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# Advice Forum

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Turning industry change  
into business growth

2010





Shadforth Financial Group

**Turning Industry Change  
into business growth**

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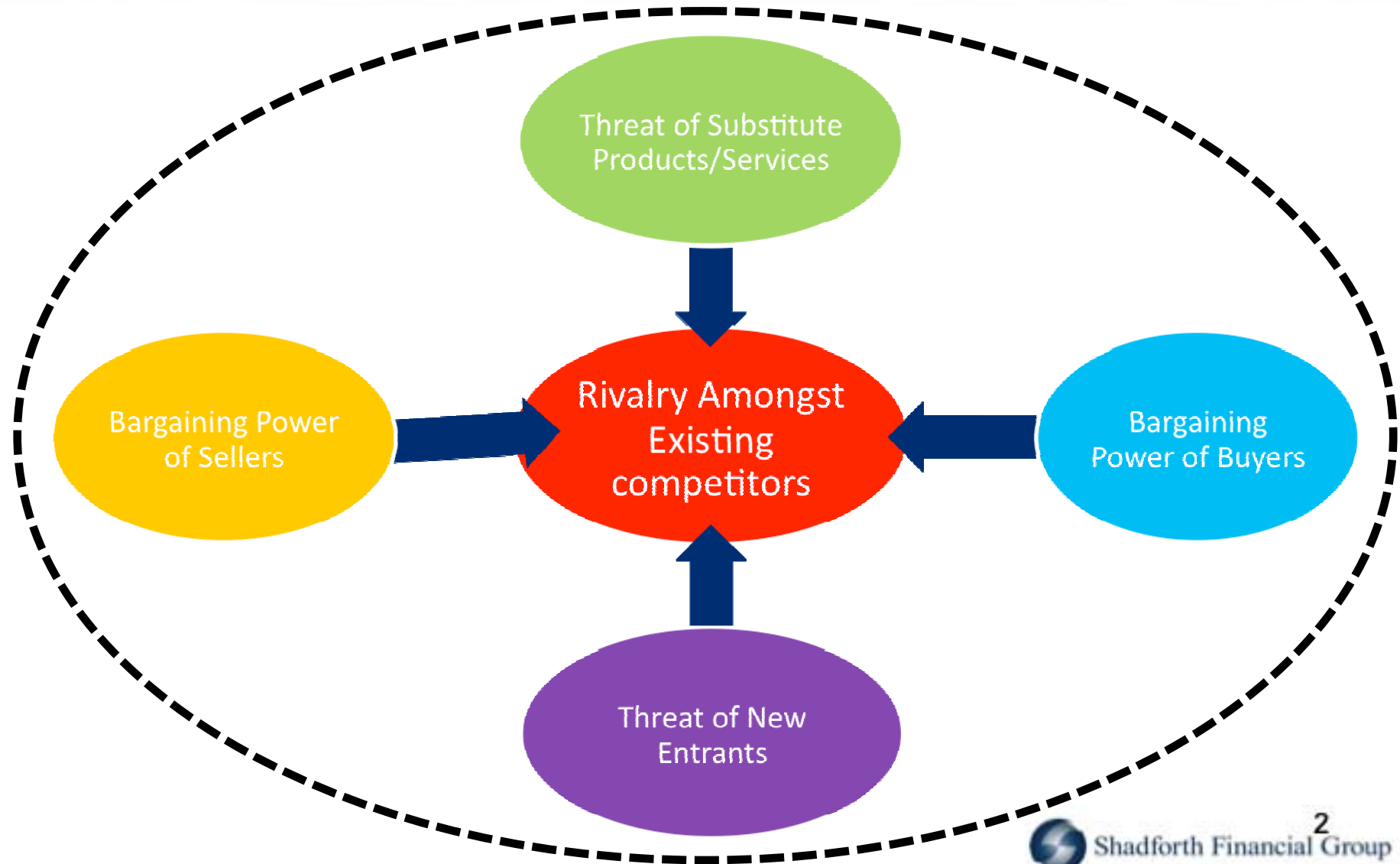
# The Next Paradigm

- Lower Margins / Lower MER's?
- Potential Revamp of value chain between advice, platform and funds
- Not a level playing field with industry funds or with the incumbent Government
- Clients are wary of financial advisers – we need to demonstrate value
- New industry structure and segmentation of the market
- Role of “Products” and packaged services and role of advice

