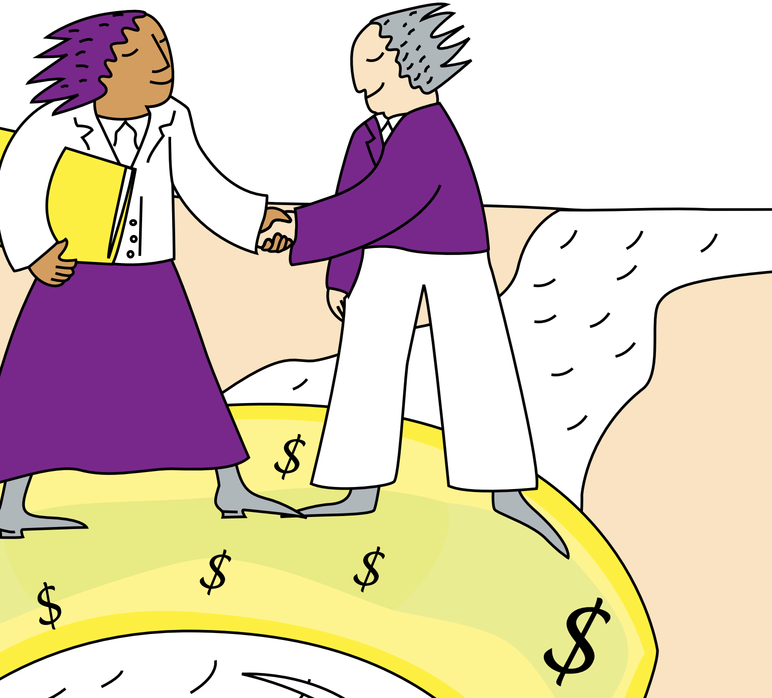
Australian Securities & Investments Commission

A **practical guide** to personal financial advice

Finding the right financial adviser and advice that works for you

Getting advice



About ASIC

The Australian Securities and Investments Commission (ASIC) regulates financial advice, financial products and company laws to protect you.

Our consumer website FIDO at **www.fido.gov.au** offers you free and impartial tips and safety checks about the financial products and services we regulate.

In this booklet

How can this booklet help you?

ASIC and the Financial Planning Association of Australia (FPA) want you to be well-informed and confident about getting financial advice. With this booklet, you'll be starting off on the right foot with tips about:

- deciding if you need personal advice
- finding the right adviser
- working effectively with your adviser
- getting advice that suits you.

You may find that not all the ideas in this booklet apply to your particular circumstances.

This booklet has been prepared with the FPA, representing most of Australia's licensed financial planners.

Information in this booklet is current at the date of publishing, May 2009.

Key tips for getting advice

- *Deal only with a licensed financial advisory business*
- *Take the time to find the best person for your needs*
- *Make sure the advice suits you and offers value for money*

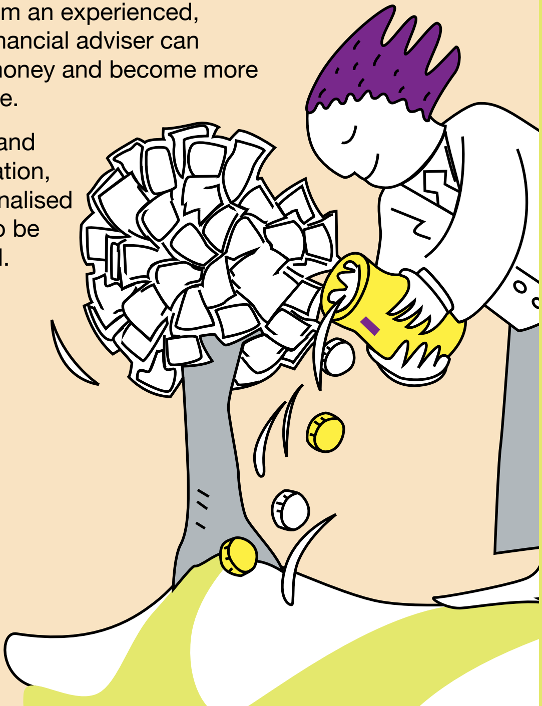
Essential facts about financial advice

What is personal financial advice?

Financial advice helps you make decisions about your money. Personal advice considers your own objectives, financial situation or needs, and then recommends strategies and one or more financial products to suit you.

Good advice from an experienced, well-informed financial adviser can help you save money and become more financially secure.

General advice and financial information, that's not personalised for you, can also be extremely useful.



Who can give you personal financial advice?

Generally, the only people permitted by law to give you personal financial advice are those who work for, or represent, a financial advisory business that holds an Australian financial services (AFS) licence.

Licensed advice covers superannuation, insurance, shares, managed funds as well as many basic banking products.

Under planned changes to the law, expected to commence from the second half of 2009, ASIC will be responsible for regulating credit products, as well as businesses that sell, arrange or advise on them.

