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Coffeebreak

Unsung Hero | Thai Commercial

Here's Why We Charge a Higher Fee Than Robos

Here's Why I Broke My Bond and Joined Providend

Providend

Dear Valued Client,

The month of September is the time of the year when we celebrated Providend's anniversary, and this year is our 22nd birthday. As part of our celebration, we organised a client webinar which we also allowed non-clients to attend. It was a technical webinar on how we more robustly estimate future expected returns of equities so that we can better ensure that our clients can reach their life goals. During the Questions & Answers segment, quite a few of questions were asked on how we ensure that our client advisers will not be conflicted and will always do the right thing for their clients. To be honest, when I first saw the questions, I was a bit upset. From the way the questions were asked, I knew that they were likely from competitors who signed up to watch our webinar. In my mind, I was thinking, "How can they even think that we will be conflicted! The very reason of our existence 22 years ago was to give honest, independent, and competent advice. Otherwise, we would not have gone the fee-only way! If only they knew the extent we went to, to make sure we always do the right thing for clients!". But on hindsight, these questions gave me an opportunity to share what we do. So I shared that there are 3 areas that we work on to ensure that we mitigate as much as possible all conflict of interest that may arise.

1. **Compensation**

   At Providend, not only are our advisers not paid by commissions but by a salary, their total rewards are also not proportionately linked to volume of investment assets that they bring into the firm. In addition, Providend is also not compensated by product commissions except for product commissions that we cannot rebate such as insurance products under the CPF Investment Scheme (Integrated Shield Plans and CareShield Life Plans) as CPF Board does not allow financial institutions to do so.

2. Process

Since we started, Providend has always been an institutionalised practice, quite different from everyone else in the industry. What this means is that all our client advisers abide by the same planning philosophies, use the same planning methods and tools and we even have an Adviser's Planning Guide that is regular updated which all advisers must use when writing wealth plans for clients. All assumptions used for planning to work out how much clients need to invest to reach their goals are also the same and before each wealth plan leave the firm, they are always signed by a supervisor to make sure they have been done properly.

3. Culture

A company can have the strictest rules but if we have the wrong people in the firm who do not passionately believe in the vision of the firm, there is always still a chance where things might still go wrong. That is why at Providend, ensuring that our culture (embedded in our core values as well as corporate purpose) perpetuates from one generation to another is of utmost importance and this start from "getting the right people on the bus and the wrong people off the bus".

When I first started Providend 22 years ago, many asked me if running a business like this is sustainable. Well, all I can say is that it was definitely tough at the beginning, but we have more than survived after 22 years and I want to take this opportunity to thank all our clients for entrusting us with their wealth. We do not take this trust lightly.

In this issue of our CoffeeBreak, I hope that you will find what I have shared above manifested in a recent article that I wrote for The Business Times as well as a 3-minute inspiring video which in a way showcased what the people of Providend treasure most - human emotions more than money. And finally, one of our younger Client Advisers shares how he had to break a bond and pay a lot of money to join us. Zhi Han is the type of client adviser that we love to have on our team because not only does he believes in what we do, he paid a price to do what he believes in.

Have a good CoffeeBreak!

Warmest regards,
Chief Executive Officer

Christopher Tan

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Here's Why We Charge a Higher Fee Than Robos

Christopher Tan, CEO of Providend

From time to time, we will get this question about the way we manage wealth for our clients: "why should clients pay you an ongoing advisory fee if you take a "passive" instead of an "active" approach to investing?"

In the investment world, an active investment strategy is one whereby the investment managers will switch from one asset class/ country/region/theme to another or pick securities based on short-term market forecasts to try to get higher than market returns (also known as alpha). This is as opposed to passive investment managers who buy a basket of securities that simply tracks an index and do not make frequent changes due to short-term views of the markets. In doing so, they will only get market returns. Because of the term passive, it seems to suggest that it is an inferior, lazy approach where there is nothing much being done once an investor invests and because passive managers do not give excess returns over the markets, there is no value added and perhaps one should just DIY and avoid paying extra fees to wealth advisers like us. But to debate on which is the better approach without first determining the type of clients we are investing for and what problems we are trying to solve for them is like putting the cart before the horse and therefore futile.

For my firm, our clients are primarily family stewards whose dominant focus is to take care of their families and they are conservative in their personal and professional lives. When they come to us, they want us to help them reach their non-negotiable life events (such as retirement) without compromising their shorter-term life goals (such as taking a one-year sabbatical to pursue a worthwhile cause with a non-profit organisation). Therefore, they are not looking to maximise their investment returns but rather the reliability and sufficiency of the returns to meet their needs. To achieve that, the better approach would surely be based on evidence rather than trying to outguess the market.

