfolio is needed based on capital market sentiments and change of clients' life event. This systematic dollar-cost-averaging can reduce impulsive decision-making and achieve higher return of investment in the long run. It does not matter when clients start investing, and time in the market is the key instead of not timing the market.

To summarize, CFP® professionals and clients need to adapt to the goal-based investing approach, and this should be the new norm especially during this market volatility period.

Although people tend to focus on and worry about short-term investment performance and market news, CFP® professionals must stick to the original multiple financial goals and empower clients to focus on them. That's because this short-term emotional disruption might derail what is most important to clients.

It is "to achieve clients' multiple financial goals and objectives in the right timeframe".

How does the goal-based investing approach work well for clients?

Clients need to know approximately the investment purposes, time horizon, and amount of money that they need to accumulate and/or preserve. Staying invested in the longer time horizon of at least 10 years would be the key for successful investment strategy. The longer the time horizon they have, the better return of investment they can achieve amid the short-term market volatility. Consistency in investment can be achievable to control emotional anxiety and improve holistic process of investment success. Indeed, most of clients' irrational investment decision tend to arise from emotional behaviour. If clients need to receive any goal-based and holistic financial advice, clients can feel free to contact any CERTIFIED FINANCIAL PLANNERS™. ■

Article credit: FPAS Publications Singapore - 'Goal-based investing approach: is it a post-pandemic new norm?'

How are actively managed funds better than Index funds?

By Taresh Bhatia, CFP

You may be a first-time investor or trying to be a savvy, intelligent investor, but you need to know where to start. You may be trying out various knowledge portals and articles or getting trained for the basics of such investing. Would you like to DIY or rather take the help of a professional qualified, experienced investment advisor by paying a fee and getting the right direction? If you are looking for such guidance, this article is for you.

Index funds track a particular index like NIFTY 50 or SENSEX. Their investing is known as passive investing, as the investor does not actively have to pick stocks from the market. As a definition, an index fund is an investment that aims to track a market index only and aims to track the returns of a market index only.

Index funds, most of the time, seek market-average returns. This is opposite to the active mutual funds, which try to outperform the market returns. Active mutual funds appear to have higher fees than index funds. Index fund performances are relatively predictable over time; active mutual fund performance, on the other hand, tends to be much less predictable.

While indexes may appear low-cost and diversified, they tend to prevent seizing opportunities elsewhere. Furthermore, indexes do not provide an investor with any option of protection from market corrections; or market crashes; in situations when an investor has significant investments in index funds. The strategy of index funds is to create a portfolio around a stock index, benchmark, or market average.

Merits of investing in active funds

Investing in actively managed funds in India is much more worthwhile. When an investor invests in a large-cap index fund like Nifty 50/100, the mandate would only be restricted to these investment areas. The index fund would only and only mimic that index. While Index funds may offer good exposure to large caps, fewer indices provide exposure to mid and small caps and small, medium, and multi-cap actively managed funds might have performed much better than the index funds.

In an actively managed multi-cap fund, the fund manager decides how much % to put in which category - small or mid or large - depending on the allocation, based on his wisdom, experience, and active participation. This gives the investor an exposure of a much broader market rather than being restricted to a smaller market.

An actively managed fund would keep about 25-35% in cash, to use in the right opportunity and in the right stocks. So, if the market seems expensive, the fund manager would invest less, keep more in cash, and then invest when the falling market gives him a better opportunity. In an index fund, even if the market is expensive, the fund manager must continue investing and copy that index!

As index funds are not actively managed and most indices are market weighted, a good performing stock may get higher weightage in the index.

If a multi-cap fund manager (which is an actively managed fund) finds that a small cap stock is expensive, he will perhaps invest in a large cap stock; value investing, therefore, playing an important role. In an Index fund, this is actively decided, dynamically, by the investor – whether to invest in a small-cap or a large-cap index fund. Additionally, which companies come up in Nifty 50, BSE Sensex, or SmallCap depends on the companies' performance and value companies might not get selected in this process.

Moreover, an investor with an aggressive risk tolerance having a goal-based investment of 10 years should invest in a small or mid-cap mutual fund, as these funds offer a better return on a long horizon.

As index funds are not actively managed and most indices are market weighted, a good performing stock may get higher weightage in the index. This leads to dependency of the fund on that stock's performance. In the event of its stock price nosediving, returns from the index will also fall. As actively managed mutual funds are more diversified, they cushion the risks. This way an investor's risk increases in an index fund.

