June 2014 Monthly Event Report Card
Event Title: Multimodal Experience on Risk

June 11th event "***Multimodal Experience on Risk***" is behind us now for some time. In fact, the new buzz in COFP circle is about July 9th event and I will mention some details I came across in the end of this report. For now, it is time to summarize the happenings of June 11th event for the records and the remembrances of the members.

Knowledge Management (KM) team started ground work for June monthly meet as early as third week of May, sharing a lot of information through snippets, papers, articles, write ups, and other media on the topic "Risk", conducting multi-media contests, online quizzes and kept the participants engaged to the best.

Here is the gist of activities that happened prior to the actual meeting day.

Snippet 1: *Risk through History*: This snippet gave a brief introduction and evolution of Risk in terms of how people perceived Risk originally till an Italian Mathematician

Gerolamo Cornado wrote about theory of probability in 1525 AD in his book on "Games of chance".

Snippet 2: ***Probability and Hindu Numerals***: It talked about how the number system 9 8 7 6 5 4 3 2 1(The Modus Indorum or the method of the Indians) was introduced to West. It also mentions the invention of Zero or 'sunya' by Aryabhata. Without this numbering system it would have been impossible to quantify Risk using the Greek numbers such as I, II, III, IV etc...

Snippet 3: ***Roll of Dice***: This is about Mathematician Blaise Pascal and Pierre de Fermat a lawyer who devised the method of measuring the Risk. What started as an exercise to find the solution to a gambling problem led them to formalize the theory of probability in 1654 AD.

Snippet 4: ***Statistical Sampling Technique***: John Graunt a haberdasher in London wrote the book "Natural and political observations made upon the bills of Mortality in 1662" where he used analysis of mortality rolls in early modern London to create life table. Graunt along with William Penny developed early human statistical and census methods which provided a framework for modern demography. Graunt is credited with producing the first life table, giving probabilities of survival to each age.

Snippet 5: ***The art of Conjecturing***: Swiss Mathematician Jacob Bernouli proved Large of Large numbers (LLN) in fourth part of his work "Ars Conjectandi" or "The Art of Conjecturing". In words of Peter L Bernstein, increasing the number of throws will increase the probability that the observed average will fall with a certain percentage of the true average (50% in this case). The most exciting feature is the daring idea that uncertainty can be measured!!!

Snippet 6: ***Earth's Curvature And Risk Management*:** German Mathematician Johann Carl Friedrich talked about the relationship between Earth's curvature and Risk Management. His repeated experiments on the 'distance between two points on the surface differs from the distance between these two points as the crow flies(since earth is round)' led him to conclude that more the measurements, clearer the picture for the mean and more it resembled like bell curve or normal distribution. Normal distribution forms the core of most systems of Risk Management.

Snippet 7: ***The Invisible Hand*:** Adam smith's "The Invisible Hand Theorem" which states " If each consumer is allowed to choose freely what to buy and each producer is allowed to choose freely what to sell and how to produce it, the market will settle on the product distribution and prices that are beneficial to all the individual members of the community, and hence to the community as a whole" which later became the foundation of capitalistic economy.

Snippet 8: ***The New Usurpers*:** Daniel Kahneman an Israeli-American psychologist contributed notably to the field of Behavioral economics, hedonic psychology, decision making. He shares one of his experiences which goes like this:

> *"Some years ago, I had an unusual opportunity to examine the illusion of financial skill up close. I had been invited to speak to a group of Investment advisors in a firm that offers financial advice to wealthy clients. It was a simple matter to rank the advisers by their performance in each year and to determine there were persistent differences in skill among them and whether the same advisers consistently achieved better returns for their clients year after year. I was surprised to find that the average of the 28 correlations was 0.001. In other words, the results resembled what you would expect from a dice rolling contest, not a game of skill"*

Snippet 9: *The Game Theorist*: What is the link between the actions of people involved and the resulting state of system -physical or political? Game theory is a study of strategic decision making. Specifically, it is the study of mathematical models of conflict and cooperation between intelligent rational decision makers.

KM Team also shared some additional information through essays, papers and write ups. They are:

1. ***Multimodal experience- Definition of Risk***: It was a short write-up appearing in "Stanford Encyclopedia of Philosophy" and gave the philosophical and practical perspective about risk and its various definitions. The whole essay can be found at http://plato.stanford.edu/entries/risk/#RisEcoAna

   It talked about various concepts like Risk definition, Epistemology, Risk in economic analysis, Ethics and Philosophy of science and Technology.