I have written numerous articles on this column that while there are some active managers who can beat the markets, scores of evidence show that most do not and even for those who did, they cannot do it consistently. Therefore, the evidence-based way to get returns is via globally diversified portfolios using passive low-cost index and systematic investments and staying invested for the long term instead of making frequent short-term adjustments based on guesses no matter how smart they may seem. But for this "passive" approach to work, there are 3 areas that needs to be active.

Wealth Planning

In order to ensure that clients' wealth plan can achieve their life events and goals with higher certainty. We need to work out the amount of funds and the suitable asset allocation that they should invest and stay invested in. Therefore, the future expected returns of the stock markets need to be properly estimated. One model that investment analysts use is the Ibbotson-Chen Earnings Model developed by Dr Peng Chen (who is currently my firm's Senior Advisor) and Roger G. Ibbotson which was published on the Financial Analyst Journal in 2003 and adopted as a fundamental reading and testing for the Chartered Financial Analyst examination. The model breaks down the overall equity returns into various components and examined the historical data and scrutinized each component in forward looking setting to come up with the final estimate. While it is an estimate, because it is scientifically developed, there is a basis for us to make adjustments, when necessary, throughout the lifetime of our clients because the markets are always changing. This process can hardly be described as passive.

Investment Management

While we do not actively manage our portfolios in ways the industry defines it to be, it does not mean nothing is done on an ongoing basis behind the scenes. We hold quarterly meetings with the fund managers that we work with and actively checked the investment behaviours (these includes but are not limited to their returns and risks) of the portfolios to make sure that it is working the way it should be. In addition, we continue to scour for suitable instruments that we can use to improve the investment experience for clients even though we don't always include every instrument we looked at. An example would be that we incorporated ETFs that tracked China Government Bonds but did not add Treasury Inflation Protection Securities (even though we did a study on it) in the recent changes made to some of our portfolios. The portfolios are also actively being rebalanced on a regular basis or whenever needed so that it continues to reflect its correct asset allocation. I do not think anyone can say we are passive in this area. Learn how we add value to our clients through active investing, the Providend way, here in this article.

Investor Psychology

While we know from evidence that staying invested for the long term is the most reliable way to get sufficient returns, we know that in the short run, there will be plenty of noise which will cause volatilities and in turn can cause investors to feel uncomfortable and sell out prematurely. If they do so, they will then not be able to capture the returns they need and possibly even lose capital. As such, besides doing proper cashflow planning before and in retirement for clients that is customised to their individual circumstances, we actively execute a turbulence management plan that includes investor education from the time clients are onboarded and throughout their lifetime and also a series of communication and handholding activities through market volatilities. As a result of our "active management", we hardly had clients who panic sold in 2022 when markets were uncertain but instead added more money into their investments. This allowed them to capture the returns when markets started recovering since the beginning of 2023.

So, whenever I am asked on whether we use the active or passive approach to investing, my answer is that we are evidence-based. We are passive in areas where evidence show us that it is better to be passive and active in areas where we cannot afford to be passive. This philosophy is born out of our experiences managing money through many crises. We know what works and won't work. While this approach may not suit every investor, from our experience, it is best suited for those who aren't looking to maximise their returns but looking for a more reliable way to get sufficient returns to achieve their non-negotiable life events and goals. As an individual investor, you need to decide what type you are and the best approach that suits you.

Below is also a short video where we detail what we do for the fees we charge, in comparison to the robo-advisors and DIY investors who invests with an online brokerage.

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Here's Why I Broke My Bond and Joined Providend

Toh Zhi Han, Client Adviser

2015 was a very somber year for me.

A series of events that happened reshaped the way I view my career in the financial services industry. Within a short span of two months, three of my clients, all in their mid 30s, passed away one after another.

For the first client, he was simply walking to the carpark after work one day when he suddenly passed out. Although he was rushed to the A&E after a passerby called the ambulance, he was diagnosed with intracranial hemorrhage and remained in a state of coma before passing on days later.

The second client felt extreme physical discomfort while he was having a holiday in Sarawak. When he returned to Singapore, the pain worsened and he decided to check himself into A&E. After being diagnosed with advanced stage stomach cancer, he too fell into a state of coma and was admitted into the ICU before passing on exactly 28 days later. I visited him on several occasions in the ICU and that was where I witnessed the heart wrenching scenes of many family members, relatives and friends of my client, all sobbing and praying the most sincere and desperate prayers.