An advisory business that gives personal advice must:

- give personal advice that suits you
- take legal responsibility for its staff and representatives
- act efficiently, honestly and fairly
- meet standards designed to protect you against something going wrong.

Do you need personal financial advice?

Personal advice can be valuable, but will take time to prepare and will cost you money. Not everybody needs personal advice. Many people handle their own finances successfully, including looking after their super, insurance and investments. You will have to put in some time and be willing to learn. There's a lot you can do to teach yourself about financial matters, see 'More help' on page 54.

Personal advice often helps most at turning points in your life. Some typical situations follow.

Life stage – Planning to retire

Advice you may need

Detailed advice about how to get the most income in retirement, without taking undue risks.

Benefits and cost of personal advice

Can save tax and make you eligible for valuable government benefits, including the age pension.

Depending on your circumstances, can be fairly costly. Check fees and any commissions that apply.

Life stage – Retrenchment

Advice you may need

Advice about what to do with your retrenchment payout, and whether to roll it over into super.

Benefits and cost of personal advice

Advice can avoid expensive mistakes.

Depending on your circumstances, can be fairly costly. Check fees and any commissions that apply.

May better suit people with larger payouts.

Life stage – Changed financial needs, for example:

- having children
- inheriting money
- paying off the mortgage at last
- separating from your partner.

Advice you may need

Managing your new situation, broad advice about suitable strategies. Possibly recommendations about what financial products to buy.

Benefits and cost of personal advice

Advice can help you take control and make the most of your money. It can help you make important changes to address your changed financial needs.

Depending on your circumstances, can be fairly costly. Check fees and any commissions that apply. Learning more about money and doing some of the basics yourself may be a less expensive option.

What's it going to cost?

Advisory businesses set their own fees, and can charge:

- a commission on products they sell
- a percentage of the assets they're looking after
- by the hour for the work they do.

You may be charged a combination of all these fees. Commissions and yearly percentage charges are very common.

You'll get a **financial services guide** that explains the adviser's fees. Be prepared to shop around and to ask advisers to explain the benefits you'll get for the money you'll pay. We'll say more about the importance of fees and commissions in 'Fees and charges' on page 19 and 'What's it all going to cost' on page 39.

You'll also pay fees to the company that issues the financial products you buy. These are set out in the **product disclosure statement**.

What advice do you want?

You're much more likely to get good advice if you prepare in advance. Take a close look at your financial situation, and think over what you want advice about.

ASIC's free consumer booklet *Your money* can help you make a start. Call Infoline on **1300 300 630** or go to **FIDO** (**www.fido.gov.au**) to get a copy.

Gather your personal information

Good personal advice builds on good personal information. The more your adviser understands about you, the better their advice should be.

Before seeing an adviser, collect this information:

- **What do you own and what do you owe?** Your assets include your home, super, car, shares or other investments and personal property. Your debts include mortgages, loans and outstanding credit card balances.
- **What are your income and expenses?** FIDO's Budget planner calculator can help you collect this information (**www.fido.gov.au/calculators**).
- **Do you have insurance?** What for and for how much?

Work out what you want

Make some notes about what you want before you start looking for an adviser. Your notes can help you choose and, later on, check that the advice will meet your needs (it's fine if you change your mind about some of these matters later).

What are your goals?

What sort of lifestyle are you looking for?

What are your priorities?

What do you want to achieve financially?

Who depends on you financially and what do you want to provide for them?

What do you want your adviser to do?

Give you an overall financial plan?

Advise you on a particular problem and compare various options?

Check you have not overlooked something important?

Just set things up for you, or help you in future as well?

Choosing your adviser

Choosing your adviser is an important personal matter. Do some research and aim to talk with a few advisers before you decide. Some will do a better job than others.

There are plenty of advisers to choose from. Look for someone who:

- will put your needs first
- works often with people in your situation
- will fit in with you personally.

Shopping around for an adviser may seem time-consuming or feel awkward, but it's much better to shop around now than have a bad relationship later.

How to find some names

Talk to your family, friends or colleagues or anyone who's seen a financial adviser. Find out about their experiences and whether they have been happy with their advice. Ask about the good points and the pitfalls. You could also ask your other professional advisers for suggestions.

For members of the Financial Planning Association in your area, refer to the FPA's 'Find a Planner' service at **www.fpa.asn.au** or call **1800 626 393**.

Only talk to advisers who are employed by or who are authorised to represent a licensed advisory business. ASIC licences and regulates the financial advisory industry so that it operates efficiently, honestly and fairly.

You can check licence details, or see if we've banned someone from advising, for free through our consumer website **FIDO** (**www.fido.gov.au**) or by phoning Infoline on **1300 300 630**.

Licensing gives you more protection if something goes wrong, including the right to a free and impartial hearing of consumer disputes.

