Creating and Managing Customers' Expectations

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A satisfied customer is the best business strategy of all.

- Michael LeBouef

Simple Equation for Customers' Satisfaction

What is Delivered	-	Customer Expectation	=	Customer Satisfaction

Satisfied Customer

Unsatisfied Customer

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Some Facts About Investors' Behaviour

House Money Effect

Consider this wager on a coin toss:

1. Head you win RM200, tail you lose RM200. Would you take this gamble?

2. By the way, you won RM1000 earlier, and now faced with this coin toss wager.
   Now would you take this gamble?

Investors who have experienced a gain or profit are often willing to invest more.

Likewise, your investors who made losses, are often unwilling to invest more.

How House Money Effect Works

Ask yourself…

Do the majority of your investors, who started investing since 2006/07 still stick around, are not affected by the crisis, and are still willing to spend their extra cash on investment?

Chances are that many of your investors, who made losses during the crisis, are no longer willing to invest until their capital is fully recovered.

Loss Aversion

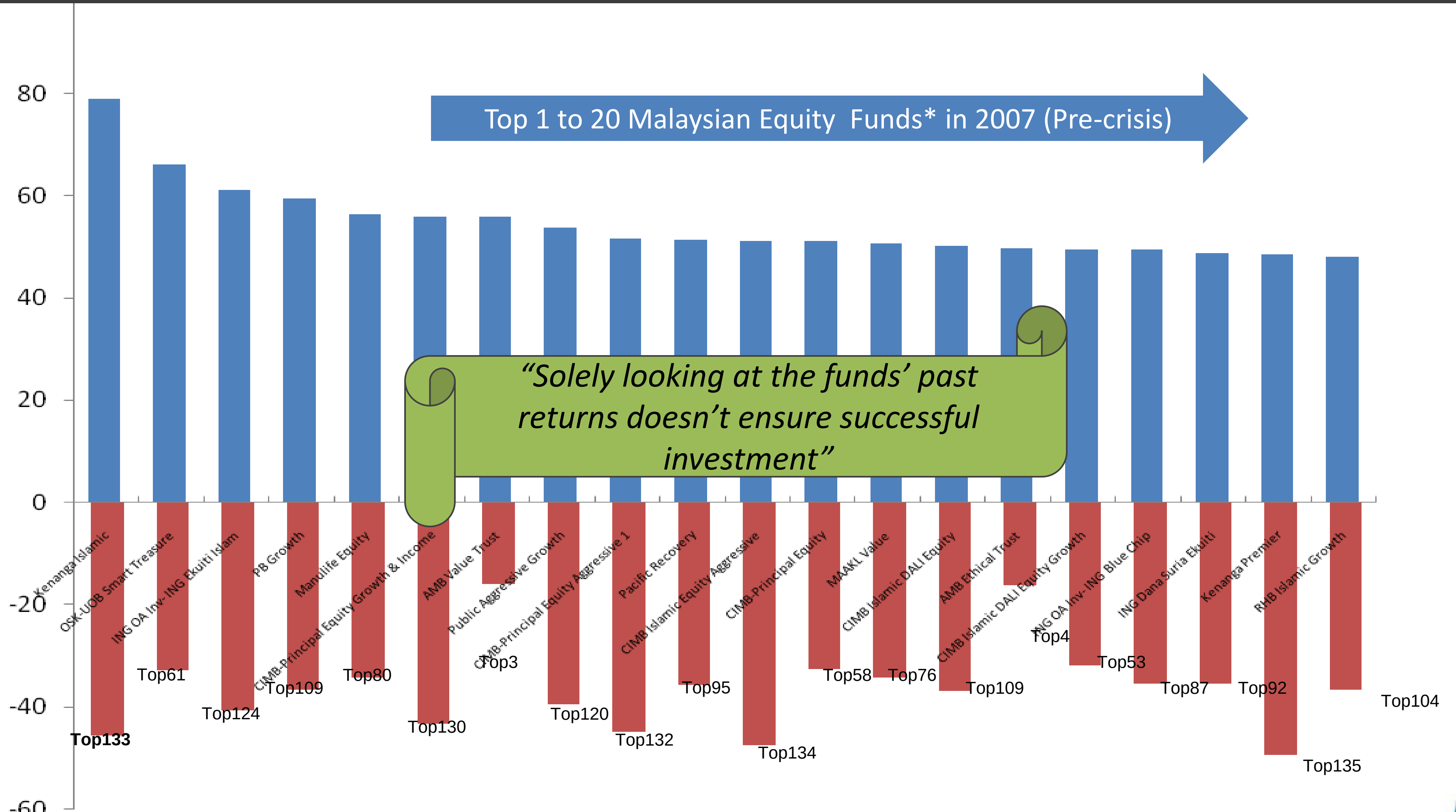
Fallacy Pattern

Related Example:

- Past performance as the indication for future performance.
- Seeing trends in random data.
- Hindsight bias – a ‘belief’ that is established after the ‘fact’.

Consider this…

Trend that is not…



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Performance of Malaysian Equity Funds in 2008 (During-crisis)*

Source: Lipper for Investment Management 2012 ** Equity Malaysia Category* For illustration only

Overconfidence

Research Reference*

People tend to have an exaggerated perception of their own abilities, suffering from illusion of control and illusion of knowledge. This is more obvious in financial markets.

Sample : 300 fund managers – on their performance

Result
- close to 74% believed they are above average
- close to 26% think that they are average
- almost none of them think they are below average
- **but only 50% can actually achieve above average performance**

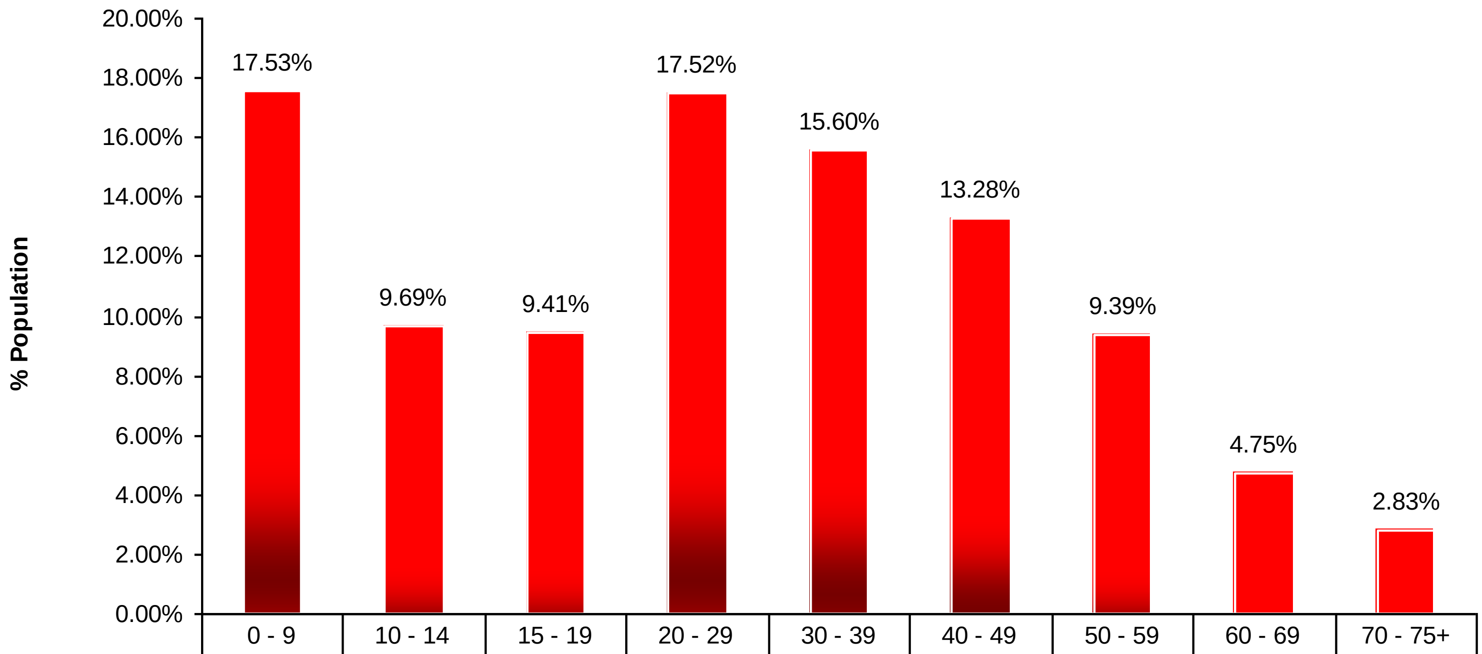
Conclusion:

