

smart TALK

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FROM THE DESK OF PHILIP ENGER



Dear Reader,

As I have written many times before, the vision of Dollar Growth Group is to be on hand to provide expert advice to help grow and protect the financial well-being of our clients, at all stages of their life and across generations. That is, to ensure that clients' financial circumstances are progressively enhanced to

build wealth in line with personal needs and opportunities.

A crucial element of this commitment is trust, which must exist and endure over the long term. In difficult times this trust is often put to the test. Unfortunately, there have been occasions when some individuals in the financial planning industry have abused this trust and have given the whole industry a bad name.

I believe that for the vast majority of cases this trust continues to nurture the ongoing relationship that exists between client and their financial planner. There is now empirical evidence available that Industry standards and practices are being scrupulously observed. I would like to review this survey data with you, briefly, to demonstrate the extent to which utilising a professional planner to build wealth over the long term, is a sound strategy to pursue.

The two major problems that tend to bedevil most individuals and households, are: the excessive servicing cost of household debt that stretch forever into the future,; and the resulting lack of opportunity to put away money to live 'properly'. In other words, to save for retirement and have enough money to provide adequately for the family during the 'accumulator years.'

Saving is the key because it provides a direct path to opportunities to invest and build wealth to achieve an appropriate and more fulfilling life.

The role of the Financial Planner is pivotal in this pursuit.

KPMG ECONTECH STUDY

"The Investment and Financial Services Association (IFSA) has a view that the provision of quality financial advice has the potential to provide consumers with a more appropriate wealth management strategy. That is, IFSA contends that good advice can lead to a reduction in risk through diversification and a better match between an individual's risk profile, based on factors such as age and risk tolerance, and their portfolio of assets. These factors, as well as the financial discipline which comes from having a financial planner, have the potential to lift the saving of an individual. Higher saving by individuals leads to gains in household saving and hence national saving; and higher national saving has important economy-wide implications."

Within this context, KPMG Econtech was commissioned by IFSA to investigate the impact of financial advice on individual savings behaviour and to undertake sophisticated economic modeling to estimate the economy wide implications of this boost in savings. A raft of issues were considered to ensure the validity of the results, including the potential increased returns, the fees associated with the financial advice given and the variability of advisers/planners. In addition to estimating the economy-wide benefits of additional saving arising from financial advice, KPMG Econtech analysed the role of Financial Advisory Networks (FANs) in providing quality financial advice."

Specifically, KPMG Econtech developed a survey to ascertain the measures taken by FANs to improve the quality of advice provided by their advisers/planners over and above those required by regulation. The survey covered quality indicators such as:

- training and development;
- compliance and risk management;
- product research and knowledge;
- consumer protection; and
- client satisfaction.

The IFSA FAN members who responded to the survey represent approximately 38 per cent of advisers (or 5,600) in the top 100 Australian dealer groups. For statistical purposes, this is a large sample size from which robust inferences can be made.

THE RESULTS

"The majority of survey respondents (advisers) reported that they currently exceed regulatory requirements in most categories. Eight out of nine IFSA FANs reported that they



require their advisors/planners to complete further training and personal development activities. In addition, all respondents reported that they impose further requirements on product knowledge and research, ensuring those IFSA FAN advisors/planners have up to date knowledge and skills that are relevant to the provision of financial advice.

It is clear that IFSA FAN advisors/planners who responded to the survey are generally held to a higher standard than regulation requires.

IFSA FAN advisors/planners are required to pass compliance and risk checks throughout the year on a regular basis. Authorisation under the license is based on compliance with these additional levels of qualifications. Specifically additional qualifications are required to provide advice for certain areas including gearing, self managed super funds (SMSF) and reverse mortgages. Regulations surrounding consumer protection require that financial advisors/planners comply with ASIC Regulations. In addition to the regulations, most IFSA FANs provide additional consumer protection, with more than half of the respondents requiring advisors/planners to maintain a level of professional indemnity cover in excess of the minimum requirements.

As previously mentioned, greater provision of financial advice to Australians have economy-wide implications as the provision of quality financial advice has the potential to improve an individual's savings behaviour.

The data utilising over 840,000 individual accounts for the 2007/08 financial year was used to provide indicative insights into the savings behaviour of those account holders, in terms of those who do and don't have a financial planner."

SPECIFICALLY

"46 per cent of individuals in the data provided have a financial planner. For those individuals with a financial planner, they have an average total investment balance of \$42,559 compared to an average investment balance of \$34,346 for those who do not have a planner.

That is, in a year those with a financial

planner saved \$2,650 on average more than those without a planner."

This initial descriptive analysis also suggests that those with a financial planner save more and have greater investment balances than those who do not.

THE BROADER PICTURE

At a time when economic conditions are particularly turbulent and unpredictable, the above results over a measure of reassurance that those who have the job of looking after the financial well-being of people are on the whole scrupulously professional and accountable.

The staff at Dollar Growth Financial Planning take these issues seriously and strive at all times to promote and protect the short and long term interests of its clients by building wealth leveraging available opportunities, to achieve financial security and stability over the long term. The task of creating wealth during the working years needs to be seen in the context of current opportunities and future expectations. To take advantage of current opportunities is to leverage strategies to reduce the stifling burden of debt, including mortgage and credit card.

In the coming months we intend to address the issue of household debt and how to reduce it in practical and common-sense ways.

There can be no doubt that individual and household needs and circumstances are in a constant state of change, perhaps now more than ever. Achieving on-going financial stability and security for clients, with peace of mind, requires thorough and complex financial planning, together with professional competence and trust. In the midst of the Global Financial Crisis this task has become enormously more difficult.

We at Dollar Growth have not let down our guard. We have maintained our high standards!

Philip Enger

Managing Director, Dollar Growth Group

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