How to find GOOD ADVICE

Do you need a financial planner and how can you find one who's a real professional with your best interests at heart? *YMM* investigates

Financial advisers haven't traditionally enjoyed a very high standing when it comes to public perceptions about their professionalism and trustworthiness. This hasn't been helped by the fact that some advisers have traditionally made their money (and plenty of it) by selling managed funds for commissions.

It's been difficult for their clients to be certain the investments they've ended up with have been the best for their needs. In fact, the law hasn't even obliged financial planners to recommend the best products; in the past, recommended investments have only had to be "appropriate".

Debacles like the collapse of Storm Financial have added further scepticism to public opinion about the value of seeking professional financial advice.

There are, however, many good financial planners out there who cringe at the thought of being seen as anything other than highly professional. These financial planners have strong partnerships with their clients, work on a strictly fee-for-service basis (rather than being paid commissions for selling particular financial products)and have a proven track record of helping ordinary small investors to protect and grow their wealth.

So what questions should you ask yourself to figure out whether or not you need a financial adviser, and how do you ensure you end up with a true professional?

Vital statistics

16,000

the number of people who call themselves financial planners/ advisers of various guises in Australia

>8,000

the number of advisers who are members of the Financial Planning Association (FPA)

5,700

the number of Certified Financial Planners (highest certification available)

3 million

the number of clients serviced by members of the FPA

$650m

the value of the investments they manage

> There are many good financial planners who cringe at the thought of being seen as anything other than very professional

1 Can I get the info myself?

Not everyone needs a professional financial planner. Some people just need education and general information to help them make sensible financial decisions. Seeking out professional advice can be costly and unnecessary.

There are many other sources of guidance and information that you can turn to for free. So get as much free education and information as you can before seeking out a financial planner.

Here are some excellent sources of free information and education on financial products and investing. They are a great starting point and they're free.

- **Australian Investors Association** (AIA): **www.investors.asn.au** has a range of newsletters and consumer education initiatives specifically for small investors
- **Australian Shareholders Association** (ASA): **www.australianshareholders.com.au** provides free online seminars and a range of services and information for its members (there is a joining fee)
- **Association of Superannuation Funds of Australia** (ASFA): **www.superannuation.asn.au** has the major super funds as its members and it has excellent research and information about superannuation
- **Australian Securities and Investments Commission (ASIC): www.asic.gov.au** has a consumer site called moneysmart with a range of tips and tools
- **Australian Securities Exchange** (ASX): **www.asx.com.au** has an excellent program of free seminars and webinars, a range of online tools and information on the share market and equites
- **Australian Taxation Office (ATO): www.ato.gov.au** is an excellent source of information on all things relating to tax and self-managed superannuation
- **Centrelink's Financial Information Service (FIS): www.centrelink.gov.au** runs free seminars at various locations around the country on finance and investment, times and venues are usually advertised in local papers
- **Financial Planning Assocaition (FPA): www.fpa.asn.au** has a range of tools and resources available in the consumer section of its website
- **Industry Super Network (ISN): www.industrysuper.com.au** is another excellent source of information about super and investing
- **National Information Centre (NICRI): www.nicri.org.au** is government funded and has qualified financial advisers giving assistance over the phone on a range of financial and investment issues

2 When will I need advice?

Mark Rantall, CEO of the Financial Planning Association of Australia (FPA), says most people seek out the services of a financial planner when they are at major trigger points in their life. "Traditionally people go to see a financial planner when they have a major life event. Perhaps they inherit money, start a family, buy a home or approach retirement," Rantall says. "Sometimes it's hard to navigate the complexities of investing, taxation, and all the other choices without a bit of help. If you're flying in a plane you expect someone qualified to be in the cockpit," he says.

Rantall also says you don't need to wait for one of those events or be a high-net-worth individual to benefit from establishing a relationship with a professional planner. "The younger you are when you cotton on to the fact that you need to save and invest, to minimise your credit and phone debt and buy a house, the better," he says.

3 Where should I look for an adviser?

The Financial Planning Association (FPA) website (**www.fpa.asn.au**) is a good place to start looking for a financial adviser. All FPA members are listed in an online directory that you can search by postcode.

Most people find a planner via personal referral from friends, colleagues or family members. Ensure anyone you're referred to is licensed, is a member of the FPA and has a track record of achieving good outcomes for the person who has referred you.

4 What qualifications should my adviser have?

The FPA's Mark Rantall concedes that educational standards and qualifications within the financial advice industry have been far too low for far too long.

