

# Managing lifestyle



**G**REATER wealth in the hands of the Indian consumer has driven up aspirations over the last decade. Simultaneously, two other things have gone up: the avenues for spending and volatility in the markets. As a result, rich folks now have even less time to manage their wealth. Enter the professional wealth manager. But what exactly is wealth management? And why do some individuals need this specific service more than others?

Wealth management means managing surpluses or wealth in an optimum manner. It starts with making a plan for one's life — something that can be called a personal balance sheet. This would compile basic data about one's goals and objectives, as given below.

**The wealth to achieve aspirations:** The aspirations could include maintaining an inflation-adjusted lifestyle, providing for children's higher education or marriage, providing certain capital to expand or acquire businesses, and buying or replacing assets. They could even be philanthropic in nature. These make up the needs or the liabilities side of the personal balance sheet.

**Existing wealth status:** This takes into account all the surplus wealth of a family other than assets for use, like residence and cars. It includes money invested in various classes of assets like debt, eq-

uity, real estate, liquid, gold and art. If the discounted value of future wealth-creation potential is also added to the assets side, one can get an idea of the present value of one's assets.

The **balance sheet gap**, or surplus, is plotted against one's risk profile to derive the real rate of return (inflation-adjusted return) that he/she should target in the portfolio. Once the real rate of return is known, a financial consultant can help design the optimum combination of asset classes for the portfolio.

Let's look at the profile of some families and see why they need to employ professional wealth managers.

■ **Senior corporate executive:** The emergence of the private sector and multinational companies have sent corporate salaries through the roof. The jobs come with cushy benefits — large apartments, the best cars, club memberships — that the employee can use only for the period of his employment, or specifically, his contract. Now, the executive would not want to hold his family's lifestyle to ransom against the renewal of his contract. Hence it's necessary for him to manage his current surplus wealth appropriately, so that he comes financially independent.

■ **Professionals:** About a decade back, the scope for professionals was limited. Now, niche professions as wide-ranging as yoga training, law, celebrity management, writing or sports offer huge earning potential. But the profession, say that of a sportsperson, may earn megabucks for a short period only. Thus,

such a person's goal would be to efficiently manage the wealth earned in their peak years.

■ **Family business owners:** The old school of thought exhorted one to invest surplus income in one's own business, as it offers a high level of control. Today, businesses have to take the vagaries of business cycles in their stride. So, promoters have started diversifying into other businesses and asset classes.

Let's see how planning helps in such situations, with the help of some case studies. There was a case where a client was highly exposed to volatile assets. The volatility disturbed him mentally and physically, though it fetched extra returns. He did not even know the reasons why he selected such a portfolio. When a financial health check-up was done, his assets were found to be far higher than his liabilities, and his risk profile called for a more balanced portfolio. If he could achieve his life goals with a balanced portfolio, why take that extra risk that disturbed him? In another instance, I came across a family whose wealth was in excess of Rs 300 million. They felt wealth management was unnecessary because their objective was capital preservation. So they invested in a bank fixed deposit that yielded a post-tax return of 3.5 per cent. This was 1.5 percentage points lower than the rate of inflation. So though they weren't taking any risk, the family was losing the value of its money! What the family needed was a more diversified portfolio that would help maintain the capital and not stay overexposed to one asset class.

Each case shows how planning is crucial to answer questions related to managing wealth. ■

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**Wealth management calls for a 'personal balance sheet' — a measure of one's aspirations against available income surpluses**