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Message from FPSB CEO Dante De Gori, CFP®

Dear CFP professionals,

I hope you have been enjoying a successful and productive first half of 2023.

Celebrating 20 years of CFP certification in India

We celebrate a significant milestone in India this year – the 20-year anniversary of certifying the first CERTIFIED FINANCIAL PLANNER professionals in your country. I'd like to acknowledge and thank Arpit Agarwal, CFP®; Anil Chopra, CFP®; Hitangshu Debnath, CFP®; Suraj Kaeley, CFP®; Ajay Kakar, CFP®; Dharendra Kumar, CFP®; Anurag Madan, CFP®; Naresh Pachisia, CFP®; Rajesh Pachisia, CFP® and Devang M Shah, CFP® for your commitment to professionalism by achieving CFP certification, the global symbol of excellence in financial planning. By becoming the first CFP professionals in India, these pioneers laid the foundation for instilling trust and confidence in the financial planning process for the benefit of consumers and financial planning professionals in your country.

The value of CFP certification continues to rise, and the number of CFP professionals reached an all-time high of 2,517 in India and 213,002 worldwide at the end of last year. Our growing CFP professional community in India and across the globe means more people will have access to financial planning from those who have committed to rigorous standards of competency, ethics and practice. With economic uncertainty and the rising costs of living impacting so many, increased access to financial planning advice is of utmost importance to help individuals and families reach their goals and achieve financial well-being.

Updates to global standards for financial planning

On a global front, I'm pleased to share that in April this year FPSB released updates to its Global Financial Planning Standards. FPSB is committed to upholding and promoting worldwide professional standards in financial planning by continually reviewing and evolving the global standards to remain relevant and reflect changing needs and expectations of consumers, as well as the evolution in the practice of financial planning. You can read more about the updated standards on page 4.



New consumer research on financial planning coming soon

Looking ahead, we will be sharing results from the new FPSB Value of Financial Planning Consumer Study in the coming months. This survey is gathering insights on public values, attitudes and behaviors towards financial planning and awareness of financial planning and CFP certification to identify consumer interests, needs and motivations. These research findings will support our awareness-building efforts of the value of financial planning and the value of CFP certification both in India and worldwide and through our annual awareness campaigns like Global Money Week and World Financial Planning Day.

In closing, I hope you enjoy this edition of the Journal and thank you for being a part of our global CFP professional community as we work together to advance financial planning and CFP certification.

All the best,

Dante De Gori, CFP®

Chief Executive Officer
Financial Planning Standards Board Ltd.

GLOBAL FINANCIAL PLANNING STANDARDS UPDATED TO REFLECT EVOLVING CLIENT NEEDS



As we look to the future of the global financial planning profession, how can we ensure financial planners have the knowledge and skills they need to best serve their clients?

As the standards-setting body for the global financial planning profession, the Financial Planning Standards Board Ltd. (FPSB) partnered with experts, academics, certification specialists and professional financial planning bodies around the world to address this

question – embarking on an extensive multi-year project to reassess the global standards in financial planning to ensure they meet the current and future needs of those accessing financial planning advice.

As a result, FPSB is pleased to release updated global financial planning standards to reflect the changing needs and expectations of consumers, as well as the evolution in the practice of financial planning.



FPSB's Global Financial Planning Standards

set standards for the competent practice of financial planning to benefit and protect the public and advance financial planning as a distinct and noble profession.

As consumer needs and expectations evolve, the standards of financial planning practice must also

evolve to improve the quality of financial planning advice, benefit consumers and financial planning professionals, and strengthen the financial planning profession.

More than 16,000 CFP professionals worldwide participated in FPSB's research on the current and future practice of financial planning. This research

showed that there is an increasing focus on the importance of collaboration between financial planners and clients and a need for competent financial planning professionals to enhance client relationship skills, like coaching and effective communication.

These findings also show that there is a growing importance for financial planners to identify and respond to client attitudes, behaviors and situations that impact decision-making, the client-planner relationship, and client financial well-being.

To reflect these evolving trends in financial planning, the following were amongst the many updates made to the global standards:

- Addition of a new knowledge domain of **Psychology of Financial Planning**
- New **technical content** on crypto finance and evolving investment strategies
- Greater **emphasis on the human skills** associated with financial planning
- A **set of practice guidelines** to show how FPSB's Global Financial Planning Standards relate to each other and can be practically applied in a real-world client setting

The updated standards have been organized under the framework of Knowing | Doing | Being to address the knowledge, skills, abilities and behaviors financial

planning professionals need to do their job now and into the future. The new framework covers the body of knowledge (Knowing); financial planning process, core practices, practice standards, abilities and professional skills (Doing); and financial planner code of ethics and professional responsibility (Being).

Financial planning professionals who meet FPSB's global standards understand the level of practice expected of them in working with clients; norms of professional practice that allow for more consistency; and respective roles and responsibilities in financial planning engagements.

We applaud the more than 2,500 CERTIFIED FINANCIAL PLANNER® professionals in India, and the more than 213,000 CFP professionals worldwide, for their commitment to meet these standards, as well as rigorous competency, experience and ethic requirements, to help clients better understand financial affairs and achieve goals as part of the financial planning process.

Since its inception in 2004, FPSB has been at the forefront of developing and evolving standards for the financial planning profession, and is committed to upholding worldwide professional standards in financial planning by continually reviewing and updating its global standards and certification requirements to reflect evolving client needs.

FPSB is working with its global network of affiliated organizations, including FPSB India, to adapt the updated standards to local territory requirements and share with all those in the financial planning community worldwide by 1 January 2025. To learn more about the updated global standards, view press release.

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**TIMING, PERSEVERANCE, AND 10 YEARS
OF TRYING WILL EVENTUALLY MAKE YOU
LOOK LIKE AN OVERNIGHT SUCCESS**

- BIZ STONE

”

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.

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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® professionals and/or the global CFP community.

Audience : You are writing for people like you – other CFP® 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, Sep 2023.
Article due date : 31 July 2023.
- Publication date, December 2023.
Article due date : 31 October 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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CONGRATULATIONS TO 10 INDIVIDUALS FOR 20 YEARS OF CFP CERTIFICATION

FPSB India applauds the following members for 20 years of CFP certification. This is a noteworthy milestone, and we are proud to have them as a valued member of our organization for so many years. Their dedication, hard work, and unwavering support have contributed to the growth and success of the financial planning profession in the country. We appreciate their commitment to our values and vision, and we are honoured to have them as a part of our community.

We look forward to many more years of fruitful association and convey our best wishes to them for a bright future and continued contribution towards the growth of our profession and organisation.



Rajesh Pachisia, CFP® – Future of financial planning as a profession is very bright and grossly required. This vertical, I believe, has immense future as there is a dearth of financial planners.



Suraj Kaeley, CFP® – I have been associated with FPSB for two decades. The journey of FPSB is synonymous with the growth of the financial planning profession in the country. There is a growing need for CERTIFIED FINANCIAL PLANNER professionals who can help the millions in our country to develop and implement financial plans that are tailor made to their requirements. I wish FPSB and my fellow financial planners the very best for the future!



