

Too many so-called advisors have limited experience and qualifications: India's Credence FO

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Regulatory efforts and novel market realities have pushed India's wealth businesses to the advisory front, yet for individual firms in a crowded space it remains a challenge to differentiate their value proposition.



Mitesh Shah, co-founder and CEO of Credence Family Office, pointed out to *Asian Private Banker* that the advisory model was put into focus by the 2008 financial crisis, which highlighted the importance of quality financial advisory. But it wasn't until in recent years that the adoption of such model became popular.

*Mitesh Shah, Credence Family
Office*

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More importantly, the markets and ecosystem in India have evolved and matured, Shah said. Gone are the days when investors could easily garner returns from the domestic stock market — the decade between 2011 and 2020 saw only single-digit returns on the NIFTY 50, the benchmark Indian stock market index.

Hence there is a greater emphasis on the role of advisory. As Shah sees it: “To generate above-average risk-adjusted returns, the intellect and insight of the advisors coupled with non-conflicting advisory models have become paramount.”

But Shah regretted the low entry barriers for financial intermediaries in India, noting that in the financial year 2018-2019 alone, India saw over 17,000 new AMFI registrations. (Registration with the Association of Mutual Funds in India — subject to passing the certification test as AMFI Registered Mutual Fund Advisors — is a prerequisite for any financial intermediary in India.)

“In the past ten years, many of the new advisors who have emerged have not even experienced a full economic cycle,” Shah lamented. “A disproportionately large number of these so-called advisors have limited experience and qualifications to deal with increased market volatility and investor behaviour.”

A combined fee structure

Credence has a combined fee structure: one is a fixed retainer fee for the entire scope of activities that it undertakes for a client, which encompasses wealth management, tax advisory, execution, business consulting and succession planning. The other part is a success fee structure, designed for specific assignments such as investment banking, fund-raising, real estate and lending.

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“Conventionally, we have never been a great believer in charging a performance fee, for the simple reason that higher performance generally comes with a higher degree of risk, which may or may not match the objectives of the client,” Shah explained.

He explained that, as a family office, through a focus on helping clients “generate higher risk-adjusted returns, on their assets and on their trust”, Credence differentiates itself from investment managers whose job it is to create alpha.

The concept of risk-adjusted returns is relatively new to many investors in India, but Shah said the firm is committed to helping clients understand the relevance and importance of the concept, which remains a challenge.

The majority of Credence’s clientele are first-generation entrepreneurs with newly generated wealth, which is managed on “a multi-faceted platform, from investment management to tax structuring to estate planning, real estate and lending solutions to business consulting”.

It is equally important to “ensure that the advisory is objective and helps in removing different biases that affect decision making”, Shah added. “The role of an advisor is to ensure implementation without letting these biases come in between and our model simply endeavours to do the same.”

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