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MAIL TODAY

Targeting the small investor

Brokerages are now managing portfolios as small as Rs 5 lakh equity. R. Sree Ram finds out whether these schemes offer value for money

Illustration: RAJ

ONCE upon a time, foreign investment banks deepened the divide between the middle class and the super rich. They did so not just by insisting on huge amounts as deposits, but by offering exclusive services. High net-worth individuals (HNIs), with a minimum investment of Rs 25-50 lakh, were offered select portfolio management services (PMS) by foreign investment banks such as Citibank, ABN Amro and HSBC.

"As foreign banks increased their presence in India, they targeted high net-worth individuals. In the process, their products were mostly designed to cater to the needs of wealthy people," says Manish S. Boricha, vice-president of HNI Acquisition and Corporate Sales, Sharekhan.

Smaller investors, who possibly needed the service more, were left out. Until domestic brokerages stepped in and started offering portfolio management services (PMS) to those with a minimum investible amount of Rs 5 lakh. This proved immensely popular and the broking companies launched different products and schemes according to the investors' risk appetite. "The portfolio management service has evolved as a product of choice. Clients have shown a lot of interest over the past few years," says Kunj B. Bansal, senior vice-president of Portfolio Management Services, Kotak Securities. "The service has a long way to go. It is a proven model throughout the world. In India we are still in the catch-up mode," adds Boricha.

How it works — PMS deal largely with the handling of financial assets. An investor can either give cash or transfer the existing portfolio to the broking firm managing the funds. The services

PMS largely handles financial assets

offered are of two types—discretionary, wherein the fund manager has a free hand in buying or selling, and non-discretionary, where he acts only on the investors' instructions.

Broking firms charge either a fixed fee or share the profits earned by the portfolio. The fixed charge is usually 2-2.5 per cent per annum, which is deducted every quarter. In the profit-sharing system, the broking company charges the investor only if the fund makes profits. A hurdle rate, generally 10-15 per cent, is fixed and a fee is charged only if the profit is more than the hurdle rate.

"The main advantage of the PMS is flexibility. Investors or fund managers can easily convert the portfolio to cash or invest back in equity depending on their market view. Investors can also define the terms of the portfolio, like the kind of stocks they want and how aggressive they want their portfolios to be," says Bansal.

Another advantage is that investors can benefit from short-term themes. The fund manager of the PMS actively tracks 25-30 stocks and tries to benefit from the near-term movement in price. With sentiment changing by the day, a company that was a good buy one week turns out to be the least preferred stock in no time. This gives rise to short-term investment opportunities which can be captured by the active fund manager in the PMS. When crude oil prices fell, the stocks of state-run oil marketing firms were the biggest beneficiaries. An active fund manager would have increased the exposure to these stocks and exited at the right time.

"Anyone can identify a good stock. What makes the difference is timing, and this is where an active fund manager in a PMS scores," says Boricha. Not surprisingly, most PMS schemes have outperformed their benchmark indices. The flip side — With greater flexibility, PMS also brings higher risk. Investors should be able to stomach volatility in share prices. In a PMS, unlike mutual funds, there are no pre-set guidelines to avoid high allocation to certain stocks. So, a wrong bet on one stock and the subsequent trades to cover the losses can wipe out the entire portfolio. Also, the mandate to generate greater returns can lead to frequent churning, which increases the cost of managing the portfolio. Unlike mutual funds, PMS charges are highly negotiable, which makes it difficult to benchmark the costs.

Before choosing a PMS, be clear about the strategy you want it to adopt. Broking companies offer various options. India Infoline, for instance, has a growth portfolio which concentrates on stocks that offer long-term potential. It also offers a momentum portfolio that tries to gain from short-term themes. Sharekhan has a scheme called ProTech, which buys or sells stocks based on technical parameters. The bottom line is that identifying your investment preference and risk appetite, and choosing a trustworthy broking house, can result in the PMS being a good long-term wealth creator.

What the broking firms offer

BROKERAGE HOUSE	MINIMUM INVESTMENT (RS LAKH)	OPTIONS/SCHEMES	LOCK-IN PERIOD
Sharekhan	5	Advanced Scheme, Pro-Tech, Pro-Prime	6 months
Prabhudas Lilladher	5	Multi Strategy, EquiTrix, EquiGrow	6 months
Anagram	5	Opportunities and Vision Scheme	12 months
Kotak Securities	10	NA, depends on the clients' preferences	Not Available
Geojit BNP Paribas	10	NA, depends on the clients' preferences	Not Available
India Infoline	10	Growth Portfolio, Momentum Portfolio	None
Motilal Oswal	25	Value, Discover, Virtue, Bulls Eye	12 months

Source: Respective brokerage houses [illegible]

Go for PMS only if...

- You have a risk appetite for equity investments.
- You are ready to give a free hand to the fund manager.
- The broking house takes its charges only from the profits.
- You trust the broking house or the fund manager.

PMS advantages

- Control over asset allocation; customised portfolio.
- Flexibility to move in and out of cash.
- Aggressive in finding right investment opportunities.
- Benefits from the expertise of the brokerage house.

PMS drawbacks

- Investors are not completely immune to market risk.
- Over-dependence on the fund manager can hurt long-term performance.
- Mandate to generate greater returns can lead to excessive portfolio churning.