THE BIG FIVE

As the world keeps a wary eye on the European debt crisis, what are some of the other key issues likely to keep financial planners and their clients up at night in 2012? ***Caroline Munro*** reports.

1 FoFA implementation

We are beginning to see the light at the end of the tunnel with the Future of Financial Advice (FoFA) reform process. The Corporations Amendment (Future of Financial Advice) Bill 2011 sits before the Parliamentary Joint Committee (PJC) on Corporations and Financial Services and the first tranche of the reforms, which includes opt-in, has an implementation deadline of 1 July 2012. Yet many submissions to the PJC have called for a delay.

Rob Pyne CFP®, director of Perth's HPH Financial Planning, feels that given the PJC is only due to report on the FoFA Bill in March, it seems unreasonable to expect that all businesses will be ready by 1 July.

"This has been a long, drawn-out process and there is still no final legislation," he says, though noting that the Australian Securities and Investments Commission (ASIC) appears willing to take a "handholding" approach in the first year of implementation.

Financial planner Daryl La'Brooy CFP of Hillross Financial Services in Melbourne feels that if there is a delay, the uncertainty will only continue. He is also concerned that even if legislation is passed, the outcome of the next federal election could see the Coalition repealing some of the more bureaucratic features of FoFA, resulting in further change.

Charles Badenach CFP, principal at Shadforth Financial Group in Tasmania, agrees that the final legislation needs to be settled and a timetable set in order for the industry to move forward. He says many financial planners are FoFA-ready even if opt-in remains a concern, and believes it is dealer groups which will battle with the deadlines.

Like many others, Pyne is concerned about opt-in, although not just because of the added paperwork and cost it may entail. He believes it will have serious implications for practice valuations. Referring to Section 962 of the FoFA Bill, he points out that grandfathering only applies to existing arrangements with authorised representatives and the licensee before 1 July 2012 – which means that if the authorised representative seeks to sell his business, and the client potentially leaves that licensee, the grandfathering provisions cease to apply.

With these concerns front of mind, there's no doubt that planners will be keeping a watchful eye on the progress of the FoFA Bill and whether this year really will be D-day for this long-debated reform package.

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2 Other government policy

The extraordinary outcome of the last federal election resulted in policy decisions that have ruffled the feathers of consumers and investors alike. Even before the formal introduction of the carbon and mining taxes, Australia experienced a dip in consumer and business confidence, ultimately impacting spending and investment, said CommSec chief economist Craig James in his economic insights report released in December. He attributed the dip to the fear of the unknown, and was confident the Government had taken the appropriate steps to minimise the impact of implementation. However, the risk remains that these taxes will be tinkered with over time.

As businesses first and foremost, financial planning practices must cope with the extra compliance obligations that come with new policy. La'Brooy believes more taxes and more red tape will always have a debilitating effect on businesses.

"We've got the carbon tax and the mining tax and we've got additional red tape coming out of FoFA, and all of that is putting additional burdens on small business," he says.

He believes it is simply more laws being added to an already highly regulated society.

"And that is not good for business, especially when people in the traded goods and services sector in international markets are dealing with businesses as heavily regulated as ours."

The instability such political change creates in markets is another challenge. Badenach notes that markets hate uncertainty, and compared to its global peers, the Australian market has underperformed for a number of years. He says the Government taking a back step on major issues, such as the carbon tax, has only undermined the credibility of markets as a whole.

But Pyne is unconcerned about the ability of Australian consumers and businesses will struggle to adjust to the taxes.

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"The carbon tax is coming whether we like it or not, and in reality, we will have to adjust to it," he says.

3 US elections

The New Year began with investors continuing to seek safe havens amid market volatility as European leaders continue to grapple with the sovereign debt crisis. With a large volume of bank and government debt due for refinancing in the first quarter, there is no doubt that the political solutions struck in this region will continue to be a focus. But equally, on the other side of the Atlantic, hope remains that the outcome of the US elections, set for November this year, may at least provide some resolutions on how it will deal with its own debt crisis.

La'Brooy says the US elections look set to be fought on which party can provide the best solution for national debt amounting to more than US$15 trillion.

"What we need from the presidential and congressional elections is a clear outcome," he says. "The worst thing to happen is for Obama to be re-elected and then have a Republican-controlled Congress – once again we will see [political] gridlock."

