



## AFTER A GREAT GOLD COAST CONFERENCE EVERYTHING NOW POINTS TO HONG KONG



Delegates to the onshore conference last week were high in their praise of the event but when our picture was taken on top of the tall Q1 tower it was time to put the Gold Coast behind and point north to Hong Kong when the next major AIOFP event will take place in March 2011.

### MEMBERS GET BULLISH NUMBERS AS MARKETS GATHER PACE

MEMBERS were given a bullish set of numbers and warned to get ready for the long awaited recovery as markets begin to gather pace over the next 18 months.

The conference heard that Australia was already back to full employment, that the Aussie dollar could climb above the Greenback and that interest rates here would continue to rise along with bond yields.

Leading hedge fund manager and former Reserve Bank official Mathew Jeremy projected this optimistic outlook, suggesting that the time was fast approaching when investors would shift their asset classes from safe haven bonds to equities.

In his lunchtime address on the final day of the conference, Mr Jeremy compared the state of US and Australian markets, arguing that the Australian recovery was well advanced.

"I think we are reasonably well through that stage and we are reaching the point where investors will shift their funds from bonds and into equities," Mr Jeremy told the conference.

A monetary expert who has worked in both the public and private sectors, Mr Jeremy now runs his own Brisbane-based hedge trader Carvel Asset Management.

Referring to the situation at home, he said that because of full



employment the Reserve Bank was concerned about inflation.

"We have a different situation to the States that suggests to me that interest rates have more room to go up," he said.

"At the end of 2012 the cash rate could reach 6 percent and the bond rate 6.5 percent compared with 4.5 percent on cash and a bond rate that is a touch over 5 percent at present".

Mr Jeremy said the US recovery could trigger 10 percent rise in equity prices, which would be outstripped by a 14 percent rise in Australian stocks.

On currency rates, he said that the US dollar would remain weak while interest rates were deliberately kept down and the Fed pumped more cash into the system.

He added that rising Australian

interest rates were pushing the Aussie towards parity.

"Given what I've been saying about the state of things in America where interest rates are going to stay low for a while, bond rates falling a bit before they go up and the Fed tightening, suggests that the Aussie dollar will get to \$US1 and possibly go through before rolling back to current levels."

He told delegates that while our economy was doing well, the Australian stock market was hamstrung by concerns about America.

"As long as these concerns about growth persist in America, then bonds are likely to do better than equities," Mr Jeremy told the conference.

But he said that the situation could change by the end of next year with the Federal Reserve moving to tighten the reins on money supply.

Already there were strong signs that a US recovery was happening, he said, noting that a Merrill Lynch global survey last month came out heavily weighted against the likelihood of a double dip recession.

Moving into next year US unemployment will decline from around 10 percent to 8 percent or below, he suggested, adding that a whole range of statistics indicated that unemployment rates will improve over the coming months.

### A chance to compete on equal terms

AIOFP members could get the chance to compete for business on equal terms with bank-funded planning groups as a result of a submission put to Federal Treasury official Richard Sandlant after he addressed last week's on-shore conference on the Gold Coast.

A proposal put to Mr Sandlant is aimed at claiming a share of the profit margin financial product manufacturers generate from selling their products.

AIOFP executive director Peter Johnston explained that the product structure would need to comply with guidelines and that the association would have to prove that any profit sharing partnership represented "the best interest of client investors".

"We want to be able to become quasi product administration operators," Mr Johnston said, adding that by acting together AIOFP members would be able to bring to bear their organisational scale to get the same rates as the institutions.

"In other words, we use our scale to get the price of a product down for our clients and we put a margin in on top.

"This could apply to our product Personal Choice Private. It's exactly what the banks do with their own financial planning businesses."

Mr Johnston and AIOFP president Peter Daly discussed the plan with Mr Sandlant over dinner and during late night talks last Thursday.

Mr Sandlant, who has charge of implementing the government's financial planning reform agenda, had triggered a robust response from members earlier in the day after outlining the government's proposed

reforms for the financial planning sector to the conference.

Nevertheless his 60 minute address and the stormy Q and A session that followed were the highlights of the three-day on-shore talkfest.

As Peter Daly noted in his closing session address the conference provides a forum to challenge, where members can stand up and talk to people who can influence and change the financial planning sector.

Referring to Mr Sandlant's appearance and the talks that followed, Mr Daly said that what followed was yet another example of just what AIOFP conferences were able to achieve.

"I have been to the Treasury launches in all States, attended some discussions on behalf of the FPA and AFA and I can tell you that last night was one of the best opportunities I have had to sit down with this guy and really hit him between the eyes with some of the issues we are facing," Mr Daly told the closing session.

He said the outcome of the meeting and the results achieved from the conference sessions were a testimony to efforts that Peter Johnston went to in attracting speakers and his detailed planning of each event.

Mr Daly also remarked on the insights offered by members who talked about how they run their practices.

"I would like to recommend that when we go to Hong Kong or when we come back to the Gold Coast that we have three speakers talking about things they have implemented that changed their businesses".

He also suggested a series of conference debates and an arrangement where time was also set aside to foster the interest and education of new and next generation AIOFP members.

"We should have the young guns on the stage and the bold and reckless on the other side and issues to talk through," he said, urging all members to travel to Hong Kong for the annual off-shore conference next March.

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# WHAT WAS BEST ABOUT THE GOLD COAST CONFERENCE?



