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Investment Advice Fact and Fiction

The Australian Consumer Association recently produced a damning report on Financial Planners. Stripped to its essential the ACA Report said:

1. "Many Financial Planners produced lengthy incomprehensible reports.

2. These lengthy reports are standard computer generated texts with a few personal inserts.

3. Most Financial Planners work for major banks and life insurance companies, or for organisations which are controlled, or heavily influenced by them.

4. Their computer generated reports recommended the products of the bank or insurance company employing them and usually result in investment in superannuation master trusts, "WRAP" accounts and life insurance products."

Since the assessment panel consisted of members of the Financial Planning Association (FPA) it may have had a bias towards the interest of that organisation.

Given standard organisational behaviour and the academic theory of regulation, we should consider the hypothesis that the FPA may lean towards the influence of its most influential principal members, ie, the major financial institutions which employ, or licence the majority of its financial planning membership.

The FPA has attempted to capture the industry's training requirement. However, others such as members of the professional accounting bodies debate the merits of the FPA's in-house qualifications as being insufficiently weighty. It is possible to discern subtle biases in its doctrine towards the interests of its principal members. That would be a valid criticism of most professional bodies.

An overall view of the financial services industry is that:

1. Certified financial planning courses conducted by the FPA are not a substitute for genuine academic qualifications, such as MBA's majoring in financial and economic applications, but they can be a useful supplement. Nor would they be considered as a substitute for the more rigorous undergraduate degrees in finance and commerce. They may be considered an alternative to the longer

established Securities Institute qualifications. All advisers need to supplement degrees with some combination of experience and vocational training.

2. Providing an insurance salesman with a fast track to an industry qualification does not make that person a competent professional adviser but many are superb sales people.

3. Large financial institutions particularly the life insurance companies have influenced the training requirement of authorised representatives of Licensed Dealers. Many insurance agents have metamorphosed into “Financial Planners”. As a result there is often a too heavy emphasis on identifying life insurance applications under the guise of “asset protection” and “risk management.”

4. The term “financial plan”, has been discredited by lengthy computer generated reports which purport to be plans but in reality contain a lot of padding designed to achieve a result desired by the organisation employing or licensing the planner.

5. Many consumers mistake charismatic sales techniques for good advice.

Finding Good Financial Advice

If you seek good financial advice, possibly the last thing you should do is ring the Industry body. If you do so, you are likely to be referred to a Financial Planner who is possibly an ex life insurance salesman working for or licensed by a large bank, or life insurance company who then provides you with a computer generated report, spliced with a few of your financial details. The report is likely to recommend that you invest your superannuation via a master trust conducted by the financial institution controlling the adviser. It may contain recommendations to buy several additional forms of life insurance. It probably will allocate the lions share of the investments within the structure of a superannuation master trust, or under the guise of a “WRAP” account attached to a margin lending scheme, with the biggest investment management pools provided by the advisers licensing organisation. In these instances what you view as a financial adviser is viewed by banks and life insurance companies as part of their product distribution network!

Good Financial Advice Starts Inside Your Dental Practice

Some tests you might apply include:

1. Is the professional advisers company independently owned by its own advisers/directors?

2. Does it have a long history of advising the dental profession?

3. Does it have a substantial database of dental practice performance?

4. Is it skilled in integrating your practice management performance with tax planning requirements?

5. Does it avoid tax driven horticultural and film schemes? There is overwhelming evidence that most of these type of investments fail.

6. Does it have a solid base of qualified staff – MBA's, Chartered Accountants, CPA's, staff with degrees etc.

7. Does it have a vehicle for direct asset ownership within your superannuation fund and is the adviser more in tune with direct financial markets rather than managed funds.

8. How experienced is the person that you are dealing with?

Managed Funds

It is a mathematical certainty that most Australian Managed Funds are going to be heavily invested in the few largest Australian companies. A glance at the list of Australian companies ranked by market capitalisation reveal that the top ten or so companies represent an extremely high proportion of overall stock market capitalisation.

Unfortunately when we look at the top ten stocks, of Australian Stock Exchange listed companies with Head Offices in Australia, selected by market capitalisation, we find that eight of the top ten have had major mistakes in recent years leading to large write downs and loss of share holder capital. Some examples are: Newscorps write downs; BHP's Ok-Tedi disaster; National Banks US Homeside losses; AMP's disastrous takeover of GIO leading to acquisition of huge international reinsurance losses; Telstra's PCCW debacle, Westpacs failed acquisition of BT, and Commonwealth Banks fumbling of the Colonial group acquisition.

It is not until we get down to companies with medium sized market capitalisation, that we find a much higher proportion of well performed companies with a much lower instance of poor management decision making.

Regrettably most Financial Planners do not have the tools to assess the underlying assets in the choice boxes within the master trusts and wrap accounts that they promote. The large managed funds limit the amount of information that they give out and what they do may be stale. You won't find the list of companies that they are invested in, inside their prospectuses. What you may find are pie charts indicating sectors in which they are invested. The planner who diversifies by recommending several managed funds to their client, often duplicates or triplicates underlying investments in poorly performed companies such as AMP and Newscorp.

What Constitutes Good Advice?

At the end of the day, good financial advice relates to your dental practice efficiency, your home mortgage, your premises, your tax planning and your superannuation, preferably without using master trusts. The good adviser is somebody who sees you regularly and reviews your overall financial situation with particular emphasis on practice performance benchmarks, effective and timely tax planning and the state of your home loan.

Poor Advisers

These are likely to start you in a superannuation master trust, sell you life insurance and promote tax schemes. The worst advisers persuade you into exotic tax schemes involving pine trees, film schemes, exotic animals etc. Unfortunately Australia is littered with the disasters of failed horticultural schemes. There are many film investment schemes where the actual film was only shown briefly in one theatre. This writer is yet to meet anybody who got a decent return on their investment on an acre of pine trees purchased thirty years ago.

Experience

A competent adviser will have a lot of grey hair. They will probably have survived several bad stock markets and a real estate crash or two. They would have bid at house auctions and guided their clients through not so good times. They will be experienced in negotiation and in assisting clients with negotiation processes; sometimes undertaking this process on their behalf. For example, when assisting them to buy a dental practice. They will be experienced in advising them in respect of financing a dental practice and will have negotiated many financing packages with institutions. When you confront them with a complex scheme that has been put to you, they would recognise the strengths and weaknesses in it from past experience.

An Industry Lesson

The more stylised the financial planning process becomes, the more it simply carries out the dictates of about ten major banking and life insurance groups, and the less it is likely to be able to satisfy professional clients on a long-term basis. At this point it has simply become a distribution channel for those large organisations who usually direct their advisers to follow a computerised scrip. This process has an inevitable conclusion.

Most dentists will be looking for better advice.

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