

# New Model Adviser®

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# Family fortunes

Michael Basi has created his own investment process and is growing family firm Basi & Basi Financial Planning's assets under management at a rapid rate

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Three wise men: 2011's top fund managers  
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# Number crunching

Michael Basi put his head for figures to good use in creating Basi & Basi Financial Planning's investment process and wants the family firm to have £50 million under management in two years' time

## JUN MERRETT

**F**or Michael Basi, managing director of Basi & Basi Financial Planning, financial planning is 'all about the maths'. He built his investment process around the various mathematical theories and principles he learnt while studying for a software engineering degree at Nottingham Trent and honed in his previous roles as systems auditor at Ford Motor Company and work in the securitisation department of its bank, FCE.

Basi's no-nonsense mathematical approach has helped him gather £12 million in assets since the firm began trading in April 2010. A key factor in that growth has been the closure of his father Ady's firm, IFA Stop, and the transfer of some of its clients to Basi & Basi. Ady and Michael's brother Nick have now joined the firm.

'The basis of my whole approach is that the maths doesn't lie. You can have lots of fund houses put a lot of money behind their swish literature but, at the end of the day, you can just look at the maths and that will help you make the right decision,' says Basi.

He has spent six months developing his own algorithm to analyse the performance of fund managers, although he jokes that if he revealed its workings to someone, he would have to kill them.

However, he is the first to admit that he has had to curb his 'obsession' with maths, particularly in his early financial planning days when he was a trainee at his father's firm.

'In my early days as a trainee, I think my obsession with maths meant that initially my father had to help on my files to ensure all the compliance checkboxes were done.

'I think that was one of the most difficult learning experiences, to wrap that into my model and not just focus on the maths. Now it's an integrated part of my business but it was quite a challenge. It's all about

recognising your weaknesses, which is why I have Michael Draper as my paraplanner,' he says.

## Putting ideas into practice

Having worked in the securitisation department of FCE Bank for three years, Basi decided to take voluntary redundancy after the financial crisis to follow in his father's footsteps with a career in financial planning.

He gained experience at IFA Stop, working as a trainee investment adviser, learning from his father's 17 years' experience as an adviser. He then decided to set up Basi & Basi Financial Planning in 2010 instead of taking over his father's firm because he wanted to start from scratch and did not want to put his father's established business at risk with his new ideas.

He saw the redundancy package he received from FCE Bank as start-up capital to help him experiment with a new company and investment process (see box overleaf).

Basi's love of developing new ideas permeates his working life. When he was at university, he ran a business that built racing engines by taking apart Citron Saxos and

rebuilding them to racing specifications. He admits he has 'always wanted to be an inventor'.

His latest invention with his new company Onvestor is a mobile app for IFA firms to brand so their clients can check their latest portfolio report, latest risk profile and even read articles so they can be reminded why they are invested where they are.

He first struck on the idea when he realised how important it was for an adviser to be accessible to their clients and wanted to take advantage of the quickly developing market for iPhones and Androids even among his older clients. He also realised how important IFA branding could be in developing the tool.

'Coca Cola is not stupid, it puts its brand everywhere because it knows what it is doing. If a client is seeing the brand all the time, they will think about them. It is the same with IFAs.

'I dread to think how much business IFAs have lost out on and how much poor advice clients have received just because they forgot about their IFA. When banks do everything but bar the door to get them to sign a bit of paper, it leads to the client's and the IFA's detriment.'

**'The basis of my whole approach is that the maths doesn't lie'**

## Star profile

The app has already proved popular among Basi's clients: 47 downloaded it in its first three weeks it was available.

### Client-centric approach

Basi emphasises the importance of his clients whenever he talks about his firm and says his concern to do the best for them is reflected in every decision he makes, from his process with new clients to the office furnishings he has chosen.