Conclusion: If you are starting as a first-time investor, you need to understand how Index funds work. If you can take professional help and then invest in, say, the direct option of mutual funds, you may be better off in many ways. For example, those investors moving from bank fixed deposits could graduate to start investing in index funds, being (so-called) less risky than actively managed mutual funds. The rest seeking wealth creation or goal-based investing should consider multi-cap funds. To get a great start, take the assistance of a financial planner first to make your financial plan - based on your goal's time-based risk appetite. ■

Taresh Bhatia, CFP, is the author of the book, The Richness Principles, and he can be reached at taresh@taresh.in.

Home buying decision and financial planners' value add

By Viresh Patel, CFP

If you are looking to buy or upgrade your home or have recently bought a home, especially if you were the decision maker, you will connect to this best. And trust me, this is much beyond Rent vs Buy.

Have you experienced and/or heard the following ever on home buying?

"I do not have confidence on negotiation skills with builder"

"Arrangement of funds is difficult,

especially when I have one loan already going on current home"

"I am not sure if this is the right market time to buy real estate"

"I have HRA going and home loan. Should I buy another home in my wife's name?"

"I want to have a second home and keep earning rent from the same as second income. Question is where should I buy it?"

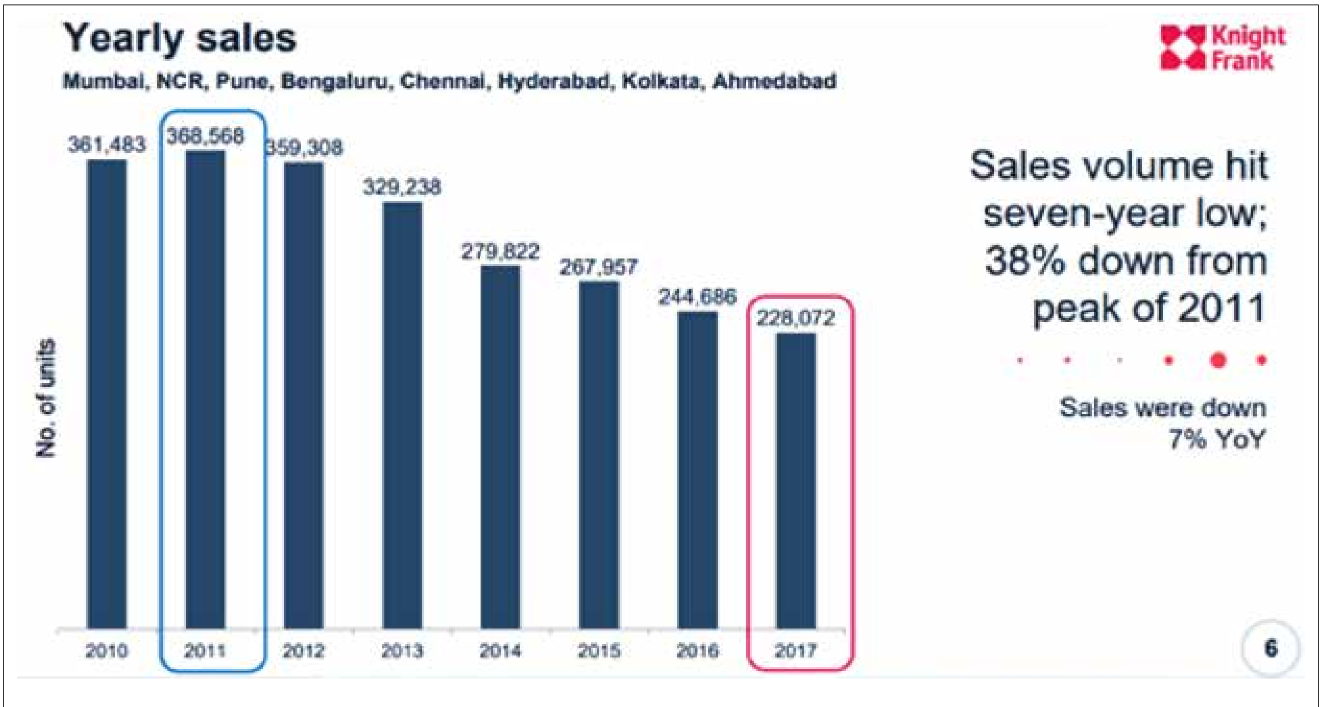
"I live in Australia, and some day intend to come back and settle in India. Should I buy home now or when I am actually near to settling here?"

The Real Estate background in recent years

Let us go back first to understand home buyers' buying trend from 2010 to 2017, to understand the last 2-and-a-half-year demand and the way forward.

