LIFEPLAN ICFS FINANCIAL ADVICE SATISFACTION INDEX - OCTOBER 2010

Lifeplan FUNDS MANAGEMENT

About the Lifeplan Financial Advice Satisfaction Index

The Lifeplan ICFS Financial Advice Satisfaction Index (FASI) is a tool for financial advisers that want to improve their levels of client service. It is based on academic research that models the factors that explain a clients willingness to recommend their financial adviser to a friend or acquaintance.

The three attributes that have the greatest impact on advocacy include:

1. The trustworthiness of the financial planner
2. The clients perception of how their investments have performed
3. The financial adviser's technical ability

The research also analyses how investors' age, levels of investment and length of their relationship with their adviser impacts these attributes.

The research is sponsored by Lifeplan Funds Management a part of the Australian Unity Group.

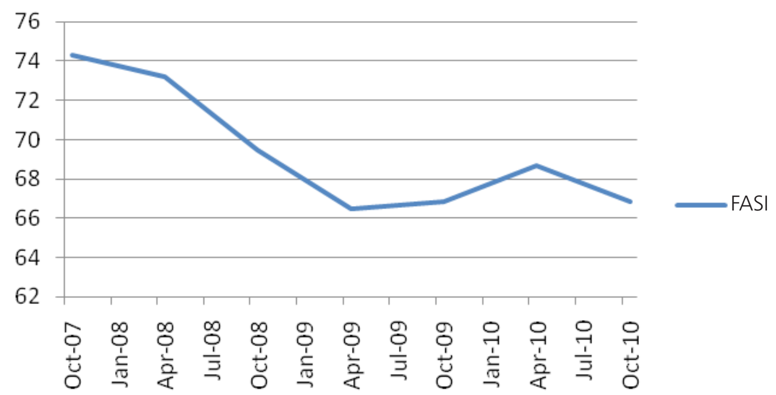
It is conducted every six months by the University of Adelaide's International Centre for Financial Services.

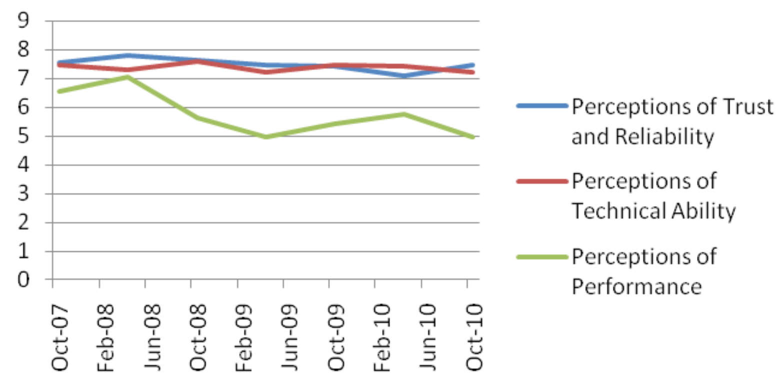
THE UNIVERSITY OF ADELAIDE AUSTRALIA

INTERNATIONAL CENTRE FOR FINANCIAL SERVICES

Lifeplan ICFS Financial Advice Satisfaction Index (FASI) – October 2010

This survey of 418 respondents, conducted towards the end of September, showed a reversal in the satisfaction levels compared with the survey in April of this year. The index decreased by 2.6%, while the three drivers of the index, perception of Trust and Reliability in respondents' advisers, perceptions of Technical Abilities of their advisers, and the perception of how their investments have performed, changed by 5%, -2.8% and -13.8% respectively. The April 2010 survey saw changes in the three drivers of -4.3%, 0% and 6.4% over the October 2009 survey results. These results show that Australian investors' perceptions are significantly influenced by equity market performance. This relationship may be real, if investors have a large proportion of their investment in domestic equity markets. This perception may also be a result of "reference dependence", a behavioural manifestation. Regardless of the reason, it is one of financial adviser's main responsibilities to remove such behavioural irrationality and/or to ensure investors' have realistic expectations about their investments performance over the investment horizon. The perception of performance seems to be highly correlated to domestic equity market movements, while perceptions of trust and reliability seem to lag the domestic equity market (and perceptions of performance).





The next section details the attributes of the respondents in this survey.

Attribute Details of the Respondents

This survey polled 418 respondents across Australia. Each individual was required to have had at least 6 months of financial advice. Below are statistics for each attribute.