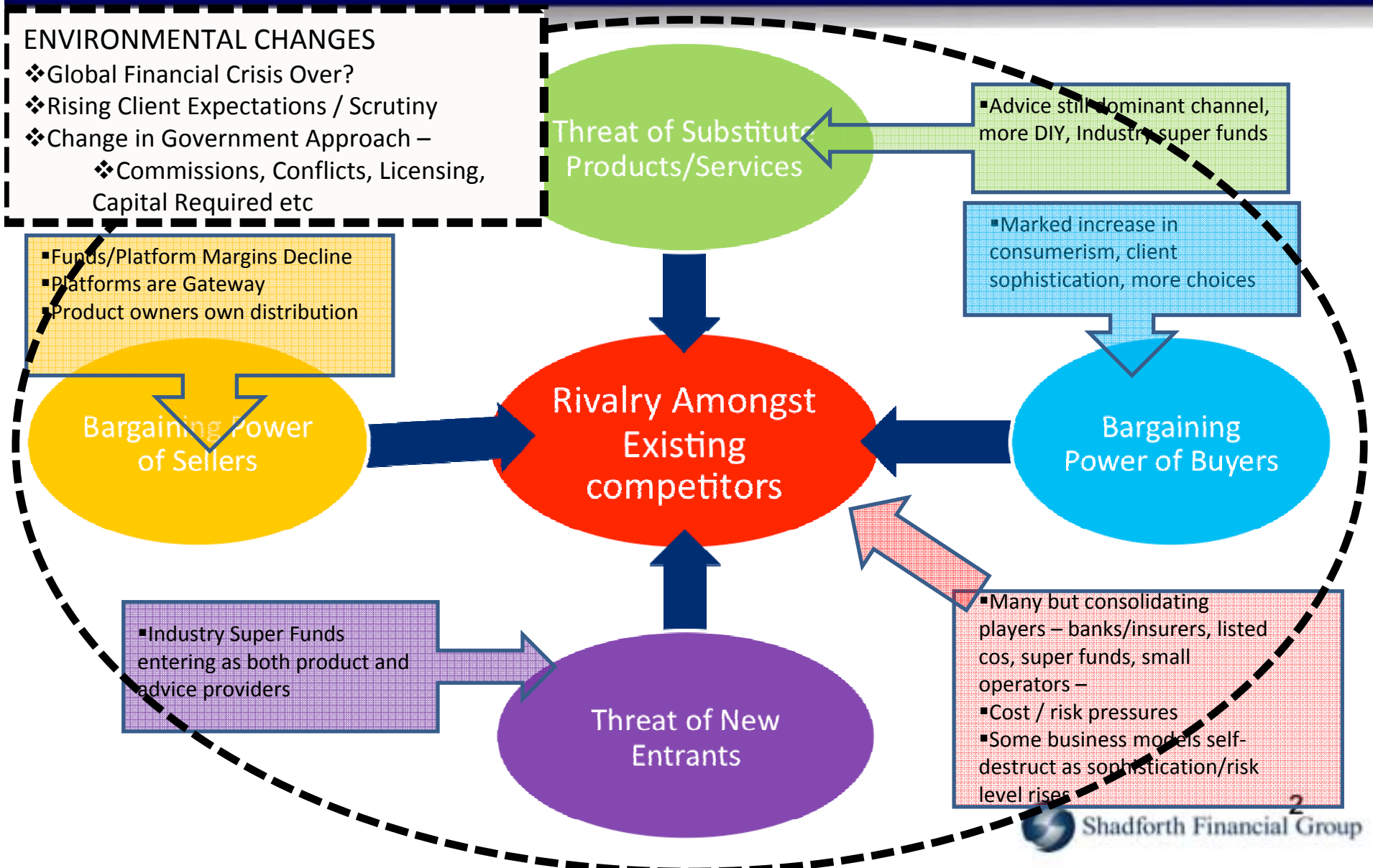
BUT NEEDS ARE STILL THERE!

