ENTRY LEVEL COMPETENCIES

COURSE ASSIGNMENT

SEPTEMBER 2003

PART 1: Financial Services Guide
Format: Written Report or Table
Word Limits: 1400 *(approx. 1264)*

Within the practical example pack provided is a Financial Services Guide (FSG). Clearl y identify any shortcomings it may have and provide suitable recommendations for correction.

Shortcoming

The introductory page should be a summary of what is to follow in the FSG.

Recommendation

INSERT as the opening paragraph …

The matters covered by the FSG include, who we are, how we can be contacted, what services we are authorised to provide to you, how we are remunerated, details of our internal and external dispute resolution procedures and how you can access them.

Shortcoming

The introductory page should also state that the client can instruct the firm to take any type of action in regards to his or her portfolio at any time.

Recommendation

INSERT as the closing paragraph …

Any instructions you have in regards to your portfolio may be sent to the address outlined or the fax number stated in this guide.

Shortcoming

The *'Who will be providing the financial service to me?'* section does not contain enough detailed background information on the 360 degrees financial solutions advisory group.

Recommendations

INSERT as the second last paragraph within this section…

We have a strong commitment to adding value, and to making a positive impact on our clients' long-term financial futures. We strive to form a strong relationship with our clients – a financial partnership for life.

The 360 degrees Financial Solutions team has been carefully selected and includes a diversity of professional experience, combining a wealth of skill and expertise to provide a unique level of personalised, professional service to all clients.

From our client service and administrative team to strategists and advisers, each member of 360 degrees Financial Solutions is working for you. Some will become well known to you, while others working hard behind the scenes may not be familiar, but you can be assured we all work for one goal…. the solution to your financial objectives.

Shortcoming

As Harrison Planning Pty Ltd is a company; I would assume that there is more than one adviser. The FSG should therefore make note that each client would receive a separate document detailing his or her individual adviser.

Recommendation

INSERT in the **'Before you get our advice,'** section and under the *'Who will be providing the financial services to me?'* section…

Who is my individual adviser?

Your adviser (financial planner) is an employee of Harrison Planning Pty Ltd. The details of your adviser are provided to you as a separate Adviser Profile document.

Shortcoming

The section on *'How will I pay for the service?'* does not give sufficient specifications in regards to the fees charged and how they will be paid.

Recommendation

INSERT after the 5th paragraph in this section…

For regular monthly investments we usually set up so a small fee is paid to us automatically out of each deposit rather than having to send very small bills.

The investment manager and fund you choose will have certain management fees and expenses which are clearly set out in their prospectus or information brochure.

INSERT after the 2nd last paragraph…

In regards to the fees and commissions you will pay for our strategic financial planning advice,, our billing arrangements are as follows:

- For lump sum investments we may bill you up to $500 or 1% of the first $50,000 and no more.
- We will rebate to you the possible 4% brokerage on the whole amount and on regular savings plans and on-going superannuation contributions we will rebate some of the entry brokerage/commission but still accept 1% which will then be deducted by the fund manager and sent to us.

INSERT after last paragraph…

Our initial fees or time related fees are calculated by us and you are given an invoice to be paid at your earliest convenience.

Where an amount of initial brokerage is left in place for convenience (eg. Regular contributions, or rollovers), this is debited from your investment account by the fund manager and then sent to us. Any further entry fee charged by the fund manager is also deducted as funds are deposited. For most funds this is NIL but for some it may be up to 1%.

Annual trail fees are usually a portion of the fund manager's own annual management fee that is calculated at whatever the specified percentage is per annum and deducted on a monthly basis from the fund. The portion paid to us by the fund manager is paid to us either monthly or quarterly according to their administration arrangements.

All contribution, entry, brokerage and annual management fees are clearly shown on quarterly, half yearly or annual statements provided by the fund managers.

Shortcoming

The section on *'How will I pay for the service?'* does not have an adequate client friendly.nature.

Recommendation

INSERT at the end of the section named above…

In this way, you can be certain that our advice is impartial and independent of commission and brokerage.

(Also, an extra section could be added under fees in order to reassure the client that our strategies are only developed in the interest of our clients).

'Do any relationships or associations exist which might influence you in providing me with financia l service'

360 degrees Financial Solutions is not controlled by any financial institution/s such as a fund manager, bank, insurance company or trade/credit union. None of these institutions has a vested interest in our business and are therefore not in a position to influence us in the provision of advice.

Shortcoming

INSERT a third point under the *'Whom can I complain to if I have a complaint about the provision of financial services to me?'* section…

Recommendation

If your complaint cannot be satisfied to your satisfaction you have the right to complain to the Financial Industry Complaints Service (FICS). They can be contacted on 1800 335 405. This service is provided to you free of charge.