He says he purposely denied himself a plush office with 'nice shiny shop front with shiny glass windows and leather chairs' because it would ultimately have led to higher costs for clients. The firm shares its building with accountants and solicitors on Billericay's high street, a location that has helped it gain new clients and referrals.

The firm is dedicated to helping clients understand every step the advisers make on their behalf, says Basi, and will not make any decisions for them unless they do. In his four-stage process with new clients, he requires everyone to be able to explain back to him why their money is invested where it is. If they cannot, he will help them until they can explain with confidence the reasons behind the investment process.

Basi praises his father for his relationship with clients and says it was one of the best lessons he learnt from his

dad and took across to his firm. 'My dad always said to me: "If you keep speaking, your client will keep nodding 90% of the time because they don't want to look stupid. Nobody wants to look stupid. If you try to get them to explain it to you, then you will start to understand whether they're just nodding along or if they really get it."

'Without my dad none of this would have happened. Without having his original firm there, the original idea, him helping me through all my exams and his continued support, I could not have done it. A lot of people don't have that support so it's helped me to be where I am today.'

### Client segmentation

The firm splits its client bank into service offerings, ranging from bronze to platinum, based on how much interaction clients want with their adviser. Bronze level clients pay 0.5% for which they receive an annual review and can contact advisers on the office number in working hours.

Platinum level clients pay 1% to receive a review every two months and see their adviser face to face four times a year. They have access to a personal mobile number they can call seven days a week from 8am to 9pm. These calls do not tend to be out of panic over the markets, however.

'Because we've got a really close working relationship

### Investment process: an algorithmic approach

Basi & Basi does not outsource its investment. Michael and Nick Basi control all the firm's investment process.

'As long as you've set up a process like I've done, where you have the data pulled in and you have a way of measuring and analysing the data efficiently so you can keep track of what's happening, you don't need a discretionary fund manager (DFM). I don't see the need for the extra layer of costs for my clients,' says Michael.

He disagrees that advisers cannot juggle financial planning and investment, arguing that IFAs need to understand a client's life activities to generate the required returns.

'How can you devolve the allocation of assets and investment sectors to someone else who doesn't know your client? Even if the DFM says there is a crossover, I'm the one who sits down with my client and my client tells me if they have land or property. So I'm the only one who can take that and translate it into which funds need to be knocked out of the picture because the client is already invested in those areas.

'It's my job to bring all that together and build a mix of investment funds that reflects the client's approach to risk and their situation. I don't see a DFM being able to do that,' he says.

When risk profiling clients, he relies on an algorithm he has created that uses two risk profilers, one supplied by Morningstar Adviser Workstation and the other by Verbatim.

'Intentionally they have two different scales: Morningstar is 1-5 and Verbatim is 1-10. The idea is that one gives a little bit extra, and the other one is a bit more broad brush. If a client comes out 6/10 on the Verbatim, they should come 3/5 on the Morningstar. If they don't, it prompts a discussion with the client.'

Basi has developed his own scoring system for fund managers called the 'Basi and Basi score' which relies on model portfolio theory and takes into account the annual management charge, total expense ratio, beta, alpha, tracking error, Sharpe ratio and information ratio.

'Effectively it weighs the model portfolio figures against what the fund manager is charging to get a value for money score. Is this worth the cost the fund manager is charging my client outside of its overall performance?'

## MICHAEL BASI CV

### CAREER

2009-present	Basi & Basi Financial Planning, managing director and financial planner
2006-2009	FCE Treasury Securitisation (FCE Bank plc), securitisation projects manager
2002-2006	FCE Bank plc, associate project manager of technical services then project manager of European accounting systems
2001	Ford Motor Company, systems auditor
2000-2001	Ford Motor Company, development tools specialist
1999	Ford Motor Company, systems analyst

### PROFESSIONAL MEMBERSHIPS/QUALIFICATIONS

Chartered Insurance Institute: certificate in financial planning, certificate in financial planning and long-term mortgage activities, certificate in financial planning and long-term care insurance, certificate in equity release  
J04, J05  
BSc (Hons) Software Engineering