Anurag Madan, CFP® – It's been a privilege to be associated with the FPSB fraternity for the last two decades. FPSB certification was a timely move for India and as a professional engaged in the financial services industry, I witnessed with gratification the increasing recognition being accorded to the CFP certification. Today, from the calmer climes of my covid-induced retired life, I can see that as the financial eco-system becomes increasingly disrupted by technology, digitalization and the resultant depersonalization, Financial Planners will need to take up the challenge and evolve a more holistic, humanistic approach towards their clients and their needs. My sincere best wishes!



Naresh Pachisia, CFP® – In my long association with FPSB I have attended the FPA Annual Conference in USA and International CFP Council Meeting, hosted several meetings of CFP professionals and students in Kolkata and took several other initiatives to create awareness about financial planning, CFP certification and FPSB. For India to become a nation of investors from being a nation of savers, it needs emergence of a huge pool of certified professionals in financial planning – a professional financial planner in every neighbourhood (like doctors). As a truly well-respected certification in financial planning, CFP certification could be the flag bearer.

FPSB India is pleased to applaud the following members for 20 years of CFP certification as well:

1. Ajay Kakar, CFP®
2. Anil Chopra, CFP®
3. Arpit Agarwal, CFP®
4. Devang M Shah, CFP®
5. Hitangshu Debnath, CFP®
6. Dharendra Kumar, CFP®

OUR **WORK** WITH CLIENTS



THE ROLE OF INDEPENDENT RIA FIRMS IN A GROWING FINANCIAL PLANNING PROFESSION

Registered investment advisor (RIA)
firms are an important factor in the future of the
financial planning profession, as they continue to
harness opportunities for growth.

March 24, 2022

Many industry channels and firm types contribute to the growing financial planning profession: wirehouse, broker dealer, registered investment advisor (RIA), banking, insurance, direct retail, and more. Our latest Industry Insights article features the role of independent RIA firms – and is the first in a series of articles exploring various industry channels in the profession.

The financial planning profession is a growing, in-demand profession. “The amount of wealth that consumers own is far greater than at any time in history,” says Scott Hanson, CFP®, Co-Founder and Senior Partner at Allworth. Demand for personal financial advisors is expected to grow at a faster than average rate of 7% through 2028, according to the Bureau of Labor Statistics. As a result, the need for quality financial advice — particularly from those with the appropriate expertise such as CFP® certification — continues to grow. The increased demand for financial planning runs parallel to the recent pandemic retirement surge, where nearly three million Americans retired early in recent years, potentially leading to a further increase in services and assets managed by RIA advisors.

According to McKinsey, RIA firms represent the fastest-growing category in the U.S. wealth management market since 2016. An RIA can vary in size and

capabilities, but some RIAs are comprised of independent fiduciaries who may associate with several broker-dealers, selling a range of products and services. More than 1,600 advisors join the RIA channel annually, bringing with them roughly \$180 billion in client assets. According to McKinsey, many advisors are moving from larger broker-dealers, and more than 700 independent RIA firms are started annually.

This growth has made the RIA channel ripe for mergers & acquisition (M&A) activity, particularly in recent years. According to Echelon Partners, the second half of 2020 was “by far the most active period” in RIA M&A history, with 124 deals — 61% of all 2020 deals — taking place in the third and fourth quarters of 2020 alone. This explosion in activity continued apace in 2021, as RIA valuations hit an all-time high and are projected to accelerate further in 2022, according to DeVoe & Co.’s 2022 RIA M&A Outlook. Fidelity’s recent RIA M&A update found that activity continued to accelerate towards the end of last year, with 182 RIA transactions deals struck, totaling \$304 billion.

According to Nationwide’s Advisor Authority study, two-thirds of financial professionals polled expect consolidation and M&A activity in the industry to increase in the next 12 months.

Why is there such an influx of activity in the independent RIA channel? Several factors are leading independent RIAs to serve as key drivers of growth and advancement for the financial planning profession.

THE INDEPENDENT RIA CHANNEL HAS FEATURES THAT MAKE IT ATTRACTIVE TO MANY *Financial Planners*

An advisor's decision to work as an independent RIA may be influenced by a variety of things. Among the most significant are flexibility and versatility. According to CFP Board's Guide to Careers in Financial Planning, planners who work at mid-size and smaller companies can expand their knowledge base beyond the financial planning process, sometimes leading operational issues, educating clients on specific product lines, or helping the client find other financial professionals that specialize in meeting their needs. In smaller companies where financial planning may be the primary service, advisors have an opportunity to develop deep knowledge of the company, its business and its financial planning services. Additionally, independent RIAs may have the ability to take on clients with a smaller net worth, run a lifestyle practice, or accelerate growth through large-scale M&A and tuck-in acquisitions. All of these are examples of opportunities for more flexibility than what may be available for individual financial planners at larger firms.

In addition to flexibility, many advisors are motivated by entrepreneurship and a sense of ownership, with greater responsibility for one's professional growth and success. The variety of service models available to

independent RIAs allows them to appeal to a wide variety of clients who have different preferences and needs.

While many advisors begin their careers at larger institutions and later enter the independent RIA channel as "breakaway" entrepreneurs, many young financial planners choose to begin their careers at independent RIAs. For example, Taylor Stathis, CFP®, a Client Relationship Manager at GM Advisory Group, began her career at an independent RIA because of the flexibility it afforded her in her service to clients and career growth. "Working at an independent RIA afforded me incredible opportunities at such an early stage in my career. It has given me the opportunity to learn about all the different aspects of financial planning and business development and how each department works," she says.

As the market for financial advice has become larger and more diverse, RIAs have had many opportunities to thrive and compete with larger broker-dealers and wirehouses. Stephanie Bogan, whose firm Limitless Advisor focuses on teaching financial advisors to build successful and sustainable businesses, says, "It's never been easier to build a clientele."





TRENDS THAT ALLOW INDEPENDENT RIAS TO THRIVE

While many trends impact the financial services industry, independent RIAs are particularly well suited to adapt to changes due to hyper-specialization, increased personalization, and digitalization.

Hyper-specialization is a firm's ability to focus its practice on a niche set of clients who share a set of common needs. Hyper-specialization goes beyond serving broader client bases such as "clients over 55" or "clients saving for their child's education." Rather, financial planners who hyper-specialize hone in on smaller populations seeking more nuanced service, such as families with members who have special needs, military families, veterans, or divorced or widowed people.

"Hyper-specialization is driving growth in small and mid-size firms because we're moving into an experience economy and an attention economy," Bogan says. "Consumers are now expecting highly specialized, personalized experiences that are accessible and affordable. By leveraging technology to be hyper-efficient, advisors are able to systematize a highly specialized experience, serving clients more deeply, serving more clients or even serving smaller clients in ways they could not previously."

While the idea of offering hyper-specialized services to niche sectors of the population is not new nor is it specific to independent RIAs, the RIA business model may offer clients a variety of ways to engage with advisors and pay for the services they receive.