- **Most fund managers are irrationally overconfident, or should we say they are also human.**
- **Empirical evidence show that overconfidence lead to ‘over-reaction’ and ‘availability bias’.**

** Behaving Badly by James Montier (2006)*

Malaysian Investors

POPULATION OF MALAYSIA BY AGE GROUP (Q2 2010)



	0 - 9	10 - 14	15 - 19	20 - 29	30 - 39	40 - 49	50 - 59	60 - 69	70 - 75+
Age Group	17.53%	9.69%	9.41%	17.52%	15.60%	13.28%	9.39%	4.75%	2.83%

Population of Malaysia was projected at RM28.25mil as at Q2 2010.

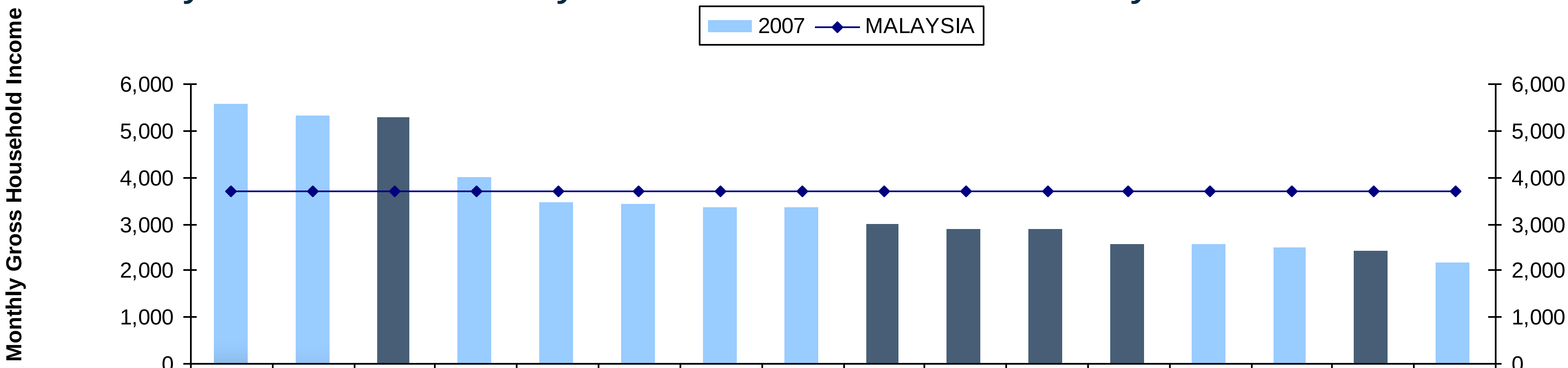
Labour Force Participation in 2010 is estimated to be 63.5% (~12.2mil)*. Male – 79.8% while Female – 46.5%.

Source: Department of Statistics. Economic Planning Unit, Ministry of Human Resource Malaysia

* Defined as Total number of people economically active as a percentage of total number in the working age population of 15 to 64 years.