Choosing an advisory business

	Advisory business A	Advisory business B	Advisory business C
Name of advisory business			
Name of AFS licence holder if different			
Owned by or associated with any other companies? If yes, which?	Yes/No	Yes/No	Yes/No
Services offered			
Seems relevant to your needs?	Yes/No	Yes/No	Yes/No
Products restricted in any way? If yes, how? For example, they recommend only their own brand or their parent company's, or limited range using an approved product list?	Yes/No	Yes/No	Yes/No
Fees and charges			
Initial advice fee?	Yes/No	Yes/No	Yes/No
How are advisers paid? For example, salary only, salary plus bonus on sales, commission only			

Start with the financial services guide

Phone each business and ask them to send you their **financial services guide** which gives you the key information you will need to help you decide if you wish to use their services such as their fees, how to make a complaint and the business's insurance or other compensation arrangements. All licensed advisers must produce one. If they don't send it, cross them off your list straight away.

Use our 'Choosing an advisory business' worksheet (on pages 14–16) to collect key information about each adviser, so you can easily compare their services and costs. If you can't find the answer in the **financial services guide**, make a quick phone call to find out.

Who owns the business?

Ownership of the business can affect the services and products you're offered. For example, an advisory business may be allowed to offer only the parent company's products.

Many advisory businesses are owned by major financial institutions like banks, fund managers and life insurance companies. Even if they operate under a different name, the **financial services guide** will tell you if they're owned or associated with other companies. Only a few financial advisory companies are independently owned.

NOTE

Product restrictions can be especially important with super, because the adviser may not give advice about your current fund. If your potential adviser is not allowed to give full advice about your fund, it may be difficult to advise you.

For example, many advisers don't advise about industry funds, see our free booklet Super decisions.

*Call Infoline on **1300 300 630** or go to FIDO (**www.fido.gov.au**) to get a copy.*

Services and products offered

Check if the services offered cover your needs. For example, some advisory businesses may specialise in retirement planning or wealth accumulation (see 'Questions: Choosing your financial adviser' on pages 22–25).

Product restrictions can affect you. We've already mentioned that some businesses are limited to products issued by themselves or their parent companies. Other businesses may offer a wider selection, but may not cover the whole market. Some businesses may limit the number and range of products that an adviser can recommend to what's called an 'approved product list'.

Fees and charges

You will often pay a once-off fee for getting advice.

On top of that fee, most advisers get paid commissions and bonuses on financial products you buy. Often they could earn more if you buy a particular product compared with another that could be just as good or even better.

This can set a up a conflict of interest between what's good for your adviser and what's good for you (the law deals with this potential problem by requiring advisers to manage conflicts and also to tell you about all commissions).

Good advisers put your interests first anyway, but bad advisers may not. We'll come back to this issue when we discuss the products your adviser recommends, see 'What's it all going to cost' on page 39.

Setting up the first meeting

Contact the business and make an appointment to talk with one of their advisers. Ask to speak with an adviser, not a junior employee, and say you'll need about 30 minutes.

Say that you're looking for an adviser who would best suit you, and you don't want any advice or to fill in any forms or make any commitments at this stage.

For the first meeting, you'll need:

- your notes on your financial goals and what you want from the adviser, and some brief information about your financial and personal situation. (This will help the adviser explain what they can do for you. You won't need all your paperwork now, because this meeting is intended for you to get to know more about the adviser, not for the adviser to find out all about you.)
- a copy of the questions we suggest you ask ('Questions: Choosing your financial adviser' on pages 22–25)
- some notepaper to write down the answers.

What to listen for

A good first meeting will involve each of you sharing the conversation.

Begin by saying you are looking for an adviser, and you feel they may be able to help you, but you won't be making up your mind until you've seen 2 or 3 more.

Say that you may make some notes to help you remember things. Invite the adviser to give you anything in writing that will help answer your questions.

You should get the opportunity to hear about the adviser's experience, the kind of people they advise, the kind of financial products they advise on, and their qualifications.

Pay attention to important clues about the adviser. Do they:

- make you feel comfortable about asking questions?
- encourage you to take your time?
- want to understand your situation thoroughly before giving any advice?

Being talked at, put under pressure or told there's only one right way to do things is not a good sign. You're looking for an adviser, not a salesperson.

Questions to ask

Below and on pages 24–25 are some suggested questions to keep the conversation going, with some comments about what to listen for. Choose one or two from each section, as you may not have time to ask them all.

Get the adviser to do most of the talking but keep them to the point. Ask open questions like 'What experience do you have?', and avoid questions that just have a yes or no answer. Ask about anything you feel unsure of.

How to decide

After you've met all your possible advisers, compare how each adviser answered your questions. Note each adviser's strong and weak points. Score each adviser from 1 to 5 against each heading on our list of 'What you need'.

Give a score for how you feel overall about being free to ask questions and whether you got a clear answer. Feeling pressured or uneasy can be warning signs that an adviser won't work out for you. See who gets the highest score. Remember you're comparing advisers, not comparing their advice.

