

What Constitutes Good Financial Advice?

Investors find that they are offered a range of products and services by advisors and are unable to choose between advisors who meet them for business. Just as we choose a restaurant based on the taste of the food, the quality of the service, the prices, the ambience and the proximity to our residence, we can choose advisors based on a few parameters of their performance.

First is the ability to understand investor needs. The basic function of the advisor is the act as a bridge between the investor and the producer of financial products. The eagerness and ability of the advisor to act in investor's interest is important to evaluate an advisor.

Second is the expertise to recommend and implement an investment plan. Advisors should be able to show the investor how choosing an asset allocation or a set of investment options may benefit the investor in the long run. They should then be able to advise how such an allocation can be implemented by choosing the right products.

Third is the execution skill to get an investment plan operationalised. Investment plans require several operational and procedural aspects, such as filling up application forms, completing formalities of opening an investment account or folio, completing the payment formalities, and such processes. Advisors should be able to schedule, process and complete these steps efficiently.

Fourth is the ability to monitor the portfolio. Investment plans require monitoring the performance of the portfolio. Advisors should be able to generate periodic performance reports that show how the investment plan is working. They should be able to advise investors for any tactical changes to be made. Monitoring also involves reinvesting periodic cash flows from the investment, and planning to take care of redemptions and maturity amounts.

Fifth is the ability to generate tax records and provide tax planning advice. Investors will need information on dividends, capital gains, interest from their investment for purposes of tax return filing. They will also need to plan for payment of advance taxes, capital gain taxes, carry forward and set-off of capital losses.

Sixth is the management of risk and events. Advisors should be able to show investors how risks can be managed through diversification and be able to articulate the risks of a product with respect to the overall portfolio.

Seventh is the ability to manage investor records and keep them updated for changes to address, bank details, nominations and any such information changes that are required. If investor records are updated the procedural problems when investors need to access their investments are minimised.

Eighth, advisors must exhibit a professional approach to dealing with the investors. This involves the clear communication of rights, duties and responsibilities, documented agreement on services and the fees, transparency in dealings and willingness to share information. Advisors may be certified by regulatory agencies to perform their function, and become signatories to codes of conduct of their professional associations to win investor confidence.

Last but not the least, as they say, the test of the pudding is in the eating. Just as we return to the restaurant that we liked, or check with friends and others before trying a new one, or go by reputation, patronage and history, we need to apply similar yardsticks before choosing an advisor.

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