Knight Frank home / residential Indian buyers survey report after 2nd half of 2017, reflected good insights about sales - in other words home buying decision from consumers' perspective.

The below chart helps us understand that sales were down 7% YoY as on H2 2017 and that sales volume hit seven years low - 38% down from its 2011 peak.

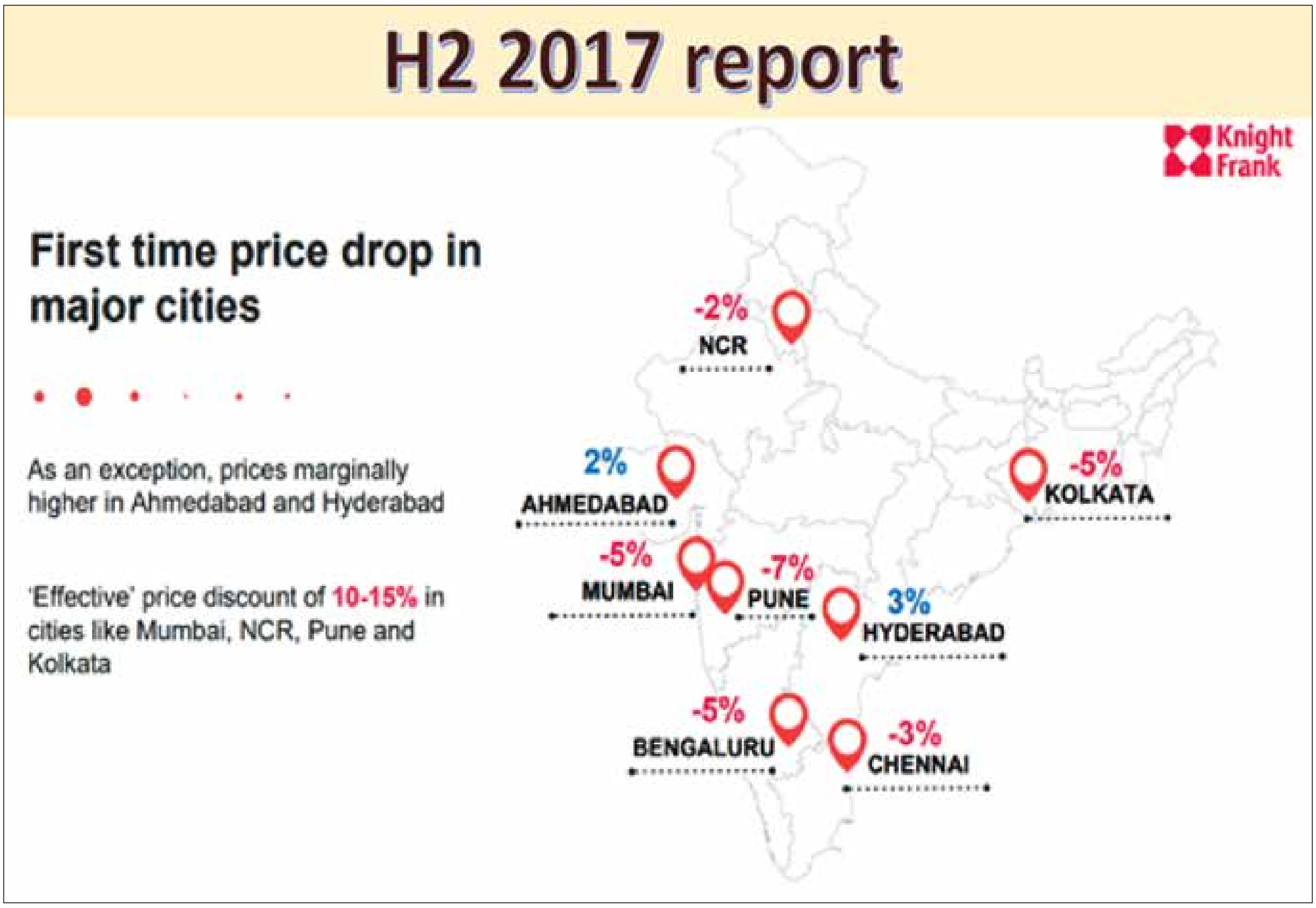


"We intend to buy bigger home in 3 years. How can we prepare for the same?"

I am sure you have come across such queries and many similar situations. Family's go through many more such real life situations which has direct and indirect impact on home buying decisions.

The demand was so low that the rates went down, except in Ahmedabad and Hyderabad. (refer pic. below)

Post-covid, the sales increased and again Knight Frank survey reflects the sentiment of families - to have space for every family member.



