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## New ETF driver

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### Robin Bowerman

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The federal Government's proposal to bar advisers from charging commissions to retail investors will inevitably lead to a change in the types of investment products recommended by some financial planners.

For instance, many more financial planners are likely to begin advising their clients – where appropriate for their personal circumstances – about the possible inclusion of Exchange Traded Funds (ETFs) in their portfolios.

In the United States, the number of advisers recommending ETFs to their clients increased as more advisers charged fees rather than commissions. And in Australia, financial planners who have already advised their clients about ETFs typically charge fees rather than commissions.

One of the features of low-cost ETFs is that advisers do not receive commissions for placing their clients' money in the products.

The 2009 ETF Report, published by specialist financial researcher Investment Trends, provides a valuable insight into how the use of ETFs by Australian financial planners may change with the planned barring of commissions.

Based on research for the 2009 ETF Report, Investment Trends principal Mark Johnston expects the Government's proposal to "clearly accelerate" the numbers of financial planners recommending ETFs.

Johnston points out that investment in ETFs by Australian investors has been largely a self-directed phenomenon to date – with 82% of ETF investors, as at December 2009, having no adviser involved in their decision to invest in the funds.

The percentage of financial planners advising on ETFs increased from 15% to 30% in the 12 months to October 2009. And another 17% of financial planners say they want to advise on ETFs over the next 12 months.

Investment Trends found that financial planners who have recommended ETFs to date are those who have moved from commission-based remuneration to a fee-based model.

Financial planners indicated to Investment Trends that the three biggest changes they intend to make to their mix of assets being recommended to clients during the 2010 calendar year are the

increased use of direct shares, ETFs and traditional index funds. And this research was conducted long before the Government announced its proposal to ban commissions.

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