Increased personalization is also driving growth within the financial planning profession. According to a 2021 McKinsey report about the power of personalization, 71% of consumers expect companies to deliver personalized interactions, and 76% are frustrated when the service fails to meet that standard. Companies that grow faster drive 40% more of their revenue from personalization than their slower-growing counterparts. As the market for financial advice has grown and clients have become more diversified, demands for further customization from advisors have increased.

One area where this personalization is a factor is with

payment options. Independent RIAs are more likely to accommodate customer requests for payment flexibility than some larger competitors. Additionally, independent RIAs can charge AUM fees and offer investment advice without complying with the requirements of a larger broker-dealer. As an independent RIA, Todd Calamita, CFP®, who started his firm Calamita Wealth Management to specialize in retirement planning after over a decade working at larger financial institutions, says, "You can customize [your firm] to the way you want to do business and the types of clients you want to attract."

Another example of the personalization effect is in the pairing of clients and advisors, and the ability for advisors to attract like-minded clients. Independent RIAs may not have the nationwide brand recognition of larger firms. Because of this, financial planners at independent RIAs have an opportunity to rely on their own individual brands and personal approach to connect with clients. While these factors are also essential for winning business at a larger broker-dealer, it's very crucial and a great opportunity for financial planners at independent RIAs.

Digitalization is an additional trend in which clients have become more comfortable with remote interaction, further expanding the opportunity to build a larger, specialized client base. Calamita attributes this to modern technology. Widespread adoption of teleconference technology allows financial planners with hyper-specialized target audiences to gain a national audience and client base. Clients are much more comfortable and confident conducting business and receiving services online. This allows hyper-specialized firms to serve clients from all over the country and promote their individual advisors with expertise in these specialized areas; they can therefore stay within their niches, rather than being limited to tailoring their focus to a particular geographic area. Many advisors point out that maintaining relationships with clients who move to new locations or change states has become easier, as they tend to stay with their current advisors instead of switching to new local advisors.

"With technology, you don't have to choose between scalability and specialization," Bogan rejoices.

However, while technological advances present more options for advisors and clients to work together despite geographical distances, Calamita adds that "Clients are predominantly still looking for people locally."

THE FUTURE FOR INDEPENDENT RIAs

Entrepreneurship in the RIA space is poised to grow, as some advisors will continue to choose to break off from larger firms and form their own RIAs. Previously, Calamita says, it was very common for clients to receive their financial planning services from only larger firms with “brand names.” But over time, independent advisors have gained the technology and resources to start their own firms, bringing their clients with them.

M&A momentum will continue. As older advisors retire, they may sell their firms to aggregators and integrators as part of a succession plan, allowing these firms to serve longstanding clients. Even advisors with smaller books of business who are not ready to retire and let go of their RIAs may partner with larger organizations to gain access to the technology and resources they need to accelerate their businesses, feeding the RIAs back into the growth of the financial planning profession.

“Our industry is in the early innings of massive consolidation,” says Hanson. “Most advisory firms are tiny little businesses. Some of these firms have been merging, creating sizable regional or sometimes even national firms. This will only accelerate in 2022. The opportunity to benefit, both personally as well as from one’s clients’ perspective, is massive.”

Many RIAs are joining networks that provide the investment advisory, technology and in some cases supervisory platforms needed to scale services. For example, Dynasty Financial Partners provides back-end tech support to its network of independent financial advisors through its WealthTech platform. Some networks like Garrett Investment Advisors and Integrated Partners allow advisors to integrate operational workstreams as they focus on client interface. Other networks, like Dimensional Fund Advisors’ Women & Wealth Network, allow thousands of advisors to share specialized expertise around investment solutions, client messaging and business strategy.

Diversity among RIA firms and their clientele will thrive as the independent RIA channel grows, collectively attracting and serving a wide range of client demographics. As the financial planning profession becomes more diverse, independent RIA advisors will

be able to further specialize and fill more niches within traditionally underrepresented demographics.

Trends in entrepreneurship, networks, M&A and diversity – among other factors driving the success and growth of RIA firms – will only contribute to growing the number and diversity of Americans served by the financial planning profession. This indicates that the success and growth of independent RIA firms will have a positive impact on consumers, as more people receive financial planning services that help them reach their financial goals and achieve a secure future.

CFP BOARD’S RIA LEADERSHIP NETWORK

In 2021, CFP Board’s Center for Financial Planning launched the RIA Leadership Network, a network of CFP® professionals in leading roles at independent RIA firms who collaborate to build continued sustainability in the financial planning profession and advance the work of RIA firms. In its first year, the Network’s activities focused on networking and thought leadership events on important topics such as new SEC marketing and advertising rules, diversity, business development, practice management, and CFP Board’s ethical standards. Network participants also connected directly with one another outside of organized events to share input and ideas.

If you would like to learn more about the 2022 RIA Leadership Network program, please contact the CFP Board Center for Financial Planning team at dlimbago@cfpboard.org.

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WHEN **SMART GOALS** ARE NOT ALWAYS WISE

By Carol Anderson, Founder of Money Quotient, Inc.
and President of MQ Research & Education



Many of us have been taught about setting goals through the use of the SMART acronym. The theory is that in order to be successful in our pursuits, our goals must be:



However, for most financial planning clients, this goal setting template is rigid and uninspiring. It puts the concept of planning and achievement in a linear framework that appeals only to the rational side of their brains. Goals become a list of “shoulds” that require them to be disciplined and methodical in order to reach their objectives.

As an alternative, substitute words for the SMART acronym that speak to your clients on an emotional level. Using a more inspiring framework will engage and motivate them, and result in a goal setting process that is more successful and satisfying. Here is an example:



Significant – Goals that resonate with what is most important to your clients will keep them motivated and bring joy to their journey as they make progress in reaching their objectives.

Meaningful – Oftentimes individuals set goals based on what others—parents, employers, teachers, society – view as important. However, to be truly inspiring and satisfying, your clients’ goals must align with their own values and priorities. Only then will their goals be “full of meaning” on a personal level.

Attracting – Only when your clients’ goals are both significant and personally meaningful, will they create a positive image that engages them and inspires action. They won’t have to rely on pure grit and determination to achieve their goals, but rather a clear vision of what they want will focus their intention and guide their decisions on a day to day basis.

Rewarding – Sometimes our clients don’t make progress because, consciously or subconsciously, they are still weighing the costs and benefits of making a commitment to reaching their goals. An honest appraisal and conversation about this inner conflict can bring clarity, and resolve incompatible feelings. In a nutshell, your clients are more likely to move toward goals that bring them a clear sense of reward along the journey as well as in reaching the destination.

Timely – Do your clients actually have the time required to commit to a specific goal? Before embarking on this journey, encourage your clients to consider if the timing is right for them? Likewise, when helping your clients to set goals, it is important to realize that some goals should have specific target dates and others should not. By imposing deadlines on your clients prematurely, you can create stress that stifles their ability to overcome obstacles in creative ways. In addition, deadlines tend to cause individuals to set goals that are within their current reality. More open-ended goals will encourage them to “dream big”– to stretch their imaginations and indulge in possibility thinking.

