Smart investors make diligent decisions

A lot depends on finding the right financial planner. **Leng Yeow** explains how to go about it.

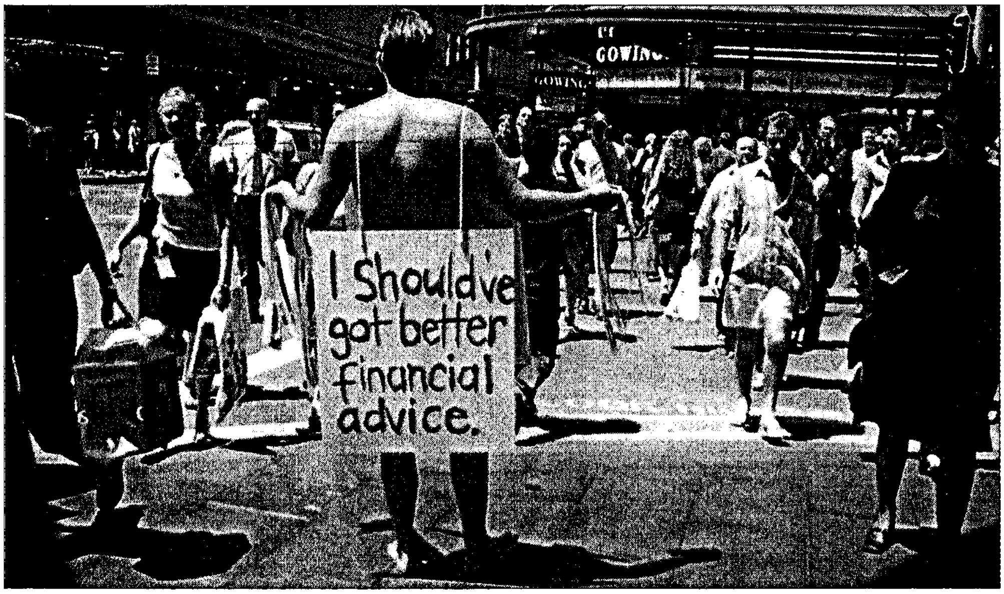

Photo: TAMARA VONINSKI

Selecting a qualified, ethical financial planner is not easy. It's hard to know who to trust, which is why it's important to shop around, seek referrals from trusted sources and triple-check advisers' credentials.

The Australian Securities and Investments Commission says investors should only deal with professional advisers who hold an Australian Financial Services Licence issued by the commission or who are employed or authorised by a licensed business.

ASIC's website (www.asic.gov.au) has a register of AFS licensees and AFS-authorised representatives and, equally important, also a register of banned and disqualified persons.

Lawyer Peter Bobbin, partner at The Argyle Partnership, recommends consumers see at least three financial planners, from different firms, before making a decision.

He adds that consumers should deal only with fully qualified advisers with a minimum qualification of a Diploma in Financial Services (Financial Planning). The advisers should also be members of a professional body.

In Australia, the Financial Planning Association (FPA) and the Association of Financial Advisers (AFA) are the two main professional bodies.

Members of both organisations must comply with their codes of ethics and rules of professional conduct, which include a fiduciary duty to act in clients' best interests and a duty to disclose and manage all conflicts of interest.

Many financial planners also belong to accounting bodies such as the Institute of Chartered Accountants and CPA Australia.

In order to comply with ASIC's RG 146 education requirements, advisers must have a Diploma in Financial Services (Financial Planning).

Some hold an Advanced Diploma in Financial Services (Financial Planning) or CPA Australia's Financial Planning Specialist (FPS) designation. The Certified Financial Planner (CFP) mark is considered the highest certification available to financial planners worldwide. To check if an adviser is a CFP, visit the FPA website (www.fpa.asn.au).

However, it only takes a few days to become RG 146 compliant and able to advise clients, which can be dangerous. Also, more than 80 per cent of financial planners are employees or authorised representatives of banks or insurance companies. These advisers are restricted to recommend only investment and insurance products that are selected by their licensee.

Many of those products are also manufactured by their parent.

The six largest institutionally-owned licensees place an average 73 per cent of their clients' super products with their own parent company, according to Roy Morgan research.

There are a small number of independent advisers who hold their own AFS licence but it's very difficult to tell the two apart because many bank-tied advisers operate under their own business name, for example, Jane Smith Financial Planning. Information on an adviser's business and licensing arrangements, plus their services and fees, should be detailed in their Financial Services Guide (FSG). Financial planners are legally required to supply an FSG.

These guides can be lengthy and difficult to understand so it's important to ask questions.

Ask if there are any restrictions on the financial products the adviser can recommend and always ask how much the advice will cost. Advisers should be specific and clear about their fees and services and provide a quote in flat dollar terms.

A good adviser spends a considerable amount of time getting to know the client first.

The most common way planners calculate their fee is as a percentage determined by the size of the client's investment portfolio.

According to Strategic Consulting and Training, 0.8 per cent to 1.1 per cent of assets under advice is standard for financial planners who deal with high net worth clients (loosely defined as those with more than $1 million in investable assets) while those targeting the mass affluent charge between 0.6 per cent and 0.7per cent a year, although commissions can push that up to 0.8 per cent.

If an adviser's fee is significantly higher than that, they should be providing additional services such as business and estate planning and legal advice.

But price alone should not determine the adviser you choose.

Some industry superannuation funds, for example, offer free or discounted advice to their members, but they can only provide limited advice as it relates to their specific fund and its investment options.

Some advisers charge lower fees because they also accept sales commissions and rebates from product manufacturers.

One of the best ways to choose a financial planner is a good referral but make sure the recommendation is based on several years of first-hand experience.

Sadly, ethical behaviour can't be legislated so there's no easy way of identifying dodgy advisers. But there are some warning signs: avoid financial planners who constantly talk about the returns they can deliver, or who push a certain product or strategy without properly assessing a client's personal financial situation, needs and objectives.

The initial interview is meant to be about finding out about the client and their situation. It is not for recommending products or strategies. A good adviser spends a considerable amount of time getting to know the client first.

Bobbin's No 1 tip for choosing a financial planner is always to apply "good old Aussie cynicism and remember, if it sounds too good to be true, it typically is".

Choose carefully

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