La'Brooy says his clients are keeping an eye on what's happening in the US because of the volatility of stockmarkets last August, when there was disagreement over raising the debt ceiling, followed by the downgrade of the US credit rating by Standard & Poor's. He says it is becoming harder to keep clients from taking a reactive approach.

"It's very difficult simply because after more than four years of pain, people are losing patience."

But for Badenach and Pyne, the European debt crisis overshadow any concerns about what is happening in the US.

"Really the European crisis is having a much more significant impact on people's financial position," says Pyne.

4 China's economy

Despite all the talk about Europe, for Australia at least, perhaps the biggest risk is closer to home.

In his economic report, James argued that any crisis in China that derails its economic momentum will prove more damaging to Australia than the European debt crisis. According to Reserve Bank of Australia governor Glenn Stevens, commenting on the RBA's December rate decision, trade in Asia has been impacted by the slowdown in economic activity in Europe. Fortunately Australia's

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terms of trade remained high and investment in the resources sector was picking up very strongly, "with much more to come", he said.

But if China's growth starts to seriously slow down, then resources demand will start to tail off.

"The tens of millions being invested in mining projects will start to cool off and that in turn will affect our economy," La'Brooy says. "At the moment our economy is being held up by the mining boom because the domestic economy is a lot weaker."

Badenach's concern is that the growth in China cannot continue at its current rate and possible social unrest remains a worry. He feels the Australian Government needs to do more to support other sectors, such as manufacturing, to overcome investors' fixation on resources.

Pyne agrees that anything that can be done to diversify our economy away from raw materials into higher end exports, products or services, is a good thing.

"Our stockmarket really points to the fact that we are not a diverse economy," he says.

But Pyne is not as worried about a slowdown in China and holding GDP growth at lower, more sustainable levels is probably a good thing for China, he adds.

"I think there is sustained growth happening that is good for our own economy."

5 Natural disasters

2011 was a catastrophic year for natural disasters, which took many lives and livelihoods. The considerable impact of such disasters, La'Brooy says, is becoming an increasing concern for clients while stockmarkets remain fragile.

This is particularly relevant for clients with exposures to direct equities – and Badenach says the impact of natural disasters is coming up more frequently in his discussions with clients, in part because they are influenced by what is happening in the media.

Pyne says he initiates discussions on natural disasters so that he can iiscuss the impact on clients' portfolios, as well as check their levels of insurance. And while he acknowledges the terrible impact of these events on individuals and businesses, he notes that the rebuilding process can also have some positive effects through stimulating growth.

'Naturally there is a significant injection of new capital, either from nsurance claims or government investment," he says. "It sounds perverse but in a pure rational sense there is a kick-up in economic ictivity on the back of natural disasters."

Facing up to the challenges

While these are the headline items, financial planners will invariably have heir own Big Five to face in various ways.

Overall, Badenach believes the biggest challenge planners will face over he next 12 months is maintaining investor confidence in growth assets is many scramble towards cash.

Likewise, Pyne feels that turning in cash in times of instability is not prudent, and he encourages clients to stay invested while ensuring that heir portfolios are well-diversified.

With poor stockmarket returns also comes a stronger focus on fees, Pyne says, and he expects to see a shift to low-cost direct asset investing.

Every year also throws up something unexpected – Factor X – and just what this might be in 2012 is a major concern.

'We've got a weak economy and a weak sharemarket outlook. What is going to hit them even further?" La'Brooy says.

During such turbulent times, a key focus for planners is how to keep their business strong.

Some, like La'Brooy, are looking to specialise to adapt their businesses to continuing volatility and increasing regulatory burdens. All agree that better client communication is key during tough times, and are planning to improve their use of social media to keep clients engaged.

FPA chief executive Mark Rantall urges planners to get their practices in good shape to weather any storm.

"One thing we can be sure of is that the next 12 months will not be smooth sailing," he says. "The critical thing is having the confidence that your boat is unsinkable, and communicating that confidence to your staff and clients."

Professionalism lies at the heart of this and Rantall encourages planners to sign up to the FPA Code of Ethics, follow the Code of Professional Practice, and embed legislative changes into their businesses.

He says planners should also take practical measures to build efficient businesses with lower operating costs. These include implementing proper systems and controls, keeping an eye on compliance and making sure that their compliance processes are mapped back to the Code of Professional Practice.

"Difficult environments create an opportunity to distinguish yourself from the crowd, and setting your business up as an accredited Professional Practice and getting CFP certified will separate you from those that call themselves professional planners but do not adopt a professional framework," Rantall says.