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CLIENT'S LIFE IS MORE IMPORTANT THAN JUST MONEY MANAGEMENT



By Suresh Sadagopan, CFP

Money makes the world go round, they say. For the most part, that is true. We advisors are focused on managing the client's money well. The client knows that. But the investment management portion is slowly getting commoditized with many managed portfolios that will help one do it.

There are even "robo advisories" that take in some information from the clients and is able to use their inference engine to come up with a curated advice for the client! Hence, an advisor can no longer make investment management the centerpiece of the work s/he is doing for the client – s/he needs to do more to ensure that the client sees value in the engagement and stays with the advisor.

The advisor hence needs to move far beyond money management to be able to keep a client happy and in their fold.

Engaging with the client's in their lives – Life has become much more complex than before and the client can do with some guidance on various facets of their life. Lots of times they are lost and have no one to confer with.

This can be in connection with their career, children's future, relationships, relocation to another place/ country etc. Many times, clients find that they are boxed in and struggle to come to the right decision, partially as they are emotionally invested in that matter.

As advisors, we tend to see such situations with many clients and we have handled and solved the problems that our clients are encountering now. Hence, we can use this experience and expertise to assist the client. Our perspectives will help the client see other angles to that area, that was not visible earlier.

The best part is that our advice tends to be objective as we are a third party, unaffected by past baggage or being emotionally charged while advising on the matter at hand. This makes our perspectives very useful while arriving at a decision.

However, many advisors shy away from getting into such personal areas, thinking that they will overstep their brief which their client may not like and stick on to just investment related advice. This is a huge loss both for the client and the advisor, as so much could have been potentially achieved together. Our experience suggests that when we seek permission with the client on seemingly no-go areas, the clients are surprisingly open in discussing about those topics.

Client experience – This is usually associated with sectors like hospitality, airlines, tourism etc. However, a great client experience is at the heart of a deep client relationship, even in the advisory area. A deep understanding and engagement with the client in our area is transformational.

Client experience has multiple facets. This can be achieved in part through impeccable, timely service delivered through associates or through technology solutions.

The second part that contributes to an amazing client experience is intense personalization. We need to deliver the service in ways that they truly want. Hence we need to consider what they want in terms of the engagement, mode, frequency, touch points, customization etc.

The third part is about taking a holistic view of the client's life itself, rather than just the financial part. For that, we need to first understand that we are trying to better the quality of the client's life itself.

We want them to live a meaningful life where they understand and achieve their potential, live a life of vigour with enthusiasm and enjoy contentment and peace while going through life. We want to provide clarity along the way in different situations by acting as their sounding board and as their confidante, reducing the tension and the stress in the ongoing life flow. If this seems like a tall order, it is!

But, we as advisors can certainly engage with them and make a telling difference in almost all facets of their lives. We can use technology tools to manage investments as well as empathy and personal touch to guide them along in all areas of life.

A tail wind for our practice – If we do these things consistently, a VUCA world cannot disrupt us. Competition can hardly make a dent on our practices. Earnings would be robust as the clients would be happy to pay the fees due to us, based on the value they are experiencing. The clients that the advisor has built overtime would be absolutely sticky clients for life. This is the bedrock of a successful practice.

A client like this would be a raving fan of the advisor! This means that they would want their friends and other significant people in their lives to similarly benefit and bring them to their advisor. It would be like having a legion of fanatically committed sales people who bring in clients in droves! This would result in a super

successful practice, without the incredible effort that is usually assumed to be needed!

Taking it a step ahead – The best advisors would want to truly help all the people in their client's life – be it their client's parents, siblings, relatives, friends or any other whom their client cares about. This is because, the quality of the client life is bound to be affected if people in their lives are not doing fine as it may affect them financially as also result in stress.

If as an advisor we find out who these important people are and help them too in their lives, will not the client be happy? The client will be super thrilled, even feel obligated to their advisor. This would result in more intense bonding and make them want to do reciprocate the selfless work you have rendered for the people they care. That means more referrals. Also, the people we help out may also want to be avail our services! It is in our enlightened self-interest do all these.

Engaging with the clients intensely, giving them a great experience, going beyond the mandate and delivering a satisfying life is what we financial advisors should endeavor. In it lies the client's success and ours!

"Suresh Sadagopan is MD & Principal Officer of Ladder7 Wealth Planners Pvt. Ltd. and author of If God was your Financial Planner"



OUR CHANGING MARKET PLACE



TALENT STRATEGIES IN THE FINANCIAL SERVICES INDUSTRY



By Dennis Lau, CEO, IFPHK

Like other key global cities, Hong Kong is experiencing a talent shortage, particularly in the financial services and FinTech sectors. Coupled with macro-level employment shifts, such as the “Great Resignation”, the local talent shortage is also exacerbated by the rapid rise in demand, as the world saw a 182% increase in tech job growth in the first quarter of 2022 alone. Dennis Lau, CEO of the IFPHK, takes a look at what Hong Kong is doing to retain and attract talents in the financial services industry.

The scramble for talent is on. With the re-opening of major economies and the offer of attractive incentives for talented workers, Hong Kong is facing stiff competition for world-class talents. What strategies are the Government and regulators deploying in expanding the talent pool in the financial services industry in Hong Kong? Let us look at the main players and their respective points of view, and the ways in which these views are addressed.

Existing Practitioners: Reshaping and Rebuilding

- The Enhanced Competency Framework has facilitated the provision of systematic training and formal qualifications to more than 16,000 banking practitioners in various professional areas under the Framework. Since the addition of a FinTech module into the Framework at the end of 2021, other new modules, such as Compliance, and Green and Sustainable

Finance, will also be included. This will provide financial services industry practitioners with a clear schema of the skills and competencies required for different job functions in the industry.

- The Pilot Scheme on Training Subsidy for FinTech Practitioners was announced in late September this year with a quota of about 1,500 practitioners. The Scheme will reimburse those who attain six designated FinTech qualifications with up to 80% of the training costs, subject to a cap of HK\$25,000. Hong Kong Monetary Authority (HKMA)-authorised institutions must have sponsored these practitioners to undergo the required training and examinations, and need to submit their applications within three months of their employees attaining the relevant professional qualifications.

- The Pilot Green and Sustainable Finance Capacity Building Support Scheme was introduced by the Financial Secretary in early 2022. This scheme will provide practitioners with financial assistance to encourage them to receive training in key ESG areas. This Scheme will be launched before the end of 2022.

Employers: Understanding Their Immediate and Future Needs

- The HKMA’s Skills Transformation and Empowerment Programme is the result of its dialogue with banks about their strategies and action plans to address their future talent needs, especially as they pertain to upskilling and reskilling needs. The Programme will enable the HKMA to provide further guidance, and share significant observations and good practices on developing talents.