Indian Buyer Survey- 2021

FIG 4. **TOP FACTORS INFLUENCING PURCHASE OF A NEW HOME**

Rank	Global Indian Segment	Mainstream Indian Segment
Rank 1	Upgrading family's primary residence	Upgrading family's primary residence
Rank 2	A new holiday home	Increase in size of family
Rank 3	Moving permanently to a new country / territory	A new holiday home

Source: Knight Frank Research

The factors affecting home buying decision were well reflected in Knight Frank Indian Buyer survey, 2021, as the chart shows.

It was covid time, when most affected directly or indirectly, felt need for space for 4 primary reasons:

A_ Healthcare space

B_ Work from home space

C_ Freelancing, which got noticed and identification and demand increased, by outsourcing work.

D_ Employee or work culture movements. Moving from urban to village or vice versa and doing same work or moving from one state or country to another for work.

E_ Low interest rates, low property

rates and higher liquidity in some income sections, especially one who were positively affected by the pandemic.

All this affected need for home and that lead to increase in demand.

Now let us look at some of the challenges described by home buyers in a survey -

A_ Finding Trustworthy Builder/ Building

B_ Arrangement of funds

C_ Own Cash flow position that drives Rent vs Buy Decision

D_ New vs Resale (keeping eye on Budget) and 1 BHK, 2 BHK or JODI flat

E_ Every flat and/or project had some positives and some negatives- How to evaluate for right one?

F_ How to Negotiate with builder, once property is zeroed down

G_ Selling existing flat

H_ Uncertainty of regular income, how to confidently take that decision

I_ Tax and compliance implications

J_ Loan- How much?, what terms, which type and maintaining proportion

Value-add Financial Planners can offer to help decide on home buying.

1_ Clarity on their own Situation and helping them set life need priorities – 360 degree view (may have to build multiple scenarios inculcating Rent vs Buy vs Invest vs current home sell and not sell, with tax and cashflow aspects inculcated, and most important, if this is for self consumption then also include those comfort, space and environment with lifestyle aspect.- Very tough conversation to have, especially when there are varied and opposite views within family members. This is first step which helps decide, whether to buy or not , especially now or in some future time or life stage and if now then list down points on most important, and not so important while evaluating or looking for home.

Sample first statement – Clarity As good as a statement to broker or builder as saying " I am looking for 530 sq.ft home with basic to posh amenities and possession in 6 months to a year is fine in and around Malad/Goregaon east and the ideal project to be not SRA project "

Please note, real estate industry always asks budget first and you as buyer are looking to buy for usable area. So talking in sq. ft. terms will give them right perspective and they further confuse as "OK so we have ____ or you are looking for this______". It is buyer who has to remain internally clear on how many BHK you are looking for, and keep focus on usable sq. ft.

2_ Filtration and standardization process on choosing builder and building involving 2 aspects:

A- Builder and Building

B-Evaluating pros and cons and focusing on non-compromizable family needs, including budget range.

Often because of need of amenities, space is compromised which actually was the primary reason to buy new home.

Here a financial planner's experience and knowledge into real estate helps find answers and differentiate the suitable building or flat amongst the available options.

3_ Make clients aware of the process application, pros and cons and how to apply the filter and standardization process and to remain on the same page always within the family.

At times there could be differences on:

_which home buying aspect to give more weightage

_which property to give weightage

_which family member's concerns and points to give weightage to

This is where a neutrally designed weightage process of filtering and standardization helps, to remain focused on what is most important, what is next and what is least.

During the conversation list down all the points and factors that the family feels to consider while buying home and then with discussion provide weightages to each point as per level of importance.

The above 3 steps will give focus and points of negotiation in terms of what to look for.

4_ Cash flow management and arrangement of funds. Funds are core, but only important after the above 3 processes are thoroughly done. There could be lack of funds, or even excess funds and what to use, and when. If it is selling current house and buying bigger home, the fund arrangement and cash flow planning need is different and if it is new buy with loan then the planning is totally different. Planning of cash flow and arrangement also differs if it is ready to move in or ready possession and under construction. These are totally different scenarios.

5- One point of contact for every query - Satellite and consolidated view on all those aspects at every given point in time, be it legal, tax, property agent or builder, Investment management, loan advisor, society rules and RERA applicabilities, all of them must talk to each other and one decision is directly or indirectly impacting other.

In one such case, after all the evaluations were done and presented, the client decided not to sell the house and stay in same house rather than shifting and paying rent which became possible because they got consolidated and satellite view of every aspect and scenarios.

6- Remain available when it comes to actual execution and handling the situation with focus on what is suitable and more importantly getting it done, being available when the family needs.