Gender (see chart 1a)
Approximately 55% male and 45% female investors made up the surveyed individuals.

Age (see chart 1b)
The respondents were grouped into four age brackets: under 30s (about 8%), between 30 to 44 year olds (around 26%), between 45 and 59 year olds (33%) and those aged above 60 years of age (33%).

Duration of taking Financial Advice (see chart 1c)
Respondent's duration of taking financial advice was segmented into four groups: investors who had been taking financial advice for less than 2 years (around 8%)[1] , those who had been taking financial advice for more than 2 years and less than 5 years (31%), those who had been taking advice for more than 5 years but less than 10 years (29%) and the remaining respondents had been taking advice for more than 10 years (32%).

Investment Levels (see chart 1d)
Investment by the respondents were grouped in three categories: investors with investments less than $50,000 (approximately 29%), those with investments more than $50,000 and less than $250,000 (approximately 48%) and those with investment levels higher than $250,000 (23%).

1 All of the respondents, who had taken advice for less than two years, were deleted from the sample for further analysis as these surveys were contradictory.

Description of Cross-Sectional Statistics

Gender and Age (see chart 2a)
The cross-sectional statistics show that females matched males in numbers across all age groups except the under 30s where the number of female respondents were under-represented, but over-represented in the 30 to 44s. Past research has shown that younger investors are usually more risk tolerant as are male investors.

Gender and Investment Levels (see chart 2b)
Females over represented the lowest investment levels, while males dominated the highest investment levels. Larger investments (under the assumption that investments are an accurate reflection of investors' wealth) imply higher ability to take risks. High net-worth investors can invest larger amounts in equity markets and specialised and complex investment vehicles not available to low net-worth investors. Additionally higher net-worth individuals are more likely to use vehicles such as margin accounts, contracts for difference, leverage, short positions, and derivatives. Investors with exposure to such vehicles, if used for speculative purposes, may also be taking on higher levels of risk. Finally high net-worth investors are "discerning" and critical to negative impacts.

Age and Duration of Financial Advice (see chart 2c)
Older investors would have had the ability to take financial advice for a longer period of time. However, after the recent financial crisis, more investors are choosing to take professional financial advice. This shows a shift in the Australian investor psyche regarding the value of professional financial advice.

Age and Investment Levels (see chart 2d)
Older investors are likely to be higher net-worth investors as well, and this survey shows a similar distribution. Interestingly the sample of respondents (a reflection of the advice taking population) shows that a larger cohort of pre-retirement aged investors are in the higher net-worth category.

Description of Cross-Sectional Statistics (cont.)

Duration of Advice and Investment Levels (see chart 2e)
Higher investments are acquired over a longer period of time and hence longer duration of taking advice would be associated with higher net-worth individuals. However, the distribution of respondents' investment levels and duration of advice reveal that lower net-worth investors are taking advice for a longer period of time. More interestingly, there is a cohort of higher net-worth investors who have recently started paying for professional financial advice, perhaps after the negative impacts of the global financial crisis.

The next section details each of the drivers of the index in more detail by understanding the changes that have taken place across the various investor attributes over the last survey, as well as since the inception of the LifePlan Financial Advice Satisfaction Index.

Perception of Trust and Reliability with Financial Adviser

As mentioned earlier, investors' perception of trust and reliability in their adviser increased by 5% in this survey after a decrease of 4.3% in the April 2010 survey. Generally females still maintain higher perceived levels of trust and reliability compared with their male counterparts, as do older, higher net-worth investors. Investors who have been taking professional financial advice for a longer period, especially those who have remained with the same financial adviser, do display a higher perception of trust and reliability in their adviser (see charts 3a-3e for cross-sectional and charts 4a-4e for longitudinal effects).

Cross-sectional Analysis

1. As mentioned, female investors generally have a better perception of trust and reliability with regards to their financial advisers. However, in this survey, there is a small segment of female investors who have reported a decrease in this sentiment. These investors are the lower net-worth investors, who may have seen their investments decrease in the last market downturn. Although this segment may represent an emerging trend, it is important that financial planners start catering to this investor cohort.

2. Trust and Reliability increases with the age of the investor and investment levels. However, in this survey, the 30 to 44 year age bracket seem to have a lower perception of trust and reliability compared with their under 30s counterparts as well as their older cohorts. These investor groups have mid-level investments (between $50,000 and $250,000). Financial planners will need to address this segment of the market with care.