**ADAPTORS will WIN!!**

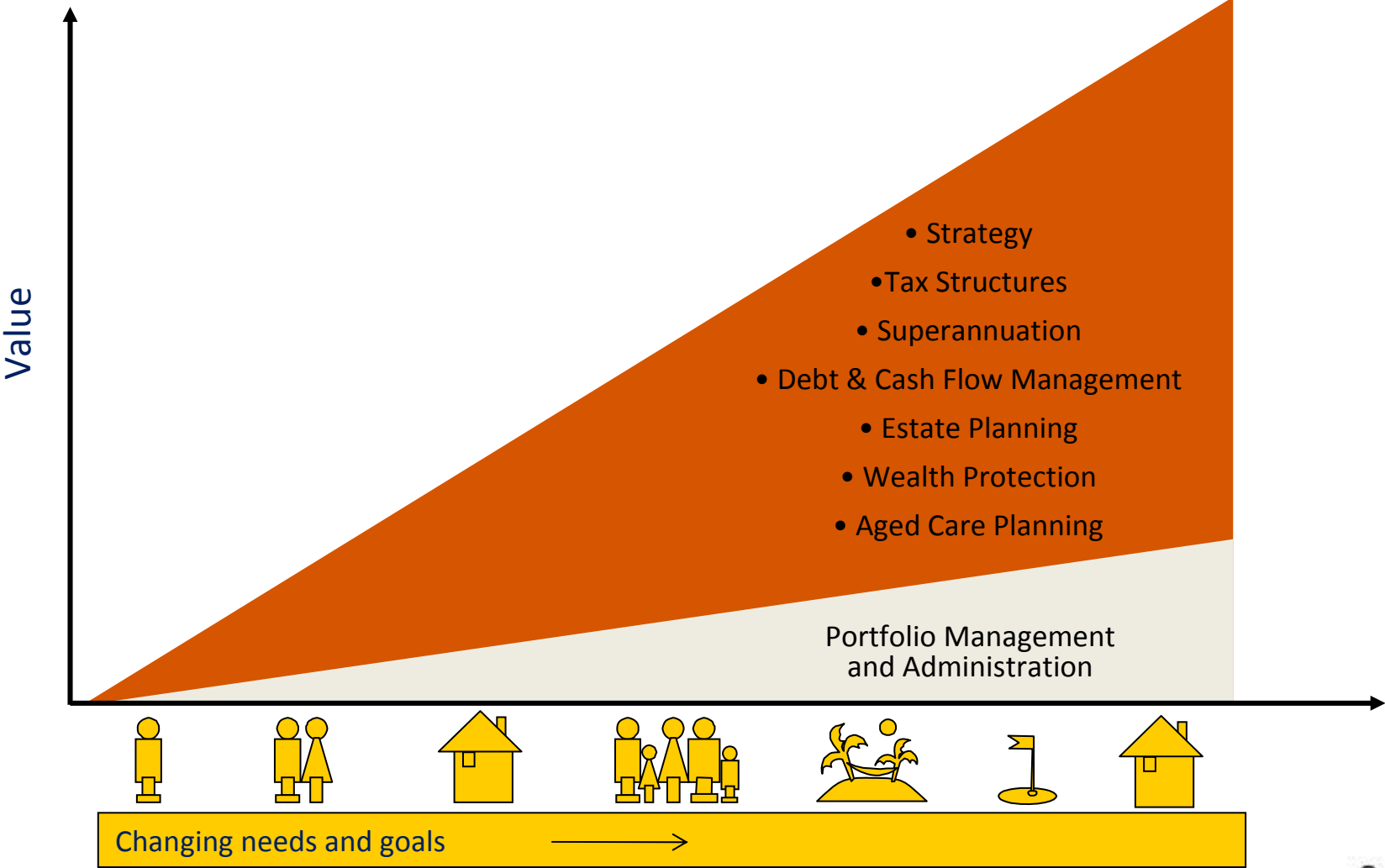
# The Environmental Impacts



# The Current Environment

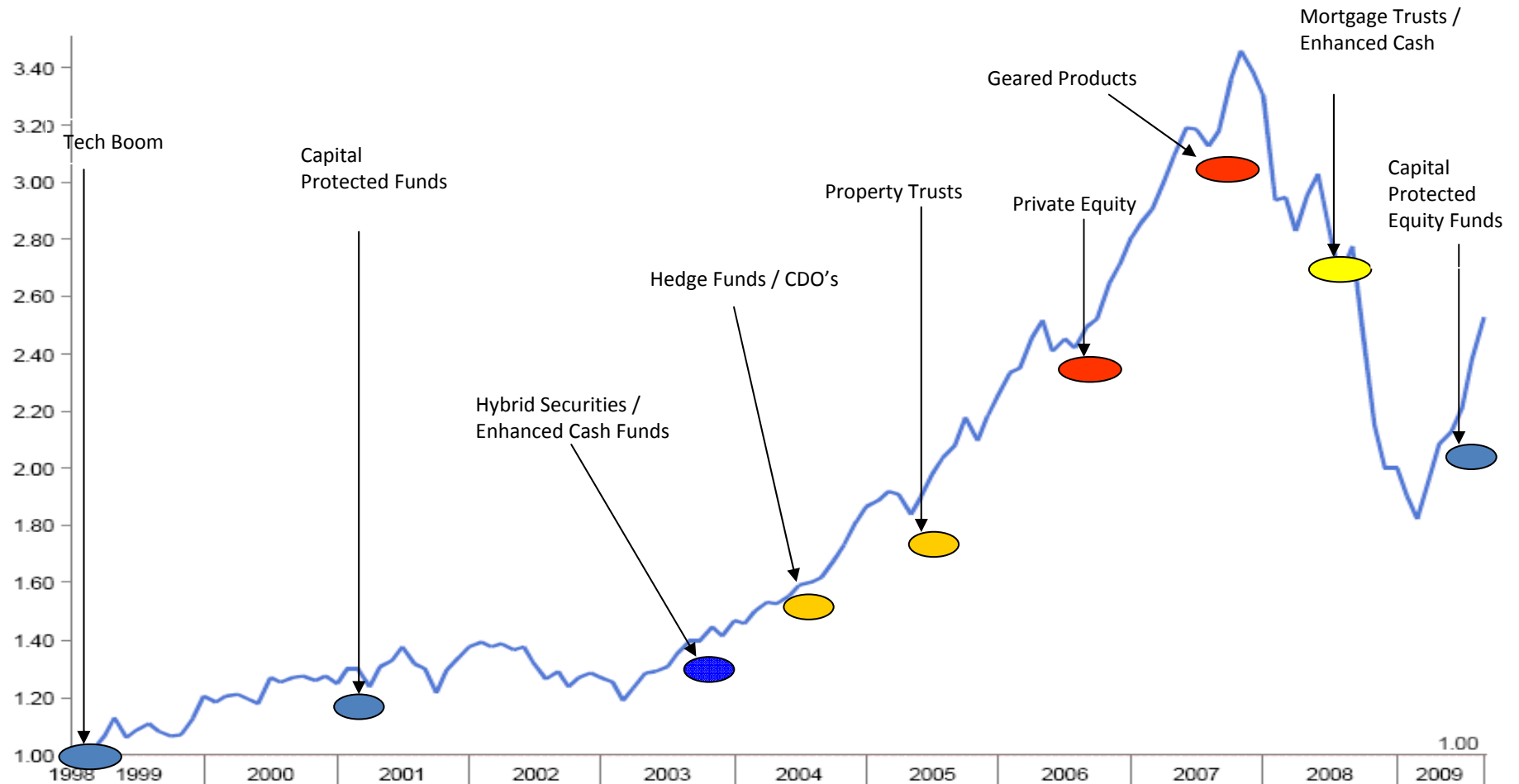


# The value of strategic advice

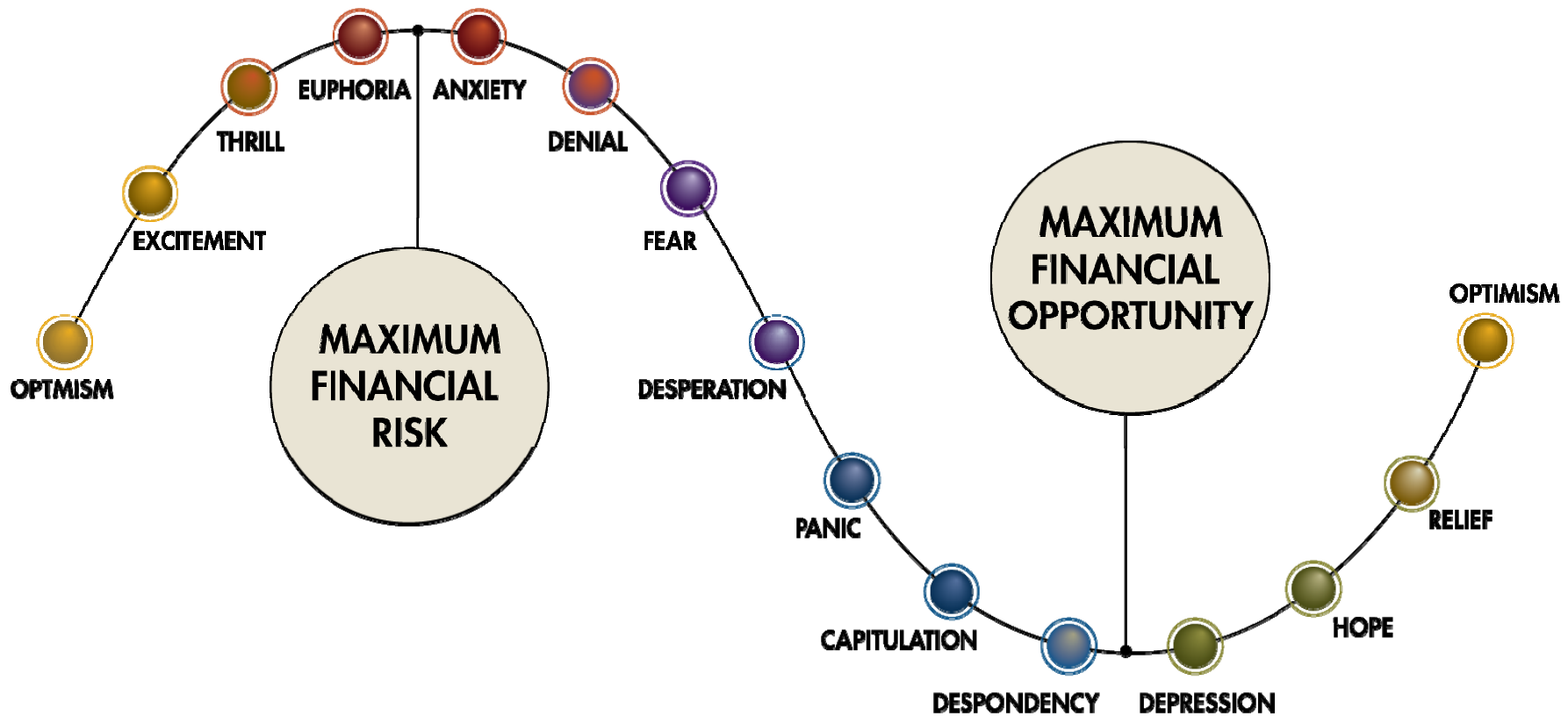