2. ***Risk and Financial Crises*** **:** This is the transcript of lecture Prof. Robert J Shiller, Nobel Laureate, gave at Yale University in Jan 2011 as part of his undergraduate course "Financial Markets". This lecture gives an introduction to the risk financial markets and market players face. The lecture also provides a perspective of risk measuring tools at basic level. Of course, it introduces you to probability and other statistical measures. Another important feature of the lecture is the context in which it was given, relating to the events in the vicinity, especially 2008 financial crisis

3. ***Harry Markowitz - "FOUNDATIONS OF PORTFOLIO THEORY"***: This is the Nobel lecture Harry Markowitz of "Efficient Portfolio" fame gave on December 7, 1990. Markowitz's words hold a lot of meaning to the current and changing environment. In this lecture, he speaks in detail on uncertainty. An investor who knew future returns with certainty would invest in only one security, namely the one with the highest future return. If several securities had the same, highest, future return then the investor would be indifferent between any of these, or any combination of these. In no case would the investor actually prefer a diversified portfolio. But diversification is a common and reasonable investment practice. Why? To reduce uncertainty! Clearly, the existence of uncertainty is essential to the analysis of rational investment behavior.

4. ***Endowment Management***: This is the transcript of guest lecture David Swensen gave at Yale University in Jan 2011 as part of Prof. Shiller's undergraduate course "Financial Markets". David F. Swensen has been the Chief Investment Officer at Yale University since 1985. He is responsible for managing and investing the University's endowment assets and investment funds, which total $20.8 billion. Realizing an average annual return of 11.8 percent on his investments over the ten years to 2009, Swensen's consistent track record has attracted the notice of Wall Street portfolio managers. He is notable for inventing The Yale Model which is an application of Modern Portfolio Theory. Swensen was listed third on CIO's 2012, a list of the 100 most influential institutional investors worldwide

KM Team floated a multimedia contest on ***'What Risk means to you?".*** KM team sought responses in the form of videos from the council members. Though initially there was tepid response, it slowly picked up as we came close to the monthly meet. Special mention also is to be made about the video-clips our member Mr Tiru S Seshacharya share with all of us on the Facebook page from time to time during the count-down period.

After the multimedia contest, KM team floated a quiz on the information shared in the run up to the June monthly meet in form of snippets, write-ups, lectures etc. Council members put their memory and understanding to test by taking the online quiz.

As part of June 2014 programme, Narendra N Kondajji did an E-mail interview with the three pivots of the programme namely Jayesh Doshi, Suresh A and Neeti Trivedi. The full interview was sent to the COFP members two days ahead of the programme day. All members have appreciated the initiative by the KM Team to provide information about the members through such interviews. The interviews are also posted on the COFP Facebook page https://www.facebook.com/cofpindia.

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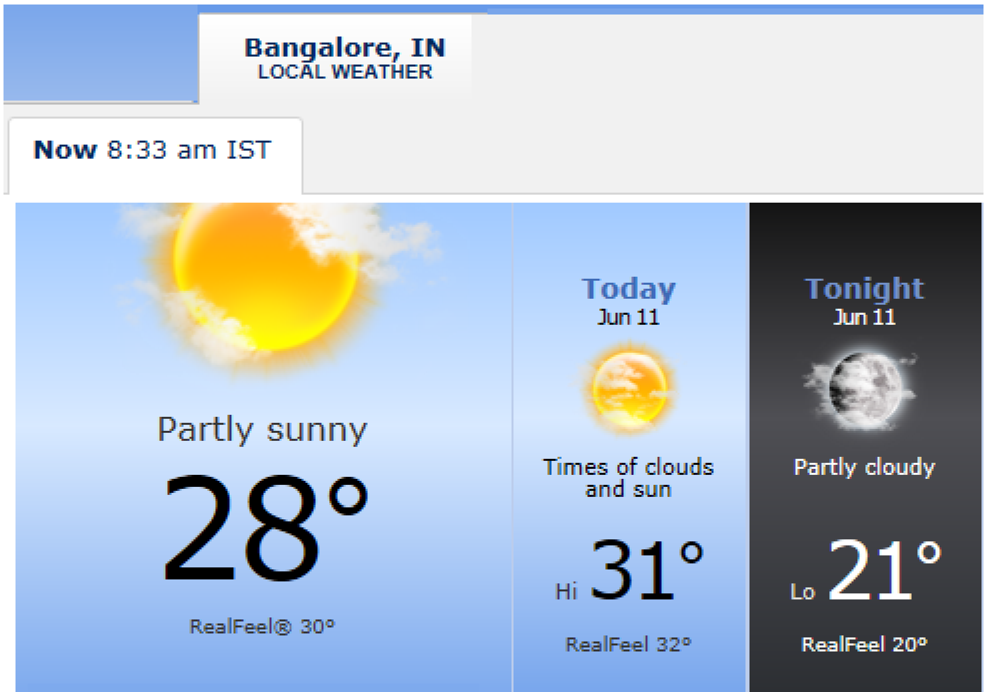
THE CULMINATION – JUNE 11 2014

