

Importance of good advice and the Role of Financial Advisors

Many of us are quite used to asking for a drug at the chemist and popping it when we feel ill. Tempting it may be, we know that is a short cut and cannot be a substitute for consulting a well qualified doctor. We like someone to know our medical history, to understand our special needs, and prescribe medicines for our long term well being. We understand fully well that the pharma company and the chemist are not enough and that we need a qualified professional in between the two. A financial advisor plays the same role for the long term health of our finances.

Product variations are inevitable

Producers have their own objectives. A toothpaste company is not going to ask whether one more variation needs to be on the shelf. They would think that it is good to take customer need and want, but will not strait-jacket the product choices. They would think that variety and range is what customers will look for. It is such thinking that drives the coffee shop to offer a long list of choices, or the ubiquitous Udipi hotel to offer 35 types of dosas. Producers like to reach a larger customer base, enable nuanced differentiation, and constantly innovate and improvise. This is true for all products that have a larger audience in the retail customer, and financial products are not an exception. This focus on product development and proliferation does not mean that the customer is being ignored but the sheer reflection of a producer to meet a need in multiple ways. A customer needs product experience, promotion, information, and advice before making the choice. Producers need distributors and advisors to fill this need and establish the last mile connect.

Running the last mile

The financial advisor plays the role of understanding the specific needs of the investor, enabling them make the right choice of products from the universe of choices which will best meet the investors' specific needs. A generalization that younger investor should invest in equity and an older investor should preserve capital, might look good. But an advisor will know of senior citizens who have enough wealth to invest in equity, and younger investors having no saving to take the risk of equity. It is the advisor who plays the role of diagnosing and prescribing, much as the doctor does. The financial advisor is an important link in the value chain, without whom, product choices will only look overwhelming and superfluous.

Financial goals as the link

Financial advisors work with clients, trying to understand and define the financial goals of an investor. Financial advisors by their training and experience understand the different products on offer. They understand the long and short term needs and schemes best suited for that horizon. They then assess the risk-taking abilities of the client. The investment choices are made based on how much the client needs to save and how the investment is likely to perform to reach the set financial goal. Financial advisors specialise in profiling the investors, analyzing products, their performance, risk and return and structure a financial plan and so are able to recommend appropriate products for investors.

The common refrain among the investors is that advisors tend to promote products that earn them higher commission. Regulations now require investors, not producers to pay advisors for their advice and services. This means, doctors will now be paid by the patients and not the pharmaceutical company. I am sure you will agree that is a better prescription for sound advice and good health in the long term.

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