Future Talents: Nurturing and Growth

- The HKMA’s Banking Graduate Trainee Programme was inaugurated in September of this year. Its aim is to systematically develop specific talents for the banking industry. About 30 participating banks will provide more than 120 entry-level jobs in the three fastest-growing areas, namely FinTech, green and sustainable finance,

and business opportunities in the Greater Bay Area.

– The Greater Bay Fintech Talent Initiative is a new initiative convened by the HKMA with the Financial Services Development Council as its strategic partner. Launched this past summer, the initiative aims to close Hong Kong's technology skill gap by giving students technical training, networking opportunities, and customised mentorship programmes. More than 20 major financial institutions are taking part, including international investment banks and Chinese FinTech firms.

– The HKMA provides outreach and resources for graduates and university students to educate young people about the workings of the banking sector, and to dispel the widely-held misconception that the industry is traditional and all about selling products and services only. Aside from career talks and workshops, a virtual resource centre will be set up soon so that young people can find out more about the jobs and career paths in banking.

– ESG training is also essential to bridge the talent gap to take advantage of the decarbonisation market in China, which will be worth RMB480 trillion over the next 30 years. Indeed, various local tertiary institutions are collaborating with local ESG organisations to roll out these courses.

Overseas Talents: Expansion of Talent Quota

– The Quality Migrant Scheme saw its quota doubled in 2021 to 4,000 to attract talents from all over the world to work in Hong Kong. To grow the talent pool for the Greater Bay Area, there have been calls for the Hong Kong Government to take the lead in integrating talent policies within the GBA, to collectively attract a bigger talent pool from the international market.

Macao's Key Talent Strategies

The Monetary Authority of Macao encourages financial industry practitioners to obtain professional qualifications to increase their competitiveness, including sitting the Hong Kong licensing examinations for securities and futures intermediaries, and attaining internationally-recognised qualifications, such as the CFP® Certification, the Chartered Financial Analyst (CFA) designation, and the Financial Risk Manager (FRM®) designation. Examinees who pass any paper in

these three qualifications will be rewarded with MOP3,000 under a quota scheme of the Talents Development Committee of the Macao SAR in partnership with Fundação Macau. Furthermore, in September of this year, the Education and Youth Affairs Bureau introduced a subsidy scheme with a cap of MOP6,000 for all Macao residents aged 15 years and over to enroll in finance-related professional qualifications, including the CFP Certification.

Singapore's Key Talent Strategies

As the other major economy in the region, Singapore has been actively fostering home-grown talents and attracting talents from around the world. Here are some of the key steps that the Singapore Government is taking to expand its talent pool:

– The Financial Services Industry Transformation Map 2025 has been spearheaded by the Monetary Authority of Singapore. It will create up to 4,000 jobs annually, with a targeted average growth rate of 4–5% per year.

– The Talent and Leaders in Finance Programme will receive SGD400 million in funding from the Financial Sector Development Fund from 2021 to 2025. As part of the Financial Services Industry Transformation Map 2025, this programme will build workforce competencies, cultivate specialist talents in areas like sustainability and technology, and develop leaders by helping them acquire expertise, international exposure, and a robust network.

– The Overseas Networks & Expertise Pass has been recently introduced to attract high-earning foreign workers with a fixed monthly salary of at least SGD30,000. It allows foreign workers to stay long-term in Singapore for five years, and to concurrently operate or work for multiple companies in Singapore, making it more attractive than the current Employer Pass, which is tied to a specific employment and duration.

IFPHK Supports Talent Development

As one of the leading professional bodies in the financial services industry, the IFPHK is also actively contributing to the talent pool in Hong Kong. Amongst some of our new projects are the following:

FPLearning platform

Going live in the third quarter of this year, the IFPHK's

brand-new online learning management system allows practitioners to obtain CPT/eCPD hours anytime via their mobile devices. A wide range of hot topics in the financial industry are covered, from blockchain technology, cryptocurrencies, RegTech, and artificial intelligence, to ESG investing, retirement planning, and gerontechnology.

Strategic partner of the University Elite ESG Challenge 2023

Hosted by the Research Centre for ESG of The Hong Kong University of Hong Kong, this programme is for university students who go through an intensive ESG training and selection process, with winners given internships or employment opportunities with professional firms committed to ESG, such as the IFPHK.

Collaboration on a regional estate planning professional qualification

The IFPHK is collaborating with Estate Planning Practitioners Limited (EPPL) on the Associate Estate

Planning Practitioner (AEPP®) designation. Originating in Singapore and authorised by the Society of Will Writers and Estate Planning Practitioners in the United Kingdom, this qualification is held by over 6,000 designees in Singapore, Malaysia, and Indonesia. The AEPP® programme focuses on the practical application of a holistic approach to wealth accumulation, preservation, and transition for high-net-worth individuals. While EPPL is responsible for designing the course content, the IFPHK as the exclusive partner will deliver the training and coordinate virtual classes in a structural way via its brand-new FPLearning platform. Registration is slated to open in the first quarter of 2023.

A talent shortage means there are opportunities aplenty to grow and prosper. Financial planners are encouraged to make use of the various schemes and initiatives highlighted to advance their careers.

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CEO regulatory column**



THE CHANGING WORLD OF WORK AND ITS IMPACT ON CLIENT ENGAGEMENT

By Rob Macdonald, Head of Strategic Advisory Services, Fundhouse, SA

Technology is the lifeblood of the new world of work, affecting how we work and what work we do.

The Covid pandemic has accelerated changes in how we work in financial planning. Before Covid, meeting clients on Zoom was the exception. Now many clients (and financial planners) prefer it. Apps, paperless processes and automated workflows are here to stay.

In response to the changing world of work and the impact of technology on our lives, in 2018 the World Economic Forum (WEF) produced The Future of Jobs report. The report considers what work roles are likely to become redundant, which would remain stable, and new roles that will emerge. The WEF believes financial advisors fulfil stable roles and won't be consigned to the waste dump. I am sure this is a relief to many financial planners, given the rise of automated advice and the role of technology in facilitating financial services generally.

If financial advisors still have a role to play in people's lives, it begs the question, what is that role and how will it impact on client engagement in the context of rising dependence on technology? Our tendency, when trying to understand the impact of change, is to focus and even try to predict the potential changes that lie ahead.

Founder of Amazon Jeff Bezos says that he often gets asked the question: "What's going to change in the next 10 years?" He says this is the wrong question to ask. If you're trying to cope with change, a better question he suggests is: "What's not going to change in the next 10 years?" In the case of Amazon, he believes that in 10 years' time, people will still want good-quality products delivered to their home or work at reasonable prices. This is not going to change, no matter what else changes in the world.

As we think of the changing world of work and its impact on client engagement, the challenge is to think about what is not going to change in financial planning in the next 10 years.

What's not going to change?

One thing that won't change in the future is financial planning clients will be human. If we take Bezos' advice, understanding what won't change about humans will help us prepare for the change we face. The 2022 PWC report on global work gives us an insight into what is important to people in the changing world of work and shows its impact on employee motivation.

