



# INVESTMENT INSIGHT

WITH MICHAEL LANNON

## Commission-biased investment advice can seriously harm your financial health

For this inaugural column I want to focus on “commissioned based advice” and illustrate the negative effects commissions can have on your wealth. The financial planning industry was labelled “structurally corrupt” back in 2002 by the head of the Australian Consumers Association and it appears that not much has changed in 2008.

### Who owns your financial adviser?

These days over 75% of financial planning groups are owned by banks and insurance companies. These aligned planners are the “de facto salesforce” for their employers’ products and as a result the independence and quality of their advice is suspect.

### Avoid commission driven financial advice

The vast majority of financial advisers in Australia still charge percentage based commissions and adviser service fees. 2020 DIRECTINVEST has long been a vocal advocate of professional dollar based, fee-for-service financial advice whereby clients are able to separate their advice from product sales and eliminate potential product bias and unnecessary fees.

### Commission based advice versus fee for service advice

Avoid paying unnecessary percentage based

adviser service fees as they can significantly affect your investment returns as illustrated in the table below which compares two investors who each sought financial advice. Mary pays entry fees and adviser service fees and John pays upfront for fee for service advice only.

Arguably, Mary will have had the benefit of ongoing advice, albeit at a cost of relinquishing 1.0% of her return each year to her adviser. This equated to paying \$291,976 for that advice over 20 years. Expensive advice, don't you think?

John on the other hand will be \$291,976 better off and could choose to use a portion of that money to pay for professional advice as required. Even if he paid \$1,000 each year for professional advice and portfolio reviews, he is still more than \$234,700 ahead of Mary.

### Recommendation: Pay a professional dollar based, fee-for-service for financial advice and avoid potential bias and unnecessary commissions

You don't pay your accountant or lawyer an on-going percentage of the value of your assets for their advice. The same should apply to financial planning advice. Fee-for-service financial advice is also the only way to ensure unbiased, non-commission driven advice.

Potential conflicts of interest arise when a financial adviser is paid by or employed the fund he or she is recommending which can undermine the value and quality of the advice provided.

By separating products from advice and paying your financial adviser an hourly or dollar based fee-for-service, there will be no incentive for your adviser to recommend any investment for any reason other than its investment merit and its suitability for you.

To ensure independent financial advice and to be confident that your financial adviser is working in “your best interest” you need to be the one paying the advice fees and not the providers of products that are recommended. Pay a separate professional fee for advice and execute your own transactions.

Unfortunately true, professional fee-for-service financial advisers are difficult to find in Australia as they are truly a minority. 2020 DIRECTINVEST uses the collective buying power of AMA members to negotiate access to true fee-for-service advice.

If you need help locating a fee for service adviser please feel free to email me on [mlannon@2020directinvest.com.au](mailto:mlannon@2020directinvest.com.au)

	<b>Mary</b> - Financial Adviser receiving commissions and 1.0%* per annum adviser service fee	<b>John</b> - Fee for Service Financial Adviser – professional dollar based fee only
Amount to invest	\$250,000	\$250,000
2% entry fee*	\$5,000	-
Professional fee-for-service advice	n/a	\$2,500 <sup>†</sup>
Net amount invested	\$245,000	\$247,500
Value after 10 years assuming 10% return p.a. before adviser service fees	\$580,004	\$641,951
Value after 20 years assuming 10% growth p.a. before adviser service fees	\$1,373,081	\$1,665,056
Difference in value after: 10 years	- \$61,947	+\$61,947
20 years	- \$291,976	+\$291,976

\*Assumes an entry fee of 2% and a 1.0% p.a. adviser service fee are charged by Mary's financial adviser. Financial advisers can charge entry fees of up to 5%.  
<sup>†</sup>Assumes John is charged \$2,500 for advice provided on a professional Fee for Service basis

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## Q&A

DO YOU HAVE ANY PRESSING INVESTMENT QUESTIONS YOU'D LIKE ANSWERED? IF YOU DO, PLEASE EMAIL [QUESTIONS@2020DIRECTINVEST.COM.AU](mailto:QUESTIONS@2020DIRECTINVEST.COM.AU) AND THE ANSWERS WILL APPEAR IN THE NEXT ISSUE OF AUSTRALIAN MEDICINE.

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