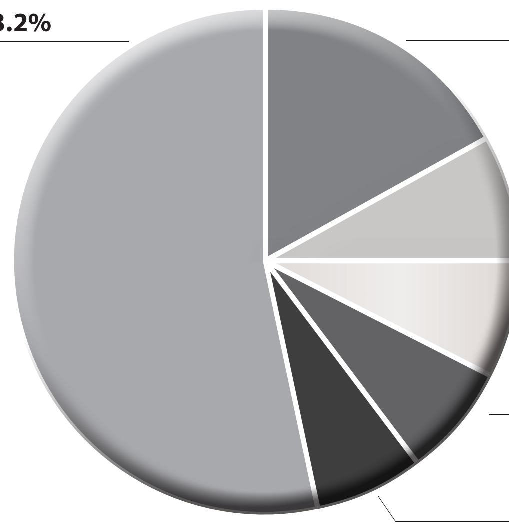
The FPA is now aiming for all planners to have at least a relevant graduate degree. Certified Financial Planners are required to have a post-graduate degree. This will mean planners have a similar level of qualifications to accountants.

Generally, all practising financial planners must hold an Australian Financial Services Licence issued by the Australian Securities and Investments Commission (ASIC). Never deal with an unlicensed adviser.

Tip! Look for a Certified Financial Planner (CFP), the global symbol of excellence in financial planning, to ensure you are dealing with an adviser who has the highest levels of qualification currently available within the profession.

✪ Who are the biggest financial planning companies?

The companies with the biggest share of Australia's financial planning market



Source FPA

5 How much experience should my adviser have?

Check the planner has been in the business long enough to have achieved a good track record and seen clients through different market cycles. If they can't remember the last crash (or the one before), they're not experienced enough to be giving you advice.

Also check they are permitted to provide advice on a broad range of issues and products. Some planners are restricted to advising on certain product categories such as insurance. You want someone who is able to provide comprehensive guidance. If you have particular areas of interest, such as self-managed super, check the planner is certified to give specialist advice in that area.

6 Do I like my adviser?

Your financial planner is going to know more about you than your accountant or doctor, as he will have details of your finances, medical history and estate, so rapport and trust are essential. If you can't establish that rapport, keep shopping.

Financial planning is a relationship business and not just a once-off meeting, so you want a cultural fit. And remember first impressions can be deceiving – just because someone looks slick and professional doesn't necessarily mean they are, so ask plenty of questions about their qualifications, professional memberships and experience.

7 Who is behind my adviser?

Ownership of a financial planner's business often determines the services and products they offer. Many financial planning businesses are owned by major financial institutions like banks, fund managers and life insurance companies that supply the financial products recommended by their planners.

The financial planner must make sure you are aware of any association and any potential conflict of interest arising from relationships with product providers. Some financial planners are totally independent so their advice isn't affected by relationships or incentives offered by product providers.

Mark Rantall says investors should disconnect advice from "implementation". In other words, if you want impartial advice, pay for it on a fee-for-service basis and keep it apart from the actual process of buying specific investment products.

You also need to interrogate the adviser about who owns their practice, what arrangements they have in place with certain product providers and whether they will rebate any commissions or fees earned for the sale of investment products (at least until commissions are banned in 2012). This

> The FPA's Mark Rantall concedes that educational standards and qualifications within the financial advice industry have been far too low for far too long

should all be set out in their Financial Services Guide (FSG), a document they are legally required to give you at, if not before, your first meeting.

Tip! Feel free to ask a financial planner about their own personal financial situation. As one financial planner said – you wouldn't choose a landscaper whose own garden was in a mess

8 Will I have to pay too much?

Costs can vary widely depending on your needs and who you go to. An adviser will present you with a schedule of fees but you should always negotiate.

Here's a typical example of how an adviser might structure their fees.

a. **Statement of advice fee:** $880 for basic strategies through to $2,000 for a self-managed super fund or advanced strategies. Additional services or research will be charged per hour at around $165.

b. **Implementation fee:** can be a percentage of the assets to be invested (from 0-1.1%) to cover the administration of actually signing you up to particular investments. Brokerage for direct equities will be on top of this (0.825% per trade). Some planners work on a sliding scale and the higher the value of your investments, the lower the percentage you will pay.

c. **Portfolio review fee:** $800 or a percentage of the value of the funds you have invested (eg 0.9%) is a typical minimum charge for a relatively simple portfolio.

9 Will I pay commissions?

If you decide to use an adviser who accepts commissions from fund managers and insurance companies, don't think you're getting free advice.

Those commissions might be paid by insurer or fund manager but they come out of the money you invest, reducing the amount that is actually working for you.

The two main types of commission are upfront, when you sign up to managed fund or insurance policy and ongoing or trail commissions.

Upfront: this is the adviser's reward for convincing you to 'buy' the product. For managed funds they can be as high as 4% and for insurance policies that can be up to 125% of the first year's premium. Most planners are happy to rebate the upfront commission on managed funds but don't usually do so for insurance products.

Ongoing/trails: these are the most controversial commissions because the adviser continues to receive a percentage from your managed fund account or insurance premiums each year whether or not you continue to be their client. They vary from 0% up to 40% for insurance products. Again, you can ask for a rebate but they're not usually available on insurance products.

Managed fund commissions are already being phased out and are expected to be abolished next year but advisers are likely to continue to earn insurance commissions so make sure you know how much of your annual premium is going to the planner (see box above).