Malaysian Household Income

Malaysian Mean Monthly Gross Household Income by State



	Selangor	W.P. Kuala Lumpur	W.P.Putrajaya	Pulau Pinang	Johor	Melaka	Sarawak	Negeri Sembilan	Pahang	Sabah	W.P. Labuan	Perak	Perlis	Terengganu	Kedah	Kelantan
2007	5,580	5,322	5,294	4,004	3,457	3,421	3,349	3,336	2,995	2,866	2,866	2,545	2,541	2,463	2,408	2,143
MALAYSIA	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686

… and other regions other than the Klang Valley which have higher monthly gross household income

Source: Department **of Statistics. Economic Planning Unit, Ministry of Human Resource Malaysia**

Creating & Managing Customers' Expectations

The Rule of Thumb

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1

Know your customer

- Do fact finding on Objectives, risk profile (tolerance & capability), investment horizon etc.

2

Start with a balanced portfolio

- Start with a certain amount of allocation into low-risk asset classes e.g. bond, sukuk etc.

3

Be realistic

- Be prudent in your recommendations and don't overpromise.

4

From serving to coaching

- Give full commitment in educating your customers.

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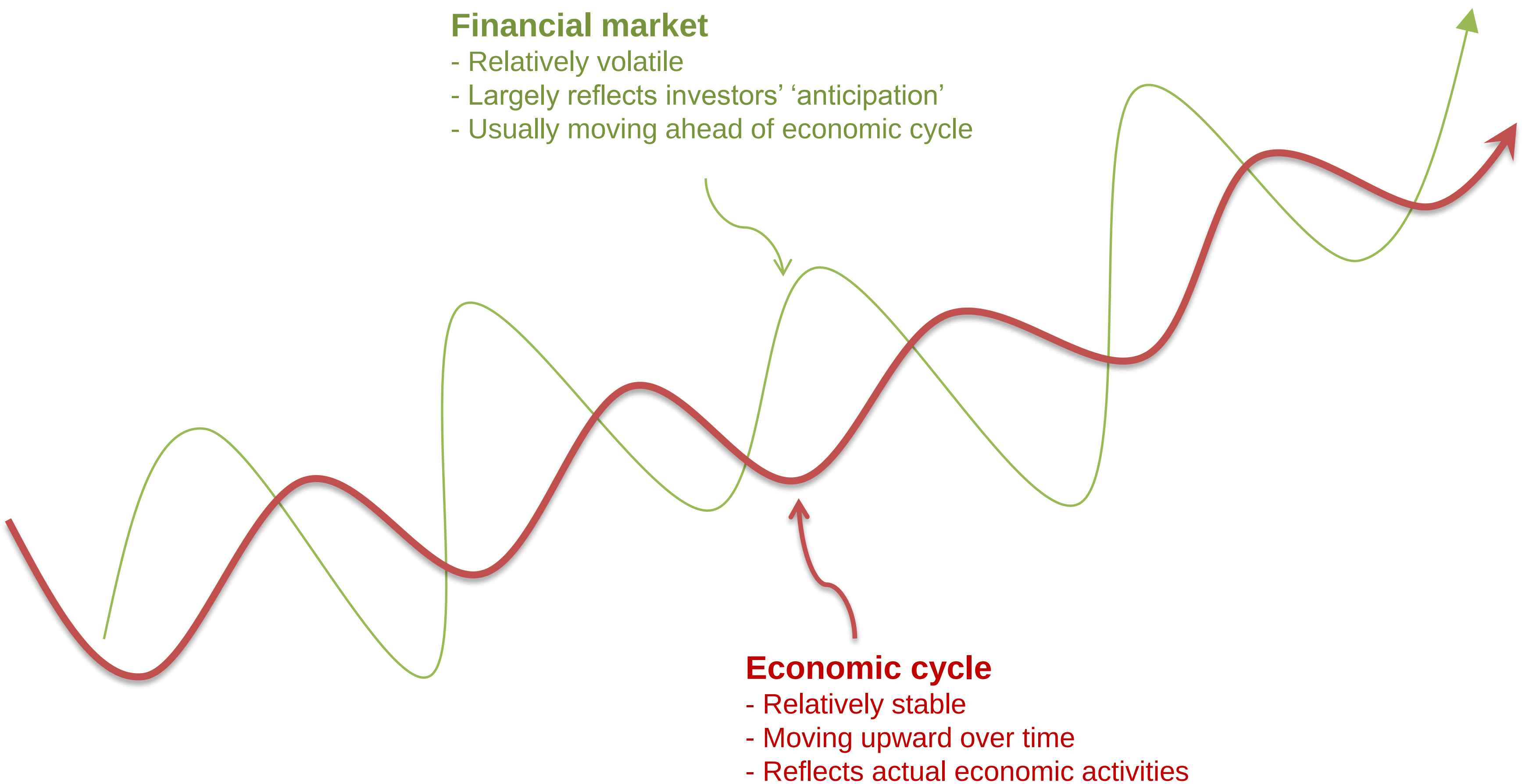
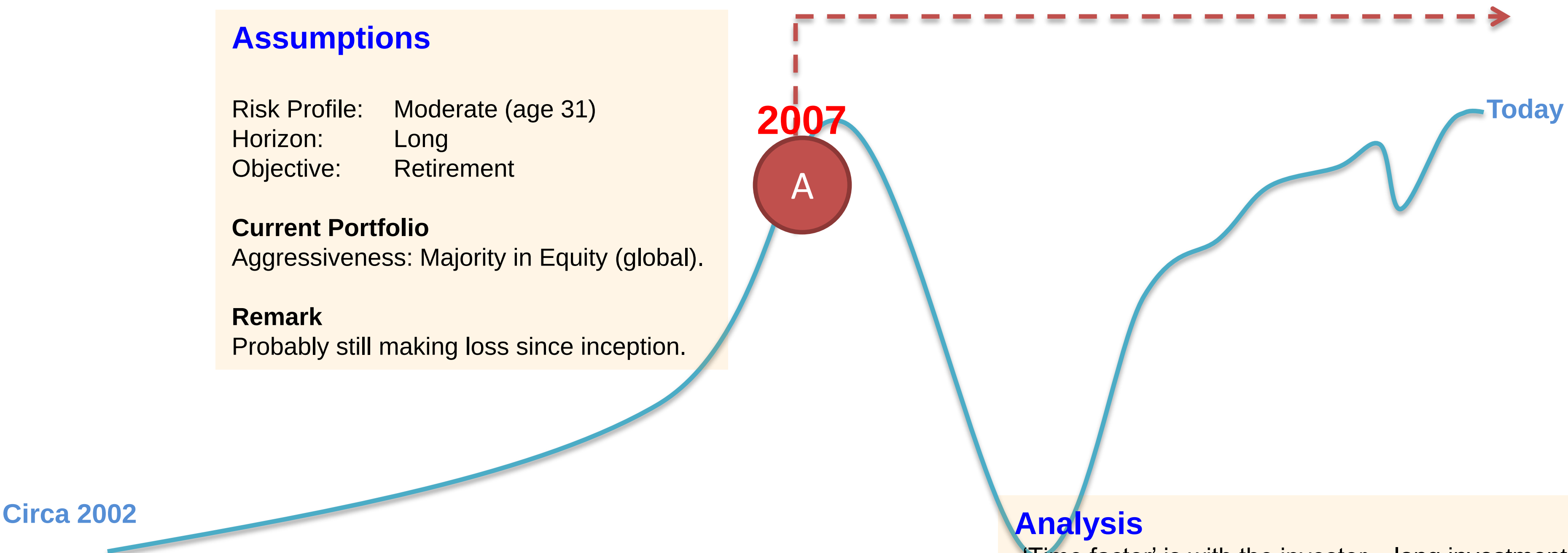
Applying the Rule of Thumb

Financial & Economic Cycle



*Basic illustration

Scenario A



Assumptions

Risk Profile: Moderate (age 31)
Horizon: Long
Objective: Retirement

Current Portfolio
Aggressiveness: Majority in Equity (global).

Remark
Probably still making loss since inception.

Psychology:

Loss aversion – e.g look for safe investment.
House money effect – e.g unwilling to top up / wants his money recovered.
Overreact – e.g. suffer anxiety over market movement, even a minor one .

FBM KLCI (Rough Illustration)

Analysis

- 'Time factor' is with the investor – long investment horizon.
- Current portfolio is incompatible with risk profile.