3. Investors who have been taking advice for a longer period (over 5 years) have very similar perceptions of trust and reliability. While those who have been taking financial advice for less than 5 years show similar perceptions of trust and reliability. Specifically, investors who have been taking advice for less than 5 years show significantly lower levels of trust towards their financial adviser. Investment levels do influence this relationship. Specifically, as investment levels increase investors become more discerning and demand a higher level of service from advisers. On the flip side, investors with mid-levels of investment (between $50,000 and $250,000) who have recently entered into a professional advisory relationship were extremely negative about their advisers. The investor-adviser relationship takes time to develop and unfortunately, new entrants into this relationship, who may have previously managed their own investments in better economic conditions, may have entered the relationship with very high expectations. Advisers will need to work carefully in setting expectations and may need to provide more education in relation to what can be realistically achieved. On the positive side, high net worth individuals are staying with their advisers, and show very high levels of trust in their advisers.

Perception of Trust and Reliability with Financial Adviser (cont.)

Longitudinal Analysis

1. Changes in the perception of trust and reliability after a drop in general economic conditions, in particular the performance of the equity market, seem to be highly correlated over time. We note a lagged sharp drop in this sentiment when markets decreased and a lagged rise in sentiment after a market upturn. This signifies an interesting manifestation – investors want (or perhaps demand) advisers to predict changes in market conditions. Are advisers able to forecast? Research shows not. If that is the case, advisers need to refrain from making predictions that may not come true, or worse yet, predict changes in market conditions in the wrong direction. Research shows that most humans forecast on the basis of observed trends, and the authors of this report suspect some advisers may provide forecasts using trend models.

2. The average perception of trust and reliability for the oldest cohort had declined quite steeply until April 2010. This is not surprising given the devastating nature of the global financial crisis, especially for this cohort. These investors won't get the opportunity to regain the wealth they have accrued over the years, and it is a natural tendency to want to improve their post-retirement lifestyle. This is most acute during a fast rising equity market that may entice investors from a defensive investment position to a higher risk position (through leveraging, a portfolio biased towards equities, smaller capitalized growth assets, and in extreme cases, into a speculative investment class such as hedge funds).

   Here advisers have two choices: provide what the investors' desire but risk a decrease in wealth levels and in turn a decrease in perception of trust and reliability. Or, educate their clients about the risk of such investments particularly with a very short investment horizon, and perhaps risk losing these wealthy investors to the competition in the event that these investors remain adamant about their choice of investment vehicle. As markets improve, trust and reliability sentiment improves, in a lagged fashion. This survey has confirmed this, and the oldest cohort has shown a significant increase in their perception of trust and reliability towards their advisers.

Perception of Financial Adviser's Technical Abilities

Perception of technical abilities has marginally decreased by 2.8% from the April 2010 survey, after having remained constant since October 2009. Female investors displayed the highest decrease in this sentiment, as did the under 30s age bracket as well as those in the pre-retirement segment (45 to 59 year olds), with a shorter duration of taking professional advice. It also applied for investors that had the smallest investment portfolio (see charts 3a-3e for cross-sectional and charts 4a-4e for longitudinal effects).

Cross-sectional Analysis

1. Female investors generally have a higher perception of their advisers' technical abilities. The spreads between male and female investors decreased sharply in this survey, such that both genders have similar levels of perception. Although most female investors display favourable sentiment compared with their male counterparts, there is a small cohort (7% of all female investors) who display a much higher degree of disapproval with their advisers' technical abilities. This result is specifically true for those with higher levels of investments. Interestingly, it is this same segment (highest net-worth female investors) that has also given their advisers a tick of approval. Furthermore, this cohort is also the one that has been taking financial advice for less than 5 years. This cohort of dissatisfied investors is a relatively small minority (8% of the female investors). Financial advisers should note that female investors in general and higher net-worth female investors in particular, are also one of the most profitable segments for the industry and need to be managed with skill and care.

Perception of Financial Adviser's Technical Abilities (cont.)