Questions: Choosing your financial adviser

What you need **Personal experience in successfully advising people like you**	*What to listen for*
How long have you been giving financial advice?	The more experience, the better. If less than 2 years' experience, ask: *'Will anyone else in the business take a look at the advice you give me?'*
What kind of clients do you mostly see and what are your clients mostly trying to achieve?	People with concerns and goals like yours, for example, taxation, super, retirement planning or social security
Do you take a special interest in any particular types of financial products?	Experience in the products you're interested in, for example, insurance, super, retirement income products, shares, managed investments
Are there any financial products you don't advise on?	If yes, do these restrictions affect you?

What you need **Someone who puts their client's needs first**	*What to listen for*
How do you go about understanding a new client?	Aims to get a full picture of your circumstances and needs. Will ask you a lot of questions. Will probably need a separate appointment to do this
How do you deal with a client who may have conflicting financial objectives?	Will explain and discuss choices with you. Then does research and prepares advice for you to take away and consider

What you need **Reasonable fees**	*What to listen for*
How much is this advice likely to cost?	Clear explanation of fees and commissions the adviser receives, plus general explanation about any likely product fees

What you need **High professional standards**	*What to listen for*
How do you keep up to date with everything that's happening?	Attends courses and training run by universities, Kaplan Professional, FPA. (Not just in-house marketing seminars.)
Are you a member of a professional association?	Member of FPA, stockbrokers' professional body, Kaplan Professional, etc. FPA members are required to abide by the FPA's enforceable Code of Ethics and Rules of Professional Conduct

What you need **Qualifications relevant to advising**	*What to listen for*
What qualifications do you have?	Qualifications in finance, economics, accounting, or financial planning, for example 'Certified Financial Planner'

Working with an adviser

After you have chosen an adviser, make an appointment to get your advice. This may happen in stages.

For example, the adviser will first collect detailed information about you and then hold another meeting to explain the advice and hand over important documents.

You may also receive a contract or terms of engagement setting out the exact services supplied and how and when you must pay various fees and charges.

What your adviser needs to know

Give your adviser accurate information. What's needed will depend on what advice you're asking for. Make sure your adviser clearly understands what you want advice about, and what you're aiming for.

Expect to tell your adviser:

- your age and any major health problems
- who depends on you financially or for other support
- your income and expenses and how these may change, for example, family plans, education expenses, travel, house renovations or new car
- your assets and liabilities, including your super, insurance, tax, income and what you might inherit.

For retirement planning advice, expect to answer some very detailed questions, because your adviser will have to think about tax and social security issues, as well as your likely retirement needs.

If your adviser doesn't ask for this information, consider looking for a better one because you may end up with poor advice.

If you can give only limited or incomplete information, tell your adviser. Your adviser needs to know if they have only part of the picture. They will warn you that their advice will be based only on what you have told them.

Discuss the risks you're willing to take

At an early stage many advisers will ask you about your attitude to risk, especially if you're likely to be making some investments.

Investment advice aims to strike a balance between earning enough money to meet your needs and avoiding the risk of unacceptable losses.

Advice that involves more risk than you're comfortable with won't work. If you're more conservative, it's often better to explore alternatives such as working a little longer or accepting a less expensive lifestyle.

Make sure you and your adviser agree on what's meant by risk labels like 'conservative', 'moderate' or 'aggressive'.

All investments have risks, see 'Investment risks and returns' on page 43, or get the FPA's free booklet *The Trade Off: Understanding Investment Risk*.

IMPORTANT

Take your documents home to read before you agree to anything. Personal advice can often be detailed, and you may receive a fair bit of paperwork to consider. Be prepared to set some time aside to go through your advice carefully. You'll probably find it easier to do this in stages, beginning with the overall strategy and then moving on to the detail.

When you're ready to look at the details, use the 'Your advice checklist' on pages 31–32 to help you find important information.

Receiving your advice

Often your adviser will explain the advice face to face and then hand over various documents.

The documents must include:

- a **statement of advice** that sets out what your adviser is recommending and why they think it's suitable for you. (However they only need to give you a **record of advice** if there is no product recommendation, or your adviser is not receiving any remuneration for giving you advice, or the amount to which the advice relates is not substantial.)
- **product disclosure statements** that describe each recommended product.

Does the advice meet your needs?

Understanding your statement of advice

A good **statement of advice** will be clear, concise and effective. You're paying for the advice, so it must be clear to you. Only follow advice that you can understand. Jot down any questions that cross your mind as you read the advice, to discuss with your adviser later.

Here's a checklist of the most important things that a good **statement of advice** will tell you or help you do. If you can't find or understand the information, ask your adviser.

Your advice checklist

The advice

Information to look for

- A document marked as a **statement of advice** or **record of advice**.
- Who's covered by the advice: You, your partner, or anyone else?
- The extent of the advice: All or just some of the issues you asked about?

Your needs and circumstances

Information to look for

- A correct summary of your financial and personal situation. Check for any mistakes or anything important left out.