And finally the most awaited day "11th June 2014 -The Culmination Day" arrived.



TODAY EVENING IN BANGALORE
ALL ROADS LEAD TO
ASHIRVAD,
NO.3, ST. MARKS ROAD CROSS

The session started on time with an ice breaker skit which is a conversation between a bad client and a good planner and good client and a bad planner. The skit was enacted by our members Vinod L Rao and Pradeep Hattangadi. Vinod played the role of bad client/good client and Pradeep took over as good planner/bad planner, interchangeably. The skit showcased some realities that planners and clients face in the world of financial planning. Some clients refuse to accept that financial planning is a process who rather wants instant solutions and some planners go overboard with respect to handling more clients they could handle.

Here are couple of pictures from the Skit:

Lovaii Navlakhi started the 2nd icebreaker session by asking some of the participants about their expectations from the session on "**Multimodal experience on Risk -The culmination**". Coming straight to the subject of the session, he threw a volley of apt questions on the topic like *what is the risk we have taken by coming to the CoFP monthly meet*? Answers varied from the risk of traveling to the venue to risk of spending time.

What risk is a client taking in engaging a planner? It could be the risk of trust, integrity of the planner, the risk of believing in planner's expertise etc.

What risk is the planner taking? It could be the risk of losing Time (if the conversion fails), the risk of lack of cooperation from the client and many more.

This was followed by a self introduction by President's Guest Mr Aniruddha Chaudhuri, Zonal Head, South & East and Head – IFA Channel, ICICI Pru Mutual Fund.

Around 6 PM, videos (responses to the Question "**What Risk means to you**?") were streamed in non-compete section. Participants defined Risk in different perspectives. Below are some of the responses.

Yuvaraja, Boho Consultants Pvt Ltd and General Secretary, COFP	***"Any danger which is awaited is a risk"***
Jayesh Doshi, Financial Planner and Stock Broker	***"It is something which you are not aware of, it comes to you all of a sudden"***
Jisang Yoo, CEO, Mirae AMC	***"In general, if something is going different from my plans, then it can be my risk actually"***
Gokul S, Shreesidvin	***"Risk means a situation in which there is a possibility to lose something precious"***
Kishorkumar Balpalli, Founder Director PFBAY Finsoft Solutions Pvt Ltd	***"Risk according to me is things not happening according to my expectation"***
Vinod L Rao, Financial Planner and Insurance Advisor	***"Risk is something unpredictable, whether it is in personal health or investments"***
Sameer Hebbalkar, Relationships Manager, Franklin Templeton AMC	***Warren Buffet says, "Risk comes from not knowing what you are doing"***

B Srinivasan, President, COFP	***"To a larger extent, I have come to a conclusion that risk is nothing but one's ability to go through a (assets) cycle."***
Dilshad Billiomoria, Dilzer Consultants	***Extract from the slideshow*** ***"Risk tolerance is the amount of risk that an investor is comfortable taking"***

Uday Dhoot, IMMPL	***<u>Risk is all around – A Limerick</u>*** ***Investment returns has a constant partner, they are never free*** ***Risk is sometimes visible right in the eyes, sometimes we can't see*** ***Knowing that risk is always around*** ***Is a feature of a policy that is sound*** ***Risk is also there in the next turn you take*** ***So if something promises no risk, it's just a fake*** ***Statisticians say risk is variability & downside*** ***I say it's when people expect a free ride*** ***Sometimes risk is from greed and sometimes it is fear*** ***It's always been there and will be there, that is clear!*** ***At times risk will catch you like the unexpected shower,*** ***At that point remember the COFP Tag line…Collaborate, Educate & Empower!***