2. The youngest investor group and those about to retire (45 to 59 year-olds) displayed a higher level of dissatisfaction with the technical abilities of their financial advisers. The oldest cohort in this category showed the most favourable perceptions followed by investors that have a longer period to accrue a nest egg (30 to 44 year olds). Investment levels do not seem to impact sentiment in this group (30 to 44 years and over 60s). For the over 60s, who have been able to test the adviser's technical abilities over time and in different market conditions, seem to feel that the strategies implemented by their adviser after the financial downturn have weathered the latest downturn well (since April 2010). The pre-retirees and the under 30s, with mid-level investments ($50,000 to $250,000), have a positive view of their adviser's technical abilities. This shows that advisers have worked well with higher investment levels in establishing strategies that are appropriate for their clients' needs.

3. Duration of taking financial advice is directly related to better sentiment regarding technical abilities. Duration of financial advice and duration with the same adviser is highly correlated for those who have been taking advice longer. Although investments play a very important mediating role in formulating this sentiment, it has the least impact on those investors who have been taking advice the longest. However, there is a significant impact on those investors who have entered the advisory relationship with mid-level investments (those with investments between $50,000 and $250,000). The perceptions of these investors seem to match their perceptions of trust and reliability. This is a cohort that brings in large revenues for the financial advisers but with pre-conceived notions regarding returns from their investment portfolios. Financial advisers need to be careful in setting their expectations with regards to the strategies recommended and should take time to explain the investment horizon over which expected returns will be realised.

Longitudinal Analysis

1. There seems to be trend where after a market downturn, female investor's perception of the technical ability of their financial planner decreases by more than their male counterparts. This shows that female investors are sensitive to negative events. Research shows that females are more nurturing than males, and hence are more risk averse. Their portfolios, aimed at ensuring better living standards for their families, need to be carefully managed.

2. The youngest cohort of investors (the under 30s) have displayed high levels of sensitivity, especially negative sensitivity. In the April 2010 survey, the perceptions of technical abilities of financial advisers rose sharply (not witnessed in any other survey). We note only one other instance (April 08) when this sentiment increased. However, the volatility in this driver of satisfaction for this cohort of investors (where the perception rose sharply and decreased at almost the same rate) has not been witnessed thus far. The last two surveys (April 2010 and October 2010) showed the high level of volatility. What could be making these investors so sensitive to equity market conditions, and technical abilities of the adviser? Given the risk tolerant nature of younger investors, we conjecture, and unfortunately do not have adequate information to back our claim, that perhaps this cohort of investors is willing to take a much higher level of risk. These investors may have used (or want to use) more complex and risky (such as long-short, leveraged or derivative based) investment instruments than warranted by their advisers, or strategies that most financial advisers may not understand or are comfortable recommending.

Perception of Performance due to Financial Adviser

The perception of performance has shown the steepest decline (of the three drivers of the index) in this survey, and as mentioned earlier, this driver is highly correlated with economic and equity market conditions. Female investors have shown the largest decline compared with their male counterparts, as did the youngest investor group, those with the largest invest portfolios and those that have been taking advice for less than 5 years.

Cross-sectional Analysis

1. Female investors were most positive regarding perceptions of performance with lower investment levels, while their male counterparts showed positive sentiment with higher investment levels. As mentioned earlier, female investors would prefer to avoid risk and decreases in their investment portfolios as much as possible. It is perhaps important that financial advisers ensure better down-side risk management for investors that are risk averse.

2. Investors who have been taking advice for less than 5 years may have entered the advisory relationship when the markets were rapidly rising, or during the global financial crisis. This investor group has seen their investments erode over the time and are therefore critical of the advice. Investment levels are shown to have a negative impact, in that, those with larger investments have perhaps lost more (in dollar terms). Financial advisers will need to manage expectations for these investors carefully. This can be accomplished by making this investor cohort understand that markets do not move up all of the time. It is also necessary to disengage the investor from judging performance of their investment portfolio using arbitrary (albeit well known) benchmarks such as the ASX 200.

Longitudinal Analysis

1. The perception of performance by investors at all investment levels (less than $50,000, between $50,000 to $250,000, and greater than $250,000) displayed a significant decline in the surveys conducted between April 2008 and April 2009. However, mid net-worth investors attributed better portfolio performance to advice from their financial advisers. This evidence leads to the inference that financial advisers are better placed to meet the demands of investor groups that are neither high net-worth, nor low net-worth. The high net-worth investors are much more demanding and require the services of specialised wealth managers, while those in the low net-worth category may have expectations set much higher than their investment capital can sustain. Specialised investment vehicles are usually capital intensive (such as hedge funds) and may not be appropriate in terms of investors appetite for risk.