The report predicts that one in five employees are likely to resign in the next 12 months, the top three drivers of which are: Pay – "being fairly rewarded financially"; Purpose – "I find my job fulfilling"; and Authenticity – "I can truly be myself" The report also highlights the threat of technology. A staggering 30% of respondents are concerned that technology will replace their roles, while 39% feel that they are not getting sufficient training in digital and technology skills from their employer.

Daniel H. Pink suggests in his book *Drive: The Surprising Truth About What Motivates Us*, that there are three things that motivate people at work. The first is Autonomy: people want to have a sense that they oversee their own destiny. They want to believe that they are in control of the work they do. But to have this autonomy, it's important that people have the second element, the necessary Mastery to do their work. Doing work that one feels ill-equipped to do is a guaranteed demotivator. The third element, Purpose, feeling your work makes a difference in the world, Pink argues is a significant motivation to work.

Technological change combined with the Covid pandemic magnified and legitimised Pink's three motivational factors. It seems that where Purpose is clear and Mastery is in place, greater Autonomy is a boost, not a hindrance to productivity. During the pandemic, employees around the world, despite working remotely, still delivered on what was required of them.

A MAP for client engagement

It turns out that the unchanging nature of employee motivation has parallels with what constitutes financial

health. If we accept that the purpose of financial planning is to help clients achieve and maintain financial health, arguably this purpose is unlikely to change any time soon. And what constitutes financial health is also unlikely to change. People are after all people.

Sarah Newcomb, director of financial psychology at Morningstar, in an article entitled "Where More is Less: Rethinking Financial Health", reports that a Morningstar study found that there are two key elements to financial health. The first is economic stability. They found that people with a full "financial life plan" saved on average 20 times more money than those with time horizons of less than a year. Even looking ahead just a few years had a fourfold increase in savings.

The second element is emotional wellbeing. The study found that across all income groups, "people who feel empowered in their financial lives experienced more joy, peace, satisfaction and pride in their financial lives". They found that the impact on the emotional wellbeing of clients' feelings of empowerment was more than twice the impact of income. The study did not measure how much control a person had in their financial lives, but how much control they believed they had. "It is the feeling of power, not necessarily the exercise of it," that Morningstar found was linked to emotional wellbeing.

The research suggests that to help clients achieve financial health, financial planners ideally will do two things with their clients. First, get them to look as far as possible into the future, ideally building a full financial life plan; and second, ensure that clients have at least the perception that they are in control of their finances. How can we apply Pink's insights around motivation to financial health? I believe the three key concepts he has identified offers a foundation for a financial planner's approach to client engagement. A client who is clear on Purpose, why they are saving money, is likely to be able to articulate their future more clearly and be motivated to work towards that future. A client with Autonomy will be motivated to make decisions about their life and money, and in so doing feel like they have control over their life and money. This power will be enhanced by Mastery, developing skill and knowledge when it comes to their life and money. Juggling the order of the three words, Mastery, Autonomy, Purpose, offers a MAP to apply to your engagement with clients. How can you do this practically?

How can financial planners apply the MAP?

Firstly, it's important to accept that clients are the expert

in their own lives, only they can know what they want their life to look like. But most clients need help to do this. A prerequisite then for financial planners in the future will be to develop intra- and inter-personal skills to help clients articulate a purpose for their lives and their money.

Secondly, in helping clients articulate their purpose, financial planners will do well to recognise and facilitate the client's need for autonomy. This can be done through self-awareness (knowing when not to give advice that might undermine the client's autonomy); and skillful conversation, enabling clients to make their own decisions, rather than just taking advice. But it can also be done through harnessing technology. For example, automated advice tools are already showing us that there is an appetite for clients to use technology to work out what they may need to save or invest for specific goals. Financial planners can provide clients with such tools that recognise and support this need for autonomy.

Thirdly, as clients use these tools, whether they be for budgeting, savings, cashflow forecasts or another purpose, they will grow their own sense of mastery over their financial life. They will do this with the comfort that they still have the financial planner, the expert, to consult and ultimately guide and advise them.

Technology and the world of work continue to change, but applying Pink's MAP concepts to client engagement, in an informed and skillful way, I believe will help human financial planners remain relevant and important in helping people achieve financial health, in the next 10 years and beyond.

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WITHDRAWAL OF INDEXATION BENEFIT: HAVE THE DEBT FUNDS LOST THEIR LUSTRE?



By Anshul Srivastava, CFP

Asset allocation is an integral part of financial planning whereby the planner decides the asset allocation in consultation with the client, based on their financial position. The decision is based on the following factors, amongst others:

- Risk tolerance of the client
- Time horizon of financial goal

Depending on the risk tolerance of the client, long term goals can incorporate more risk as compared to short term goals. For e.g., Equity can be considered for a financial goal that is 10-12 years or more away, while investment in debt is more suitable for financial goals due in less than a year to 2-3 years.

While every asset class has its features, benefits and pitfalls one characteristic that plays an important role in the decision of whether or not to invest in the asset class is taxability. For example, investment in equity is taxable at a lower rate of 15% and 10% respectively on STCG (Short term capital gains) and LTCG (Long term capital gains) respectively.

Similarly, investment in debt securities and debt mutual funds for more than 3 years have been eligible for a lower rate of tax at 20% after indexation.

Recently there has been a change in this provision and in this article, we are going to discuss about the same and its implication on the investment and your advice as a planner.

What has Changed?

Indexation

Long term capital gain on investment in debt mutual fund prior to March 31, 2023 is taxable at the rate of 20% after indexation if the investment is for a period more than 3 years. The idea behind this provision is to adjust the inflation impact on the investment value. Indexation allows the cost of acquisition to be adjusted as per inflation as per the cost inflation index (CII) released by the income tax department every year.

For e.g., you had invested Rs. 1 lakh in a debt mutual fund scheme in May 2018, and withdrew Rs. 1.50 lakhs in 2022, your absolute gain would be Rs. 50,000, but applying indexation your cost of acquisition i.e., Rs. 1 lakh will be adjusted as per the following formula:

$$\text{Cost of Acquisition} \times (\text{CII of the year of sale}) / (\text{CII of the year of Purchase})$$

In this case it will be $1,00,000 \times 331/280 = 1,18,214$, thus reducing the capital gain to

Rs. 31,786 ($150,000 - 1,18,214$) on which you will have to pay 20% tax instead of the absolute capital gain of Rs. 50,000.

Impact of Indexation benefit withdrawal

Recently, with an amendment in the Finance Bill 2023, indexation benefits in debt MFs have been removed from April 1, 2023 onwards and capital gain on debt MF investments will be taxed at income tax rates in line with an individual's income.

This provision has been one of the main points of attraction for investment in debt mutual funds over Bank deposits, interest on which is charged at the normal slab rate of an individual.

What this change entails that is capital gains in the debt schemes of mutual funds where investment in equity is lesser than 35%, will be considered as short term and will be taxed as per the slabs of the investor.

This development may have far reaching effects, and some market experts believe that with the tax advantage gone, money will flow into bank deposits

from debt mutual funds which rank higher in terms of safety.