With the above steps most of the reservations or queries gets clarified.

Buying a house is a dream of every family member but there is one decision maker and call taker who must take up the responsibility. That decision maker needs a holding hand, and that hand could be yours, the financial planner. It is financial planners' job to walk this journey and provide utmost clarity, confidence and focus to help the client realize his dream of buying a house. ■

CPD Quiz for Journal of Financial Planning in India

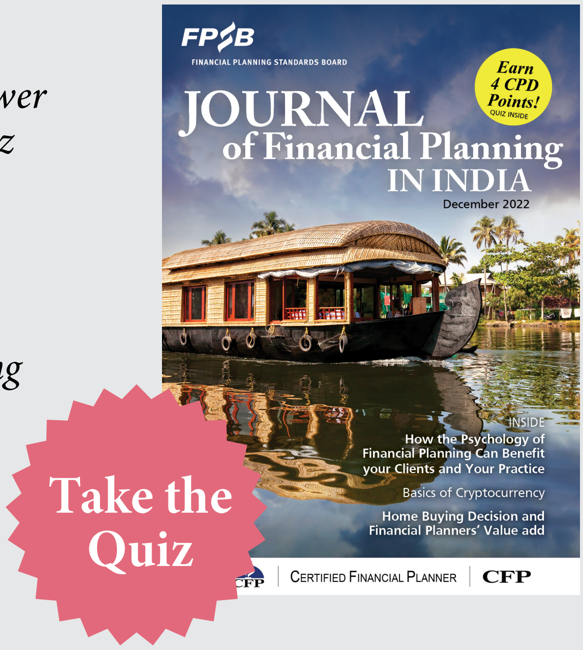
(December 2022 Issue)

Welcome to the CPD quiz!

This quiz is 8 questions long, and you need to answer 6 out of 8 correctly to earn 4 CPD points. Your quiz results will be displayed after you complete all the questions.

Current CFP Professionals are suggested to take the CPD Quiz by logging to their MyFPSBLearning portal for online credit of CPD points.

Good luck!



A design thinking approach for financial planners: A pathway towards holistic wellbeing

1. While debating the common money-associated emotions, the author opines that client's risk-profiling exercise does not consider factor/s such as:

a. the sociodemographic characteristics of the financial advisor
b. the emotional significance that the client attaches to money
c. a credible social security system
d. only (a) and (b) above

Dilemma of property rich parents

2. The author's premise of acquiring financial assets rather than physical assets is based on which of his financial arguments?

a. Tax-efficient periodic income
b. Transfer to successors with ease and transparency
c. Long-term holding leading to capital appreciation
d. All the above

On ESG Criteria, Digital Assets, and Digitalization

3. In view of the author, ESG-related investments have been increasing globally over the years because:

a. more and more investors are now conscious of the environmental and social impact of their investments
b. there is a potential of higher return in such investments
c. higher checks and balances by the Regulators in such investments
d. opportunity to invest in global markets through such investments

Goal-based investing approach: is it a post-pandemic new norm?

4. The author believes that for every client the key to successful investing is ______.

a. rebalancing of the investment portfolio
b. a long-time horizon of investments
c. goal-based investing
d. diversification of investments

Planning for a life to 100 and beyond

5. The author is concerned that if the financial planners do not consider the increased human life expectancy in their planning, their clients run the risk of __________.

a. outliving the money in retirement years
b. not leaving behind a sizeable estate
c. higher spending due to inflation
d erosion in savings

How are actively managed funds better than Index funds?

6. The author's argument of investment in active-managed funds rather than Index funds is based on which one of the following premises?

a. Active fund performances are more predictable over time in comparison to Index funds
b. Active funds charge lower fee than Index funds
c. Active funds try to outperform the market while Index funds seek market-average returns
d. Active funds are less diversified than Index funds

Basics of Cryptocurrency

7. The author opines that the most crucial reason why cryptocurrencies lack acceptability amongst the masses is that ___

a. they are not tangible like paper currency
b. they are not issued by a sovereign authority
c. they fluctuate in value
d. there is limited supply of cryptocurrency

How the psychology of financial planning can benefit your clients and your practice

8. The book 'The Psychology of Financial Planning' recommends that financial planners must incorporate the psychology of financial planning in their practice as it will:

a. equip them with the skillset to build and deepen relationships with clients
b. help in understanding client's mindset and emotional behavior leading to better communication
c. help understand their own attitudes, values, and biases
d. all the above

For other options to earn your CPD points, visit the CPD page on india.fpsb.org.

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