



TOP 7 MISTAKES

when choosing a
financial planner



Wealth Adviser

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Before you get started

This digital handbook contains general and factual information only, and is part of the Wealth Adviser library, published by:

- Wealth Today (AFSL 340289)
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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library



Introduction

A wise man once said: “Those who aim at nothing hit it every time!” This certainly also applies to the world of personal finance. More and more people are realising that a lack of ‘aim’ in the way in which they plan their financial life can have very detrimental long-term consequences.

Planning your financial future is, however, easier said than done. This is because there is such a bewildering array of investment options with all sorts of complicated names out there. Sadly, the response of some people is to put the whole idea of financial planning in the ‘too hard basket’, a very expensive action (or rather inaction!) to take. Many others respond by seeking out professional help. This is the reason behind the significant growth seen in the area of financial planning over the past few decades.

At the moment there are about 18,000 financial planners working in Australia. The problem is, however, that not all financial planners (and therefore not all financial advice) have been created equal. Not all of them bring the same level of training and expertise to the table. It is, therefore, possible to make some rather serious mistakes in selecting a financial adviser. This is the kind of mistake that could have significant long-term consequences. Taking great care in selecting the best possible financial adviser for your personal circumstances is of utmost importance.

The purpose of this eBook is to assist you in the selection process by profiling some of the mistakes that people make in selecting financial advisers. Focussing on mistakes may seem like an overly negative strategy but these mistakes are obviously presented as warnings and as a useful guide to some of the most important issues that you will have to consider in selecting a financial adviser.

Before we get into the mistakes that many people make when selecting an adviser, it might be good to briefly discuss the role and purpose of financial advisers.

The basics: professional financial advice

Most of us work with money on a daily basis, making decisions that range from the trivial (Is this a good price for a cup of coffee?) to the momentous (How should I save for my retirement?). Sadly, very few of us have been taught the necessary skills required to deal competently with our finances. This is obviously especially problematic on the momentous end of the scale (although seemingly trivial financial decisions can often also have momentous consequences)! It is for this reason that many people seek out financial advice.

Specialised advice has historically been provided by a range of professionals (e.g. stock brokers, lawyers, insurance agents etc.). During the 1980’s a new type of professional emerged to fill the need for specialised advice on financial matters, with a specific focus on superannuation. This burgeoning financial advice sector was initially unregulated, thus allowing some rather ‘sharp operators’ to work in this area.

This has led to the Australian Securities and Investment Commission (ASIC) developing certain minimum requirements that have to be adhered to before someone can legally call themselves a financial adviser. These requirements relate to minimum training standards and licensing (and adviser must hold a license or work for a company that does).

The nature of the work of financial advisers will obviously be discussed further as we move along but for the moment we can state that their role is to work closely with you to understand your current financial position, help you get clear about your financial goals and highlight any issues you may be currently facing that would prevent you from achieving those goals.

In essence a financial adviser can become your ‘financial coach’, developing a tailor-made financial plan for your situation, taking into account your lifestyle and objectives. Think of any athlete or sporting team that has achieved success and you realise that, behind them there is almost

always a great coach guiding them and pushing them toward success.

Some of the things that a good financial adviser should be able to do include the following:

- Identify and highlight your financial goals as well as give you the guidance and direction to achieve those goals
- Help identify all of your financial resources and assist you to utilise those resources to get the best possible result whilst maintaining an acceptable work/life balance
- Prepare for important lifestyle or financial changes such as having children, buying a house or retiring
- Grow your income and investments
- Protect your income, investments and financial position
- Simplify investing and wealth creation whilst providing you with choices
- Provide peace of mind and security about your current and future financial situation
- See the big picture and help manage your finances on a “whole wealth” level. This will include drawing up a comprehensive financial plan that keeps pace with changes as you move through the stages of life.

With all this having been said it is good to remind ourselves that ‘not all advisers have been created equal’ and that many people make bad choices when selecting advisers. It is, therefore, time to consider some of the common mistakes in this area.

