



The value of great advice

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What is the value of great advice? What's the difference between basic, incomplete or poor advice, and comprehensive high quality advice? And does it matter anyway?

When it comes to medical advice the difference is often pretty clear, and immediate. If you have a medical problem, do you entrust your future to a newly qualified (and possibly less expensive) intern, online diagnosis; or a specialist with 20 years experience? When the prospect is one of life or death the decision is obvious. Human nature is such that unless there is a clear and present danger, remedial action is often declined, deferred or avoided.

“The only thing worse than being blind is having sight, but no vision.”
Helen Keller

Herein is **the challenge when assessing the value** of great financial advice. **The impact may be deferred for years**, whilst the outcome may be the difference between comfort and poverty, security or insecurity, a legacy or a burden. In the extreme, the anxiety that financial insecurity may generate could become a life or death issue.

In the airline industry the price of first, business and economy class are differentiated by the tangible value and exclusivity associated with the first and business class lounge, the comfort and width of the seats, and the food and service received on the plane. Whilst the experience of the passengers in the different classes is distinctly different, *everyone eventually arrives at*

the same destination.

Recent experience and observations reveal that the range of advice people receive extends from conflicted, poor or indifferent, to excellent. All of which provide a different experience and outcome. The greatest difficulty in the experience of the process is that it is **only after the passage of time** that one will discover whether the advice received was good or bad. And then it is **most often too late.**

We would submit that most clients are not obtaining the advice they require for 3 key reasons:

- The **quality** of the advice itself is substandard as a result of conflicts of interest, inadequate specialist skills and training, and a lack of life experience on the part of the engaged adviser,
- The client's **inability to measure the cost of advice against the benefits** which will accrue over time, and
- The **limited exposure** people have to different advisers and therefore the inability to know whether one's experience is a reflection of the industry as a whole, or merely the engaged adviser.

So how would you recognise the characteristics of great advice?

Personal Financial Advice is advice provided that is entirely appropriate to a specific individual's circumstances, requirements, goals and objectives. It is not the "general advice" (as it is known) which in reality is factual information provided by a financial institution's call



"First, let us pray."

centre or website.

Perhaps the greatest impediment to obtaining high quality, high impact and enduring personal advice is a function of the difficulty associated with identifying the right adviser.

Over **80% of registered advisers** are employed by, or work under licence for one of the big 4 Banks, AMP, Macquarie and IOOF. These advisers are **inherently conflicted** by the direct and indirect pressure associated with selling the institution's wealth products against which they are assessed. Success in this sphere drives internal recognition and reward, with the short-term interests of executives and shareholders almost always taking precedence over the best interests of the client. It's no wonder this industry is on the front page of the AFR every other week.

However, when engaging an un-aligned advisory firm, there is also no guarantee of obtaining great advice either. So **how do you choose** from amongst the approximately 16,000 registered advisers in Australia?

We would suggest you look out for the following characteristics:

- **Principals and Owners** in their own business (as opposed to those owned by, or aligned with institutions).

- **Members of a recognised Professional Association** – such as the Institute of Chartered Accountants Australia and those practices that are designated as Professional Practices of the Financial Planning Association.
- **Un-conflicted**, fee for service remuneration models with no commercial tie ups, soft dollar incentive arrangements etc.
- **Open and transparent** in all dealings.
- **Specialists** with a strong sense of purpose, and a clear interest in developing long term relationships with their clients.
- **Recognised technical qualifications** with evidence of continuing education in order to remain current.
- **Extensive life experience**, especially in executive and leadership roles, with strong local knowledge supplemented by international experience.
- Have a demonstrated ability to consider issues on an **integrated advisory** and portfolio management basis.
- Have a strong **risk management and compliance** framework.
- Can demonstrate a strong connection between **the price charged for advice and the value received**.

Having selected a shortlist of prospective advisers, **the next step will be an assessment of the quality of the advice provided** against the following aspects:

- A clear demonstration of a **detailed understanding** of you, your current circumstances, goals and objectives.
- Identifying and understanding **potential risks**; and recommendations regarding **alternatives** to mitigate those risks.
- Sufficient life experience, insight and humility by the adviser to **“know what he/she doesn’t know”** and work proactively and collaboratively with your Accounting, Legal and Tax Specialists.

- The adviser or firm **proactively reviews** your personal affairs to ensure you:
 - **Invest in a manner consistent** with your strategic objectives and goals.
 - Take advantage of any tax savings **prior to year end** e.g. superannuation contributions.
 - **Timeously transition your Superannuation** from Accumulation to Pension phase.
 - **Are advised in advance** of any problems that could be caused by for example, making excess superannuation contributions which could manifest themselves in excessive superannuation contributions and as a result tax penalties.

“...do yourself a favour when seeking advice – avoid ‘flying economy’ – cheap advice is guaranteed to get you to an uncertain destination.”

- **Have access to a structured process** of continually evaluating your insurance requirements and benchmarking these to competitive options.
- **Are educated regarding tax and estate planning** alternatives for consideration by your accountant or attorney.
- A respectful **education orientation** in order to assist your understanding of technical concepts, in simple and easy to understand language.
- **A service culture** where time consuming administration requests are dealt with efficiently and painlessly.
- Have staff with a **strong client service ethic** who are well educated and knowledgeable and who proactively assist you with all your personal financial affairs under advice.

- Advising you of the **appropriate entities** through which to invest.
- Having a **well defined and structured investment process** which is both prudent and designed to capture the market rate of return after fees.
- Having a **structured process of communicating** your investment performance on an ongoing basis and assisting you in determining whether you are on track to achieve your goals and objectives.
- **Fees** are charged with a **clear connection to value added**, are easy to understand, transparent and benchmarked to best practice.

What is the premium paid for great advice over indifferent or poor advice?

The time and effort involved in an adviser gathering relevant information, the establishment of your and your partner’s requirements (as appropriate); communicating with your accountant and attorney (where appropriate); researching products and solutions, and recording and documenting the advice provided – within the rigorous compliance and regulatory process - is significant.

At the end of the day **advice carries risk, and risk must be priced**. Advice associated with complex and material matters with potentially significant financial consequences, will be more expensive than basic advice.

Great advice consistently implemented will have an impact which should be of an order of magnitude greater than the cost of that advice.

So do yourself a favour when seeking advice – avoid ‘flying economy’ – cheap advice is guaranteed to get you to an uncertain destination. Rather use the framework above to maximise the probability of receiving great advice – **you owe this to yourself and your family**.

Finding a great adviser is more than just a leap of faith!

General Advice Disclaimer

This information was prepared by Horizon Wealth Management. It is of a general nature and does not take into account your personal investment objectives, financial situation or particular needs. You should assess whether this general advice is appropriate to your individual objectives, financial situation and needs. You can make this assessment yourself or seek the help of a professional financial advisor or taxation professional.