



## INVESTMENT MANAGEMENT INSIGHTS FOR PROFESSIONAL FINANCIAL ADVISERS

### PUT YOUR CLIENTS IN THE PICTURE WITH STRATEGIC ADVICE

A Kodak moment used to mean capturing that timeless split-second on film. Today, a Kodak moment more likely describes those organisations that fail to recognise their customers' changing demands.

Many financial planning practices stuck in a product-led advice paradigm are staring at their own Kodak moment.

Clients are increasingly coming to advisers for strategic advice about how to achieve their lifestyle goals rather than purely for investment products. Yet the beginnings of the advice industry mean many advisers still naturally base their value proposition around investment advice.

Grandfathered conflicted remuneration flowing from investment products still accounts for about 10 per cent of all practice revenue, effectively subsidising other forms of advice, according to **CoreData** research.

But those days are coming to an end thanks to pressure from the Royal Commission into Financial Services and rising client demand for more holistic advice.

### LOOKING THROUGH THE LIFESTYLE LENS

There is a significant body of research that shows Australians see a financial planner to achieve their financial and lifestyle goals.

Years of CoreData research suggests the value of advice isn't about **investing**, it's about incrementally changing clients' lives. Their latest piece of **research**, on behalf of the AFA, breaks down the value of advice as financial, emotional and behavioural.

The financial benefits are well known and wide ranging, such as building more retirement income, lowering interest or tax bills and enhancing net wealth at key milestones. But equally, the significant emotional and behavioural benefits of advice – lifting wellbeing, happiness and improving habits – are only likely to flow if that advice is aligned with clients' lives.

Financial planning advisers Peloton Partners points to research<sup>1</sup> that shows clients actually value the **'intangibles'** in the relationship they have with their adviser more than areas such as investment returns, technical skills, knowledge, and professional reputation.

However, advisers don't always value (or state) those intangibles, such as commitment, listening, stewardship, empowerment, trust, and empathy, to clients. Those intangibles often fall under the umbrella of strategic advice as they are crucial to help clients meet their goals and aspirations.

An IOOF **survey** of more than 300 clients put it most bluntly. More than three-quarters (76 per cent) rated 'achieving core goals and lifestyle objectives' as the definition of a successful ongoing financial planning experience compared to just 14 per cent who said 'better than average investment performance'.

Advisers who spend a significant amount of their time analysing markets to pick the best funds or stocks are unlikely to be serving the best interests of their clients.

### PINPOINT THE VALUE OF STRATEGIC ADVICE, THEN SET A FAIR AND TRANSPARENT PRICE

It follows that if holistic advice is what Australians value the most, they must be willing to pay for it. Yet many advisers feel uncomfortable explaining the value of

<sup>1</sup> Beddoes Institute's Client Experience Survey 2013.

strategic advice and worry that clients will balk when presented with its cost.

But as we explored in our **December 2018 Insight**, financial planners' legislative and ethical duty to act in the best interests of their clients requires a focus on value, not just price. Value can only be delivered if advice meets the clients' true needs, which includes far more than investment advice.

Take a hypothetical young couple earning high incomes but who have yet to build substantial investable wealth. These types of clients, whose priority is often buying a first home, are unlikely to be profitable under a traditional asset-based fee model. However, they still have a strong need for holistic advice and can become a major asset to a financial planning client over time.

This may include goal setting, as well as coaching about saving, budgeting and (over the long-term) investing. It may also include advice about protecting their human capital (insurance) and tax optimisation to ensure they are maximising their income.

When it comes to investment advice, ensuring it matches their goals is more important than attempting to pick top performers.

The **Productivity Commission** has quite rightly turned the focus on those superannuation funds posting long-term bottom quartile investment returns. But at least one of these funds has a substantially older membership with higher than average account balances. These pre-retirees are more exposed to **sequencing risk** than typical younger accumulation members: generating higher average returns by taking on more investment risk could leave more members worse off because of volatility and poor timing.

This is another reason why Innova advocates allocating to portfolios based on risk: you're more likely to achieve a better outcome because it suits the needs of the client.

Only high quality financial advice can help Australians make these decisions. Financial planners are far more than investment specialists: their value lies in helping people see the bigger picture. Strategic advice that answers clients' real needs and concerns is also likely to keep them on the right path – withdrawing an investment and going to cash during a market downturn is catastrophic, but it happens all too often.

Outlining the true value of this strategic advice is crucial for planners. The CoreData/AFA research outlines one path by specifically quantifying the value of advice for three different types of clients. For example, a hypothetical younger couple ("upstarts" Richard and Hannah in their early-30s) are on track to have 27 per cent more wealth at age 61 thanks to the value of the strategic advice they receive.

They specifically quantify how much better off they will be thanks to advice across several measures such as financial assets (+\$708,000), average yearly net return on investment (+4.24 per cent), trauma insurance (+\$200,000), TPD insurance cover (+\$1.6 million), and so on.

In this way, and by using the right technology, advisers can clearly show the value of strategic advice, placing client fees in perspective. That can set them on the path to greater financial wellbeing, and a life filled with moments worth capturing.

**Contact Innova Asset Management for further information about goals-based investing and our risk defined portfolio solutions.**



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