The third client was a Dutch national working in Singapore. I met him for lunch to catch up one day and sensed that he was not emotionally right. I soon found out that he had left his job as he found it hard to function and was struggling to cope at work after losing his dad to old age. He had tremendous love for his father and was unable to accept that his father would no longer be around. A week later, I received a phone call filled with ear piercing wails in between stuttering and broken words informing me the death of this client. Quite naturally, that left me in a state of shock. To cut the story short, my client decided to commit suicide in Bangkok, Thailand.

I spent the next couple of weeks ensuring the administrative works for all three death claims were properly sorted out and ensured that the payouts were swiftly processed and received by the respective beneficiaries. My only consolation was that the work that I had done years before, at the very least, gave financial relief to the family members of the deceased. It was only when the dust had settled that I did some reflections, and realized the weight and importance of providing good wealth advice – recommending suitable financial products and how the words of an adviser can make or break a family when things go wrong.

The truth, however, was that I did not enter the financial services industry because I was passionate about helping families. After completing my National Service, my parents sat me down and asked if I was keen to study in Australia. Back then, I really wanted to experience entrepreneurship and start having an income as early as possible. Furthering my studies overseas did not appeal to me at all at that point. I thought why not explore working in a sales position first and if I really wanted to, I could still go back to studying. Coincidentally, my family's insurance agent gave my mum a routine call and for some reason, they started chatting about me. My mum told our agent that I was exploring a sales job and shortly after, our agent gave me a call to share with me about starting a career in the insurance industry.

After some consideration and with nothing to lose, I jumped into the industry with the aim of making good income. My career started off on quite a different note as compared to other practitioners. I did not approach my family, friends, or relatives. For the first couple of years, I cold-called, did street canvasing, participated in numerous road shows, and during the weekends, I scoured uncountable HDB flats. As the landscape evolves, I transited to SMS marketing, social media advertisements and even set up a call center with an automated voice calling system. As you may have already observed, a huge portion of my time was spent on contacting more people, with the aim of bringing in more sales. I also spent a considerable amount of time brainstorming with my colleagues on sales concepts and sharpening our salesmanship. The efforts did pay off eventually. We were rewarded very generously and went on multiple all-expense paid incentive trips yearly.

It was on one occasion when I was researching on CPF schemes when I chanced upon a video featuring Providend's CEO, Mr. Christopher Tan. He spoke about the inherent conflict of interest in the commission-based insurance industry and the reason why he left the insurance industry to set up Providend. I was deeply inspired by his conviction and belief that a fee-only structure is probably the best way to eliminate the financial conflict of interest between a client and adviser. That really struck me. He also mentioned that it is impossible for one person to be multi-disciplinary – an expert in investment, insurance, Wills and Trust all at the same time. That is so true!

Hence, I began to follow Providend closely, researching more about the work they do and the things they say. I was intrigued and decided to reach out to Chris with the intention to find out more about the fee-only structure as I really hoped to implement a similar model for my own practice. I was perplexed as to how to charge, no idea whether my clients or the general population would be receptive towards a fee-only model and totally clueless if my competence allows me to charge a fee.

In my conversation with Chris, he shared honestly that the odds are really against me because I was in a commission-based environment where everyone is rewarded and recognised based on the revenue we bring in. Moreover, we must be able to provide competent advice holistically to be fee-only and it is just not possible for one person to be an expert in every area. Chris went on to share that the Providend team is currently hiring and if I need a community of like-minded individuals, I can always explore the job opportunity further with him.

At the back of my mind, while I felt really motivated to offer fee-only advice, I struggled with the following thoughts:

1. Firstly, what is going to happen to all my existing clients when I leave?

2. Secondly, I was bonded to the insurer I was working with and breaking the bond just did not make financial sense.

3. Thirdly, if things do not work out for me in Providend, it will mean a restart in my career. The stakes were very high for me.

Nonetheless, after much deliberation, I decided to take the leap of faith and joined Providend as a Client Adviser.

What I had experienced in Providend the past year was completely different from what I was familiar with. The people at Providend spend hours discussing how to refine a simple risk profiling questionnaire. It is not uncommon to wake up to long threads of WhatsApp conversations that go on through the wee hours, discussing and debating on the best wealth planning methodologies for our clients in the right posture. The advisers at Providend spend a great deal of time educating and equipping ourselves with the necessary skills set to deliver good advice. Earlier this year, we also went on a company retreat to Sydney, Australia visiting other fee-only firms to learn from them. Client centricity is core here and an adviser would pass on a client to another adviser just because we truly think that he or she is more suited and can better serve the client's needs.

The greatest difference, however, is that I used to spend a lot of time keeping a lookout for potential business and sharpening my salesmanship but right now, I spend most of my time understanding, analysing, planning for clients, improving my advisory skills, my knowledge and just focusing on being a competent adviser.

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