Your Money

The West Australian

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Battered planners find it tough in new world

MARK STORY

The transition of an estimated 40 per cent of Australia's 16,000-plus financial advisers into retirement over the next five to 10 years poses huge challenges for all investors. The big issue is more about quality than quantity with the Financial Planning Association estimating that for every 600 members retiring annually there'll be around 900 rookies to take their place.

A swag of young Turks will be better educated than their predecessors, many of whom only have the barest qualifications.

But local financial adviser Nick Bruining says the inexperience, lack of fiduciary responsibility and questionable interpersonal skills this cadre of "freshies" brings to the financial advisory role may seriously affect their ability to add value.

According to Mr Bruining, even if the vanguard of new advisers is highly qualified and competent, many investors, especially those closer to retirement, will struggle to take an adviser half their age or less seriously.

Since financial markets went to "hell in a hand-basket" after the global financial crisis, acting FPA chief executive Deen Sanders says financial advisers must redefine where and how they add value, especially when portfolio performance disappoints.

He says financial advisers who claim to struggle to add value within recent volatile markets are taking a far too narrow view.

"Our client research suggests that the quality of the professional relationship, knowledge transfer and peace of mind are valued more highly than financial performance," Mr Sanders says.

Assuming that's true, what should investors expect of financial advisers today?

Above all, Mr Bruining says advisers with sufficient understanding of financial markets should be trustworthy enough to act in their clients' best interests. "Don't be wooed by advisers who aim to outperform the market — they usually don't," Mr Bruining warns.

"Real value often kicks in closer to retirement when the complexities associated with maximising Centrelink entitlements, estate planning or myriad tax benefits around super or capital gains tax need to be juggled simultaneously — and the lack of knowledge displayed by many advisers can be quite telling."

Nevertheless, Christoph Schnelle of In Your Interest Financial Planning says advisers should aim to beat the relative index by enough to offset the fees they're charging.

While there's more to financial advice than performance, he says softer skills, such as communication, empathy, without the hard numbers risks becoming a deception.

"If you can't point to performance, how can investors have any peace of mind?" Mr Schnelle asks.

To avoid hiring the wrong adviser to guide them through one of the most volatile financial markets ever, Mr Schnelle recommends investors check:

- How they plan to beat the relevant Vanguard fund long-term. (Vanguard funds are regarded as an industry benchmark for DIY investors.)
- Their tertiary and industry-based qualifications.
- Their integrity, rapport and empathy with clients.
- How the value of advice is separated from the product.
- How are they remunerated.
- Their relationship with preferred products.
- Their experience in your specific area of need.

According to Rod Longmire, director of Principal Financial Solutions, it is equally important investors find out how financial advisers define success.

Sage advice: Don't be wooed by advisers who aim to outperform the market.

If, as Mr Longmire suspects it equates to "funds retained under management", he says investors will struggle to receive value for money.

Sadly, he fears that continuing industry consolidation will lead to a lot more standardised packaging of advice. This should create greater opportunity for independent advisers to increase the "value-add".

But Mr Longmire says revelations from a recent Roy Morgan research showing that up to 80 per cent of product sold by advisers is sourced from preferred in-house lists — regardless of their independence — suggests adviser self-interest often compromises quality advice.