

A decade on from the GFC - the future of Financial Advice



As we near a decade on from the emergence, evolution and consequent fallout that is known as the Global Financial Crisis we have seen a paradigm shift across the entire sector of “financial services”. In almost every aspect, from conduct and service through to professionalism and transparency, significant reform has occurred. So we ask ourselves what is financial planning in this post GFC world and is it different today..?

To decipher this we probably need to momentarily step back in time in order to understand what financial planning was before the GFC.

Financial planners, often perceived as only accessible to those with wealth in the first place, possibly because most planners indeed pursued and prioritised high net worth individuals, could be considered product driven and primarily focused on a “return on investment” on a transactional basis. This in part was due to the way clients, again particularly high net worth clients, engaged with financial planners and articulated their expectations, often valuing or prioritising a planner that had access to the “latest and greatest” investment opportunity or one that would “promise” superior returns on investments.

This environment of promise and expectation became defining and repetitive, on one side planners were seen as agents or “salesmen” of financial products, BDM’s of investment funds and conduits of capital by the financial industry and similarly on the other side by clients as gate keepers to new and exciting investment products and genies of wealth and prosperity delivering solid, and expected, returns on investment.

Then, seemingly almost suddenly, we were in the throgs of a growing financial crisis and whilst the cause of the GFC was complex, primarily driven by those at the apex of the financial sector and ostensibly originating in foreign economies, the universal structure of the modern world economy meant that it developed into a truly “global” crisis that affected established economies throughout the world.

The consequences were rapid declines in the value of stock markets, liquidity failures affecting retail banks and investment funds, significant declines in property values and collapses of business that spiralled into rising unemployment, when combined with excess debt lead to defaults on loans that further undermined the integrity of financial institutions that further fuelled and contributed to the depth and longevity of the crisis, which officially lasted for four years and devalued global consumer wealth by some trillions over this period.

The causes of this period of economic history were, as we touched on a moment ago, complex and convoluted, but in essence primarily facilitated by those in the upper echelons of Government policy and the financial industry in America, which then fuelled a housing boom and subsequent credit demand, which in turn created new financial products and derivatives to be sold as investments around the world, then in order to meet the increasing demand for these investments lending policy standards declined, sales practices became more aggressive and predatory until it reached a critical credit bubble and subsequent collapse.

The ensuing commissions of inquiry that were undertaken by established economies the world over all seemed to arrive at comparable findings and an analogous theme of behaviour, a cascading failure of federal governance and policy, corporate governance and oversight, reckless and predatory behaviour all resulting in a systemic failure of ethics and accountability at all levels of the financial services sector. The nature and magnitude of the GFC meant these inquiries purview was vast, dissecting the industry at all levels to determine all the contributors.

So, why this morose trip down memory lane of a period most of us have moved on from..?

Well, we're told, amongst that agglomeration of cascading failure, financial planners made their contribution.

It would certainly be unfair to suggest that financial planners were the catalyst of these events, in fact most themselves were victims of the "system" and promoted these products and investments to their clients in good faith based on many factors, not least of all the façade of quality and legitimacy of these investments validated by the major rating agencies.

Notwithstanding this however, it was concluded that the financial planning sector was focused on financial products based around transactional investments, with little or no regard to specific client circumstances, and their remuneration more often linked to the performance of these products entrenching their focus on particular products only further.

As a result of the plethora of inquiry and subsequent recommendations mechanisms were introduced to avoid a repeat of such an event, from liquidity and capital requirements and regulatory oversight on financial instruments at a macro level through to educational, qualification and conduct requirements aimed at individuals within the financial services industry, enforced from legislative changes to industry specific governing bodies.

The "official" findings and recommendations seem obvious in hindsight, focus should be, and needs to be, about individuals, clients, the person receiving advice for which a financial plan is being considered is paramount, not the financial entities and their products.

At IQ Financial Planning this "service ethos" is etched in our DNA.

Our genesis being from the beginning of this period our very creation was based on the ideology that financial services and the way in which it was delivered had to change.

Service is one of the fundamental pillars IQ Financial Planning is built on, and more.

Financial planning at its core is simply the preparation, planning and strategy toward providing for ones wellbeing and ability to meet their current and future requirements.

In fact, scripture of ancient origins depicts the notion of planning for ones welfare by way of trading commodities and land for the provision of food and shelter and preparing for impending winters through clothing and crops, effectively accumulating “wealth” by accruing resources such as land, cattle, water etc.

Whilst financial planning in today’s modern era would still embody the fundamental principles of “wealth” from our ancient origins, which can still be measured by such resources as land, housing, water and crops the complexities and density of civilisation in today’s financial system needs to recognise so many more tangibles and intangibles as measures of “wealth”.

Happiness, health, time, knowledge as well as an increased desire for material possessions like jet skis, boats, holiday homes or the like that fulfil a sense of wealth and wellbeing in this day and age are all considerations of the client and financial planner of today.