For the multi-media contest, Mahendra Nayak emerged the sole winner. His response was:

Mahendra Nayak	***"For me ensuring that I don't go bankrupt while taking risk is paramount; some call it diversification, some call it margin of safety and for us at COFP it is financial planning"***

You can watch the full video clip here:

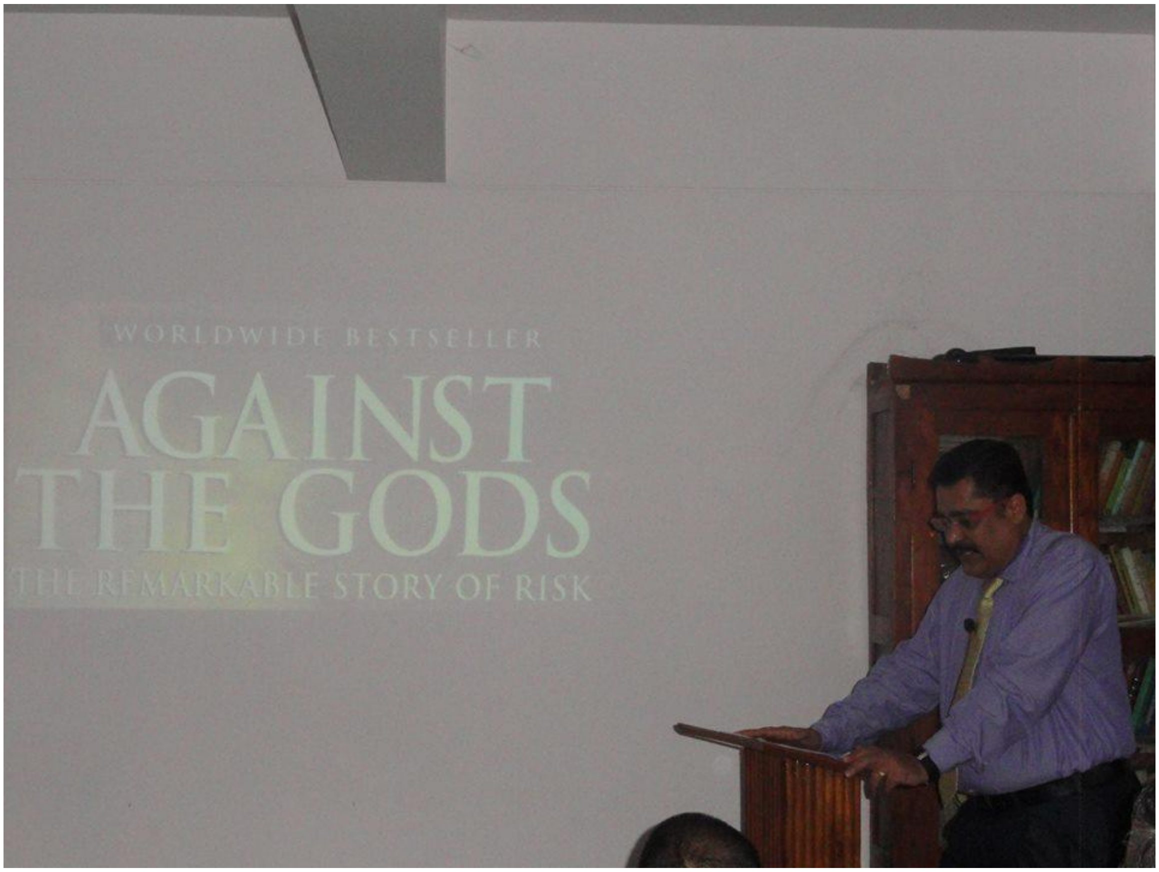
https://www.youtube.com/watch?feature=player_embedded&v=EIJMbA5BX9M

Pivotal session began at 6:20 pm with the introduction.