Mistake #1: not understanding how the Financial Services Industry works

Deciding to seek out the services of a financial adviser can be an intimidating experience, especially in light of the bewildering array of financial and investment products on the market.

Forgive us if the following statement makes selecting an adviser even more complicated, but here it is: There are very few financial advisers in Australia that are not employed, licensed or aligned with the big 5 (CBA, NAB, Westpac, ANZ & AMP).

Here are the facts. Of the 18,000 financial advisers about 85% are in some way linked to these five large institutions. This ‘link’ occurs in the following ways:

- Advisers directly employed by the listed financial institutions
- Advisers licensed to deliver products linked to these institutions
- Advisers influenced to direct business to these institutions through a variety of ‘sweeteners’.

The high level of institutional involvement in the Australian financial advice sector means that there are clear incentives for advisers to direct client funds towards the products of the large institutions. Unfortunately, this translates into a severe limiting of investor choice since the majority of financial instruments provided and promoted by such institutions operate in a very limited investment field (i.e. managed funds with an emphasis on shares).

Mistake #2: thinking that there is “free advice”

We are, sadly, all too aware of the saying that there is no such thing as a free lunch. This certainly applies to the world of financial advice as well. The reason for this is the fact that, as mentioned above, there are very few non-aligned financial advisers in this country.

It is true that there are advisers who advertise ‘Free Advice’ on their doors or their literature but this does not mean that they do not get paid! You may not pay right away but there is a good chance that you will pay in the long run. Perhaps due to the fact that you did not receive advice expertly and professionally directed at your own individual circumstances, or maybe the emphasis was on the banks managed funds to the exclusion of other products and strategies.

So how do you make sure that you receive great advice? The answer may not, on the face of it, seem like good news but it will almost certainly be the ‘cheapest’ long term option. It is to make sure that you select a financial adviser that your rapport with and feel that you can trust and that you pay them for the expertise that is shared with you.

Make sure that the adviser that you select have a reasonable (in the sense that it is clear that there is a clear correlation between the activities on your behalf and the fee) and transparent fee structure.

Mistake #3: not researching the “worldview” of advisers

We have already made the point that not all advisers have been created equal. This does not only apply to their ties (or the lack of it) to major financial services institutions but also to the way in which they view the investment landscape.

The fact is that the majority of Australian financial advisers display a clear bias towards managed funds (this makes sense if you consider that the major institutional players all heavily promote managed

funds). This focus is rather problematic given the fact that Australian managed funds are very heavily weighted towards shares.

An overemphasis on shares is very dangerous to say the least. Share markets are great investment vehicles as far as they go but they are certainly not the ‘only game in town’ when it comes to possible investment choices. Fund managers investing in share markets do so on the assumption that markets will keep rising and shares obviously ‘work’ at their best when the markets do indeed rise. The fact is, however, that markets fluctuate. It would therefore be prudent to make sure that you protect yourself against market fluctuations.

The key term in this regard is diversification. Simply put, you will have to invest in more than shares otherwise this could leave your investment portfolio in a vulnerable position. If you find yourself in this kind of position you will not be alone. About 60% of Australian superannuation is locked up in shares, the highest rate in the world! This means that we as a nation are particularly vulnerable in terms of market fluctuations.

To put it bluntly: If your adviser is not helping you to reduce your personal vulnerability you are not getting the best possible advice.

Mistake #4: allowing uncertainty to translate into inaction

Every now and then the news of the fallout resulting from bad, or even dishonest, financial advice hits the headlines.

These stories are often intended to act as a warning and we should certainly take such warnings to heart. There are some ‘smooth operators’ out there and it makes sense to be very careful when it comes to whom we should entrust our funds to.

There is a problem however.

This may sound like a paradox but it is possible to be too careful in this area.

Potential investors can be so scared of being 'ripped off' that they simply employ the 'strategy' of leaving their funds under the mattress! It should be obvious that this could be very detrimental to your long term financial health.

Action will have to be taken!

This does not mean that you should simply rush out and follow the advice of the first person calling himself a financial adviser. You obviously should do your homework (we will focus on how you can do this a little later on in the eBook).

