
THE IMPORTANCE OF INDEPENDENT ADVICE

The financial planning industry has evolved in Australia because we have complex tax, superannuation and social security legislation, in addition to an enormous range of investment opportunities and superannuation funds. Unfortunately, most people think that when they talk to a financial adviser, they will get advice that is right for them.

The truth is that there are many factors which can restrict the quality of advice that is provided to them. These include commissions, ownership links, approved product lists and proprietary administration platforms. The only way you can be sure of getting advice that is right for you is to talk to an adviser who is independent.

Commissions

Most managed investments accessible to investors in Australia pay a commission to the adviser or organisation that recommended them. These commissions are built-in so that you don't actually see them unless you read the fine print of their disclosure documents. The cost of these commissions is passed on to investors through the ongoing management expenses and they reduce the return that you receive.

There are several problems with commissions that are quite concerning. Firstly, if your adviser is paid by commission, you have no say in what you are paying. What you pay is decided by someone else that has never met you. Secondly, it makes sense that the below average investments will pay higher commissions. This means that you could end up with a below average investment because it paid more money to the person who recommended it. Finally, some of the best investments pay no commission at all (which means they have lower fees and higher returns). A commission based adviser will never recommend one of these investments to you.

Ownership of Advisers

Another flaw in the financial advising industry is that most financial advisers work (directly or indirectly) for large financial institutions. These financial institutions have their own products for their advisers to recommend. For example, NAB owns MLC. The Commonwealth Bank owns Colonial First State. Westpac owns BT. ANZ owns half of ING Australia.

These institutions employ advisers so that they can grow their own businesses. Don't expect a Commonwealth Bank adviser to recommend an ING investment to you.

Approved Product Lists

Australian financial advisers can only recommend an investment or superannuation fund to you if it is on their "Approved Product List". This means that no matter how good an investment is, it won't be recommended to you unless it is on that list. In this way, the large financial institutions can control what their advisers are recommending and block access to the investments of their competitors.

Administration Platforms

An administration platform allows you to pool your money with other investors and then invest in a selection of wholesale investments. You pay an administration fee to whoever owns the platform and often the platform will pay a commission or share of profits to the adviser. Usually, an adviser can only recommend one or two different platforms and generally the platform is owned by the same institution that the adviser works for.

Financial institutions are usually willing to let their advisers choose from a wider range of investments if a platform has been used. This is because the institution's income is assured through the administration fee charged by the platform.

Administration platforms are among the most profitable areas of large financial institutions. This is because most administration platforms have a captive market and there is no pricing pressure. Advances in technology mean that the cost to run these platforms is dropping quickly yet few of these savings are being passed on to investors.

About Aspire Financial Consulting

At Aspire Financial Consulting, we aim to provide the quality advice that we would want to receive ourselves if we were in our client's shoes. To do this, we have deliberately avoided any situations where the quality of our advice might be compromised. This means we have established a new firm that has no ownership links with

other financial institutions, we have obtained our own licence to give advice from ASIC, we have designed our own Approved Product List so that we can use any investment or platform that is appropriate for our clients, and we have taken steps so that if an investment

we recommend pays a commission, we are able to refund it to our clients. Only in this way are we able to always put our client's best interests first.