



Managing the Consumer's Investment Risk

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Words of wisdom #1



"When I was young I thought money was the most important thing in life.

Now that I'm old - I know it is!"

- Oscar Wilde

Pity the investment consumer...

Financial Services Forum



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Grand Hyatt Melbourne



OPINION | Nov 6 2015 at 1:15 PM | Updated Nov 6 2015 at 3:33 PM

FINANCIAL REVIEW

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Nov 9 2015 at 7:16 AM | Updated Nov 9 2015 at 8:45 AM

Australian dollar feeling the pain



Share market sheds \$56 billion as commodities tank

S&P/ASX 200 punished as energy stocks crash



The Motley Fool

By Mike King - March 29, 2016

Market Crash: Banks sink the S&P/ASX 200

But wait there's more...





... Who can I trust?

FINANCIAL REVIEW

May 16 2014 at 12:05 AM | Updated May 16 2014 at 7:19 AM

SAVE ARTICLE | PRI

CBA faces likely \$200m class action for 'bad advice'

The Sydney Morning Herald

ASIC puts Macquarie Private Wealth on probation for another year

February 14, 2015

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... What will it cost me?

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Exorbitant super fees compromise quality of retirement: Grattan

The Sydney Morning Herald

Super gravy train costs retirement savings plenty

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How can I stop fees from chewing up my super?

September 18, 2015

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Funds are fattening up on superannuation fees

November 16, 2015

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... What else do I care about?

The Sydney Morning Herald

Banks excluded from first fossil-free Australian shares index

September 1, 2015

Ethical funds get the green light

May 19, 2015

Catherine Robson

Transfield in the heart of hot debate on ethical investment

August 21, 2015



Consumer investment risk

- what we'll cover



- ▼ Define – Consumer, Investment risk
- ▼ Top 10 investment risks
- ▼ Explore Top 5 risks for consumer to achieve investment goals
- ▼ A greater awareness of the consumer perspective
- ▼ Conclusions & recommendations

Introduction. Definitions.



▼ Consumer

a person who purchases [investment] services for personal use.

▼ Investment risk

the risk that the outcomes of an investment strategy and its execution do not meet the goals of the investor.

Top 10 investment risks

Strategic/Indirect

1. Failure to understand investor's risk appetite
2. Matching risk
3. Inflation
4. Operational risk
5. Liquidity

Direct

1. Asset allocation
2. Market risk
3. Stock selection
4. Fund manager selection
5. Credit risk

Top 5 risks for *consumer* to achieve investment goals



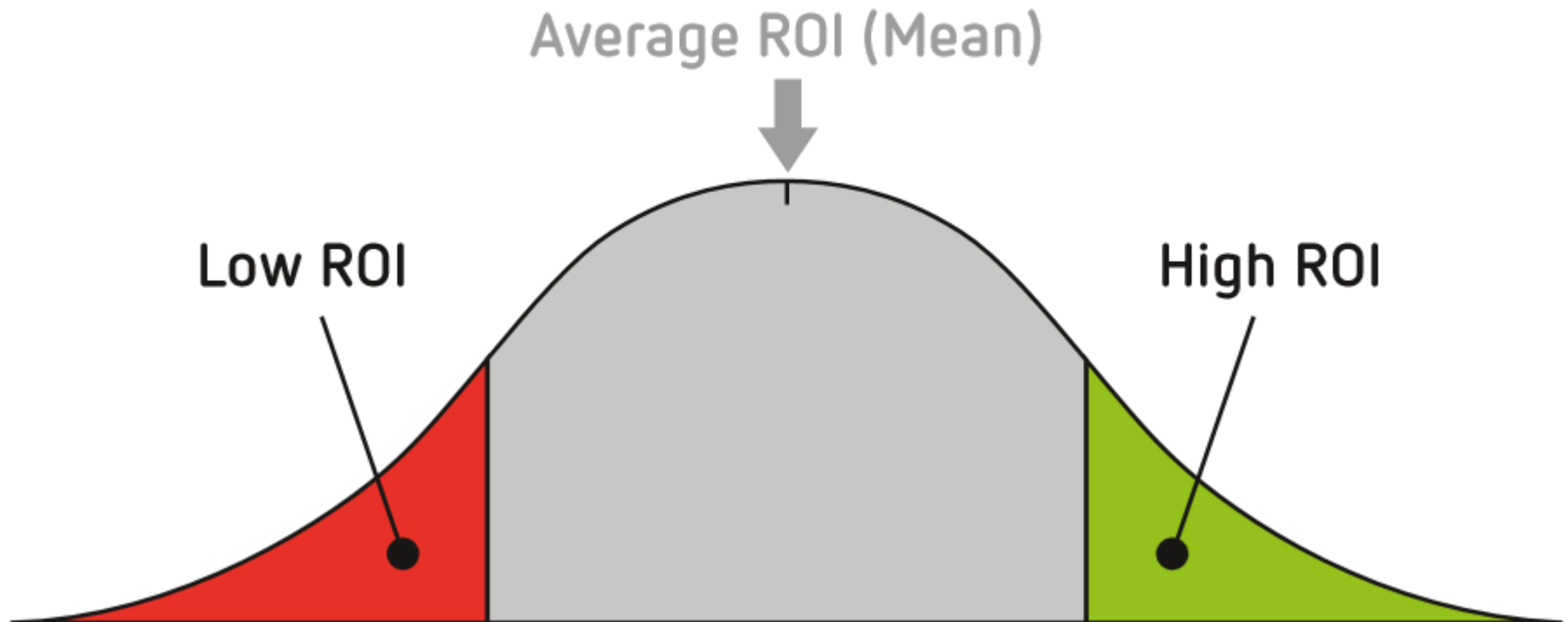
1. Not knowing and setting their own clear investment goals
2. Failure to understand their own risk appetite
3. Getting bad advice
4. Insufficient portfolio diversification
5. Paying too much in fees



