

August 2008 Newsletter

4 simple questions to identify an honest financial planner

The sad fact is that most financial planners can't provide you with balanced, impartial and independent financial advice even if they wanted to. That's a scary statement, I know! In my experience, the people that need financial advice and guidance the most (i.e. people that aren't financially savvy), are the ones that seem to get "sold" the poorest quality advice. It's almost like some planners take advantage of the fact that these people are easily bamboozled. That's why I am so deeply passionate about the need to increase the level of honesty and integrity in the financial planning industry. The industry seems to continue to tolerate these crippling conflicts of interest.

Below I set out 5 important issues to consider when obtaining financial advice. I believe that if you follow these 5 rules, it will put you miles in front and infinitely increase the chances of you receiving excellent financial advice. Here goes...

1. Most financial planners are paid via the receipt of commissions from fund managers, insurance companies and dealer groups. Receiving a commission creates a huge conflict of interest. Firstly, planners are incentivised to only recommend investment products that pay commissions. There are some excellent investment products which don't pay planner commissions (refer Section 3). Secondly, planners may be compelled to recommend products which pay higher commissions. Fund managers pay financial planners over \$1 billion in commissions in Australia each year. Ultimately, investors are paying for this in the form of higher fees. Now, there's nothing wrong with this as long as investors are getting valuable, balanced and honest financial advice in return – often they are not.

Some investors might think "why should I pay for advice when I can get it for free (from a planner that receives commissions instead of charging a fee)?" How much is your "free" advice really costing you? Firstly, the advice may not be of a high quality. Secondly, you may end up with expensive products. Like anything in life, you get what you pay for. If you are truly committed to building wealth then you should seek out and be prepared to pay for (read: invest in) the

best advice. The value of a good financial planner's advice should be worth many times their fee.

2. Many financial planning firms charge clients a fee based on a percentage of funds you have invested with them (often 1% of assets invested). This isn't a lot different from taking a commission as it still creates a conflict of interest. For example, what if the best advice after someone receives a large cash inheritance is to repay their home loan? The point is; the fee received by the planner should not be linked to the advice outcome in any way.

In addition, is a percentage fee really a good measure of value added by a planner? For example, if you have \$1 million of assets invested, you will pay the planner \$10,000 per year. If you have \$500,000 invested the fee would be \$5,000 per annum. Is there really twice as much work involved with managing a \$500k portfolio versus a \$1 million portfolio? Unlikely!

3. Many financial planning firms (particularly the large ones) are owned by the big banks, insurance companies or fund managers. This can create a conflict of interest as the planner might be obliged or incentivised to sell the owner's (bank's) products. In addition, all financial planners work off an approved product list which is a list of products they are allowed to sell. Often the product list is dominated by the owner's products. An independently owned financial planner has more flexibility to choose which products and fund managers it wishes to deal with – without any pressure or influence.
4. Most financial planners are prohibited (by their dealer group) from giving advice about investing in direct residential property. Therefore, if you have approached a financial planner for advice on which asset classes to invest in (i.e. property, shares, fixed interest, etc.); most are not able to provide a balanced assessment of all asset classes. It's a bit like a doctor who can only prescribe one type of medication.

Let's remember that direct property is the biggest asset class you can invest in. The value of the world's property exceeds the value of world's stock markets. Closer to home, 9 out of the top 20 richest people in Australia have built their wealth using property (BRW Rich 200 - May 2008) and it's the single biggest

industry amongst the BRW Rich 200. How can you call yourself a financial planner if you are not allowed to even consider one of the largest asset classes?

- Financial planners do not receive any training about investing in direct property. The Diploma of Financial Planning, which is the required minimum training for all financial planners, covers topics such as derivatives, securities, managed investments, superannuation, life insurance and foreign exchange. The notable exception is direct property. Even the advanced financial planning course (CFP) doesn't assess direct property.

My last two points are about direct property. I am not suggesting for a second that everyone should have direct property investments. Of course, I realise



property doesn't suit everyone. However, if you are seeking investment advice, it is important that the person providing the advice can, if they see fit, consider and recommend all asset classes. If you are restricted from giving advice about property or don't have a good knowledge about property investment, how can you recommend one asset class over another? To draw an analogy, I can't conclude that a Ford car (as opposed to a Holden) is the best car for you unless I have equal knowledge of the strengths and weaknesses of both Ford and Holden cars. If I don't know anything about Holden cars, how can I say with any integrity that a Ford is better for you?

If you are going to see a financial planner, you **must** ask these 4 critical questions:

- Do they accept any commissions?
- If they charge a fee, ask how the planner's fee is calculated? Is it linked to the outcome of advice in any way? Watch out for a percentage of funds invested.
- Who owns the financial planning practice and the dealer group? Watch out if it's owned by a company that also sells its own investment products.
- Can they offer advice on direct residential property if required? How much do they know about investing in residential property? Even if it's not appropriate for you now, it might be sometime in the future so the planner should be able to offer you to this.

I have made no secret of the fact that we will be launching a Wealth Advisory (financial planning) service next month. One of the reasons for doing so is that we have found the vast majority of financial planners in today's market do not have satisfactory answers to the above 4 questions. Hence, we think there is a huge opportunity in the market to offer balanced, honest and professional advice – particularly in regards to property investment. Of course, our Wealth Advisory service will have all the correct answers to the 4 questions above so if you are interested to find out more, please register your interest below and we'll send you some more information in the coming weeks.

[Click here to register your interest in our Wealth Advisory service \(starting September 2008\).](#)

Regardless if you choose us to be your financial advisor or not, I beg you to follow the advice above as I truly believe that if you are absolutely vigilant with your selection of a financial planner, it will turn out to be the best investment decision you make.

Investment Property Seminar - 19 August 2008

Two free books with every registration

Our next joint investment property seminar co-hosted with Wakelin Property Advisory will be held on Tuesday 19 August at 6:30pm. Call Wakelin Property Advisory on (03) 9859 9595 to book (Melbourne only). You will receive a free copy of the best seller **Streets Ahead: How To Make Money from Residential Property**, by Monique Wakelin and Richard Wakelin and **Smart Borrowers Handbook** by Stuart Wemyss with every registration.

Our Best Rates

Basic variable	8.95%
Offset (> \$700k)	8.81% (0.80% disc.)
Offset (> \$1 million)	8.76% (0.85% disc.)
Offset (> \$1.35 million)	8.71% (0.90% disc.)
3 years fixed	9.19%
5 years fixed	9.09%
10 Years	9.09%

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