



DIY opportunities for wraps

By Tim Hewson

WHILE the financial planning industry continues to air its dirty laundry in public over planners lining their pockets with kickbacks, trailing commissions, rebates, soft-dollar arrangements, volume-based incentives and under the table remuneration arrangements at the expense of clients' hard-earned savings, a groundswell of do-it-yourself (DIY) investors continues to build, and they are rapidly seeking alternative solutions.

Investors are closely watching the industry debate the merits of fee for service versus commissions while they weigh up the appropriateness, independence and value of the advice delivered.

The global financial crisis and the dismal returns of the past 18 months provide the perfect backdrop for these self-motivated investors to be even more convinced about the benefits of avoiding commission-based advice.

Savvy investors are increasingly going it alone and are moving away from the preconceived notion that they must have investment advice, with many now using planners as little more than a sounding board to challenge their

own point of view.

One of the industry segments likely to be impacted by the transition to a fee-for-service model is the wrap platform.

With fee for service set to become the norm, wraps will gradually lose their financial grip on planners. Diminishing channel incentives will possibly result in planners having to choose wraps that deliver the best administrative functionality and cost efficiency for their clients, not just the most attractive rebate retention schemes.

So it surprises me that wraps are not doing more to try to improve their offering in order to capture the growing number of DIY investors. Just think about all that extra revenue the wraps could keep for themselves if they weren't forced to pay it away to financial planners.

Recent platform analysis by Investment Trends shines a light on the comparative differences between wraps, discount brokers and online platforms, and helps demystify the platform industry for DIY investors.

Focused solely on the DIY investor experience, the analysis compared fees, barriers to entry, administration, reporting and investor tools.

According to the analy-

sis, DIY investors can spend up to 260 per cent more in fees when investing in a typical balanced portfolio via a wrap, 200 per cent via a discount broker, and save up to 62 per cent on fees by cutting out the middleman and investing directly into wholesale managed funds online.

The fact that DIY investors can more cost-effectively invest directly via a discount broker than they can via a wrap and planner, should ring alarm bells for planners who are reluctant to adopt a fee-for-service model and ultimately rely upon them to subsidise their income.

When it comes to the quality of administration and functionality delivered to DIY investors, wraps offer more functionality than the discount brokers.

But not all wraps offer the same administrative technology to DIY investors as they do to planners. More importantly, by comparison, the fees charged are unjustifiably high. Worst of all, they are viciously prejudicial to smaller investors who are forced to pay higher fees in order to subsidise the discounts extended to larger investors.

For DIY investors looking to overcome conflicts inherent in the commission-reliant advice model, when it comes to plat-

forms, they generally have very few quality options to choose from unless they have substantial investment portfolios.

As an alternative to wraps, discount brokers generally offer a supermarket-style offering of retail funds. So automatically, the product they offer is inferior and more expensive than wholesale funds offered by wraps.

Discount brokers also do not provide investors with administration, investment consolidation or tax reporting. Ultimately, discount brokers only offer investors the ability to download a PDS online.

The heterogeneous nature of the fee structures attributed to wraps and discount brokers often makes it virtually impossible for DIY investors to accurately compare their services.

As a result, DIY investors often question the value delivered by these platforms.

Discount brokers are ultimately designed for retail investors and therefore generally provide access to a reasonable range of tools, calculators and research to help educate investors on how to make informed investment decisions. As for the wraps, investors are generally left to fend for themselves.

SMSFs account for

roughly 30 per cent of the superannuation industry. By their very nature, SMSF trustees are savvy, self-confident investors and most choose to cut out the middleman to save money on fees. The existing number of SMSFs alone should serve as a warning for the platforms to improve their offering for DIY investors and SMSFs.

With the fee-for-service revolution gaining rapid momentum, platforms will likely need to take a good, long hard look at the value they offer DIY investors.

At the very least, the platforms need to start thinking about how they can better cater for DIY investors.

DIY investors just want value for money, nothing more, and nothing less.

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