2012: no more commission payments

New laws are expected to be passed by the Commonwealth Parliament next year to ban the payment of commissions to financial planners for the sale of managed funds and superannuation.

In the past, financial planners have received varying levels of commission from different product providers – so they have been incentivised to recommend to you one product over another regardless of its real value to you.

The reforms aim to improve the quality of advice, strengthen investor protection and underpin trust and confidence in the financial planning industry.

Three key reforms are expected to come into play from July 2012:

- a ban on conflicted remuneration structures, including commissions and any form of volume-based payment
- a legal requirement for financial planners to act in the best interests of their clients and to place the interests of their clients ahead of their own
- the introduction of an adviser-charging regime, including a range of options to give consumers flexibility as to how they pay for advice

The move from a commission-based to a fee-for-service-based remuneration model is already underway. Competition between large advisory groups to retain clients could see the cost of advice come down when the reforms are introduced.

10 What is the process?

When you approach a financial planner, advice doesn't come straight away. When developing a financial plan for you, known as a Statement of Advice (SOA), an adviser should follow a structured process to help understand your needs and recommend an appropriate strategy. The six-step financial planning process is as follows:

a. **Gather your financial information:** This should include a detailed exploration of your current assets, liabilities, income, expenses etc

b. **Identify your goals:** Strategies can't be put in place without well-developed goals

c. **Identify financial issues:** Perhaps your current super levels won't be adequate or you have a blended family; your health, years to retirement, aspirations and needs of dependents should all be considered

d. **Prepare your financial plan (called a Statement of Advice):** This is the part where the adviser gives out the information they've gathered and recommends strategies for you

e. **Implement the recommendations based on your financial plan:** This may be as simple as setting up a savings plan, paying more off your mortgage or as complex as using borrowings to invest in shares

f. **Review the plan regularly, or when circumstances change:** You should hear from your planner a couple of times a year at least ■

Advice over the years

There are three broad stages in life when it might be useful to have a good financial planner in your corner.

Young starter: typically someone who has finished University and just started their first 'real' job. A financial planner could help them to: identify goals and come up with strategies to achieve them; develop budgeting skills; consolidate super from various casual jobs; set a timeframe and savings scheme for owning a home; and make sure they have the right insurance.

Accumulator: typically a young family looking for financial security and independence. A financial planner could help to develop a long-term savings and investment plan; establish a complete risk protection plan to provide security if something happened to income; draft a formal will; build an investment portfolio to fund children's education; manage taxes and suggest the most tax-effective ways to manage super funds and increase take-home pay.

Consolidator and retiree: typically someone at pre-retirement stage; they are looking to get rid of debt, pay off the mortgage and target funding for retirement. Retirees want to ensure they have enough money to last the rest of their lives. A financial planner could help to build other assets outside the home and super; advise how to pay off their mortgage; do a review of insurances; maximise superannuation benefits; assess the performance of all existing investments; optimise retirement income; and advise on estate planning.

$1.3trn

amount invested in managed funds in Australia

10% of GDP

proportion of GDP represented by that $1.3trn – a higher proportion than mining

40%

current percentage of Australians who use a financial adviser

Trail commissions – you may already be paying for advice!

If you have a super in a big brand fund you may already be paying fees for a financial planner but not using the service. It is important to check with your super if you are paying what is known as a "trail commission".

"Trail commissions" became a contentious issue when it was found that they accounted for about 35% of the financial advice industry's revenue. Trail commissions are an ongoing annual commission received by the adviser from fund managers, normally calculated as a percentage of the funds under advice (FUA).

Trail commissions are paid by the supplier of the investment product, but come out of the client's funds. The average trail commission paid to financial advisers is about 0.5% of the FUA. This commission is often represented as a fee for ongoing services provided to the client, although in some cases no further advice is provided.

A recent Financial Planning Association (FPA) study found that financial planners on average had about 380 clients each, but only regularly serviced about 40% of them.

Trail commissions are expected to be abolished as part of the reforms to be introduced next year. However, if you are currently the member of a corporate or employer-sponsored super fund, there may be an adviser somewhere earning trails out of your account.

your money
MAGAZINE

smarter saving, investing, spending and living

SUBSCRIBE NOW

VISIT www.yourmoneymag.com.au
OR CALL (02) 8437 4731

SUBSCRIBE TODAY + SAVE UP TO $50.85

PLUS RECEIVE A FREE BOOK of your choice with a 24 issue subscription!*

Read it, share it, get excited, because it doesn't matter what you want in life, *Your Money Magazine* will help you get there faster.

Don't bother going to the newsagent – get it delivered for FREE, SAVE up to $50.85 off the cover price and receive a FREE BOOK!*

FREE GIFT

*WHILE STOCKS LAST. Book only available with a 24 issue subscription.

TO SUBSCRIBE VISIT www.yourmoneymag.com.au OR CALL (02) 8437 4731