<u>Stage 1</u> of FICS process is where FICS facilitates discussions and negotiations between the parties. All relevant documents are exchanged and the issues in dispute are identified.

<u>Stage 2</u> is conciliation and the parties come face to face with a conciliator from the FICS national panel. The role of the conciliator from the FICS is to assist parties to explore options for settlement of the dispute and to help parties to agree their own outcome.

<u>Stage 3</u> is where the independent adjudicator is requested to make a decision 'on the apers' taking into account the fairness and reasonableness. If you accept the adjudicators' decision it is binding on the member.

Shortcoming

To ensure there are no misunderstandings and to clarify the relationship between the client and the planner, disclosures should be placed at the end of the FSG document. This is not shown in 360 degrees financial solutions FSG.

Recommendation

Please read these disclosures carefully. They are not just fine print, but designed to clarify our relationship and ensure there are no misunderstandings.

1. Your adviser has no knowledge of or foresight as to the future performance of investment markets. Investments which are part of these markets can lose value at times (i.e. the capital value can be less than it was previously). You should understand this clearly.

2. Social security rules are extremely complex and although your planner has useful information and understanding it is not an area that your planner specialises in. You are strongly advised to contact a Financial Information Service (FIS) officer prior to any transaction if it could impact on your social security entitlements.

3. Your planner and his family invest in many of the investments that he or she recommends to his or her clients. Please make us aware if you believe this creates conflict of interest.

PART 2: Client Interview and Data Sheet
Format: Client Interview
Word Limits: 600 *(approx. 349)*

Ed Harrison has found that getting the client to complete the Client Profile prior to meeting with him allows him to get a better feel for the client's wishes sooner and also that the client has already started to think about what they want from investing.

From each of the following sections of the Client Profile indicate two questions that you as Sally and Ken's adviser might ask the client to better meet the client's investment objectives, and understand their financial situation and particular needs.

- **Personal Details**

Ken, if you were made redundant would you retire early or seek further employment? This will help us to establish a time frame in which you will need to generate income from other areas other than employment and how much you would require in order to meet your income needs.

Is there any particular reason why you, Sally do not have a current Will or neither of you have a current Enduring Power of Attorney? Have you ever looked at the option of establishing a Testamentary Trust?

- **Goals and Objectives**

The investments you plan to sell and reinvest represent $75,953 of your direct investments. Would you be willing to use these funds to help pay off your home mortgage? Targeting non tax-effective debt would be the first stage in consolidating your financial position.

How passionate are you about receiving Centrelink entitlements in retirement? Social security benefits may be difficult to obtain due to your large asset base. We would normally recommend to 'lock away' up to 40% of your portfolio in what's called a Complying Pension in which is not assessed under the Assets test. However, sheltering more than 40% of your portfolio can be quite risky, especially given your current ages.

- **Reasonable Benefit Limits**

I have noticed that you have not responded to most of the questions in the RBL section of the fact finder. A Reasonable Limit determines the maximum amount of Superannuation benefits a person can receive in a lifetime at concessional tax rates. As Ken would have been 54 and Sally 41 years of age on the 1 July 1994, you both could have applied for a transitional RBL, which is a dollar amount greater than the flat dollar amount. So did either of you claim a transitional RBL?

Ken, do you know the components of which the $50,000 withdrawal from your Superannuation came from? This will allow us to see if the withdrawal was counted towards your RBL. We may need to see your RBL listing to ensure our recommendations do not effect your RBL position in later years.

Part 3: Data Analysis
Format: Written Report or table
Word Limit: 400 *(approx. 363)*

With reference to the client's stated investment profile contained in the pack provided and your knowledge of financial markets what steps would you take to determine whether their current investments are appropriate?

STEPS

1. **Determine the capital clients require from investment to achieve their income requirements.**

	Ken	**Sally**
Income needed per annum	$66,500	$21,700
Capital required per annum	$1,677,500	$557,500

From the above table we can see that Ken needs high income while Sally only needs medium income.

2. **Determine both Ken and Sally's balanced asset allocation based on the notion of the income level needed from the portfolio.**

Asset	**Ken**	**Sally**
Cash	25%	10%
Fixed Interest	45%	40%
Shares (Australian)	25%	30%
(International)	0%	10%
Property	5%	10%

3. **Determine which of the shares currently held by Ken and Sally are Australian and which are International.**

All shares currently held are listed on the Australian Stock Exchange (ASX) and are therefore all Australian shares.