# Fads of the past ten years on the ASX

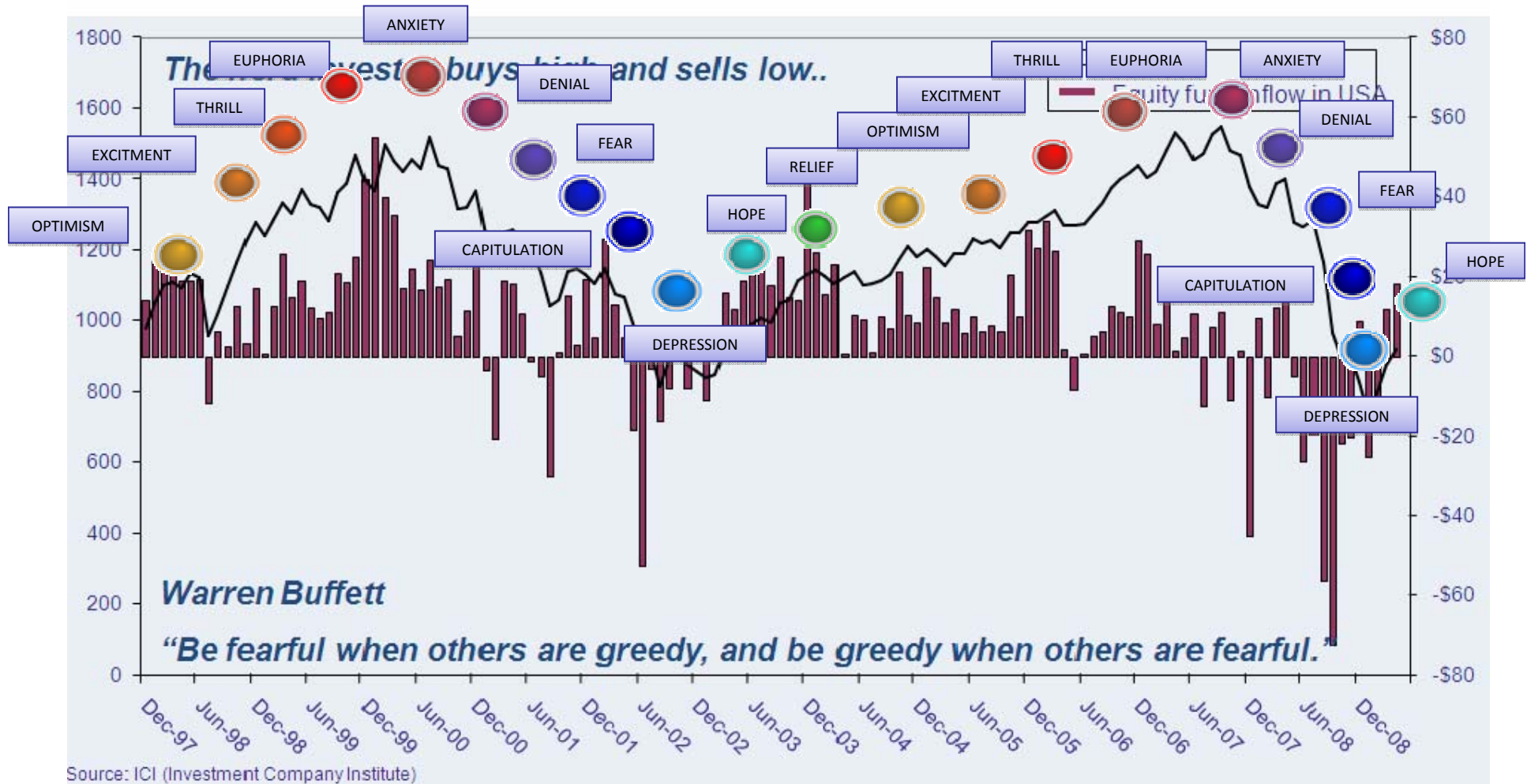
Monthly: 01/1999 - 08/2009



# The cycle of market emotions

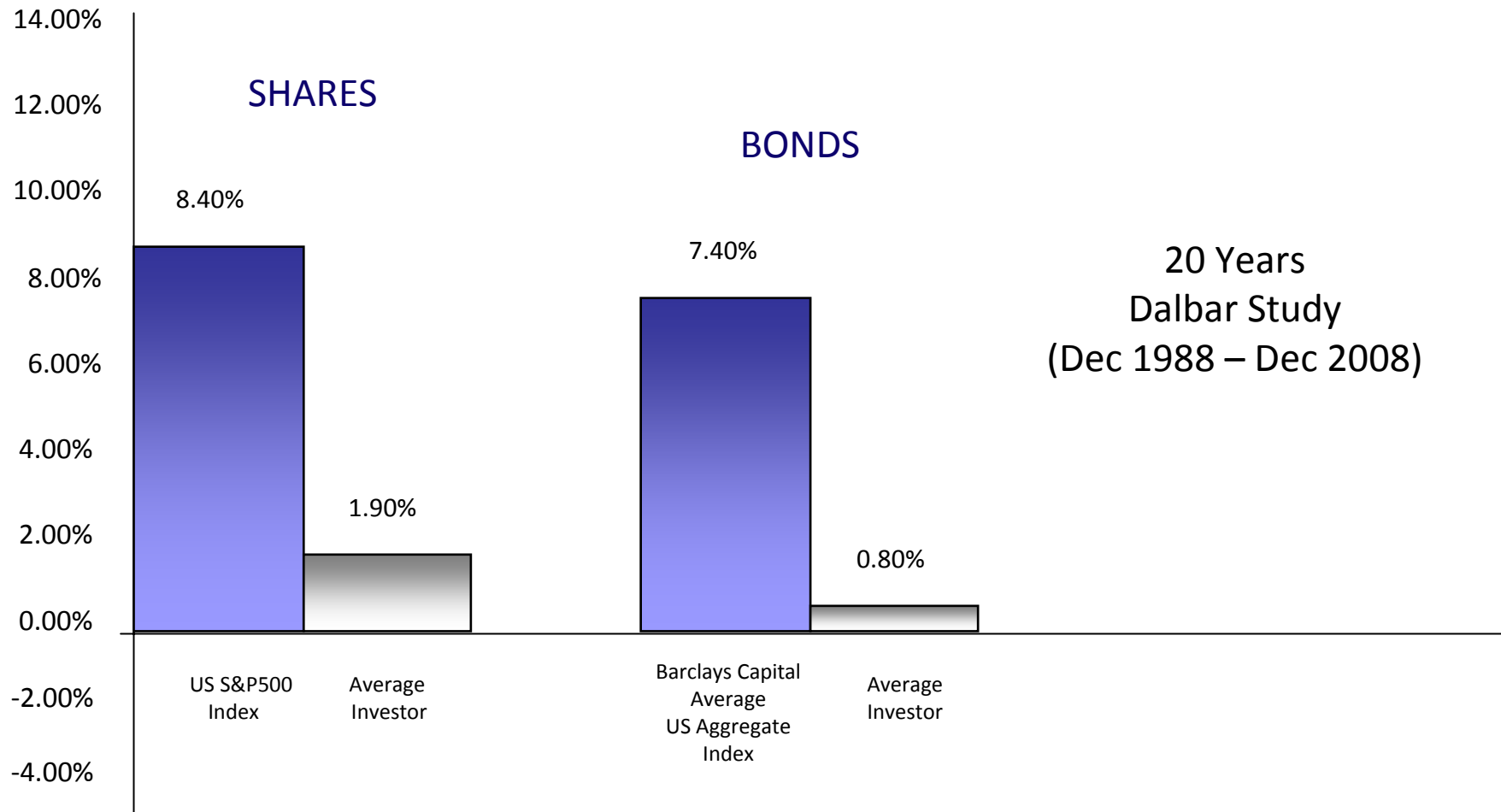


