GREEK ECONOMY: WAITING FOR LIGHT TO EMERGE FROM THE TUNNEL

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In the eye of the banking and Brexit storm

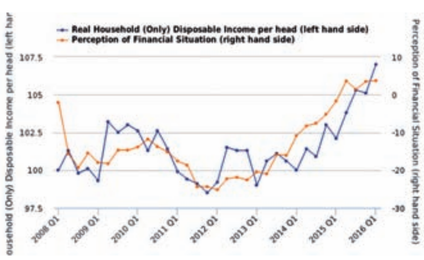
London-based financier Angelos Sigalas discusses a wide range of subjects with Business File, *spanning the repercussions of the banking crisis to the reality of Brexit*

To sum up

***Eugenia Anastassiou* interviewed Angelos Sigalas, a Greek-born, London-based financier, specialising in wealth management, serving a largely international clientele as Vice President, first at Morgan Stanley Private Wealth Management and then JP Morgan Private Bank. His career spans some 18 years and he has contrasted his experience working in large financial institutions recently as the MD for boutique wealth management company Azure Wealth LLP and is now branching out by setting up his own independent wealth management firm Private Capital Advisors Ltd. As a youngster growing up in Athens, Angelos remembers reading *Business File*'s sister publication, the Greek *Oikonomiki Epitheorissi*, and admits most of it "went over his head" in those days. However, nowadays his many clients from Russia, Cyprus, Greece, the UK and Germany rely on his advice to manage their personal and professional wealth. In this capacity Angelos has a unique insight into the repercussions of the banking crisis on the financial world and more recently in facing the reality of Brexit, both in his professional life and on his clients.**

How do you view the Brexit vote from your perspective?

In my opinion, Brexit was a protest vote and everyone voted for their own reasons reflecting their personal circumstances; but very few had a clear idea and everyone had a different vision of how it would impact the UK.



Real Household Disposable Income per head and Perception of Financial Situation
http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/economicwellbeing/quarter1jantomar2016

I had so many messages from clients and colleagues from the UK and all over the world pre-Brexit on the Remain assumption and it seemed it was a given on the evening of the election when Nigel Farage (the pro-Brexit leader of the UK's Independence Party) threw in the towel before the result of the vote came in. Next morning, waking up to a new reality, most were stunned, shocked, with disbelief all around, including those from the Brexit camp, because there were so many practical reasons to address the "No" vote – it certainly felt like the UK shot itself in the foot economically.

It was easier for the Leave campaign to "sell" Brexit to the electorate, they grabbed figures such as £7 billion poured into the EU Budget annually by the UK (which incidentally is only about 1% of the UK's annual spending) and £350 million to be saved for the National Health Service. It was headline grabbing and effective. No one was talking about that as a percentage of the UK's annual spending or GDP. It is actually relatively insignificant, if you measure it against the total benefits of investment and wealth creation; factors like global companies locating their European HQs in the UK, the added tax revenue and employment, but also the fact that being in the EU for such a long time has allowed UK businesses and the UK economy to grow. The cumulative advantage of having been in the EU for such a long time is very difficult to quantify, let alone explain to the electorate. The Remain campaign found it difficult to prove the economic advantages of the EU.

I wonder if there were to be a new referendum now, would the result be different? From my conversations with Brexit supporters, their arguments are for more structural reform of the EU and its processes, rather than completely dismantling it. Clearly, however, there are parts of the population who feel they have not been well served by the EU, but this applies to every country in the Union.

Closer relationship with clients: London-based financier Angelos Sigalas says that for an advisor, being independent and sitting closer to the client has become more important and this is also what clients want as well

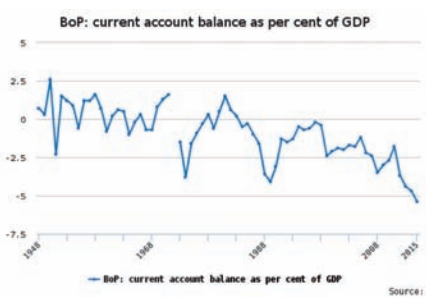
What would be the best way to move forward in order to minimise long-term economic difficulties?