### BUSINESS FIGURES: BASI & BASI FINANCIAL PLANNING\*

	2007	2008	2009	2010	2011**
Total number of employees	1	1	1	2	4
Total number of clients	220	180	150	150	144
Total number of active clients	139	99	65	79	90
Total income	£184,550	£255,000	£135,000	£137,624	£411,000
Total costs (ex. dividends/drawings)	£54,000	£58,000	£61,000	£71,436	£86,000
Funds under advice	£12m	£11m	£11m	£13m	£23m
Recurring income	16%	16%	30%	30%	55%

\* includes IFA Stop Limited business; \*\* projected figures

## FIVE TOP TIPS

- Always hold a good conscience.
- Maths does not lie; people do. Trust the maths.
- A walker does not waste energy ranting at the hill in front of him; he plans to deal with it. Don't waste energy ranting at regulation.
- Treat others as you would want to be treated
- "That which has been done, that is what will be done; and so there is nothing new under the sun"; all crises have happened before



## Page 26: Company profile

Sheffield-based Whitehall Financial Independent

## Star profile



**SHOULDER TO SHOULDER:** (L to R) Ady Basi, executive financial planner; Michael Basi, managing director; Nick Basi, financial planner; and Michael Draper, paraplanner

with our clients, if they're at a pub or having a meal with their friends, it's nice for them when they're discussing financial matters to be able to say: "Well, let me just call and ask my adviser."

'Clients in the high-net-worth area appreciate the perception that their friends may gain of them that they know someone who knows what they are doing,' he says.

### What clients want

Despite his enthusiasm for the mathematical aspects of financial planning, Basi has not let that distract him from a focus on clients' lifestyles and needs. He says some clients are so accustomed to hearing their advisers talk about money, percentages and accumulation that they are often surprised to be asked about their wants and needs.

'I've had a number of discussions with clients who at 60-70 years old are talking about growth. I tell them they have far more money than they'll ever need for the things they want to do so keep it safe, put the majority in cash and don't pay my percentage because it's a waste of time,' he says.

'The best advice I can give is to pay me £150 a year so they can see me once for an hour just to make sure everything is fine. They don't need more money and they

are losing 5% just on inflation. I don't think clients are used to hearing that.'

### Family business

Basi has kept it in the family with the launch of his firm and says the strong relationship between Ady, Nick and himself has played a key role in its success. Working with his family allows a level of honesty that cannot be achieved at other firms, he says, because he can trust his father's and brother's objectiveness to challenge him and question his every move.

Although Ady and Nick work at the firm's Coventry office, Basi and Draper are in constant contact with them via Skype.

Many have predicted the retail distribution review will result in the demise of the small IFA firm, but Basi is confident his firm will survive. He believes it is the larger network firms that will come under the most pressure.

'Networks have had their day on the independent scene but could continue to thrive on the restricted model. I fail to see how they can continue with the strict carolling of what firms can do because how can a firm then demonstrate true independence? When we do our analysis, we include exchange traded funds and everything because we can. A network cannot do that,' he says.

'I think there's a great opportunity for smaller firms like ours, and there have been so many times when I have won clients from big firms because they cannot afford the personal relationship that we offer.'

Basi says he is not targeting any 'spectacular' goals for the firm but aims to continue to grow its funds under management to £50 million in two years' time.

He believes its Essex location will help. 'It's a great place to be with a lot of hidden wealth in the countryside and a lot of people who work in London,' he says. 'For a financial planning model which is based on percentage of funds under management, the South East is great; there's just more money here.'

His appetite for intellectual pursuits is not limited to maths; he is also an art lover. He visits galleries with wife Anna, favours modern art over traditional styles and cites Dali as a favourite. He has even ventured into painting himself, and has one of his own efforts hanging up at home. 'It's very random,' he says.



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