Introduction:

Suresh A introduced the Book "Against the Gods: The Remarkable story of Risk" by Peter L. Bernstein. Peter Lewyn Bernstein is an American financial historian, economist and educator whose development and refinement of the efficient-market hypothesis made him one of the country's best known authorities in popularizing and presenting investment economics to the general public. Suresh, in his introduction, gave details on the history of Risk and its evolution over time. He also introduced to audience Chapter 16 - **Failure of Invariance** the extracts of which are to be read out by Neeti Trivedi. He provided a glimpse of happenings, both in and India & US, of the year 1996 when the book was published. In an interview published by Mckinsy in January 2008, Bernstein says:

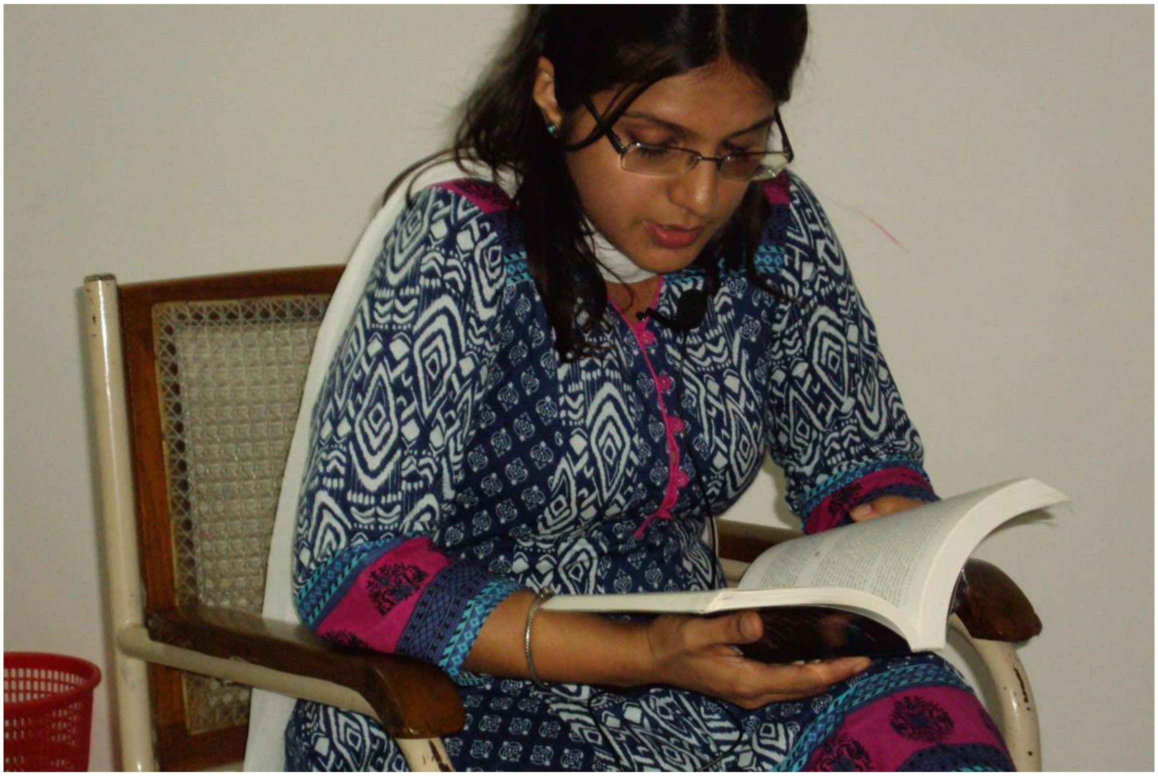
> *"I have been fascinated why probability was developed in the 1640s. I mean there have been Greeks, great mathematicians, and mass of great mathematicians. Nobody thought of probability until the 1640s, and then it set the world on fire. By the 1640s people were beginning to understand that human beings could control their outcomes and it was not all mumbo-jumbo and that although god was up there, that we had some degree of freewill."*



"Against The Gods" was published when the notion of risk was not as pre-eminent in the minds of the people as it is today because tragic 9/11 was to occur in the future and 2007-08 was more than a decade away. And how the things have changed in the world since then! It is with this perspective that we should evaluate the importance of this book when we stand at the cusp of a new beginning in our times

Book Reading session:

Neeti Trivedi, before reading out the extracts from chapter 16 – "**Failure of Invariance**", gave a glimpse of the preparations that were put while selecting the book and chapter to be read. Her reading of the Chapter was remarkably accuracy and she displayed professional acumen. All of us think of ourselves as rational beings even in times of crisis, applying the laws of probability in cool and calculated fashion to the choices that confront us. We like to believe we are above-average in skills, intelligence, farsightedness, experience, refinement, and leadership. And yet most humans are not utterly irrational beings who take risks without forethought or who hide in a closet when anxiety strikes. As we shall see, the evidence suggests that we reach decisions in accord with an underlying structure that enables us to function predictably and, in most instances, systematically.