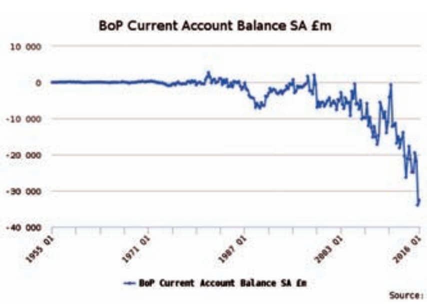
From my perspective, the optimum solution would be one that keeps the benefits of free trade and free movement of labour within the EU. Currently the closest model to this is the EEA Norwegian model, where paradoxically the UK would still have to pay into the EU, with the disadvantage that it would not have a say in EU policy. I believe that the current government will try to negotiate these points, however I fear that the Brexiteers will be dissatisfied if the free movement of labour remains, since their main concern of limiting immigration will not have been addressed. The UK has been divided by the referendum and one camp or another will be disappointed with the outcome of the negotiations. However, an interim model which already exists may be the most practical solution, since completely dismantling membership from the EU as a whole is a multi-year project, if you consider how highly detailed EU regulations are and on the whole many of them are beneficial for trade.

How are the after-effects impacting in the short term?

Uncertainty typically suppresses economic activity, postpones decision-making on projects until further information is available and forces businesses to make alternative plans in case worst case scenarios materialise. Thus, I fear that incoming strategic investment into the UK will most likely decline. The weaker pound may attract some shorter term investors who view the UK as a safe haven, when compared to their home jurisdictions, however this is likely to be a short felt effect.

With the above backdrop, and given that the UK has had a negative current account deficit in the past 30 years and relies to some extent on foreign investment into the UK, it is likely that there will be further economic deterioration.





Current account as per UK GDP & Current account timeline https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments

In addition, Brexit came at a difficult time economically with much of Europe in recession and a general global slow-down, which makes going it alone even harder.

What about "exit" contagion and EU referenda in other countries such as Greece and the possibility of Grexit? Is this scenario now more likely?

The concern is actually for bigger countries, such as France demanding a referendum, which will have a bigger impact than Greece. Also, Greece will find it extremely hard to stand on its own two feet outside the EU; they will be seriously disadvantaged without access to EU funds and freedom of movement for their people to work in other EU countries, not to mention the inability to fund public finances.

Seeing it on a broader level, the EU is relatively "new" in terms of integration, if you view it against how many generations it took to create the United States of America and analysing the UK's referendum demographics – the majority of younger people voted Remain. This is the case all over Europe; the young are generally less isolationist and more accepting of a union, as generations evolve and pass, and I would expect there to be greater incorporation. Rather than referenda on exiting the EU, perhaps discussions on reform should be the main focus and should be led by the heads of the EU. This would be welcome by both Eurosceptics and Europhiles.

As a Greek in the UK, do you have any personal concerns over Brexit?

Yes, both personally and professionally. In a professional capacity, the EU passporting of financial services could be very disruptive to our business and of course it could also mean that London ceases to be the EU HQ centre for non-European financial services companies. This could mean that London loses some of its edge as a global financial centre, as well as having a consequence for jobs in the UK.

Personally, as a Greek living and working in London, I and countless other EU professionals are affected; especially those who have made the UK their home, raise their families here, pay UK taxes and contribute to the UK economy. Our long-term status has become another problematic consequence of the "No" vote and indeed many Greeks are now seeking to obtain UK citizenship, if they fulfill the requirements. However, for those wanting to come now or those who have only been in the UK a short time, the uncertainty is more pronounced and this can also have consequences for businesses.

Turning to banking, one of the fallouts of the 2008 crisis was the erosion of trust between investors and financial service providers. How much progress has the financial world made in winning back their clients trust?

Certainly, banking scandals like Libor and the misselling of inappropriate financial products, as well as instances of malfeasance such as Madoff, conspired to bring the industry into disrepute. So, there had to be a profound change to restore credibility, tantamount to a revolution with controls tightening on every level. For financial services providers in the wealth management sphere, this has meant closer scrutiny and more severe consequences for non-adherence. Stricter compliance means that everything has to be proven, demonstrated and documented: from the source of clients' wealth as well as their funds, suitability and appropriateness of solutions offered to documenting any conflicts of interest, as well as formally reviewing the ongoing advice and appropriateness of the solutions originally provided to clients.