What difference does it make?

Let's look at our above example that an investment of Rs.1,00,000 in a debt mutual fund for 4 years with the final amount as Rs.1,50,000 resulted in a tax liability of Rs.6,357 (exclusive of Cess). (20% X 31786-LTCG)

Now, with benefits of indexation not available, the whole gain amount of Rs. 50,000 will be considered a short-term capital gain and if the investor is in 30% tax bracket, the tax liability of this transaction would be Rs.15,000 (30%*50000-Absolute gain) So, we can see that there is quite much of a difference especially for the investors in higher tax bracket.

Should you ask your client to liquidate their holdings in debt Mfs?

No, you do not need to ask your clients to liquidate their existing holding in the debt mutual funds as

investments done before March 31, 2023 are eligible for indexation. It's the new investments that your clients have been contemplating that need to be decided whether they should use debt mutual funds or bank fixed deposits to take an exposure in debt as per your analysis as the taxation treatment of both the products is same. So, the decision will depend on the risk tolerance of the client; if the client is risk averse then bank deposits will suit more to her, and if the client is open to some risk-taking then debt mutual funds might still be suitable.

Remember, Indexation benefit might be gone but investment in debt mutual fund still has its advantages. The best part of going for debt MFs is that it can be redeemed at any point of time. Investors of debt MFs have the flexibility to redeem investments to meet medical or personal exigencies. A hedge against the volatility or fluctuations of the equity market, the returns may be less volatile as compared to equity markets. The low expense ratios of certain debt MFs also make investing in these funds attractive to the investors.



OUR SHARED WISDOM



DIGITAL ASSETS AND YOUR ESTATE PLANNING



By Irene Yee, CFP

Life can be unpredictable. It is therefore important for us to plan and prepare for untoward life events such as incapacities and death.

Estate planning is not just the distribution of one's assets when one passes on. It is also about planning for untoward mental incapacities such as dementia, Alzheimer's, and coma. In Singapore, advanced planning for mental incapacity is possible with the LPA. For specific instructions involving the management of digital assets on one's mental incapacity, the LPA Form 2 is the relevant document.

What are Digital Assets?

A digital asset is any electronic device, account, or password-protected website.

It can include your mobile phone, especially the photos and text messages inside it.

Other common digital assets are email accounts, payment accounts (e.g., GrabPay), financial accounts (e.g., bank and brokerage accounts) and cryptocurrencies.

Digital assets can also include email accounts and accounts related to your interests, such as iTunes.

Various social media accounts are also digital assets. These include Instagram entries and photos.

Any website or blog created using a third party's services and hosting facilities is a digital asset.

Your personal computer, if it is password-protected, is also a digital asset.

Why have an estate plan that includes Digital Assets?

It is essential to ensure someone manages your physical assets after you are not around or unable to do so; this is also true for your digital assets.

You need to include digital assets in your estate plan to be sure someone can access and manage them after you are unable or not around to do so.

If your estate plan doesn't correctly account for digital assets, your Will or Trust beneficiaries may not be able to gain access to them. You may lose your family videos forever; your social media accounts may stay online long after you have passed, and your heirs may not receive all the money that you would have liked to leave them.

When you include digital assets in your estate planning, you not only make it easier for your executor and loved ones to manage your estate, but you will also protect your privacy, even after death. It is therefore vital to plan for your digital assets the same way you would any other valuable tangible asset.

What are some of these estate planning strategies?

Some possible ways to plan for digital assets in your estate planning

1) Create an inventory:

a) Prepare a list of all your digital accounts, assets, automatic payment plans, and subscriptions

The list should include the name, digital address, or another way to access it, and the access information such as username, password, and security questions.

b) Include digital liabilities

Examples include automatic payment plans, renewal



programs, and other arrangements under which your bank account or credit card is automatically charged regularly.

c) The inventory is essential

Without the inventory, your executor and heirs will have a challenging time. Your executor may have to hire computer experts to crack passwords to computers and accounts. Or worse, your executor may not even know that your digital assets.

2) Decide what you want to get done and who should do it:

a) If you want a family member (instead of the executor) to access your email accounts, specify this in your Will.

You may wish only family members to handle social media accounts, such as LinkedIn. Note that the major digital providers have adopted policies that allow heirs some access to digital accounts. Although such guidelines are in place for Google, for example, your expressed intention in an estate document will override limitations in a provider's service agreement.

b) State your decisions in your Will or your Trust document. Instructions in your Will or living trust control who has access to your digital assets. Note that some digital accounts are not assets. For example, when you

purchase and download an e-book from Amazon's Kindle service, you have only a personal-use license under its service agreement. You do not own the asset to be able to give it to someone. The rights are supposed to end with your passing.

c) Keep details of digital assets in a sealed letter stored with your Will. Do this, instead of placing the information in the Will, since certain digital assets are potentially sensitive and personal. Once you pass on, your Will becomes a public document. When you keep such information in a sealed letter, together with your Will, you will maintain more privacy.

Conclusion

Digital asset ownership has increased significantly as more people spend more of their lives online and acquire digital assets. Yet many people are unaware of this change and impact on their own estate plans and have not considered in their estate planning. But you have now taken the step to learn and then plan how to better manage your digital assets during your mental incapacity and death. Including digital assets in your estate planning will minimise any potential mess or confusion regarding your digital assets if you have mental incapacity and when you pass on.

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SIMPLIFYING SHARPE RATIO AND TREYNOR RATIO



By Rahul Agarwal, CFP

Sharpe Ratio and Treynor Ratio are two important tools to evaluate the relative performance of different mutual fund schemes.

They can be very useful in understanding the risk associated with a scheme too.

For clarity, imagine that you need to travel from one city to another and you have two options:

1. The first vehicle will drop you in 4 hours running at 100 km/hr.
2. The second vehicle will drop you in 5 hours running at 80 km/hr.

If you do not have any urgency to reach the destination, which of the two options would you choose?

Under normal circumstances, most people will choose the second option because while choosing the vehicle we are not only considering the time but speed also, which can be a risk to life if it is too high.

The same thing applies when selecting the mutual fund scheme. You should not only consider the returns being generated by the scheme but also the risk which the scheme has taken to generate the returns. In other words, you should look for risk-adjusted performance of the scheme.

Let us understand the two Ratios which will tell us the risk-adjusted performance.

Sharpe Ratio: It is a measure of excess portfolio returns over the Risk-free rate relative to its Standard Deviation.

Formula:
$$\frac{\text{Portfolio return} - \text{Risk free return}}{\text{Standard Deviation (total risk)}}$$

Example 1

Consider two funds, A and B. Fund A gives 15% return with 10% Standard Deviation. Fund B gives 15% return with 14% Standard Deviation.

In this situation, assuming that both the funds are from the same category, you can easily opt for Fund A as it has less risk or volatility with the same amount of return.

Example 2

Again, consider two Funds A and B. Fund A gives 15% return with a 10% Standard Deviation. Fund B gives 17.5% return with a 12% Standard Deviation. The Risk-free return is 6%.