In reality the decisions we make deviates from the rational decision models of the Bernoullis, Jevons, and von Neumann. It talked in detail how human beings respond to situations differently thus making different decisions rationally and irrationally at times. The series of experiments conducted to understand the human behavior lead to one of the most tantalizing question which is **If people are so dumb, how come more of us smart people don't get rich**? Chapter 16 also dealt with many concepts like prospect theory, game theory, human behavior, behavioral finance, rational decision making and probability.

Conclusion:

Jayesh Doshi made concluding remarks which summarized the buildup which began on May 15th and ended on 11th as the culmination. He reiterated some of the important points from the book reading session. The central issue in behavioral finance is explaining why market participants make systematic errors contrary to assumption of rational market participants. Such errors affect prices and returns, creating market inefficiencies. It also investigates how other participants take advantage (arbitrage) of such market inefficiencies. Behavioral finance highlights inefficiencies such as under or over-reactions to information as causes of market trends and in extreme cases of bubbles and crashes. Such reactions have been attributed to limited investor attention, overconfidence, over-optimism, mimicry (herding instinct) and noise trading. Technical analysts consider behavioral finance, to be behavioral economics' "academic cousin" and to be the theoretical basis for technical analysis. Emotion often destroys the self-control that is essential to rational decisions and people are often unable to understand fully what they are dealing with" or "they face cognitive difficulties while making decisions.

In conclusion, Bernstein did a marvelous job of recording the history of behavioral finance in this chapter "The Failure of Invariance". This historical perspective will give an opportunity to professionals like us in appreciating the subject in all its beauty and strength. Instead of submitting ourselves to charlatans who peddle their half-baked and sometimes unscientific ideas, as behavioral finance, we can pick-up any time books like "Against the Gods, or "Thinking, fast and slow", or "Black Swan" to learn first had from the discoverers and practitioners

Group Discussion which began at 7:10 PM, was ably moderated by Pramod Kanipakam and Prasad Achaiah which saw an overwhelming participation from the members of the council.

Participants shared various perspectives, suggestions, and recommendations on the topic.

An in-session quiz was held to all participants except the creators of the quiz and all the members busied themselves in finding the answers. Answers for In-session quiz was also given out to the audience.

And the winners are:

1st prize joint winners – Lovaii Navlakhi and Pramod Kanipakam
2nd prize – Chimmu Kutty P
3rd prize – Yuvaraja

Overall the whole session was one of its kind in terms of the structure of the session, pre-session work, style of presentation, literature review of the topic, involvement of the participants and many more. There were many firsts like using two LCD's, Book reading session, using PA system for better experience, and importantly having a “Presidents Guest” who stayed with us throughout the program and encouraged us. True to the title of the event, it was a multimodal experience to all the members as KM Team showcased video-clips, write-ups, PowerPoint Presentations, video streams, visual presentations, speeches, book reading or narration, on-line and off-line quizzes, group discussions and many more. Many of our members took on the stage and showcased their talents too. Many other members participated actively in the group discussion. Needless to say the session exceeded the expectations of the participants. The evening turned out to be a very rich and rewarding experience for all the participants.

Many kudos to KM team for their great and invaluable efforts in making June Monthly meet a great grand success. I am optimistic that we will have many more such sessions in our upcoming monthly meets which will make us intellectually wealthier. This could be the reward for the risk of attending CoFP monthly meets regularly! Certainly, this risk would contradict the notion of “higher the risk, higher the returns” since attending this event is a Low Risk and High Returns and Rewards proposition.

Almost all the contents and pictures of June Event can be seen at our Facebook page https://www.facebook.com/cofpindia. If you haven't visited or liked the page, it is time to do it now.

What Next?

Now is the time to await eagerly for July session. After super-hit June program, curiosity of members is obviously heightened. KM Team so far has not given out many details about July event other than announcing the event title **"Harry Checks-In @ CoFP"**.

Who is this guy Harry? Why should he check-in @ CoFP? There are many questions for which no answers can be found for now. Let us wait and watch and check-in @ CoFP ourselves in large numbers on 9th July before someone else takes away our seats. Till then, it is good bye from me.

Srinivas