Value of Advice Awards 2010

A reluctant advice client

Michael Smith[1] had a negative experience with the financial planning industry in the 1980's and was extremely sceptical about financial advisers. He first approached Christopher Heppingstone of LifeTime Financial Group Pty Ltd[2] in 2002 seeking limited advice on a term deposit he held that had matured.

At the time, Michael was 56, divorced and with no dependants. He had built up a net worth of $1.5 million over the years, but had avoided holistic advice and was not convinced that investing outside of cash investments was the best option for his money. He was interested in reviewing his financial options, but was pessimistic about what could be achieved.

Christopher could see early on that there were many opportunities available to Michael that could improve his financial position and better prepare him for retirement. However, Christopher knew that if he was to help Michael with this, he would first have to earn his trust.

Building trust

"I knew from the outset that I'd only be able to proceed at a speed he was comfortable with, and that a 'change everything now' approach wouldn't work," explained Christopher. "Michael was still under the impression that, generally speaking, we were all cowboys and that we were not bound by regulatory bodies. It was clear that I needed to offer peace of mind before he proceeded with the advice process."

In their initial meeting, Christopher focused on building trust and educating Michael about the financial planning process. They spent close to two hours discussing asset classes, diversification, fees, and how Michael could use different strategies to complement his financial goals.

"At this stage of the appointment, Michael was slowly learning the importance of financial planning and how it could potentially help him. When I look back on the whole relationship, I think Michael thought I was going to flog him a managed fund and he would never see me again – but his mind set was slowly changing."

"After the two hours spent with Michael, I gave him material to take home and read through before we started with the advice process of financial planning." Christopher said.

Breaking down barriers

"In the second meeting, I remember Michael explaining to me that he had no idea where to start and he could now see the value of advice. This was the first stage of Michael's behaviour changing. He came to the realisation that he was mismanaging his finances and should review his options for his money."

However, although he was more informed about the advice process, there was still an element of cynicism present. "Michael was under the impression that once he signed on the dotted line he would never see me again," Christopher explained. "I instilled in him that I would send him regular emails and offer quarterly review meetings to keep up to date with him and make any changes to his financial plan."

Christopher took time to ensure Michael fully understood the cost of this ongoing advice and that there were no hidden surprises. "I gave him a breakdown of all the costs and explained that the financial plan would be the blueprint of my advice and fees. As Michael was initially sceptical that there were going to be hidden fees and charges, he liked the fact that he would know exactly what he was going to be charged.

Putting the plans in place

With this breakthrough, Christopher was able to start developing Michael's financial plan.

He asked Michael to set a number of objectives for the next few years. These included:

- be more tax efficient with his investments
- grow his super and investments so that he could retire comfortably at age 65 and continue to travel each year (estimated at $10,000 per trip each year)
- assess his insurance needs – as he was single he was unsure whether it was needed
- use gearing strategies to grow his investments.

To start with, Christopher looked at what he could do with Michael's current assets. He had two properties with no debt associated with them, so Christopher recommended he draw down $200,000 from them to invest in direct shares.

Christopher reviewed Michael's three existing superannuation funds and noticed that Michael was heavily exposed to infrastructure funds and private assets. He was also paying three sets of fees to three super funds, so he consolidated them to reduce Michael's costs and diversified his asset base to lower his investment risk.

Christopher also recommended that Michael salary sacrifice to his super to help him reduce his tax and accumulate wealth for his retirement.

Michael hadn't thought about protecting his income – at $143,500, it was a valuable asset. If he was unable to work due to a serious illness his financial plans would be severely impacted. Christopher set up income protection and trauma cover policies and made sure these were set up in the most tax efficient way possible.

With these base strategies in place, Michael followed Christopher's recommendations and agreed to meet on a quarterly basis over the next couple of years.

Gaining momentum

Each time they met Michael was gaining momentum and learning about different strategies. As their relationship grew stronger, so did Michael's faith in the knowledge and strategies Christopher provided.

By mid 2005, just three years into the plan, the value of Michael's plan was already clear. His super had increased from an initial balance of $120,000 to $358,784 as a result of his salary sacrifice strategies. He had reduced his tax liability substantially and the $200,000 he had drawn down from the equity in his property and directed to geared investments had increased to $339,073.

To further boost his super, Christopher recommended that Michael begin a transition to retirement (TTR) strategy. This involved increasing his salary sacrifice amounts and drawing a regular pension to supplement his income.

A year and a half later in January 2007, on Christopher's advice, Michael sold down the $200,000 gearing strategy which over a five year period had increased in value to $451,891. Christopher recalls the good timing of this decision, "This was quite timely as Michael was able to get out at the top of the market, take his profits and crystallise his gains."

Michael made a contribution of $221,000 of this gain into his super. He continued to salary sacrifice to super while supplementing his income with the TTR strategy, fully focusing on his goals for a comfortable retirement, while maximising the concessional tax environment of super.

Bright future

Since he started receiving advice more seven years ago, Michael's net worth has grown from $1.5 million to $2.6 million. He has achieved his goals and is now able to retire comfortably – quite an achievement considering he started out by only wanting limited advice.

"Whenever I speak to Michael I can have peace of mind knowing that the level of advice I have offered over the years has helped him be more tax efficient with his investments and achieve his ultimate goal of retiring."

Michael is now an advocate for financial advice and regularly refers colleagues to Christopher – quite a turnaround from how he felt about the advice industry before meeting him.

"In hindsight, if I had taken a 'change the world approach' with Michael I doubt I would have earned his trust. Michael has never lost control of his financial objectives and has trusted me over the past seven years to offer sound financial management. Michael now has trust and faith in the financial planning industry and the value of ongoing advice."

1 Names have been changed to protect the client's privacy.

2 LifeTime Financial Group Pty Ltd is an Authorised Representative of Financial Wisdom.

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