# Human emotions and equity fund flows



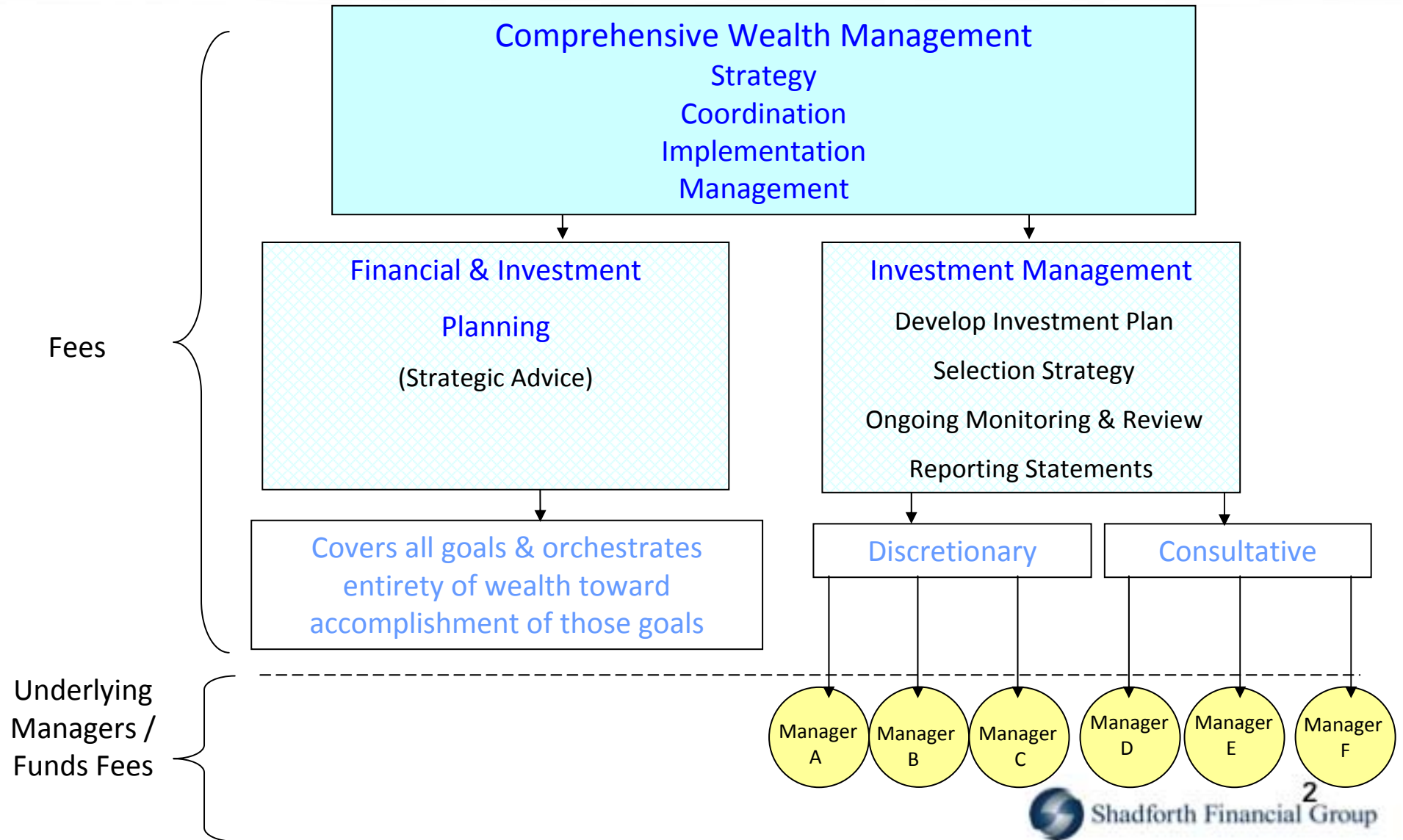
# Control your emotions

Performance of Average Investors Vs Index



20 Years  
Dalbar Study  
(Dec 1988 – Dec 2008)

# A fee based approach



# International Trends

- Increased regulation and consumer protection.
- Move from life writers to life planners.
- Move from defined benefits to defined contribution.
- Ageing population.
- Move to fee based advice.