What's recommended and why

Information to look for

- What financial strategies and products has your adviser recommended?
- Can you see how each strategy and each product will help you achieve what you want?
- Why is each preferred over other reasonable possibilities?

Your advice checklist *(cont)*

What's recommended and why *(cont)*

Information to look for

What risks and uncertainties are associated with the advice?

What conflicts of interest may influence the advice, for example, adviser benefits?

Is a recommended product on the advisory business's approved product list?

What you'll pay and what for

Information to look for

Costs you'll pay for the products recommended, now and in the future

Costs of switching products, including charges or loss of benefits, for example, if you switch your super fund you might lose life insurance benefits

Costs of the advice, now and in the future

Whether your adviser will review your situation in future

How you act on the advice

Information to look for

Steps you must take to carry out the advice

Do the general recommendations suit you?

Good advice makes sense and fits well with your own needs and personal preferences.

See if you can explain the general recommendations to yourself simply in your own words. Or try explaining them to a partner or friend. If you understand them, and they feel right, then you can start taking a closer look. If you feel uncomfortable or feel in the dark, there's not much point drowning in all the details. Sort things out with your adviser.

Here are comments and issues to consider about some common general recommendations.

Saving more and paying off debts

Comments and issues to consider

Often the most sensible step. Make sure savings targets are realistic so that you can stick to them. Will you have spare cash for an emergency?

Getting tax and government benefits

Comments and issues to consider

It's sensible to avoid paying unnecessary tax and to make sure you receive the government benefits you're entitled to. However, advice that focuses too narrowly on tax or social security arrangements above other financial issues can prove expensive and risky.

Common general recommendations *(cont)*

Topping up your super

Comments and issues to consider

Putting more into super is often an excellent option, although you generally cannot get your money out of super until you reach your 'preservation age', see our booklet *Super decisions*.

Meeting short and long term needs

Comments and issues to consider

Good advice considers both your immediate and long-term needs. Generally, cash is fine for the short-term, but won't build wealth. Shares and property are usually fine if you hold them for five years or more, but you could lose money if you give yourself only a year or two.

Spreading your risk (or 'diversification')

Comments and issues to consider

Investing small amounts regularly can reduce the risk of investing everything just before the market drops. Spreading your money across different kinds of investments (for example, shares, property, and cash), and even different fund managers can reduce your risk of losing heavily on a single choice.

Switching out of one asset or product for another

Comments and issues to consider

Getting rid of poorly performing products or assets can make sense, especially if performance has been poor for five years or more. Switching just to catch the latest wave can often be a mistake. It may involve extra fees. Ask your adviser to spell out the reasons in full.

Borrowing to invest

Comments and issues to consider

This is a riskier strategy to build wealth more quickly. The advice should explain why this risk is necessary, and discuss alternatives. It should discuss risks like rising interest rates, losing your job or income, and how you pay back the loan. 'Margin' loans involve additional risks that should be explained.

What products are recommended?

After you've grasped the general recommendations, take an overall look at the recommended financial products. These may include investments, retirement income products, super and insurance.

Many products could suit you, and even experts may not keep track of them all. Following are some things to consider about the more commonly recommended products. ASIC's consumer website, **FIDO** offers calculators for a number of these products (**www.fido.gov.au/calculators**).

Superannuation

Things to consider

Super's an excellent way to invest for your retirement, but you generally can't get the money until then.

Compare retirement and insurance benefits, features and fees carefully, as funds can differ widely.

Keep fees and charges down. If you pay an extra 1% in fees each year, you could lose around 20% of your retirement benefit over 30 years*. There may be lower cost funds that could suit you better.

Switching funds can involve extra fees and affect any insurance cover you have through your super, so get your adviser to check this very carefully.

* Using FIDO's Super calculator (**www.fido.gov.au/calculators**).

Commonly recommended products *(cont)*

Insurance

Things to consider

The right life insurance can protect you or people who depend on you from serious financial risks such as your disability, illness or death.

Make sure you've told your adviser and insurer everything that might affect an insurer's decision to cover you. If you leave something out, the insurer may be entitled to reduce or refuse a claim or cancel your policy.

Investments outside super

Things to consider

Investing in products outside super means you can get your money more readily than if you put it in super. But you'll miss out on tax concessions that apply to super and which would usually let you save more over the long term.

Commonly recommended products *(cont)*

Retirement income products

Things to consider

Buying retirement products that keep your money inside super can save tax and give you access to government benefits.

Keep enough money outside super for emergencies, because large withdrawals from retirement income products may be difficult or may complicate your tax or social security arrangements.

Fees for these products will reduce your retirement funds so make sure you'll be getting value for money. FIDO's Account-based pension calculator lets you compare products and check the impact of fees (**www.fido.gov.au/calculators**).

You can use FIDO's Retirement planner calculator to work out how much you could save in your super until you retire, and how much you can draw out of your super in retirement.