APPENDIX 1: DEMOGRAPHIC STATISTICS

Chart 1a: Demographic Details of Respondents Gender

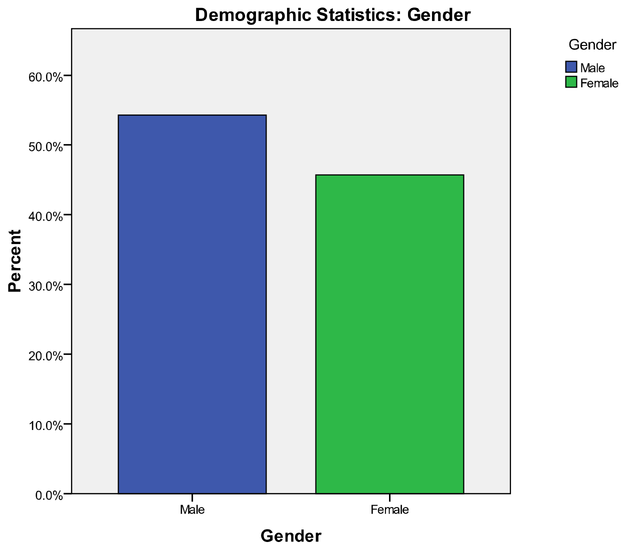


Chart 1b: Demographic Details of Respondents Age Groups

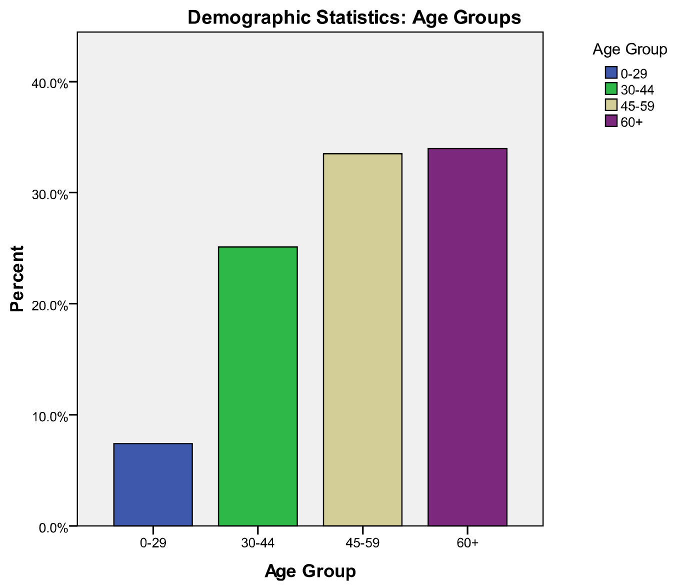


Chart 1c: Demographic Details of Respondents Duration of Advice

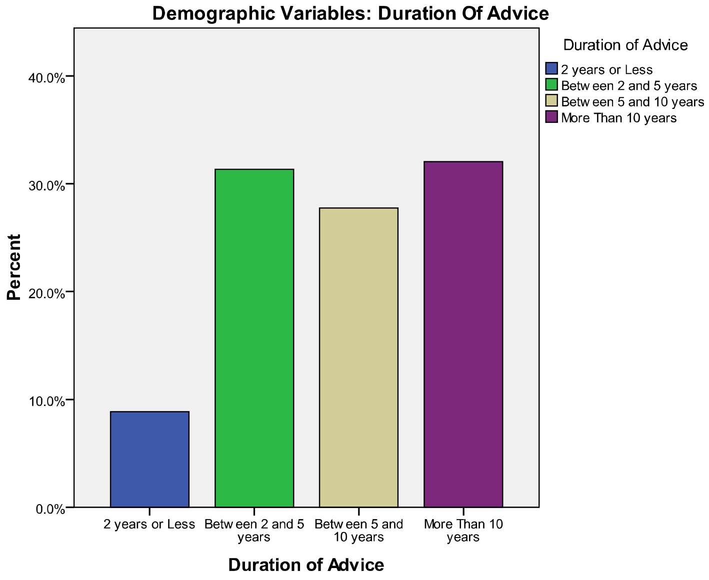
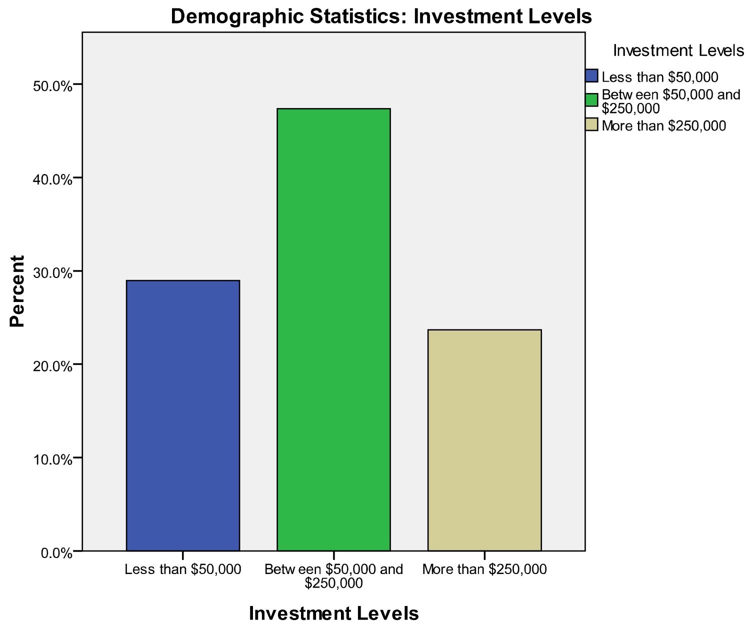


