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All Ords	42.50	S&P/ASX 200	42.90	AUD/USD	0.0001
4,646	+0.92%	4,573	+0.95%	1.0958	+0.0084%

MarketWatch at Wed 27th Jul 10:17am AEST

Markets Closed Markets Open

Placing a value on financial advice

- Robin Bowerman
- From: [The Australian](#)
- July 27, 2011 12:00AM

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Financial planners are entirely responsible for their own destiny in terms of investors valuing their services *Source: Getty Images*

FINANCIAL planners and the Prime Minister share a common challenge.

They are both trying to get investors to understand why a bill is suddenly being attached to things they are not accustomed to paying for.

For Julia Gillard that means getting across to people that carbon emissions need to be subject to a market pricing mechanism as a way to alter behaviour for long-term environmental benefits.

For financial planners it is about getting investors to understand where they add value in terms of investment portfolios and longer-term retirement plans.

Where the challenges diverge is that no one from either side of politics is holding Gillard personally responsible for climate change. Financial planners, on the other hand, are entirely responsible for their own destiny in terms of investors not appropriately valuing their services.

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The problem dates back to the 1980s and 90s, when advisers ostensibly offered the advice part of the service "free" because their payments were bundled up in commissions attached to the product sale.

The revenue flowed down from the product manufacturer to the adviser and hence the payment was largely invisible -- and certainly not valued -- by the investor.

Fast forward to the carbon aware world of today and the federal government is working on reforming the financial advice world under the proposed Future of Financial Advice reforms that would see commissions banned and investors asked to pay the advice fee upfront.

To many advisers who hanker for the status of professional adviser this is reform that cannot happen fast enough, albeit they could do without the business disruption and uncertainty.

And make no mistake, good advice is worth paying for. Our superannuation and tax systems are complex, so tailored advice can save many multiples of the bill in either the structuring or simply in establishing a disciplined portfolio approach that keeps a focused eye on risk so even events such as a global financial crisis do not seriously derail retirement plans.

But that brings us to the central question: ask yourself what you think is a fair price for financial advice, be it from a financial planning firm, your super fund or an online service.

This is not a trick question. Would you pay several thousands of dollars for something you thought was worth a few hundred dollars?

Probably not.

But if you ran a small business would you sell something for a few hundred dollars that cost you several thousand to deliver? Presumably not -- or at least not for very long.

Herein lies the true challenge for the financial planning industry because according to independent research of both investors and advisers, the gap between what investors are willing to pay and what advice costs to deliver is approaching an irreconcilable difference.

Research firm Investment Trends asked a range of investors what they considered an acceptable cost for various forms of advice (Investment Trends: Limited Scope & Intra Fund Advice Report, December 2010).

The top line result was just over \$620 for a comprehensive financial plan.

Take a moment to consider if you think that figure is reasonable.

Because according to financial planning firms surveyed, the cost of providing a full advice plan to a typical client was about \$2600.

It is worth pointing out that is the break-even point, so when a profit margin is added the cost will be higher than that figure.

Now think about a comprehensive financial planning service that is provided by your super fund. What would be an acceptable price for that service?

Investment Trends says investors dramatically dropped the amount they regard as an acceptable price for a comprehensive advice consultation if it was provided by their super fund to about \$260.

On the assumption it was a comprehensive advice service, the drop in price point is hard to explain.

Perhaps fund members are assuming some level of cross-subsidisation or perhaps funds have fallen into the same trap of undervaluing the service.

The one area in which some common ground is found in the Investment Trends research is that two-thirds of the investors want financial advice before retiring -- although only 20 per cent say they want a comprehensive plan.

So the demand for advice services is set to grow dramatically, particularly as the baby boomer generation shifts into retirement mode.

What the FoFa reforms need to deliver is a transparent regulatory framework so investors understand the value their advisers -- be it super fund or advisory firm -- are delivering and being paid appropriately for.

Robin Bowerman is principal and head of corporate affairs and market development for Vanguard Australia.

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Bryan Frith

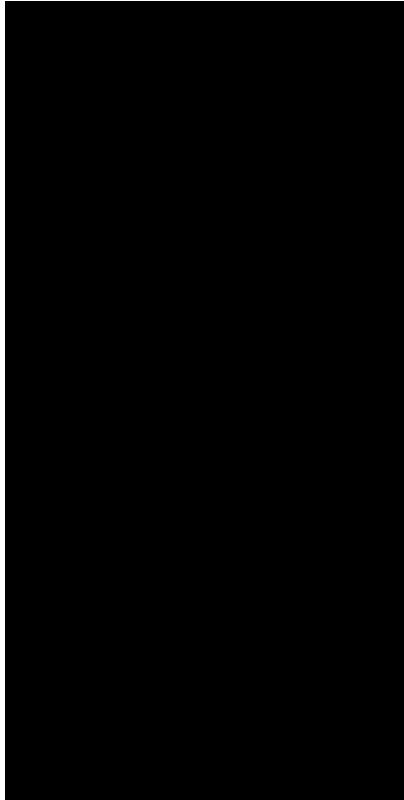
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Company Name	PriceChange	%Change
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Charter Hall Group ...	2.17 +0.00 UP	+0.0%
Charter Hall Retail ...	3.32 +0.00 UP	+0.0%
Goodman Plus	77.75+0.00 UP	+0.0%
Abacus Property Group ...	2.18 +0.00 UP	+0.0%
BWP Trust	1.77 0.00 Down	0.0%
Charter Hall Group ...	2.17 0.00 Down	0.0%
Charter Hall Retail ...	3.32 0.00 Down	0.0%
Goodman Plus	77.750.00 Down	0.0%
Abacus Property Group ...	2.18 0.00 Down	0.0%

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