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Planners Flock to Direct Equities Driven by Client Demand

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Financial planners are increasingly turning to direct equity investments for new client funds, according to the latest report from Investment Trends.

The research, which was based on a survey of over 700 financial planners in April and May 2010, revealed a surge in direct equity investments driven by client demand.

Direct equities spiked to 20 per cent of new inflows invested for clients, with growth also seen in the proportion going into exchange traded funds (ETFs), real estate investment trusts (REITs) and separately managed accounts (SMAs).

"Planners have been gradually increasing their use of direct shares and other listed investments since 2008. But this year has seen a dramatically larger shift," Investment Trends principal Mark Johnston said.

The survey indicated that just half of recent inflows were directed to unlisted managed funds, down from 62 per cent the year before.

"This is a massive shift in planner behaviour," Johnston said. "Planners estimated just 39 per cent of inflows would be directed to unlisted managed funds by 2013.

"Two thirds of all planners now advise on direct shares, and this group expect their allocation to direct equities to rise from 23 per cent of FUA [funds under advice] now to 34 per cent by 2013."

The research indicated a third of planners placed more than half of recent client inflows into direct listed investments broadly, which included shares, hybrids, ETFs, REITs, SMAs, and listed investment companies.

"Planners in this high usage segment placed just 7 per cent of recent inflows in managed funds", Johnston said.

"That appears in part to be a response to the increased investor fee aversion, and dissatisfaction with managed fund performance identified by our research. Client demand was a major catalyst for higher direct equities use."

The survey also found the number of planners advising clients on direct shares is also on the rise; two-thirds of planners currently advising on direct shares intend to continue doing so, while another 10 per cent of planners expect to begin over the next three years.

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