More complex products

Things to consider

Some products may offer special tax features, more unusual investments or extra personal control and flexibility (for example, wrap accounts).

Special features often cost more, so consider if you'll really use them.

In many cases, your adviser will receive a commission for selling you a financial product. They may also receive other side benefits. You have a right to know about these benefits because they could sway your adviser's judgement.

Even if the product's suitable, there could be other less expensive alternatives available that may be just as good or even better. Ask your adviser to explain the differences in the products and to provide written reasons why the product they recommend is better for you.

If you want to shop around, you can find independent information about financial products to help you compare them. Newspapers, personal finance magazines and websites often carry research reports about various super and managed funds. Consumer magazines, like *CHOICE*, also compare financial products.

What's it all going to cost?

Fees and charges can cost you more than you might first think, and can be complicated to work out. The cost of the advice and the cost of the financial products can often get blurred together.

Get your adviser to write down:

- the **total costs in dollars** for the advice **AND** the recommended products in year 1
- an estimate of your **total** ongoing costs in year 2.

The fees your adviser receives will appear in your **statement of advice**. Usually you can choose to pay fees in three ways:

1. Directly out your own pocket, for example, to prepare a financial plan. This is generally a once-off fee (known as fee-for-service).
2. Indirectly through commissions paid out of the money you invest or spend on financial products the adviser recommends. This may include both once-off and ongoing fees charged every year you hold the product.
3. A combination of fee-for-service and commission.

You can negotiate with your adviser about your preferred method of payment and the costs involved, including commissions, and it's well worthwhile to do so.

You'll also pay fees to the company that issues the financial products you buy. Fees on investment products (especially long term investments such as super) can make a big difference to your savings over time.

FIDO's Managed funds and Super calculators let you compare funds and check the impact of fees (**www.fido.gov.au/calculators**).

The fees for each product are set out in the **product disclosure statement**. Some advisory businesses may pay back or discount some fees, but will offer no advice when they do this.

An example of how fees work

Alex has inherited $100,000 and wants advice on how to look after it. The adviser recommends investing in a sharemarket fund, managed by the adviser's parent company. Alex also gets some financial advice about topping up super and insurance.

The adviser offers to monitor Alex's investment and keep a general eye on things at an extra cost. Alex agrees to this.

Example: Alex's costs in year 1

Total costs to Alex	**$5,500**
What the adviser receives	$4,100
• Alex pays the adviser $1,500 for the once-off fee to prepare a financial plan	
• The fund manager pays the adviser $2,600 out of Alex's account	
What the fund manager gets paid	$1,400
• The fund manager takes this out of Alex's account	

* Based on $100,000 invested with 2% contribution fee, 2% management fee (including a 0.6% trailing commission to the adviser), a 0.4% adviser service fee, and the fund earning 8% each year before fees. Adviser and fund manager receipts are broad estimates only.

This is going to cost Alex $5,500 in year 1, and around $2,400 each year from year 2 onwards. Alex needs to decide if the advice and the fund are worth the cost.

Here's how the payments could get shared between the adviser and the fund manager.

Example: Alex's estimated costs each year from year 2

Total costs to Alex	**$2,400+**
What the adviser receives	$1,000+
• The fund manager pays this to the adviser out of Alex's account	
What the fund manager gets paid	$1,400+
• The fund manager takes this out of Alex's account	

Our Super calculator and Managed funds calculator on the FIDO website (**www.fido.gov.au/calculators**) can help you to compare fees charged, based on your own circumstances.

Investment risks and returns

Good advice explains the risks of any recommended financial products, such as possible loss of capital or lower earnings.

Different types of investments earn different rates of return, generally reflecting the level of risk. Properly managed, risks can increase returns. But if the risk is going to keep you awake at night, there's no point getting involved.

The table below shows a range of returns that you might reasonably expect from different investment strategies over the long term.

However, each year your fund may perform better or worse than these averages, as markets move up and down. Fees and taxes will also reduce these returns.

Investment strategy	What it usually means		Expected return BEFORE you pay fees and taxes*
Growth	Invests 70–80% in shares or property.	Aims for higher returns over the long term and so risks higher losses in bad years.	8–9%
Balanced	Invests 60–70% in shares or property, the rest in fixed interest and cash.	Aims for reasonable returns, but less than growth funds in order to reduce risk of losses in bad years.	7.5–8.5%
Capital stable	Invests 60–70% in fixed interest and cash, although some invested in shares or property.	Aims to reduce risk of loss and therefore accepts a lower return over the long term.	5.5–6.5%
Cash	Invests 100% in cash.	Very low risk of losing your capital with a lower return over the long term than capital stable funds.	4.5–5.5%

ASIC obtained professional advice about these expected rates of return from licensed independent actuaries. The actuaries consulted a variety of sources including assumptions used by industry groups, leading asset consultants and publicly available survey data about managed funds investment strategies. These rates are just reasonable long-term estimates, not guarantees.

