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Giant Online Discount Brokerages Will Dominate Stockbroking: Saurabh Mukherjea

Several large tracker funds will emerge in the future as actively managed large-cap funds will not be able to beat market returns



Saurabh Mukherjea, CEO of Ambit Capital

Change creates both challenges and opportunities. "If you can't deal with change, it is a challenge, if you can deal with change, it is a massive opportunity," was the gist of the address by Saurabh Mukherjea, Chief Executive Officer of Ambit Capital, at Outlook Money Conclave 2018.

According to the latest Reserve Bank of India's Household Finance Committee Report, 95 per cent of India's wealth is in physical assets, only 5 per cent in financial assets. So the opportunity for the financial industry as a whole is huge.

Mukherjea made two important observations on the future of the mutual fund industry: First, it will increasingly go direct to investor. Second, there will be a significant growth of tracker (index) funds.

There has already been a huge

rise of direct mutual funds. "As of December 2017, 41 per cent of the industry AUM was already direct. Direct plans are almost half as expensive as conventional mutual funds and over 20-30 years, your retirement corpus is radically higher," said Mukherjea. While the high-net-worth clients will go direct,

the local IFA will be left catering to the SME owner or the salaried employee.

Another notable thing that has happened is that in the last six-seven years, large-cap equity mutual funds have generated no alpha. They were broadly generating the same returns as the markets. "Whatever alpha that was generated historically is going to be squeezed brutally in the years to come. Of the 100-odd large-cap equity MFs, data shows that only three gave you outperformance over the nine year period between 2007-16," said Mukherjea. This will mean that tracker funds will be the future, a development that has already happened in the United States, as investors are unlikely to pay high fund management charges for returns that do not beat the market. This will however not be the case with small-cap funds.

The impact of digital will also be huge. By the end of FY16, the Internet plus the discount model accounted for 21 per cent of the market starting from scratch only a few years ago. By the end of FY18, it is likely to be a third of the market. Anything that is digital gains from economies of scale and they can keep cutting the unit price as they gain scale. Just as old style IFAs will not be able to compete other than for high end exclusive clientele, brokerages that do not go digital will also cease to exist.

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IN THE FUTURE

- Giant online discount brokerages will dominate stockbroking
- Massive tracker funds will dominate the fund management industry
- Boutique fund houses will emerge with strong stock picking abilities and differentiated investment styles
- The number of intermediaries will reduce and the number of genuine wealth advisors will increase
- Transparent, low-cost, high-quality investment and asset allocation strategies will become the norm