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# ICFS Index Jun 2008 with MATT WALSH

# The blame shifts from planners

New research shows investors are starting to understand the reasons behind performance.

Investors are often accused of playing the blame game.

They're easy to please when markets are rising and portfolio values are soaring skywards but when the going gets tough they are quick to point the finger – usually at their financial planner.

However, recent research indicates investor attitudes are changing. Findings from the Lifeplan ICFS Financial Advice Satisfaction Index, which measures changes in the three key attributes that most impact a person's willingness to recommend their financial planner, show financial planners are not being held accountable for recent hits to investors' portfolios.

According to research by the University of Adelaide's International Centre for Financial Services (ICFS), the key attributes are: trustworthiness of the planner; clients' perception of how their investments have performed; and the technical abilities of the planner.

The index, published every six months since its inception in April 2007, shows that while continuing market uncertainty has caused investors to question the technical ability of their advisers, their perception of their planners' performance has actually increased by 7 per cent.

Interestingly, when the index was first measured, performance rated the lowest of all three attributes, despite the fact that Australia had been experiencing a long-running bull market.

Matt Walsh, general manager of strategy and development at Lifeplan Funds Management in Adelaide, suspects investors are using an inappropriate benchmark when measuring their portfolios' performance.

"In a bull market, a diversified portfolio can underperform certain headline segments," he says.

But the research released in June indicates investors are thinking more rationally about the investment performance of their portfolios.

"Now that we've seen some headline losses coming through – from the subprime [crisis] and the falls in equity markets – some of the benchmarks they may have been using have turned the other way and are now quite negative, yet their portfolios haven't performed as badly as what the news might have implied," Walsh says.

"Over that time [investors] have started to increase their perception of how their portfolio has performed through their advisers, so that would imply there's been some levelling out of their expectations relative to the benchmarks they might have been using."

The results also revealed a decline across all age groups in investors' perception of the technical ability of their planner.



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This perception was the primary driver behind an overall decrease in the Index from 74.3 to 73.2 since the last Index was published in November and was perhaps a result of the large absolute dollar impact the market fluctuations have caused.

"The industry has done a great job of communicating performance issues but maybe we've done that to the detriment of all the other things that planners do in the advice relationship," Walsh says.

"Those planners that are focussing on technical quality and all aspects of advice, as much as they are focussing on performance, will get high levels of advocacy."

It appears that a gap is emerging in the clients' expectations of the quality and delivery of advice strategies and what is occurring in practice, Walsh adds.

"Either their expectations are increasing or their expectation hasn't changed and there's some level of decline across the planner relationships," he says.

"That could come from the sheer focus on performance, which means there's been less focus on all the other aspects of planning, or with the pessimism about the market and people's expectations of having lower retirement incomes, they're expecting more help from their planner."

Those investors who have been with their current financial planners for more than 10 years showed the largest positive change in perception across all three attributes – performance, trust and reliability, and technical ability.

The oldest age group – those over 60 – showed the most negative response in all three attribute categories, while those under 30 revealed the biggest increase in positivity compared to the last Index.

Walsh says this reflects the heightened sensitivity to portfolio change investors experience as they approach retirement.

"People who don't have cash flow coming in any more and have to ride [the market turbulence] out are definitely feeling the pain a bit more, so they've been more negative," he says.

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