4. **Determine the clients' current direct investment asset allocation.**

	Ken	**Sally**
Cash	8.5%	7.2%
Fixed Interest (FI)	0%	9.5%
Shares (Australian)	34%	28%
(International)	0%	0%
Property	58%	48%
Collectables	0%	7.8%

5. **Determine each clients' level of managed funds.**

Fund	**Ken**	**Sally**
BT Balanced	8.6%	
Westpac	23.7%	
ABN Amro		26%
Colonial		9.2%

ING		7.8%
AMP Fixed	2.9%	2.4
Commonwealth	13.8%	11.6%
MLC	51%	43%

6. Evaluate the overall overexposure within each clients portfolio.

While each of the fund managers set up its own appropriate asset allocation for both Ken and Sally, the clients will experience overexposure in each asset sector of their overall portfolio.

7. Determine the appropriateness of Direct vs Managed Investment for Ken and Sally.

Both Ken and Sally have little knowledge of financial markets

Managed funds

- Run by full-time, professional managers whose expertise and time are fully devoted to managing the investment portfolios.
- Provides diversification
- Potential for reduced administration costs
- Potential to view your account and transaction details online

Direct Investments

- Research, asset allocation and monitoring responsibilities of the financial planner can be far heavier

CONCLUSION

The clients' current asset allocation is inappropriate. Their investments need to be redeemed and re-invested across a sector specific asset allocation investment account within the one administration platform in order to reduce the current over exposure to asset sectors, reduce overall administration costs and be able to view their investment details more efficiently and effectively.

Part 4: Strategy Recommendations
Format: Written Report
Word Limit: 800 *(approx. 772)*

Given the information provided by Sally and Ken determine how the following strategies may be used to achieve their desired goals.

- **Debt Removal**

The main reason for recommending that you pay out your debts is that it would be very difficult to achieve a return on your investment, net of tax that is greater than the interest rate you are paying on these.

Based on the level of net salary income available to you, we recommend that you sell down your current direct and managed investments and use $246,000 of the proceeds to pay off your home mortgage .

We believe you will incur a Capital Gains Tax (CGT) liability as a result of our recommendations. We strongly recommend your taxation accountant complete the CGT calculations, associated with this sale.

- **Budgeting**

Dollar cost averaging is the term used to describe the investment strategy of making an investment (in the same investment) at regular intervals over a period of time. Because a set amount is invested each time, more shares or units can be purchased when prices are lower.

Utilise the freed up mortgage repayment monies to make deposits on a fortnightly basis to your newly set-up managed funds investment account *(see investment/asset allocation section)*.

- **Gearing**

We recommend borrowing $246,000 against your home and investing these monies in your newly set-up geared fund *(see investment/asset allocation section)*.

Why $246,000? To ensure your investment portfolio is not reduced by paying out your n on tax-effective debt (ie your home loan).

Advantages:

- Increase in the value of the investment asset increases the value of the investor's equity by more than the percentage increase in the value of the investment asset (Unfortunately though, it works similarly if there is a loss in value).
- More monies working for you
- Able to claim a tax deduction on the interest.

- **Superannuation**

We recommend Ken consolidate his existing Superannuation policies, by rolling across to the one Superannuation Manager.

Advantages;

1. No distinguishing between the relevant periods of existence. This will ensure the earliest possible service period exists for your entire Superannuation. This will allow for increased tax efficiency for any future Rollover withdrawals.

2. Overall administration fees are reduced through economies of scale and therefore performance is enhanced.

3. Holding a number of policies that may have competing strategies, can hinder the overall performance of your investment.

- **Investment/asset allocation**

We recommend the new investment funds (geared fund, $246,000 and managed fund, $154,060), be invested in a diverse Portfolio of Growth trusts designed to provide the potential for capital growth in the long term.

Sally, you indicated you wanted security of capital over the medium to long term. We therefore recommend reinvesting your Super monies in a capital stable portfolio, which provides a diversified Asset Allocation.

Ken, you wanted a balanced portfolio with a slightly more aggressive approach to local and overseas shares. We therefore recommend your amalgamated employer Superannuation monies be invested in a balanced portfolio

- **Social Security**

We believe that you both will be eligible for the following Centrelink Benefits upon retirement:

- Ken, Age Pension of up to $367.50 per fortnight ($9,555 p.a.)
- Sally, NewStart Allowance of up to $342.80 per fortnight ($8,913 p.a.)

Please note: Sally will be activity tested until she turns Age Pension age and the IMP & LAWP periods WILL apply.

Income Maintenance Period
For potential avoidance, take your leave while your working rather than accumulating them until you leave. However there may be more tax payable on these payments as a result.