In this case, it is difficult to directly conclude which of the two funds have a better Risk-adjusted return. For such analyses, Sharpe Ratio is used.

By applying the above formula, we can conclude that fund A has Sharpe Ratio of 0.90 as compared to fund B which has a Sharpe Ratio of 0.9583.

Now let us understand the interpretation of these two results.

A fund with a higher Sharpe Ratio is considered superior relative to its peer. A Sharpe Ratio will be higher in two situations as compared to other schemes of the same group:

1. If the returns generated by the fund are higher.
2. If Standard Deviation (risk) is lower.

Both the above situations make a favorable situation for a fund to give higher Risk-adjusted return. Since

Fund B has a higher Sharpe Ratio in the above example, we may conclude that it has given a better Risk-adjusted return.

Taking other factors into consideration, an accepted industry norm for Sharpe Ratio is interpreted as below:

Sharpe Ratio	Verdict
Less Than 1.0	Sub Optimal
1.00 – 1.99	Good
2–2.99	Great
3.00 or above	Excellent

Treynor Ratio: Treynor Ratio also tells us about the risk-adjusted performance of a fund or portfolio. The difference is that the relative risk is Beta and not Standard Deviation, which is nothing but market risk or systematic risk.

Formula:
$$\frac{\text{Portfolio return} - \text{Risk free return}}{\text{Beta (Market Risk)}}$$

Example 1

Consider two funds, A and B. Fund A gives 15% return with a Beta of .90 and Fund B also gives 15% return but with a Beta of 1.20.

Since Beta is a parameter of market risk and tells us the risk taken by a fund or scheme vis-à-vis its Benchmark we can say that Fund A has given a better risk-adjusted return because it has delivered the same return but with a lower market risk (assuming both funds are from the same category).

Example 2

Again, consider two Funds, A and B. Fund A gives 15% return with a Beta of 0.90 while Fund B gives 20% return with a Beta of 1.20. The Risk-free return is 6%.

In this case, it is difficult to directly conclude the fund which has given a better Risk-adjusted return. For such analyses, Treynor Ratio is used. By applying the formula, we can conclude that Treynor ratio of Fund A is 0.10 and 0.1167 for Fund B. Now let us understand its interpretation.

A fund with a higher Treynor ratio is considered superior relative to its peer. A Treynor ratio will be higher in two situations as compared to other schemes of the same group:

1. If the returns generated by the fund are higher.
2. If Beta (market risk) is lower.

Both the above situations make a favorable situation for a fund to give higher Risk-adjusted return. So, as Portfolio B has a higher Treynor ratio, we can say that it has given a better risk-adjusted return.

When should we use Sharpe Ratio and Treynor Ratio

For understanding this we need to understand that a portfolio consists of primarily two types of Risk – Non – Systematic Risk or Non – Diversifiable Risk and Systematic Risk, which is represented by Beta.

In a well-diversified portfolio, the unsystematic risk is diversified away since it can be reduced by diversification and hence the Treynor ratio is more suitable because it focuses only on Market Risk.

On the other hand, Sharpe Ratio is more suitable in cases where the portfolio is not properly diversified as it takes standard deviation as risk which takes total risk of the portfolio into consideration.



CPD QUIZ FOR JOURNAL OF FINANCIAL PLANNING IN INDIA (JULY 2023 ISSUE)

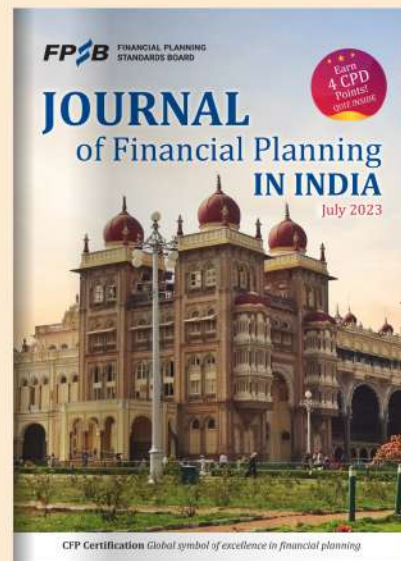
Welcome to the CPD Quiz!

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

Current CFP professionals are required to take the CPD Quiz by logging into their MyFPSBLearning portal and CPD points shall be credited online to their account.

You will be able to take the quiz up to two times.

Good luck!



The role of independent RIA firms in a growing financial planning profession

1. According to the author which one of the following is the most significant feature of the RIA model which makes it attractive to the financial planners?
 - a. Increased personalization, and digitalization
 - b. Entrepreneurship and sense of ownership
 - c. Flexibility and versatility
 - d. Networking and diversity

When SMART Goals Are Not Always Wise

2. In the view of the author, substituting the words in the SMART acronym would help the financial planners
 - a. to engage and motivate their clients in a better way.
 - b. to have a successful and satisfying goal setting process.
 - c. to have an emotional connect with their clients.
 - d. All of the above

Client's life is more important than just money management

3. Financial planners must engage themselves in the lives of their clients. The basis of this view as proposed by the author is that ____
 - a. clients may not have any close friend or family member.
 - b. clients love this approach of the financial planners.
 - c. financial planners have experienced such situations with many clients and so have expertise.
 - d. it leads to restricted number of clients with every planner resulting in a better service to clients.

Talent Strategies in the Financial Services Industry

4. The Greater Bay Fintech Talent Initiative convened by the HKMA with Financial Services Development Council aims to close Hong Kong's technology skill gap by giving students:

- a. technical training
- b. networking opportunities
- c. customised mentorship
- d. All of the above

The changing world of work and its impact on client engagement

5. While helping clients articulate their purpose, the author suggests that financial planners should recognize and facilitate the client's need for autonomy through _____.

- a. building a full financial life plan
- b. self-awareness and skillful conversation
- c. realistic goal setting procedure
- d. proper risk profiling

Withdrawal of Indexation benefit: Have the debt funds lost their lustre?

6. The author opines that though indexation benefit shall not be applicable on debt funds, they are still beneficial to the investors because _____.

- a. they can be redeemed at any point of time
- b. they are comparatively cheap in comparison to bank deposits
- c. they have the ability to generate higher risk-free returns
- d. All of the above

Digital assets and your Estate Planning

7. In the view of the author, financial planners should influence clients to include digital assets in their Estate Planning, in the same way as other tangible assets. She attributes the following benefit/s for this recommended action:

- a. It makes easier for the executor to gain access of all digital accounts
- b. To protect the privacy of the client
- c. To avoid social media accounts being active long after the death of the client
- d. All of the above

Simplifying Sharpe Ratio and Treynor Ratio

8. Which one of the following statements is true with respect to Treynor Ratio?

- a. It uses Standard Deviation as a base.
- b. Higher Treynor ratio implies superior relative performance of the fund or portfolio.
- c. Treynor ratio will be higher if Beta is higher.
- d. Treynor Ratio is more suitable in cases where the portfolio is not properly diversified.

End of Quiz



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