IMPORTANT

Take extreme care with high rates of return, say more than 1.5%–2% per year above the average return for the type of asset in which you invest. If your adviser suggests you can expect high returns, get a written explanation with the risks fully explained. If it sounds too good to be true, it's probably best to say no.

Some investments, that appear to offer very modest returns, can be extremely risky. That's why it's important to consider more than just the returns when investing in something.

Switching products

If your adviser recommends changing products you already hold, your **statement of advice** must explain why. Read the adviser's reasons carefully. Most advisers will have good reasons that make sense to you. But a few advisers might change your products just to earn extra fees and commissions.

Some investments impose termination fees or penalties if you decide to stop earlier than expected. Make sure your adviser checks and explains these.

Check the fine print

Make sure you've received a **product disclosure statement** or **prospectus** for each financial product. (You don't get these documents for shares in a company already listed on the ASX, but read a copy of the company's latest annual report and check for recent company announcements through **www.asx.com.au**.)

These documents set out what you need to know to make an informed decision, including benefits, risks and fees.

Make sure you're getting value for money. Our Super calculator and Managed funds calculator on the FIDO website (**www.fido.gov.au/calculators**) can help you work this out.

Read the documents your adviser gives you. If you don't understand something, ask your adviser to explain, or ask a solicitor or accountant. Always find out what the document really means before you sign. It's your money. Your adviser gives you advice. You make the decisions. Good advisers want you to ask questions now, not become an unhappy customer later.

Negotiate costs

Some advisers may agree to reduce fees on various products, especially if you ask.

Check if your costs include a review of your investments from time to time or if you must pay for that service separately.

Carrying out the advice

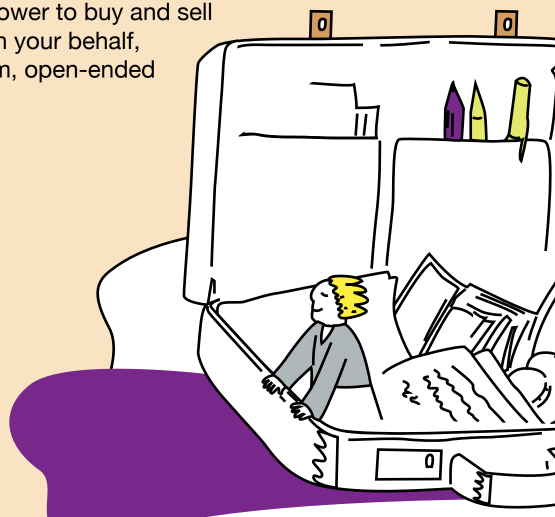
Cooling off

If you purchase managed funds, life insurance, super or general insurance, you generally get a 14 day 'cooling off' period when you can change your mind and get your money back. (There are some exceptions, including buying shares.)

Keep control and keep your paperwork

Keep control over your money and investments. If you are sick or going away, it's best to authorise an independent person, a solicitor or trustee to act for you and check what your adviser is doing.

If you have particular reasons to give your adviser power to buy and sell investments on your behalf, avoid long term, open-ended arrangements.



Always get receipts. Keep all your paperwork about your advice and investments yourself so you can keep track of your money and check your regular statements for possible mistakes. If you do not get a receipt or statement from the company in which you invested your money within four to five weeks, contact them without delay.

Check how often you will get statements and reports about your investments. Usually you will receive information at least twice a year.

Making payments

If you are making electronic payments to a company you're investing in (for example, making payments using internet banking), it's really important to make sure that you:

- Check and double-check the account number or other electronic payment details of the company you want to pay, which should be in their **product disclosure statement** or **prospectus**. Getting their account number right is very important.
- Include a reference or description that will allow the company to recognise your payment.

IMPORTANT

*Make cheques or money orders payable only to the company named in the **prospectus** or **product disclosure statement**, adding the words 'on account of [your name]'. This helps the company credit your account.*

NEVER *make a cheque for an investment payable to your adviser. (Reputable advisers won't ask you to do this.)*

Protect yourself from fraud

Fraud happens, although not very often. Act immediately if something does not add up or look right. Contact your adviser and if the matter is not sorted out quickly, make a formal complaint. If you suspect fraud or dishonesty, contact ASIC as well.

Some investors open themselves up to fraud through illegal or secret investments that they're trying to hide – for example, from the Australian Tax Office. Contact ASIC if you are ever offered these 'investments'.

Review your plans

Review your plan at least once a year to ensure it is still right for you. Keep an eye on your investments. Your circumstances may change and the market value of your investments will certainly change. If you have a long-term plan, don't panic about small changes in the market. On the other hand, you should talk to your adviser if major changes occur.

Many advisers can review your plan and investments for you. Check how much it costs in dollars and what you get for your money.

Making a complaint

If you're unhappy with the advice you have received, you can complain. You should take your complaint up directly with the advisory business who must respond to your concerns.