Liquid Assets Waiting Period
The LAWP applies to claimants for NewStart Allowance (up to 13-weeks).

- **Life Insurance**

You currently have a number of Superannuation and Insurance policies. Some of these policies offer duplicate benefits that mean you may be paying more for cover than is necessary.

As a general rule, Life Insurance is provided more cheaply within a Superannuation policy than from a separate insurance policy. It is often better to amalgamate the policies and reduce the level of fees being paid.

Whenever you consider such action you must be wary of forgoing the insurance benefit contained within the policy.

- **Estate Planning**

We strongly recommend Sally seek your lawyer for qualified professional advice on how to properly execute an up-to-date Will. This is essential in ensuring things are arranged as you wish and save tax.

In addition, arrange an Enduring Power of Attorney for each of you. This is an extremely valuable document which provides peace of mind and the certainty that business and personal affairs can continue in an orderly fashion.

You may wish to give some thought to a Testamentary Trust. This is an extremely tax effective method of distributing any income generated by your assets after your death.

Part 5: Review
Form: Written Report (dot points) or table
Word Limit: 600 *(approx. 580)*

Assume that one year has passed since Sally and Ken came to you seeking advice. Outline the questions and issues you would raise with them covering the following areas:

- **Changes in personal circumstances**
  - Is their anything on your mind you wish to discuss?
  - Has there been any change or will there be to your employment status?
  - Have you been able to meet your day-to-day income needs as well as maintain your accessible reserves and lifestyle?
  - Are there any changes to your objectives?
  - Do you have any planned expenditure? When, Where, How much?

- **Changes in client attitude**
  - How do you feel about the markets and how your investments are doing in these markets?
  - Are you still comfortable with your current risk exposure and asset allocation?

- **Changes to the external circumstances**
  - The market is subject to continuous movement. Some sectors have had a lower than expected return while other sectors have had a better than anticipated return. Has this changed your perception of the original plan?
  - You must understand that over exposure to a particular asset class can increase your exposure to risk. In order to maintain focus on your overall goals and objectives there has to be a trade off between investment risk and return. Are you comfortable with this?

- **Review of plan performance.**
  - Has there been any change to your risk exposure which may necessitate the need for additional insurance? i.e. problems in regards to your health (trauma, TPD, life), employment prospects (income protection) etc.

After speaking on the phone to Ken he also indicated some other areas of concern that he would like addressed.

- **Investment markets have had a great performance return and by selling some of their high-risk funds they have missed the upswing in the market, Ken in particular is very unhappy about this.**

Ken, you raised issues around the performance of your portfolios.

  - Portfolio's with capital appreciating assets will provide capital fluctuation. Via accessing growth through different asset sectors and different underlying fund managers within each sector we can mitigate this.

You raised concerns that by selling your high-risk funds you have missed the upswing of the market.

  - This is a result of Sally's Super monies being allocated to a capital stable portfolio and yours to a balanced portfolio.
  - You need to stop avoiding the acceptance of some responsibility for important decisions about investment strategy and fund choices.
  - Your attitudes towards risk were low to medium at the time your investment portfolios were decided upon.

- If you wish to increase your exposure to growth we can increase the proportion of your assets in growth investments, similar to that of your geared investment portfolio and managed funds investment portfolio.

- **Sally has had a heart attack during the year and although she is now feeli ng like her old self she has chosen to retire immediately rather than waiting another 2 years.**

In order to recommend how you shall meet the $31,000 shortfall in your income needs before Ken retires we will first need to model your current position in terms of:

- Changes in personal circumstances
- Current Superannuation balances and component details
- Current level of cash at bank

From this information we can compare our options:

- Immediate Annuity
- Allocated Pension
- Draw down on cash at bank

And further choose the most appropriate for you.

- **Ken has seen a report on 'A Current Affair' relating to superannuation fund operators folding and wants to know how safe his Super investments are.**

The platform recommended:

- Is one of Australia's leading investment administration providers.
- Administers savings worth more than $15 billion for over 200,000 Australians.
- Is easy for you to diversify your savings and manage your investments through one central contact point.
- Has over 5 years experience in master fund administration.
- Won the Retail Master Trust of the Year award last year in recognition of its ongoing high quality service and commitment.
- Has a proven track record in investment management technical expertise and portfolio administration, so that you can invest with confidence.
- Allows you to view your personal account details 24 hours a day, seven days a week.

I, as your financial planner, can ensure you with the greatest confidence that the recommended fund operator is a professional, reputable and reliable fund in which your monies are safely secured.