Risk 1: Not knowing and setting clear investment goals

- Why?
- What / How much?
- When?
- How do I get there?
- Given limited resources (\$) where do I have to compromise?

Risk 2: Failure to understand own risk appetite





Risk 3: Getting bad advice

- Financial literacy
 - Schools, Parents
- Picking a good financial planner
 - Where to start? Who do you trust?
 - Super fund? Which bank?
- Product sales vs financial advice; Incentives
- BBQ advice
- Online education – pluses and minuses

Risk 4: Insufficient portfolio diversification



- Too much in Australian equities
- Too much in banks and up to recently miners
- Not enough in overseas equities
- Insufficient fixed interest Australian & o/seas
- Single property asset
- Too much cash

Risk 5: Paying too much in fees

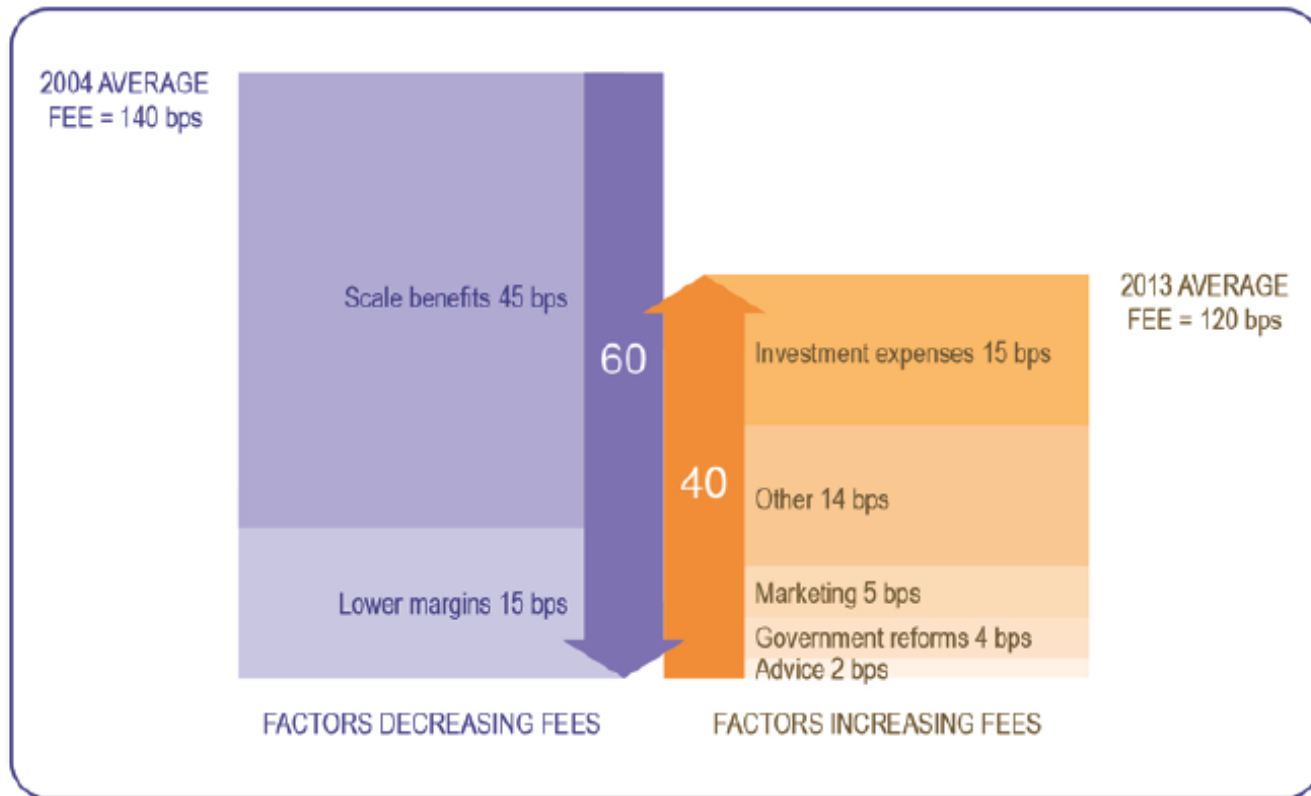


- FSI – not enough competition in default fees
- Extra cost of Choice outside of default funds
- Very wide range of fees
- Still lack of transparency
- Fees expressed as % can confuse.
- FSI – RiceWarner – Super Fees change