**Rob McCann**  
Patron Financial Advisers

*Good interaction with the other guys and I saw some funds that I have not been in contact with before.*



**Adrian Headon**  
Headon Financial Planning

*Ron Willemsen's update on the MIS issue was very good - disappointed Bill Shorten was not here. We had a messenger from the Treasury who was just doing his job.*



**Lindsay Orchard**  
Financially Yours

*Probably the session where Dr Richard Sandlant was confronted by the Independents. Until now he's been talking to the other end of town whereas the independents have a different point of view.*



**Dejan Pekic**  
Newwealth

*The key to these conferences is networking where you can get to people, share some ideas and talk through some thoughts.*



**Ava Lindsay, (aged 7)**  
Daughter of Damien Lindsay

*Movieworld, the rides and getting my Bugs Bunny*

## SOA'S TOO LONG TO READ AND TOO DIFFICULT TO UNDERSTAND

THE thorny issue of compliance and the onerous demand by the corporate regulator for detailed paperwork was addressed during the Gold Coast conference.

Conference regular Claire Wivell Plater (pictured right) told delegates that almost everyone agreed that too often clients find their formal Statement of Advice too long to read and too difficult to understand.

A specialist in compliance and risk management, Ms Wivell Plater said that in the course of her work she got to see a lot of SoA's, describing what she has seen as "the good, the bad and the ugly."



### **MOST ARE DOWNRIGHT UGLY**

"And to be honest, most of them are downright ugly," she told the conference.

She said that most planners grumbled about the time it took to prepare an SoA and that the documents were too complex, with some declaring that they were "a complete waste of time."

"A small but growing number

were beginning to see the SoA as a valuable tool for demonstrating professionalism.

"However almost everyone was unanimous about one thing – that they are too long and clients find them hard to understand."

Acknowledging that the situation existed despite efforts by ASIC, Dealer Groups and other interested bodies who had spent "thousands of hours" trying to improve how SoA's were structured, Ms Wivell Plater provided the audience with a number of tips on how to complete a document.

### **AVOID CONFUSING CLIENTS**

She said special care should be taken to avoid confusing clients with extraneous information because it increases the risk that a retail client may not read, may disregard or not understand the importance of other information in the SoA, or might otherwise be misled or deceived.

"Do not include generic research and other materials for the client's information with the SoA unless it is relevant to the client's advice," she said, adding that planners should only include as much information as a retail client would reasonably require for the purpose of deciding whether to act on the advice.

"Only include relevant information and tailor it to the client," she said, noting that some planners were reluctant to break with the past and included all sorts of technical information and research in their financial plans.

"To the unsuspecting reader who is uninitiated in investment and portfolio construction theory, the kind of jargon that forms a large part of many statements of advice is largely unintelligible and may as well not be there at all," she said.

## ALTERNATIVE INVESTMENTS ENJOY RENEWED POPULARITY



ALTERNATIVE investments are enjoying renewed popularity, Annette Vlismas of Russell Investments told the Gold Coast conference.

A survey her firm took of 119 institutions showed that alternatives were now considered a way to diversify portfolios and mitigate risk.

A paper Russell presented at its recent Australian Investment Summit acknowledged that alternatives fell out of favour during the tough economic times of the 1990s.

At that time institutions held much smaller allocations to alternatives.

The range of sub-categories on offer was not what it is today. Everything was just thrown into a general alternatives bucket and offered to the investor, she told the conference.

But today the asset class hosts a much larger universe of skill based managers and a wider array of strategies.

Nicole Connolly, Russell's director of Alternative Investments,

makes the point that recent changes in superannuation policy have placed greater focus on accountability.

"Although there is a consistent view that the inclusion of alternatives benefits portfolios, the question remains whether the asset class poses too much of a challenge," Connolly argues.

She conceded that alternatives have come a long way but notes that they are complex in nature and not easy to model or benchmark against other investments.

"The sheer universe of managers is hard to navigate and administration is challenging," Connolly says.

To overcome these complexities, Russell has developed a simplified way of thinking about alternatives within a portfolio. The Russell model reflects the best ideas about portfolio allocation and identifies the following three alternatives:

- Private equity (the return enhancers)
- Alpha driven strategies (the volatility dampeners)
- Real assets such as infrastructure (for yield and inflation protection)

To work out what types fit where, would-be investors should ask the following:

- What is the underlying driver of returns?
- Is the investment strategy skills based?
- Does the investment strategy have a measurable and observable track record?

## FRC CONCEPT NOW FULLY FUNCTIONAL

After more than a year in the making the Filtered Research Committee (FRC) concept is fully functional and available to members.

The key people driving the FRC project have been Peter Johnston, Andrew Reeve-Parker from NW Advice, David Burtram from Wealthsure and Rob McGregor and Kris Kondov from McGregor Asset Consulting.

The filtered concept and group charged with introducing the new research arrangement also has enjoyed strong support from Mercer.

Members are now able to access the FRC research website via Mercer's platform. Within the website is a comprehensive research service that ranges over a broad series of products.

Included is a preferred Approved Product List, five model portfolios, economic and market commentary, tactical asset allocation recommendations and manager research and ratings.

Members also have the ability to use direct equities research and direct equities model portfolio recommendations, sourced from JB Were and Morgan Stanley. Analytical and portfolio construction tools to help draft Statements of Advice are also available.

McGregor Asset Consulting actively monitors the performance of managers on the APL and model portfolios on a monthly basis.

The company also review managers, including specialist product offerings and boutique managers, that have not been researched. In addition, tactical asset allocation tilts and timely manager updates are provided.

The FRC has five model portfolios that now have a twelve month track record with above average performance against their strategic asset allocation benchmark and peers.

It can be reported that Approved Product List managers have generally performed well.

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