By law, all advisory businesses must tell you how they handle complaints. They must have a proper internal complaints process, and must also be a member of an independent dispute resolution scheme (such as the Financial Ombudsman Service) to which you can complain if you remain dissatisfied.

For more information on how to make a complaint, you can download a free copy of ASIC's booklet *You can complain* from **www.fido.gov.au/complain** or call ASIC's Infoline **1300 300 630**.

If your complaint is upheld

Advisory businesses must have compensation arrangements in place that mean they can pay claims upheld against them (for example, if the business's internal dispute resolution process or an independent dispute resolution scheme makes a decision in your favour).

Professional indemnity insurance (PI insurance) is the main way advisory businesses ensure they can pay claims.

Not all advisory businesses have to have PI insurance, but if they don't they must have alternative arrangements approved by ASIC. For example, an industry sector may apply to ASIC to establish a joint compensation fund.

Stan's story

Stan lost money after getting poor financial advice.

He made a complaint to the Financial Ombudsman Service (FOS), which, after looking into Stan's complaint, decided in his favour.

The scheme ordered the advisory business to pay Stan $22,000 compensation. The adviser told their insurer about the claim.

Because the claim was covered by the business's PI insurance policy, the insurer paid the business, which then paid Stan.

How does PI insurance work?

PI insurance provides cover for your advisory business, to help them pay you if you make a claim against them that is upheld. PI insurance must cover awards or decisions made by FOS. PI insurance also has to at least cover claims for financial loss that are caused by breaches of the law, such as fraud, dishonesty and negligence.

PI insurance is not a guarantee that you will get compensation for every claim that you make. Decisions about complaints and compensation are made through the complaints handling process, either by the business itself or by FOS. The advisory business's PI insurance policy may include excesses and exclusions that might mean the insurance company won't pay every claim (for example there may be a limit on the total amount of cover provided). This may affect the advisory business's ability to pay your compensation claim.

It is also important to understand that PI insurance covers your advisory business, not you as their customer. You can't access the insurance, but the policy will help your adviser pay you any compensation they owe you.

When won't PI insurance cover claims?

PI insurance does not cover claims or losses arising from investment performance, for example, if your investment doesn't perform as well as you expected.

Diane's story

Diane made a number of investments while the market was performing strongly. However, when the market turned down, her investments fell in value and she made a complaint to her advisory business and then to the Financial Ombudsman Service.

Her complaint was not decided in her favour, because the advice was appropriate to Diane's situation at the time. No one can guarantee the performance of an investment.

Some advisers work with an approved product list (see 'Services and products offered' on page 18). If your adviser uses an approved product list, their PI insurance may not cover claims about a product that is not on their approved product list. (Before acting on any advice you receive, you should check with your adviser that the products they recommend are on their approved product list, if they have one). PI insurance is also unlikely to cover claims if the business became insolvent before you made your claim.

More help...

Australian Securities and Investments Commission (ASIC)

Free financial tips and safety checks, including investment calculators, information about shares, managed funds and retirement income products, and for help on suspected inadequate, misleading or deceptive information or misconduct, fraud or dishonesty.

Consumer website: **www.fido.gov.au**
Phone: **1300 300 630**

Financial Planning Association of Australia Ltd (FPA)

To find a financial adviser, check if your adviser is a member of the FPA, discuss your adviser's conduct or quality of service or to get a free brochure on financial planning.

Website **www.fpa.asn.au** Phone: **1800 626 393**

Financial Ombudsman Service (FOS)

For complaints about financial advisers **after** you have tried to sort things out through a formal complaint to the business itself. The Financial Industry Complaints Service (FICS) is part of FOS.

Website: **www.fos.org.au** Phone: **1300 780 808**

Centrelink

Financial seminars, for people of any age about personal finance, retirement planning, and for people facing redundancy.

Free face-to-face financial interviews if you're facing redundancy.

Website: **www.centrelink.gov.au** Phone: **13 63 57**

Commonwealth benefits and what rules apply.
Phone: **13 23 00**

CHOICE

Free and some pay-to-view website information, *CHOICE* magazine by subscription and books for sale.

Website: **www.choice.com.au** Phone: **1800 069 552**

National Information Centre on Retirement Investments Inc (NICRI)

Free, confidential information over the phone and publications.

Website: **www.nicri.org.au** Phone: **1800 020 110**

Australian Securities Exchange Ltd (ASX)

To find a stockbroker, find out about ASX investment courses and seminars and ask about shares, listed securities and listed company announcements.

Website: **www.asx.com.au** Phone: **1300 300 279**

www.fido.gov.au
or phone ASIC's Infoline on
1300 300 630

The Australian Securities and Investments Commission's website for consumers and investors, **FIDO**, offers you financial tips and safety checks.

Stay in touch with a monthly email newsletter from FIDO. You can subscribe at **www.fido.gov.au** or by phoning **1300 300 630**.

Contact the Financial Planning Association of Australia Ltd by visiting **www.fpa.asn.au** or by phoning **1800 626 393**.

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