A safer bet

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PRIVATE BANK CLIENTS ARE TURNING TO INDEPENDENT ADVISERS TO SERVE AS GATEKEEPERS OF THEIR ASSETS

By Genevieve Cua

STUNG by poor advice, deep losses and sudden illiquidity of structured investments during the financial crisis, some private bank clients are now re-assessing their options as markets recover. Turning to independent advisers or asset managers is one solution.

Such advisers have emerged in Singapore over the last couple of years, convinced of the untapped opportunity of a service that seeks to give holistic and independent advice.

Their business model is simple, yet also potentially game-changing. Clients' assets continue to sit in their various private bank accounts. The independent advisers serve as gatekeepers of sorts, overseeing the accounts and negotiating on behalf of clients for lower fees and more attractive terms.

The business models of all the firms contacted for this piece involve charging a fee for advice based on assets under management, which poses no small challenge to the firms. Asian clients, long accustomed to commission-based dealings with banks, are generally reluctant to pay for advice.

Michael Foo of Hoffman & Partners, a firm set up to provide family office services and independent advice to the wealthy, is optimistic that the service could take off. "At the moment, independent asset managers make up probably less than one per cent of the assets in Singapore-booked accounts. In Switzerland, the number is probably around 15 to 20 per cent. Hence, there is tremendous upside for the business model.

"We don't have an asset target for our own firm. Of course, we want to grow but we only want to do this with people (or partners) who share our philosophy of what traditional wealth management is."

Peter Douglas, principal of GFIA, has recently been engaged to advise a family office, a service which he expects to expand to more families by the end of the year. "My perception is that there is a very real opportunity here. The first is not to be a bank. We talk to a lot of high-net-worth individuals who feel they were badly let down by banks.

"Also, the majority of family offices and multi-family offices in the US and Europe have a very different set-up. They tend to be very tax driven and build fairly conventional pie chart portfolios with little slices in different assets which are outsourced aggressively." Mr Douglas believes a different approach is needed for Asian clients who tend to trade actively and frequently.

For a segment of clients, in any case, the crisis of 2008 – which sparked widespread margin calls on leveraged accounts and caused the unwinding of numerous structured products – was a turning point.

Anthonia Hui, who founded AL Wealth Partners, says it typically takes two generations of wealth – and significant losses – before a family wakes up to the value of independent advice. The crisis, however, may have sped up the process. "After three big recent crisis periods – the 1997 Asian crisis, 2002 technology bust and 2008 credit crunch – we are seeing plenty of first generation wealth come to this conclusion and seek our independent advice in managing their wealth."

She adds: "It is obvious to many banks and clients after the 2008 crisis that there is a fundamental conflict of interest which cannot be resolved easily. To stay profitable, banks have to make money from their clients by ensuring portfolio turnover is high due to product selling or leveraging. This puts the bank's interest above the client's best interests. Arguably one of the bank's jobs should be to prevent clients from making the common mistakes that destroy wealth, but very few bankers did this especially in 2007 while the Asian equity market was doing exceedingly well."

AL Wealth Partners may well be the largest Singapore-based independent asset manager or adviser with a Capital Markets Services License from the Monetary Authority of Singapore. Ms Hui is mum on assets under management. Most other firms operate under an exempt adviser licence which limits them to 30 qualified or accredited investors, and has less stringent requirements. Ms Hui is mum on assets under management, but the firm operates under boutique fund manager licence which has tighter compliance requirements. Most other firms operate under an exempt adviser licence which limits them to 30 qualified or accredited investors.

How much of an uphill climb is the issue of fees? Independent advisers maintain that a model that charges a fee for advice rather than earning commissions on transactions aligns the clients' interests with the advisers, as advisers earn more as assets grow. In contrast, a commission structure incentivises an adviser to churn clients' accounts.

Mandeep Nalwa, founder of Taurus Wealth Advisors, says: "The damage done in portfolios through compromised advice is far greater than the fees paid by customers. We believe it's a process of education and over time more potential clients will be happy paying advisory fees.

He says the reluctance to pay for advice may stem from the fact that many wealthy clients are first generation entrepreneurs who came into wealth by dint of their hard work.

"There is a need for control over costs and the general sentiment of frugality is ingrained." His model gives clients a choice of paying a flat fee or a management fee plus performance fee. If a bank pays his firm commissions for trades done on clients' behalf, this will be disclosed to clients and set off against the fees.

"Our bottom line is that we must only receive fees from the client directly or indirectly with no inducements of any kind." Taurus currently advises on some US$400 million in assets, and expects to hit US$1 billion within two years. Its challenge, he says, lies in "bandwidth" – that is, securing funding for expansion and finding good staff.

Ms Hui of AL Wealth says: "No client will pay a fee for investment advice if they feel the advice is not worth the fee charged. It is a common misconception by many, especially in Asia, that "advice" and service should be free. However, the 2008 crisis revealed that "free advice" from most financial institutions turned out to be destructively costly to one's wealth." ■

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> **Anthonia Hui, AL Wealth Partners**