# Increased Regulation and Consumer Protection

- UK FSA Regulations.
- Australian FSR Act.
- US Regulatory change.
- South African FAIS Regulations.
- Adult Financial Literacy.
- Restrictions on usage of the word 'independent'.

# How Do Professional Advisers Operate Worldwide?

- Have fewer clients and serve them well.
- Focus is always on their clients.
- Are Problem Solvers not Product Pushers.
- Provide a range of solutions.
- Focus on fundamentals and do not chase fads.

# The Five Key Strategies of Elite Advisers

- Focus on affluent private clients.
- Use a consultative process rather than selling.
- Manage their practice as a business.
- Partner effectively with institutions.
- Have a lifelong commitment to learning.

# Regulation

- Australia has gone through unprecedented regulatory scrutiny and change over the last decade.
- Henry, Ripoll and Cooper reviews will bring still more change
- How can we position a practice to capture the benefits of this shift and grow market share?

# Regulation

- In Australia there is 9% Compulsory Superannuation for every employee. This was introduced in 1993.
- Every citizen now has a substantial nest egg and a need for advice.
- Legislators increasingly want to protect consumers and their nest egg.
- Unions have developed low cost Industry Based Superannuation Funds.

# Background

- Over the last 10 years Australia and other jurisdictions have been rapidly moving to an advice driven, rather than sales driven process of planning, to help minimise potential for conflicts of interest.
- Consumers, media, regulators and legislators are demanding impartiality.
- There is an opportunity to position and build a brand that answers this need.

# Questioning Advice

- Advisers have come under attack to justify their existence.
- Scandals and unwanted media attention on investment collapses have happened.
- Advisers have been portrayed as unscrupulous product salesmen.
- Competition for assets is increasing.
- Consumers are looking for “independent” “non conflicted” advice.

# FPA Initiatives on Clarity and Transparency in the Cost of Advice

- Code of practice on Alternative Remuneration (1<sup>st</sup> August 2004).
- Industry Guide on Rebates and Related Payments (1<sup>st</sup> January 2005).
- Principles to manage Conflicts of Interest (1<sup>st</sup> July 2006).
- The FPA is taking the moral high ground and hence gaining trust with Legislators, Regulators, media and consumers.

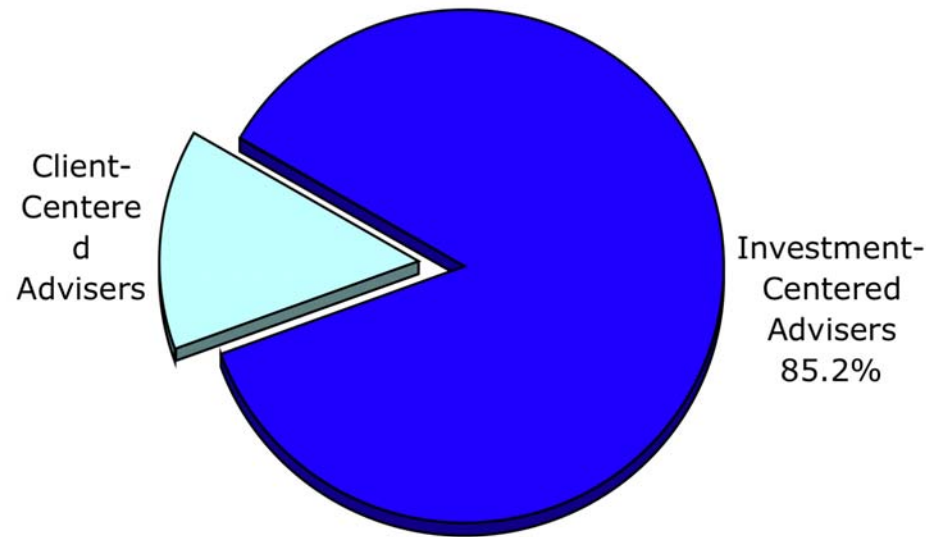
# Advice Based Planning

- The process of advice is functionally separate from product.
- There is a clear delineation and proper separation of powers.
- Consumers are rapidly becoming educated about their choices.
- Investment issues increasingly dominate media and politics.
- It is simplistic and misleading to only associate advice with product.

# Financial Planning Business Models

- **Product Specialist**
  - Focus is on the product and is typically a transaction based relationship with little trust
- **Investment Generalist**
  - They are typically selling investment expertise and need to be stock experts/economists and deal with all comers
- **Wealth Manager**
  - A range of highly customised solutions to meet a broad range of needs is delivered in a consultative relationship and is typically fee based

# Client-Centered vs. Investment-Centered Advisers



Virtually all advisers label themselves as 'client-centred' when asked directly. Behavioural research reveals that the vast majority of advisers are actually 'investment-centred'.