This additional scrutiny has meant revised processes and an increase in manpower, which has resulted in increased costs for the industry. This has impacted both wealth and asset managers' margins, as well as increased financial costs for clients and time spent in order to deal with additional paperwork. Wealth managers have had to review their businesses and as many costs are somewhat fixed per client, some providers have shunned smaller clients (generally under £1 million in investable assets) in the wealth management space – arguably, those who could benefit most from financial advice. This has been one of the unintended consequences of increased regulation.

You have worked in large global financial institutions and now you work in a boutique investment organisation. What are the differences in their set-ups?

Boutiques to some extent have been the result of some of the problems which came out of the financial institutions, especially on the wealth management side. Many clients and advisors felt that being tied to any one institution no longer served their purpose, especially if those organisations were involved in one of the banking scandals. For an advisor, being independent and sitting closer to the client has become more important and this is also what clients want as well.

Dealing with a boutique means a client can segregate their advisor from the provider of the banking infrastructure or indeed the asset manager, if the boutique in question does not manage funds in-house themselves.

In today's regulatory environment and with the large organisations very focused on increasing their assets under management, I am convinced that a boutique wealth manager can offer the client a much more personalised and all-round service led by the client's individual requirements.

Larger organisations who deal with thousands of clients in the Ultra and High Net Worth segments need to offer scaleable solutions and uniformity, which can result in somewhat of a "cookie cutter" approach. Boutiques have the flexibility to focus on what is important for individual clients, whether it is focused on overall asset risk management or administration, like keeping consolidated records of overall wealth or filtering the barrage of information, whether financial or compliance related, and helping them to navigate an increasingly complex banking and financial landscape.

Some boutiques charge on an "all-in" fee basis, where a fee is agreed with clients for advice and the wealth manager is motivated only by growing their client's asset value, which means that it takes away the incentive to push financial products which ultimately may not be appropriate. As a result, clients are assured that any recommendations provided or asset allocation changes enacted have been driven by doing what is best for the client. We typically tend to be conservative on our clients' behalf, managing volatility in the short term but without losing sight of our clients' long-term goals.

Of course, large organisations still have much to offer, both in terms of infrastructure and expertise. Using a boutique wealth manager is about having your personal independent navigator, utilising the best of these organisations as well as having access to alternative solutions, whether they are provided in-house or externally.

Angelos Sigalas

Angelos Sigalas was born and educated in Athens, with family roots in both Santorini and Constantinople, as well as Germany on his mother's side. He went on to study in the UK and started his career at Morgan Stanley's Private Client Services (later Private Wealth Management) in 1998. He left in 2011 as a Vice-President, having served a varied international clientele from Russia, Cyprus, Greece, the UK and Germany, joining JP Morgan Private Bank as VP, focusing on the Greek and Cypriot markets. He then became MD of boutique wealth management firm Azure Wealth LLP. Angelos is currently setting up Private Capital Advisors Ltd (PCA), which will focus on asset management for individuals and their families, in addition to legal and compliance aspects, family office and institutional prime brokerage services through an affiliated partner, as well as capital introductions for clients' projects and unique investment opportunities.

In this increasingly volatile market and uncertain outlook, what is your advice to your clients?

We have tended to be more conservative as many markets seem fully valued to us, which can make them more prone to corrections. I definitely feel we are entering a phase in the market where being more selective and active will be increasingly important and I think as a boutique we can be more tactically nimble in our approach.

However, the most important factor for us is to assess correctly what appetite for risk each client can take, whether they are an individual or a business. Our role in this is to try and take out the emotion of money management and investments on behalf of our clients.

Since the economic crisis, are more Greeks turning to wealth management boutiques?

I believe that for Greeks this has been a relatively new concept, however in recent years there has been a trend, as some clients have become increasingly disillusioned with their banks – whether it is because they have been less pleased by performance, increased paperwork or reduced flexibility. Our Greek clients, just like clients from all over the world, regard simplicity, transparency, honesty and integrity to be important criteria in choosing their financial advisors.