

A Bird's Eye View Sparrows Newsletter

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John realised he was going down a very tortuous path. He had seriously underestimated the amount of work involved in building a so-called passive investment portfolio. For the last 6 months he had been very busy trying to get to grips with the intricacies of passive investments, the empirical evidence supporting these solutions and the financial theory on which the entire framework is based. One thing he had clearly understood was that there was definitely nothing passive about being a “passive investor”.

He also realised that despite all his groundwork he was still far from being an expert in this field; he would probably be better off finding someone who was. It was quite frustrating; he had only recently fired his previous wealth manager and was already accepting the need to find a new one.

Why would it be any different this time? After all, aren't financial advisors all the same? They all want you to believe that you are not competent to manage your own investments. They talk about things you don't understand, to make you feel ignorant. They let you know that they are the smartest kid in the room. They tell you that you should protect and grow your capital, and that Savings and Investments are the most important things in your life. They tell you that investing in A would be much better than investing in B.

John had never really fallen for all this. He had always believed that life is unpredictable, and usually doesn't go according to plan. It is filled with positive and negative surprises. Most people don't plan their financial life at all anyway. It kind of happens!

As any story, John's financial life story involved low points, high points and different chapters. He had seen high points full of joy, excitement, great happiness, and even peace. He had seen low points, marked by disappointment, despair, disillusionment, guilt and fear. In between there were turning points, where he had experienced substantial changes; turning points which were life challenges he had to face. He had managed to overcome some but not all of these challenges.

John felt strongly that his financial life story was not about the money. It was linked to his financial education. It was about his parents, the people and circumstances that influenced him growing up, his first jobs and first loves, unforeseen accidents and family health scares, career crossroads and parenting fiascos – It was about the story of his entire life.

His main concerns were about working and spending in general. Savings and Investments were only a by-product of his working and spending life. They were financial activities that felt abstract, impersonal, secondary and even accidental. In John's experience, the wealth management industry was all about explaining to their customers how to protect and grow their assets, selling complex investments designed do that. It was focused on products, on Savings and Investments. This was the main reason he had never been able to engage with his financial advisors. He had no interest in talking about products; what mattered to him was finding help in making the fundamental life decisions that have financial consequences. These life decisions were all about working and spending.

Some years back, when John had been faced with a decision about selling the shares of a private company he had invested in, and which had made him a small fortune, his wealth manager had fallen over himself to take John through all the amazing new investments he should make, while completely failing to explain why his personal decisions mattered and how they would affect his wealth and his lifestyle going forward.

Having now done his 6 months' homework, John had realised that the most important decision he had to make was to define his financial objectives. His money should serve his objectives and not the other way around. Something his wife kept reminding him of all the time!

Why should he accommodate the needs and greed of his financial advisor? It was time for the wealth management industry to change, and to focus on the fundamental issue of truly caring for its clients' needs. Even now the industry continues to speak a language that anathema to its customers, focusing on sales, on products, on Savings and Investments. As a consequence, people continue to be disappointed with the services they have received, with the products they have been sold, and with the eventual returns they achieve.

What John really needed was someone to help him bring clarity, insight and discipline to the choices he would have to make with his money; someone who would help him understand the potential financial consequences of these choices. This, he thought, would make him financially happy. It would be liberating to find a solution to a stressful financial life and to be able to appreciate the consequences of his choices on his lifestyle. It would remove the frustration he had so often felt, and replace it with a feeling of pride and privilege in being able to navigate these complex choices.

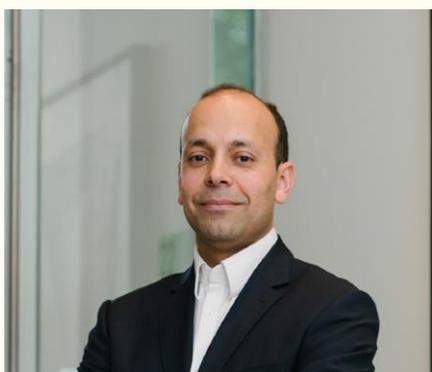
All he needed was for his advisor to prepare a personalised investment solution designed around his objectives, and to review these objectives and identify changes throughout the low points, high points and chapters in John's life. He also wanted a single, easily accessible, way to keep track of his investments, providing a clear and intuitive picture of his financial wealth. What John did not need was more marketing material telling him why China was now a buying opportunity and how his manager was going to make him rich.

John had come to the clear conclusion that he would be better off with a passive investment manager. He would have someone focused entirely on his needs, not on gambling his money on risky speculation. He was comfortable that a well-designed passive investment strategy would be the best expression of his personalised financial objectives. Objectives relevant to his need. Objectives defined with the help of an unconflicted advisor.

He wouldn't need to chase his wealth manager every week to check if his investments were making him more money, now that he knew that managers have almost no influence on that. He felt more confident he would achieve his investment goals since passive investing was likely to take on less risks by widely spreading his money across several geographies and asset classes, and would cost him much less. He would no longer be subsidising the extravagant lifestyle of his former wealth manager.

Convinced that this was the way forward, John was determined to find the right passive manager to help design and execute a strategy. He had the knowledge to be able to find that manager now. He felt a strange sense of déjà vu. He was reminded of all the time he had spent dating and searching a wife without even knowing what he was looking for. It had been an excruciating experience for him, until that fateful day when the mists had cleared and he had understood who would be his ideal life partner. The following week, he had met the woman who would become his wife.

Fahd Rachidy



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