Actions

- Call him first, don't wait for him to call.
- Recognise his psychology.
- Bring down his portfolio to moderate.
- Encourage regular schedule investment top up.

There are limitless type of investors, the above only illustrates a typical few

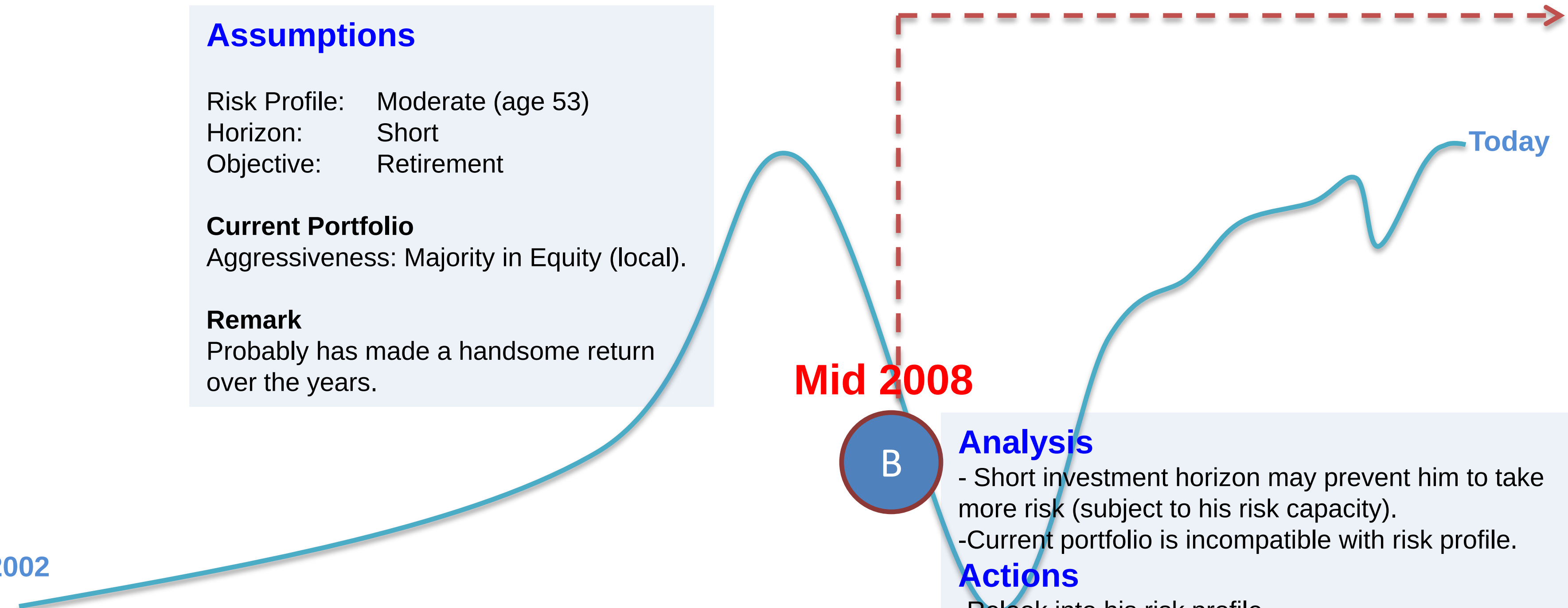
Scenario B

Assumptions

Risk Profile: Moderate (age 53)
Horizon: Short
Objective: Retirement

Current Portfolio
Aggressiveness: Majority in Equity (local).

Remark
Probably has made a handsome return over the years.



Analysis

- Short investment horizon may prevent him to take more risk (subject to his risk capacity).
-Current portfolio is incompatible with risk profile.

Actions

-Relook into his risk profile
-Encourage him to be conservative, especially if he has reached his investment objective.
-Better to channel his additional investment to lower risk asset classes.
-Ensure that he understands double digit growth from the past few years is unlikely to repeat
-Take profit? – channel current investment to lower risk asset classes?