The irony of this is that in a post GFC environment, whilst the expectations and requirements of a client’s engagement with their financial planner has grown, the authority and scope of the planners role has in fact become much more besieged by compliance and scrutiny, with even the conversations often requiring tactical disclaimer, and compounding the irony is the need and role of a financial planner today is arguably more relevant than ever as people not only either continue to rebuild following the GFC, they are more aware than ever of the possibility of loss, the necessity for proactive planning and protection for their futures.

Fortunately for IQ Financial Planning, part of the award winning IQ Capital Group, and for thousands of our clients, this service expectation is not only met but exceeded as are our compliance obligations with an impeccable record within the industry.

As mentioned, service is one of the fundamental pillars of our philosophy, but more than that is an intrinsic understanding of the financial services sector and the requirements of our clients.

IQ Capital Group understood at its inception that the future of financial advice had to change, and in order for clients to navigate their way forward in this complex environment a truly holistic approach that encompassed all disciplines within the financial services landscape was absolutely critical to our client’s success.

Whilst clients were seeking their advice from numerous sources and professionals, all with alternate ideas and influencing variables, most often contradictory or adversely affecting the advice of another there was little chance the clients’ needs and objectives could remain the focus, let alone converge to a successful conclusion.

The ecosystem in which IQ Financial Planning exists is structured specifically so there is overarching guidance ensuring there is a consistent and holistic approach to the client’s strategy, a framework in which the clients goals and objectives remain the focus of all disciplines and professionals that are required to constitute a successful outcome.

IQ Financial Planning within this environment is able to provide a dynamic, cohesive approach to understanding client expectations, delivering on the needs and requirements whereby appropriately qualified advice, alternate opinions or peer introductions are in the next office or across the hall, where the team of professionals required to implement and deliver on the clients strategy can sit down in the boardroom and discuss the clients service needs and priorities of the day at any given time.

In meeting both the traditional and contemporary expectations of clients we understand the expectation of not only planning for the tangible components of your strategy but managing the intangible as well, engaging with you and truly establishing what “wealth” means to you. We pride ourselves on interpersonal qualities that allow us to genuinely discuss with you what you want to achieve, why and for what purpose.

IQ Financial Planning’s engagement with its clients would encompass a broad range of topics through a truly collaborative conversation during which we encourage an insightful and probing exchange to arrive at an educated perspective where we collectively understand the position and circumstances of the day, the priorities and values of each individual and the direction and outcome desired.

We assist our clients across a diverse scope of areas, topics inclusively always discussed would be matters of superannuation, tax and insurance among others.

What is the optimal level of superannuation contributions relative to your current circumstances, the most appropriate fund in which you should be investing and the particular investment profile chosen that best suits your current appetite? What is the time horizon before these funds are required so we may best determine the strategy that meets all of your short, medium and long term goals which not only preserves invested capital but provides the best opportunity for growth.

We will always discuss investment philosophies and asset classes that are most appropriate to you and tax policy that influences these areas in order to optimise the best use of all available capital and redirect this toward tax efficient strategies and investments that are most likely to provide a return on investment.

As critical as our wealth creation discussions and recommendations are our discussions and advice for your insurance requirements. What would really happen in the untimely or unforeseen event of accident or worse, what would this mean for your wealth accumulation and management strategies at that point in time? In the event you were under insured or had no insurance at all, most likely accumulation phase strategies that were in place at the time would need to stop immediately, and these or established investment funds may possibly even be unwound in order to meet your family and loved ones obligations and needs, which often means a severe or critical outcome for strategies and situations that were not appropriately managed for risk. It is paramount therefore that an understanding of your risk is discussed and understood, and the most efficient and manageable risk management strategy be implemented.

Accordingly, it seems fair to say that financial planning has indeed changed since the GFC and clients' welfare, personal goals and objectives must be the priority. Whilst policy and legislative reform has occurred within the industry to try and ensure these outcomes, it really is incumbent on the individual financial planner to possess these qualities inherently with a genuine desire to focus on their clients and acknowledge they need to be part of a greater team whose opinions and recommendations are all valid.

The fact is many influences over the outcomes of a financial plan are beyond the individual planners control, liquidity in markets, investment returns and inflation, regulatory protocols or laws are all determined by a complex interplay of market forces, legislative processes and economic factors on a world scale.

What our financial planners can actively control is our focus and attention to our clients wishes, goals and objectives, we can manage your strategy, review our advice and develop with you as you grow and new desires and priorities emerge, we can mentor, educate and inspire when needed, or be an independent voice of reason and discipline if required.

IQ Financial Planning adopts and embraces these qualities as part of IQ Capital Group, a multi award winning organisation where progressive, holistic and structured advice based on the unique and individual requirements of each and every client is our focus.