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The future of advice 11 September 2011

It is common knowledge that our financial sector is undergoing a bit of an overhaul, designed to improve investor confidence and let people know that it's safe to get back into the water.

Fund managers are required to be more transparent in their communications and all those providing advice to investors need to show they are competent and trained and have the best interests of clients at heart.

The industry has largely embraced the reforms, knowing that if investors can have confidence and trust in advisers and fund managers, then it will be good for everyone.

Across the Tasman, a similar overhaul of the financial services sector is starting to take shape. It's interesting that even though the Australian superannuation and investment sector is huge and has been established for several decades, the authorities still feel the need to impose regulations similar to ours.

Some argue that the Australian experience proves that it is not regulation that protects investors and builds confidence. In spite of reasonably strict oversight and a well-funded regulator, Australian investors have still been caught out and lost billions of dollars in bad investment schemes like Storm and Westpoint.

And of course the regulations only help those who seek advice. Only one in five Australians accesses investment advice, so how can confidence be restored for the other four?

I think that two of the most appealing aspects of the new regime in Australia, which is known as FoFA or the Future of Financial Advice, are the 'opt-in' provisions and scaled advice.

If an adviser is going to charge an ongoing fee for advice, they must get their clients to opt-in, or renew their relationship with the adviser every two years. In this renewal process, the adviser must declare how much money they have made out of the client in this period. This will avoid advisers being paid for years, without providing any client service.

The scaled advice provision allows investment advice to be given on a piece by piece basis, rather than only as a full-scale financial plan. This means that investment advice can become more accessible to smaller investors who otherwise would not be considered big enough to be looked after by advisers.

I have met lots of investors over the years who really are not interested in a full financial plan which encompasses their insurance, wills, estate planning and investments. Rather, they have a sum of money and simply want to know what to do with it. If they can receive advice on just the one issue



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that is plaguing their minds today, and not have to pay for the full bells and whistles service, perhaps they will consider seeking advice?

I think it's encouraging that the right steps are being taken to encourage investors back into markets. I guess there will always be bad eggs in any industry, but you'd have to be pretty brave to try giving poor investment advice in this new environment.

Investors really do have their backs covered.