Investors behind eight ball trails hit

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Apparently one of the questions at the Financial Planning Association's Victorian conference last Friday to chairwoman Corinna Dieters was: "What is your PR strategy to counter the poisonous attitude of Alan Kohler?"

I imagine the questioner got mixed up and meant to say: "What is your poison to counter the PR strategy of Alan Kohler?" And by PR, of course, we mean "platform revolt". Ms Dieters, as always, played a straight bat.

Judging by mail from financial planners, many are fed up with the campaign against investment commissions, although some also support it. The following passage from one email over the weekend is typical of scores I have received from planners over the past couple of years: "As a member of the financial planning industry, I am offended that you should tarnish us as all being crooks. Like any industry we no doubt have our bad eggs but I value my reputation and very work hard to uphold it. I endeavour at all times to carry out my business with absolute integrity and unquestionable ethical standards. It hurts when your reputation is unnecessarily damaged by persons with limited knowledge of the facts."

Let's be clear: I do not believe that all, or even most, financial planners are crooks. But I do believe that financial planners are damaging their reputations with product commissions and are corrupting an essential service to the point where it will become unusable and unused, to everyone's detriment.

And if any planners think the problem is the "poisonous attitude" of one columnist they are very much mistaken, judging by the much larger volume of mail I get from unhappy clients.

Some commentators say they don't mind how an adviser is paid - commission or fee-for-service - as long as the advice is good. Sounds appealing, especially when they add that less wealthy clients can't afford to pay for the advice so having it taken out as a commission seems fairer.

There are two problems with this. Firstly, there is no obligation on financial advisers to give the best advice.

Australian Securities and Investments Commission policy statement 175 says: "To comply with the Corporations Act, personal advice does not need to be ideal, perfect or best, but it must satisfy each of the three elements of the suitability rule: (a) the providing entity must make reasonable inquiries about the clients relevant personal circumstances; (b) the providing entity must give such consideration to, and conduct such investigation of, the subject matter of the advice as is reasonable in all the circumstances; and (c) the advice must be appropriate for the client."

The exclusion of "ideal" (which is amazing) allows commissioned advisers to give conflicted advice that can still be interpreted as "appropriate".

Secondly, no one pays but the client. The only difference between writing a cheque and having the fee deducted as commission is how much it hurts, which in turn has to do with awareness. No matter how they are disclosed, commissions are designed to deceive and to encourage sales.

And a fixed-dollar advice fee can be just as easily deducted painlessly from the client's account as a percentage commission. The reason the industry likes commissions is that most clients don't understand percentages and there is no invoice, so planners don't have to ask for an annual fee increase - it rises

automatically with the account balance (investment return plus contributions - at least four times CPI).

I asked Simon Solomon, who runs research firm Plan for Life, how many investment platforms allow a fixed-dollar fee for service to be deducted from the client's account. He found that four of the big ones do it now - AMP WealthView, Asgard, Macquarie and MLC Masterkey - but all of them could easily be modified if necessary.

It's all about platforms: commissions were originally paid to push funds management products, but now the "product" is the platform that channels funds into a variety of investments.

A big problem with commissions is that planners are not confined to the platforms: shonky outfits like Westpoint can offer planners a 10 per cent commission for flogging something outside the platform. Most won't touch it, but some will - and there is no way of knowing how to pick between them.

The difference between Westpoint and the reputable investment platforms is only one of degree: Simon Solomon's database reveals entry fees for platforms range between 4 per cent (BT, Challenger, Colonial) and 5 per cent (Asgard, MLC, AXA), with a some below (Macquarie 3.5 per cent) and some above. That means every $100 turns into $95 or $96 before the investor starts. Most have a "nil entry fee" option that really means "delayed entry fee". For example, Navigator picks it up with a "quarterly service fee" over four years, AXA with exit fees plus a 1.49 per cent a year admin fee.

And although its entry fee was twice the norm, Westpoint didn't pay a trailing commission, whereas all reputable platforms provide a trail on top of the entry fee. Plan for Life's database shows that trails average about 0.5 per cent, on top of the platform admin fee of 0.5-0.75 per cent, plus the fund manager's fee of 1.5 per cent. And don't forget, that's forever.

So the investor who is trying to get back to the $100 they started with, and then get ahead, has to make 2.5 per cent a year from the investments before they start.

I think I'd prefer to initially pay 10 per cent. Better still, tell me the fee, send me a bill, and then deduct it from my account.

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