PORTFOLIO

Keep investments simple

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In the last two years, we have moved our HNIs' portfolio from real estate to equities

HNIs are no different from retail investors when it comes to taking a fancy for real estate or not giving enough time for equities to deliver, says Mimi Partha Sarathy, Managing Director of Sinhasi Consultants, a Bangalore-based investment management firm for HNIs. Sinhasi boasts of a clientele that includes Kiran Mazumdar Shaw of Biocon, Ravi Nedungadi of UB Holdings and film personality Waheeda Rehman. Excerpts:

How different are HNIs' investment needs compared to retail investors?

Let's categorise the HNIs first. At one time, it was someone with a net worth of a million dollars. Today, a million dollars is about Rs. 6 crore which is not a very big sum. Now, $10 million is a more acceptable threshold level, which is about Rs. 60 crore.

Investment needs of HNIs are extremely individualistic. Retail investors work at a set of income levels for goals such as education of children, retirement, etc. With HNIs, their needs depend on their background. There is one set of first generation HNIs, who have made it big, but are extremely concerned about succession planning.

Then, there are these second generation HNIs in business families — youngsters who are being groomed in the family businesses. To a large extent, their parents are still taking care of the wealth and they want the children to learn to preserve the wealth by investing it wisely. Among the second generation, there are others who are in the 35-40 age group, who have been investing in real estate, gold, business expansion, etc. in an adhoc manner and are now realising the need for proper financial planning.

Finally, there are those who haven't inherited anything, but have made it big in the corporate world. In most cases, if you ask them about their company, they will give out numbers readily. But they may not be able to give a detailed plan for their money.

How are the preferences among the ultra rich for different asset classes?

Let us look at a $5 million (Rs. 30 crore) portfolio. In many cases, more than 50-60 per cent is parked in real estate. Over the past five years, since the market fall of 2008, many people have preferred real estate and gold.

The environment prompts you to feel or be told that the best thing is to buy one house. HNIs are no different from retail investors in this respect. The only difference is that it may be two or three houses instead of one.

But over the last two years, we have aggressively started moving the portfolio of our HNIs to equities. We honestly felt that real estate has re-rated. The other thing about HNIs is that they have direct access to other business leaders and investment bankers. Conversations in their social circles are centred around money. But I have seen that 75-80 per cent of the time, investing based on such conversation does not work. So they have understood that the best way to make money is to keep it very simple and disciplined.

Even if he is an HNI, he must have an SIP in equities, for instance. He must have STP if he has bigger sums of money. Stock market is the only asset class that has done somewhat well, post 2008. Gold and real-estate have collapsed. So today everyone is turning to the stock market, which is a good thing.

Aren't HNIs interested in latching on to newer options such as private equity?

Pre-2008, everyone was willing to do anything to earn high returns. Today, the situation is different. Private equity is definitely a big game. But I know for a fact that most HNIs are extremely conservative. They will not pump in Rs. 1 crore, which is the SEBI mandated minimum investment for a private equity fund.

Besides, there has been tremendous mis-selling in this space under the earlier mandate of a minimum investment of Rs. 25 lakh. People are not very convinced about private equity because of several reasons.

One, most people managing these businesses are investment bankers. HNIs are doubtful whether they really know how to run businesses. Then there are those who have worked in large organisations and have started their own private equity funds. HNIs are more comfortable with this set of people because they have run businesses before.

The third is the entrepreneur who has also set up a start-up fund. The chances of him succeeding are the highest. But how many entrepreneurs will be interested in registering with SEBI and pave the way for HNIs to invest in their companies? They will often get funds from friends and acquaintances.

Do you see a lack of investment options for your clients?

On the contrary, I think we are spoilt for choice. We have a sound stock market with sound regulations. We have good mutual funds. Even on the debt side, some of the post office schemes are quite competitive. Then we have tax-free bonds that gave 9 per cent tax-free interest. Even today, at 7 per cent, it is an attractive option. We have quite a bit of simple products. It is best not to complicate them.

What are the common mistakes that HNIs make?

They read a lot and get carried away by conversations with peers. Like everyone else, they always invest on an impulse. Almost all HNIs I have dealt with don't have a will.

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