Interview Article with Mr. Pavan Kumar Kopparam
(Founder, EQ Addwise and Partner 4Thoughts Finance Bengaluru)

On 13th October 2022 Mr. Pavan Kumar Kopparam, Founder, EQ Addwise and Partner 4Thoughts Finance Bengaluru, delivered an insightful technical session at SDMIMD. Post session the Dimensions committee had the honor to interview Mr. Pavan Kumar Kopparam to further capture insights from his experience rich illustrious career.

The interaction was as follows:

Dimensions Team: "The first question is how do you assess uncertainty in the market and give your best to your customers."

Mr. Pavan Kumar: "Every situation is different, and every asset class is different, for example today the market saw a rise of 50-60 basis points and the central bank adds this to its learning curve and thus introduces transformation in its policy. Every asset class has a cycle, and which is getting shorter due to its openness to the global market. You must go by what is driving such asset. One key component that we always try to focus on is risk. That is where we do the groundwork, in knowing the risk even in good times. Nothing reaps the best rather than being disciplined in your groundwork."

Dimensions Team: "Just a follow up question, how do you saw the viability of a fund in uncertain times, how long to look back, is it 5 years or 10 years? how many do you suggest?"

Mr. Pavan Kumar: "Any assessment can be split into qualitative analysis and quantitative analysis. These years you are referring to are quantitative, as in track record, fund performance in up cycle and down cycle, what we emphasize more is on the quality component. Like the style carried by fund manager, it might be value style or growth style and such fund saw great performance and the fund manager has been changed and whether the new fund manager's style of management of fund fits the current economic situation, will the same fit the condition we see in the future. Thus, the overall positioning of fund will change."

Dimensions Team: "As per a paper published by Deloitte, Investors today don't have the patience, they might set time targets to the fund managers and expects to have the same assets in their portfolio as in some of the portfolio of some larger investors. Do you see similar behavior in the Indian context?"

Mr. Pavan Kumar: "These factors are all studied as a part of behavioral finance, with all investment concepts we speak about, at the end of the day the two key underlying concepts are investment returns and investor return. These are two different concepts and the gap of these two widen as the understanding of the investor is less. Take example of any crisis, Covid crisis or Chinese Yuan crisis, Lehman Crisis the market crashes by 20-40% and a well learned investor knows that these are short term condition, and the market will recover, and this is the time to buy more but a typical behavior of many investors is loss aversion and thus they end up selling. One must understand these behavioral gaps and the need to act and not to act. Even in good times or even in bad times, one must stay put and wait for the strategy to play out and not to act because of fear of missing out or fear of incurring loss in short term, if you can see ahead and work on your strategy that will yield better than mimicking others."

Dimensions Team: "Does Indian wealth managers still use pre-dated tools and techniques to analyze a portfolio do you see any changes, transformation in how it is analyzed?"

Mr. Pavan Kumar: "Data handling has become exponential larger in modern times, there are sophisticated tools that several large companies use but these are not something you come across commonly in a retail and medium size wealth management firm. It also depends on the kind of the asset handled by such firms. Such advanced tools are usually used in hedging in large business operations and to build models to manage the portfolios."

Dimensions Team: "Can you share your take on real estate as an asset class in a portfolio?"

Mr. Pavan Kumar: "Your first home might not be your asset that you add to build portfolio but a necessity. But after that as an investor your goal to build portfolio is just to beat inflation. If you see a house as an asset in your portfolio, rental revenue from the house would be your income and even if you charge 3.6 lakhs p.a as rent for a 1 Crore house that would yield only about 3.6% return and in an economy with 6% inflation it is quite impossible to cover the gap through capital appreciation and in real estate only land appreciates but your building depreciates. For a young investor who buys a house for a 1 crore house over 20years (typical loan payback period) you might end up paying 2 crores in interest for a house that yields only 4-5% p.a. Thus create your wealth from investments and from other assets and use that fund to pay most part of your down payment thus not to be bothered about this burden. The component of tax also adds burden to the income of real estate asset even if you consider the tax savings on the loan repayment."