
Consultants have to understand the mid- to long-term goals of clients to serve them well and make the right recommendations

Unit trust advisers must up their game

Higher knowledge and providing value-added services key to dealing with more sophisticated investors


story and pictures by Lim Siew May

S at Jan 31, the Federation of Investment Managers Malaysia (FIMM) says it has 53,516 unit trust consultants and 19,423 others handling private retirement schemes (PRS).

With such as sizable community, how have the economic slowdown, higher cost of living and reduced disposable income of retail investors affected their lives?

Nigel Ong, executive director of Nexus Select Capital agency and a registered unit trust consultant with Kenanga Investors Bhd, says unlike typical wage earners, a unit trust consultant does not have an income ceiling.

Nonetheless, the earnings of fresh graduates' entering the field are comparable to any other industry while that of experienced advisers depended on the portfolio they had built.

On the flipside, this can also mean financial advisers who are unable to innovate and grow may earn very little, he says.

Less money for investment?

With the economic challenges, are retail investors putting less into unit trust investments? Ong doubts so. "The difficult economic climate means funds need to be put to better use.

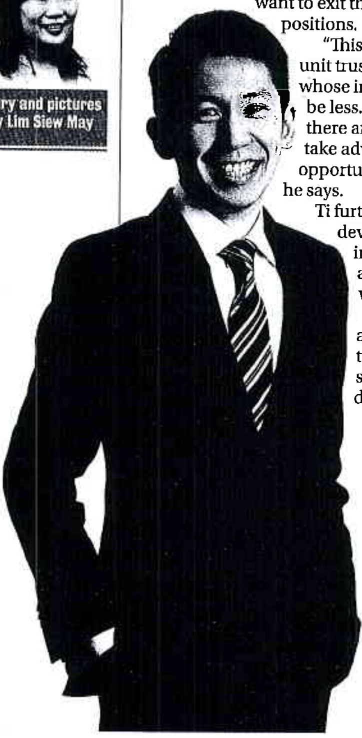
"Hence, advisers are more selective in the funds that they recommend. For example, we now recommend investing in export-based companies that benefit from the weak ringgit.

"Question is, can we identify all the right companies and provide sound advice to take advantage of available opportunities?

"To do so, we need to focus on mid- to long-term values that can benefit under present economic conditions," he says.

Jon Ti Yi Hong, a consultant and licensed financial planner with Ascendur Bistari Sdn Bhd, believes the volatile and uncertain global market outlook presents the real challenge.

"I don't believe people have less money to invest. They are just more cautious and may want to exit their investment positions.



"This certainly affects unit trust consultants whose income will be less. However, there are those who take advantage of opportunities to invest," he says.

Ti further believes the development of the industry poses a challenge as well.

"As there is a greater push to open more sophisticated distribution channels for retail investors, I expect more downward pressure on fee structures in future.

"A looming threat around the corner comes in the form of index funds or passive management funds, which have very low cost models.

"If these gain popularity in Malaysia, we will see a large number of consultants leaving the industry," he says.


FIMM's chief executive officer Nazaruddin Othman says it has 53,516 active unit trust consultants and another 19,423 others handling private retirement schemes.

Continuous improvement critical

FIMM chief executive officer Nazaruddin Othman says the introduction of the Guidelines on Continuing Professional Development in 2010 made it compulsory for unit trust consultants to accumulate Continuing Professional Development (CPD) points by attending its CPD-approved courses.

> **"Advisers are more selective in the funds that they recommend. For example, we now recommend investing in export-based companies that benefit from the weak ringgit."**
> – Ong

Online platforms help raise standards

HOW has technology and retail investor-oriented seminars that promote do-it-yourself (DIY) investing altered sales and strategies of unit trust advisers?

Nigel Ong, executive director of Nexus Select Capital agency and a registered unit trust consultant with Kenanga Investors Bhd, says these are exciting developments in the industry, as they provide potential investors with much exposure.

"Investors are getting more engaged and are turning up for investment seminars, but at the end of the day, circumstances and the market are changing daily.

"While investors can understand broader investment concepts with investment education seminars and DIY investing platforms, unless they are doing it as a full-time job, the information they have will be far less than that of [full-time] professional advisers," he says.

The same applies to online unit trust distribution platforms like Fundsupermart.com.

"Yes, Fundsupermart.com levies a 1% or 2% upfront sales charge as opposed to the industry average of 5.5%.

"The cost is low, but I also look at the value in terms of what you get out of it. You are doing everything yourself," Ong argues.

While he acknowledges that the platform is extremely convenient and one can pick whatever funds he wishes to invest in with ease, it is not a substitute for professional advisers.

"A 'supermarket' doesn't understand your needs, your emotions and what you want to achieve with your goals.