Psychology:

Overconfident – e.g. look for high risk investment / willing to invest more

FBM KLCI (Rough Illustration)

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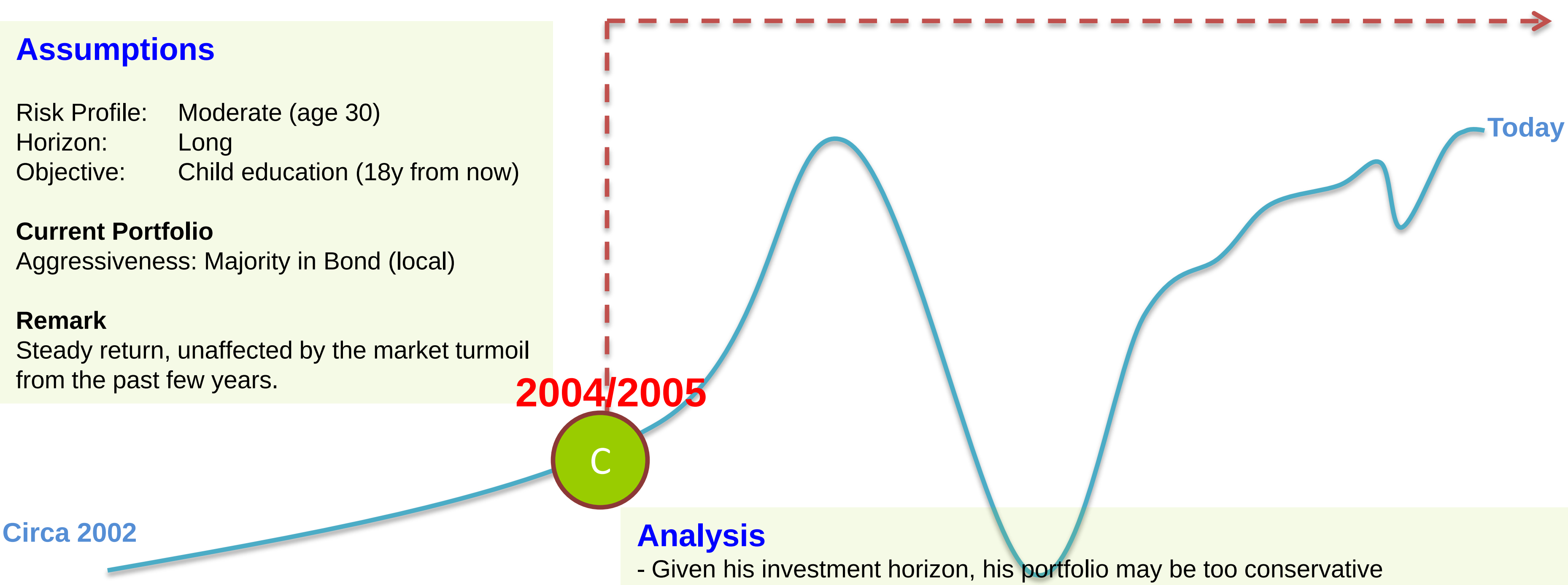
Scenario C

Assumptions

Risk Profile: Moderate (age 30)
Horizon: Long
Objective: Child education (18y from now)

Current Portfolio
Aggressiveness: Majority in Bond (local)

Remark
Steady return, unaffected by the market turmoil from the past few years.



Psychology:

Generally neutral

Analysis

- Given his investment horizon, his portfolio may be too conservative
- Single asset class holding might not be a good idea - diversification

Actions

-Relook into his risk profile.
-See if his risk profile (especially his capacity) could take more risk.
-If yes, adjust his portfolio to have some exposure in equity.
-Encourage regular investment.
-Rebalance regularly, and reduce his exposure to equity when he is nearer to achieving his financial objective.

FBM KLCI (Rough Illustration)

There are limitless type of investors, the above only illustrates a typical few

In a Nutshell

Facts about investors:

•Dislike losses more than acquiring gains.

•Strong belief in past performance.

•Tendency towards overconfidence.

Know the rule of thumb
& apply
in the possible scenarios