Mistake #5: not understanding your personal investor profile

Like all other people, financial advisers have their own strengths and weaknesses. Some of them may be very good at helping you to 'hold the line' financially in terms of assisting you to achieve slow and steady growth. Others may have a particular knack for drawing up more adventurous investment strategies geared towards faster growth. Such advisers would therefore probably be ready to take slightly more risks with your funds. Some investors would be absolutely fine with this while others may be more risk averse.

All of this suggests that you should:

Determine your own investor profile: You will have to ask yourself some serious questions before you even begin to seek out the services of a financial adviser. Some of these include:

- How far away am I from retirement?
- The further away the more 'aggressive' you can afford to be in your investment choices.
- What are my financial goals?
- If you have a solid understanding of your own financial goals (e.g. the kind of retirement that you would like to enjoy) you will be able to give your financial adviser a clear idea of what to aim for in his/her advice.
- What is my risk profile?

- In other words, are you willing to accept more 'risky' investment strategies in order to attempt to achieve higher rates of return?
- What types of investment do I prefer?
- Are you more inclined to direct your business towards direct investment in shares, managed funds or property?

Choose an adviser in line with your investor profile: Once you have the answers to the questions listed above you will have a much clearer picture of your own financial profile and you can begin to look for a financial adviser that could help you to achieve your particular and individualised goals. It should, again, be emphasised that some advisers will be better suited to certain investor profiles than others.

It would, therefore, be more than worth your while to do some research to make sure that you choose an adviser that will 'fit' with your circumstances.

Mistake #6: choosing an adviser with little or no experience in Investment Property

We have already mentioned that the ability to provide advice on a diverse range of investments should be a key attribute of a truly independent and competent financial adviser.

One of the areas that your adviser should be able to address is whether property investment could perhaps be a good option in your circumstances. Advisers with a settled 'share bias' will not have the capability (or the desire!) to help you in this regard.

Since property can act as a solid 'hedging vehicle' during times of share market downturn, this could leave you dangerously exposed. You should therefore take great care to select an adviser who would be both experienced and informed enough to advise you across a whole range of investment options.

Mistake #7: choosing an adviser with little or no experience in the area of Self Managed Super Funds

The number of Self-Managed Super Funds (SMSFs) in Australia is increasing at a rapid rate. It is not difficult to work out why this is the case. Taking the SMSF route can be one of the most flexible, cost-effective and profitable ways to save for your retirement.

It is our opinion that most investors in Australia should at least consider whether their retirement funds would not be better off in a SMSF. The increased control and widened investor choice that this can bring might be exactly what you are looking for in terms of your own retirement planning.

To put it bluntly, if an adviser is unwilling (or unable) to investigate this possibility with you, you would be well advised to place your business with someone else.

How to avoid the “seven mistakes”

We think that you will agree that making the mistakes listed above could have some pretty serious consequences. So how can you avoid them? Much has already been said while discussing the mistakes themselves but allow us to add the following.

Be Prepared: This does not only apply to the Scouts but to anyone serious about securing their financial future! Before you go to see an adviser you need to prepare yourself by asking yourself some basic questions and gathering information and documentation that might be requested during a consultation with an adviser.

Some possible steps during the preparation process include:

- Do a basic assessment of the financial resources at your disposal.

Write down some figures related to your current financial position. Include assets and liabilities as well as income and expenditure.

Your adviser will help you to refine and expand this but it will be good if you could start with the ‘big picture’.

- Take stock of your financial goals:

When do you want to retire? What is your risk profile? What other financial goals do you have? What investment time frames are you comfortable with? Having basic answers to these questions to hand will greatly simplify the process of finding advice tailored to your specific situation.

- Consider lifestyle factors:

It might be the case that you feel particularly strongly about work/life balance, that you envisage having to care for elderly parents in the future or that you want to spend more time with your kids during a certain stage of your life. Thinking about such issues and being ready to discuss them with your chosen adviser will enable him/her to have a clearer picture of what your specific needs are.