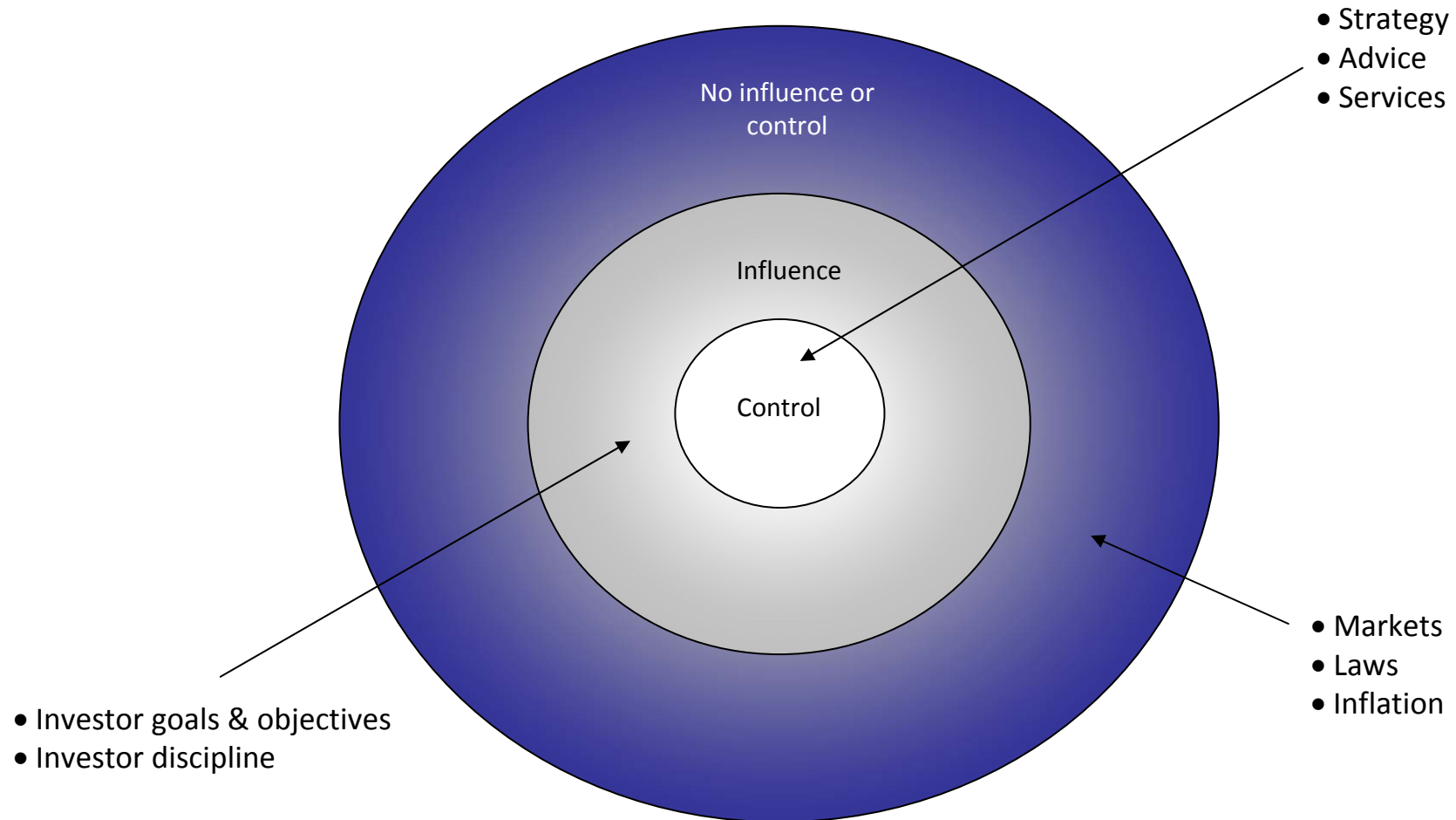
Source: CEG Worldwide Research; *The Best of Times*

# Important Issues for Investment and Client-Centered Advisers

Issue	Investment-Centered Advisers	Client-Centered Advisers
<i>Talking to Current Clients</i>	15.8%	92.9%
<b>Analysing the Market</b>	<b>69.1%</b>	<b>14.3%</b>
<i>Reassuring Clients</i>	20.8%	97.6%
<b>Strategising about their business</b>	<b>61.1%</b>	<b>31.1%</b>
<i>Personally Contacting Prospective Clients</i>	16.8%	84.5%
<b>Working on Balancing Portfolios</b>	<b>47.1%</b>	<b>7.1%</b>
<i>Meeting with Clients</i>	19.8%	88.1%
<b>Analysing client investment positions</b>	<b>53.4%</b>	<b>10.7%</b>
<i>Immediately responding to client inquiries</i>	66.4%	100.0%
<b>Strategising about the stock market</b>	<b>57.4%</b>	<b>6.0%</b>
<i>Asking clients for referrals</i>	7.3%	78.6%
<b>Talking to their peers</b>	<b>76.7%</b>	<b>36.9%</b>

Source: CEG Worldwide Research; *The Best of Times*

# Know what we can control?



# Building a Business in the New Environment

- An agent of change not a victim of change?
- A decision to build a business by delivering what will be in demand into the future.
- Some have fought a rear guard action and have looked foolish and hence lost market share.
- Turn the media to our advantage and build reputation by doing what is right and help educate the consumer.
- Be proactive in offering new solutions.

# Our Value add

“To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insight, or inside information.

What’s needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework.”

Preface by Warren Buffett in the  
“Intelligent Investor”, (by Benjamin Graham)

# The Credit Belongs

The Credit belongs to those who are actually in the arena, who strive valiantly; who know the great enthusiasms, the great devotions, and spend themselves in a worthy cause; who at the best, know the triumph of high achievement; and who, at the worst, if they fail, fail while daring greatly, so that their place shall never be with those cold and timid souls who know neither victory nor defeat.

Theodore Roosevelt