FSI - Rice Warner - Fee change



Figure 7: Drivers of changes in average fees between 2004 and 2013
APRA-regulated funds; basis points (bps)



Source: Rice Warner.³⁰

Words of wisdom #2

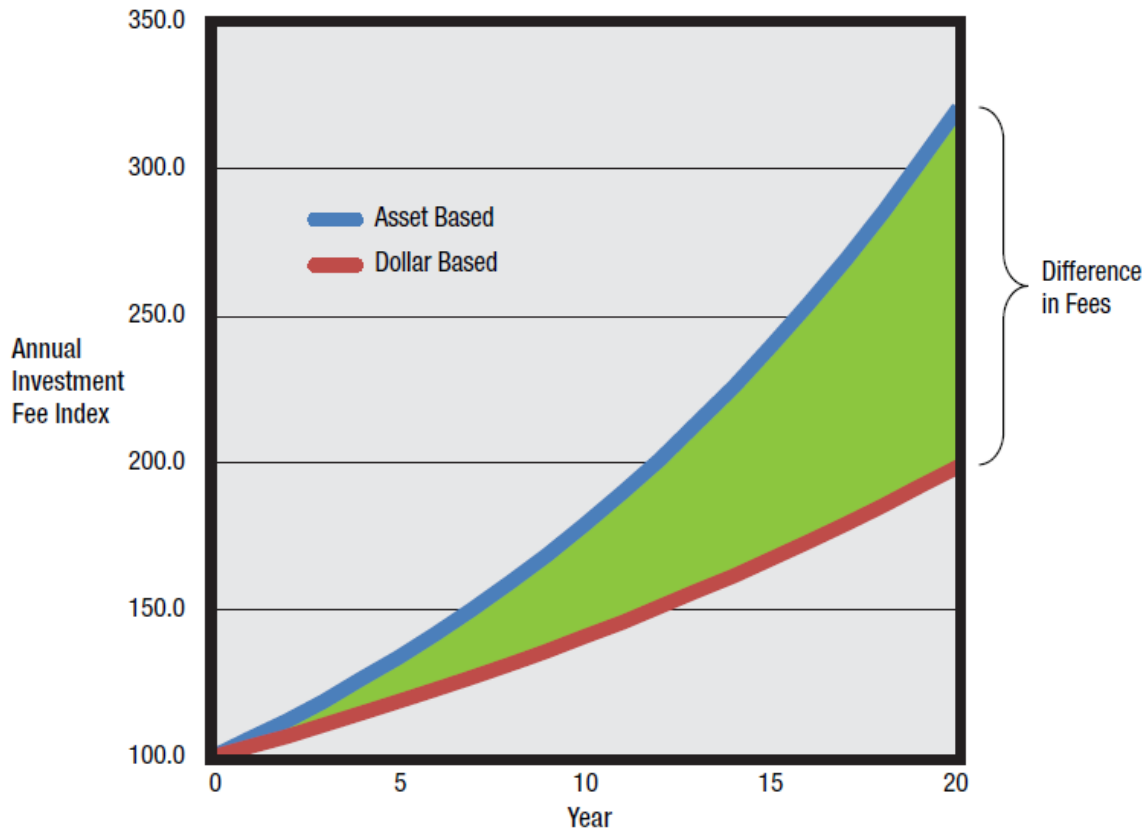


“When a person with experience meets a person with money, the person with experience will get the money and the person with the money will get some experience.”

- Leonard Lauder

One solution to contain fees -

Costs & fees as dollar not % of FUM



Impact of \$ fees indexed to wages vs % of assets

Source: McGing Advisory & Actuarial submission to FSI August 2014

Graph 1. Comparison of Dollar to Asset Based Investment Fees

Conclusions & Recommendations

- The biggest risks to successful consumer investment are not direct investment risks:
 1. Not setting investment goals
 2. Not understanding own risk appetite
 3. Getting bad advice
 4. Insufficient portfolio diversification
 5. Fees too high
- Good management and mitigation of these risks requires the industry to improve its consumer perspective and act
- Need more financial literacy and investment education in schools
- Break the nexus of fees as % of assets. Move to \$ fees.

Words of wisdom #3



*“To make a million,
start with \$900,000.”*

- Morton Shulman



Questions, Comments

Discussion



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