Investigate Different Advisers: Once you have gone through the preparation phase you are ready to begin thinking about placing your business with a specific adviser, but where to begin looking for one? We would suggest the following steps:

- Get some recommendations and feedback: You are most probably not the first person in your network to need financial advice! It is therefore quite likely that some of your friends and or colleagues have had some experiences (both positive and negative) in dealing with different advisers. Once you ask around a bit you are bound to get some useful advice on ‘the good, the bad and the ugly’!
- Make sure that everything is ‘above board’:

In order to legally provide financial advice a financial adviser has to be in possession of an Australian Financial Services License (AFSL) or work

under the license of an entity that holds such a license.

Those who operate under someone else's license can often be heavily restricted in terms of the kind of advice that they are allowed to provide (e.g. someone working under a license held by a financial services company will often only be allowed to recommend products endorsed by that company). It is therefore not only important to ascertain whether the adviser is operating legally but also what exactly the terms of his/her licensing arrangements are.

The Australian Securities and Investment Commission (ASIC) is responsible for all licensing within Australia. You can ascertain whether a prospective adviser has a license by contacting ASIC on 1300 300 630, or by visiting their website: www.fido.asic.gov.au.

- Ask good questions:

We highly recommend that you 'interview' any prospective financial adviser before placing your business with him/her. This should not cost you anything since many advisers are happy to provide a free first consultation.

We suggest that you use the 'mistakes' listed in this eBook as a guide for interview questions. Possible questions include the following:

- Do you have a current financial services license?
- What is your organisations level of experience and qualifications?
- What type of clients do you normally advise?
- How do you charge for your services?
What are your areas of specialty?
- Do you advise on institutional type investments only, or are you able to also advise me on direct investments such as direct property?
- What experience do you have with SMSF's?

- How do you maintain an on-going relationship with clients?
- What makes you different from other financial advisers?

Going through the steps outlined above will help you to select the best possible adviser for your needs. Once that selection is made you can begin to work with him/her to secure your financial future.

You probably have one burning question left, however: How much will making use of an adviser cost me? It is to this question that we now turn.

How much will making use of an adviser cost?

You will recall that we made it clear earlier that there really is no such thing as 'free advice'.

You should therefore expect that making use of a good adviser will come with a price tag attached. The cost to you will depend on the complexity of your investments and financial situation, as well as where you live and the fee method the planner uses.

Rest assured, however, that you will not be left in the dark as far as this aspect of your decision is concerned.

By law, all advisers must disclose all forms of payment. This can include upfront or on-going fees, and commissions. Many advisers will charge using one or a combination of these methods.

When comparing, it may help to get an example to help you understand the implications of the different methods. Potential advisers should be able to go through and explain these payments. In addition, this information should also be made available in the Financial Services Guide (FSG) which, by law, must be presented to clients.

Maintaining an ongoing relationship with your adviser

Once you have selected an adviser it is crucial that you maintain an on-going relationship with them.

As your guide they will join you on your journey to achieving your financial goals. A good financial adviser should be able to give you support and answer any questions that may arise along the way. Once again, drawing on the comparison of the relationship between a top athlete and a coach, we can see the journey travelled and the success achieved is made possible only by the combined and focused efforts of both parties.

It is important to understand that the financial environment is always changing and the rule books are always being revised and re-written. In some cases, it may be crucial for a change in strategy if a particular event occurs or a new law is passed. Detailed and regular reviews are key and, if maintained, both parties should be able to act swiftly and promptly to ensure ongoing financial and investment success.

Conclusion

It is our hope that the information presented sets you thinking about some of the issues that you will have to pay attention to in planning your financial future. It would be impossible, however, to present a complete guide to all your financial planning needs in a document as brief as this.

We urge you to continue your explorations by making use of some of the other resources and eBooks from the Wealth Adviser stable.

We also stand ready to serve you with professional advice, so please do not hesitate to contact us if we can be of further assistance.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.

Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Our services

Preferred appointment day and time

Day

Date

Time am/pm

Contact details

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

Email

Your Details

Title

First name

Last name

Mobile



Reader Notes



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