SMART MONEY

Sort advisers from product sellers

If you've sustained serious losses and your adviser hasn't explained what happened, you should be seeking answers, writes **John Wasiliev.**

It won't bring your lost money back nor will it necessarily make you feel any better. But if you have employed a financial planner you probably should expect to get a clear explanation of why your investments went pear shaped.

You're entitled to such an explanation because your planner – if he or she has been doing their job properly – should have kept you informed throughout this difficult time not only about the progress of your finances but also why the strategies they have recommended for you remain sound.

Such initiatives keep you in touch with the financial world as it applies to you during these most challenging times, making you better off than someone who has been flying solo as an investor. And your planner should also have been available at all reasonable times to personally answer your questions, no matter how difficult.

But if you are still puzzled as to why things have turned as this way, now is the time to be asking some serious questions of either your adviser or of yourself.

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Spot the difference . . . a good adviser can separate their service from investment products. Photo Penny Stephens

concentrate on investment performance and percentage returns when in fact serious planning is all about organising the best ways of managing the cash that flows from investments over a person's lifetime.

The flow of cash includes income and any capital gains while the organisation includes the effective use of arrangements such as superannuation with its various strategies.

It also includes being aware of various risks and rewards associated with particular investment categories and strategies. "For instance, I would be very distressed if I put money into the sharemarket that was to be a deposit for a house that I wanted to buy within the next two years," he says.

This contrasts with the potential rewards for someone aged 55 making share investments through superannuation that will provide them with long-term tax-effective dividend income and capital gains for many years.

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TALK THROUGH THE TURMOIL

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Photo Paul Jones

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But if you are still puzzled as to why things have turned as this way, now is the time to be asking some serious questions of either your adviser or of yourself.

The main question you might ask is whether your planner or adviser is proving to be the best choice for a long-term relationship as important as your personal finances.

"Many people are likely to have spent more time researching the purchase of a new car than they did on selecting a financial adviser," reckons Alan Dixon, of Canberra-based Dixon Advisory.

This is particularly relevant for anyone who has employed an adviser for the first time over the past few years when financial markets were far more buoyant than they are at present. If you are in this group, the current period is the first real test of both the relationship and the services your adviser or planner offers.

Regularly assessing the performance of your adviser as distinct from the performance of the investments they have recommended is a good idea at any point in time. But making such as assessment when financial markets are in the pits of despair is a time like no other.

Regular reviews allow a better understanding of the real service your adviser offers and if it is mutually beneficial. It should be obvious, for instance, that if your adviser has been hard to contact or very slow to respond in person to any queries you have, you may not have made the smartest choice.

Another reason to question your choice is if the only time you hear from your adviser is when they have an investment idea to sell you. In an address last month to the Self Managed Super Funds Professionals Association (SPAA) annual conference in Adelaide, former high court chief justice Sir Anthony Mason criticised Australian laws for allowing a financial product seller to describe themselves as a financial adviser.

"Indeed our system enables a product seller to adopt the disguise of a financial adviser and endows that disguise with the aura of legitimacy by calling him a 'licensed' financial adviser," Mason pointed out, suggesting that such arrangements were obvious examples of conflicts of interest in the financial services industry.

One of the problems that decent advisers face, says Peter Nicholson, of Sydney-based Peak Financial, is the high-performance expectations their clients have as a result of the five-year bull market in shares. "That is what many relationships between advisers and clients have unfortunately been built on in recent years," Nicholson says.

He says one of the traps for financial planners during bull markets is allowing themselves to be promoted as investment gurus by both their clients and the press when in reality that is not at all what financial planning is about.

When it comes to investments, Nicholson says, planners go wrong when they allow discussions to

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A performance culture also creates the expectation that financial planning is all about identifying the latest investment ideas. While investments are important they are not the be all and end all of financial planning.

This highlights another major challenge for serious planners: separating the services they provide from those offered by promoters of investment products.

One of the most confusing aspects of the Australian financial services market is how people employed to sell various financial products are able to describe themselves as financial advisers.

A financial adviser, says Mark Johnston, the principal of research firm Investment Trends, could be a financial planner, an accountant who also gives investment advice, a stockbroker, a lawyer who gives tax advice, or a private or investment banker. An adviser could also be a person who is paid a commission or some other form of remuneration to sell a particular financial product.

While regulations require any conflicts of interest to be disclosed to clients, Mason questioned in his address whether such disclosure is meaningful given it often comes as small print in a lengthy document.

Nicholson says the only way a financial planner can separate his or her services from that of a product-selling adviser is to clearly explain the differences.

"Financial planning is not a one-off investment solution which is what a commission person offers," he says.

A planner aims to encourage people to look at their overall financial circumstances with a long-term view. This is the major difference that anyone who employs a financial planner must understand.

TALK THROUGH THE TURMOIL

Godfrey Pembroke financial planner Matthew Scholten's priority is to keep talking to clients throughout the financial turmoil. His main aim is to reaffirm that clients' strategies are generally right and their investment portfolio is appropriate. One issue Scholten is happy to discuss is whether their tolerance to the risks associated with investments such as shares is what they believe it was previously.

He says market events over the past 18 months have led to some people rethinking risk tolerance. At the same time, any adjustments to their attitude needs to consider the future structure of their investment portfolios and about 5 per cent of his clients have adjusted their portfolios accordingly.

As far as his organisation's recommendations are concerned, Scholten says two pluses have been a decision since around mid-2007 – before sharemarkets started falling – to stop reinvesting dividends and allow cash levels to build up. Another good call has been steering clear of listed property investments since about 2006, based on a view they were overvalued.

On the other side of the ledger, Scholten says there were times during the retreat when he believed shares appeared cheap and were worth buying on a

Matthew Scholten
Photo Paul Jones

selective basis. The most recent time was around July and August last year when it was felt the market – at about 5000 – offered long-term buying opportunities.

Scholten still believes these levels are probably where the Australian sharemarket represents fair value but it has fallen a lot further than he anticipated.

One issue that is a priority for his company is a focus on delivering fee-for-service financial planning advice. This includes not claiming less well-known fees such as special bonuses paid to planners and advisers by promoters of managed funds and platform services. These bonuses are based purely on the volume of business that goes to a particular service provider.

Scholten says he has a problem with such fees, especially where planners are paid fees and commissions regardless of whether they provide any ongoing advice to clients.

He believes fees, like volume bonuses that are collected by some of the most prominent planning groups, leave the financial planning industry open to public perceptions of a potential conflict of interest and accusations of kickbacks.

He says there are too many examples of firms that appear to concentrate on services that have high fees and commissions associated with them. Most planning firms that have collapsed seem to have been commission driven.

Scholten says he prefers to be able to tell his clients that it doesn't matter where their money is invested; they will be paying the same fees regardless. He says the most important issue in any financial planner-client relationship is that people understand what they get for the fees they pay.

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