"If you engage with a professional and competent adviser, you may pay 5% but you get real value. They help you make the right decisions and provide sound advice, so the cost is justified," he says.

Nonetheless, Ong reiterates that online platforms affect unit trust advisers in a good way by raising industry standards.

"It forces us to improve and innovate, and ensure we have a long-term, cradle-to-grave relationship with our clients. The needs and life stages of our clients changes and so does the market. This is where investors get professional financial advisers to assist," he says.

Ong predicts that industry standards would continue to rise across the board. He adds that despite online platforms, his agency's business continues to grow.

"Asset under management (AUM) has grown approximately 5% from Dec 31, last year to year to date. My team's (he has 10 advisers) AUM grew seven-fold last year compared to 2014," he says.

Jon Ti Yi Hong, a consultant and licensed financial planner with Ascendur Bistari Sdn Bhd, concurs with Ong's view.

He says the increased competition will likely push fees downwards. Already, Ti observes that consumers are becoming more financially savvy and demanding greater access and control over their investments.

"Consumers do not depend on consultants anymore to tell them of their fund's performance, but they need us to help them interpret the data," he says.

"Therefore, one cannot peddle funds and expect to survive in this industry. We have to justify our higher fee with value-added services such as genuine and professional advice.

"Clients need to know we can guide them to build a portfolio based on sound and informed investment decisions while avoiding overly emotional ones," he says.

Ti believes in the importance of customising services to suit the client's needs.

"This is done by finding out what views the client has on investing, and what roles both parties will have in the client-consultant relationship," he says.

"This serves to ensure unit trust consultants keep abreast with the latest developments in the industry and their profession, which ultimately benefits investors," he says.

However, those who wish to thrive in the industry must go beyond the compulsory CPD courses.

Ong says more advisers will complete certification programmes such as the certified financial planner (CFP) and registered financial planner (RFP).

The industry, he says, needs advisers who are more innovative and able to offer higher value-added services.

"These courses help advisers to understand clients' needs in a holistic manner. Ultimately, you recommend funds that are in line with wealth preservation.

"Advisers can offer greater synergy with what clients wish to achieve, and have better understanding of their portfolio. The courses also help advisers to understand other products aside from unit trust," he says.

Increased competition is a reality the industry is grappling with, and it comes through online unit trust distributors such as Fundsupermart.com for instance.

Local players are also merging and stepping up their service and value offerings, while Amundi Malaysia Sdn Bhd and Franklin Templeton GSC Asset Management Sdn Bhd have entered the market.

"There are more products available today, and as clients get more sophisticated and well informed, we are forced to upgrade our skills and knowledge to better manage their funds.

"This includes advising and recommending the right funds that have had consistent performance over the past three to five years.

"We are expected to recommend fundamentally strong funds that meet economic challenges and not just those that do extremely well in one year, or offer compensation to advisers," Ong says.

This translates into healthy competition where only the best will prevail. "Advisers need to understand all aspects of financial consulting, and provide clients with more holistic solutions.

"This is really a good thing as those advisers who brave the challenge can carve a niche in the market. Competition weeds out advisers who offer less competitive services," he says.

Ong says his agency is still performing well, and that certain investors understand the meaning of market opportunities.

"In times like this, some clients may want to move towards cash and fixed income, while some prefer to position themselves for a potentially long-term rebound based on investing in fundamentally strong companies, or those with the right valuation and in the right sectors," he says.

Those who prefer equities are advised to invest in export-based sectors that benefit from the ringgit depreciation. These include semi-conductors and furniture companies.

> **"Clients look for characteristics such as stability and confidence in a consultant. It may not bode well if their consultant changed profession."**
> – Ti

Looking at these companies' performance for last year, Ong says they had achieved share price growth of double-digits.

Ti believes most unit trust consultants will be struggling under prevailing economic conditions, so improving communications with clients is key to survival.

"Clients look for characteristics such as stability and confidence in a consultant. It may not bode well if their consultant changed profession," he says.

He believes it is not uncommon for unit trust consultants to diversify into other financial products, such as being an insurance agent or will writer.

"It is important to remain knowledgeable. It is also worthwhile to use financial planning models," he says.

There might be a silver lining for unit trust consultants to enhance their income. During the revised Budget 2016 announcement, the government proposed a 3% EPF reduction (from 11% to 8%) starting from March to December next year.

The initiative, which is expected to increase private consumption expenditure by RM8 bil a year, is intended to put more money into the pockets of workers.

Ong sees this as an opportunity to make higher sales, although it remains to be seen if industry players can tap into the opportunity and convince investors that the extra cash should be invested for long-term returns.

Ti concurs. He believes the new initiative will definitely be an opportunity, especially for those who do not need the extra cash and would like to invest it outside of the EPF. FocusM