Chart 1d: Demographic Details of Respondents Investment Levels



APPENDIX 2: CROSS-SECTIONAL DEMOGRAPHIC DETAILS

Chart 2a: Demographic Details of Respondents Gender and Age Groups

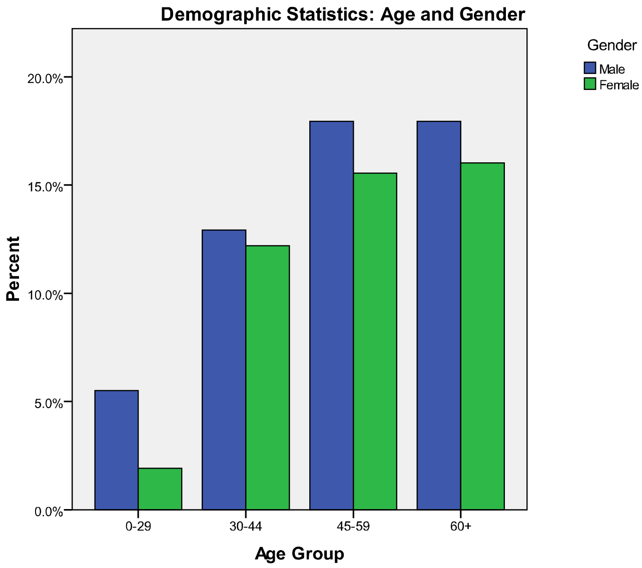


Chart 2b: Demographic Details of Respondents Gender and Investment Levels

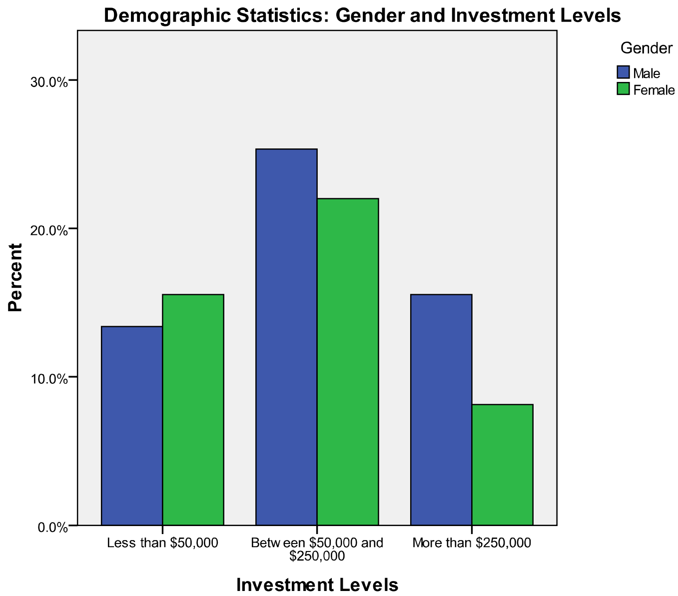


Chart 2c: Demographic Details of Respondents Age Groups and Duration of Advice

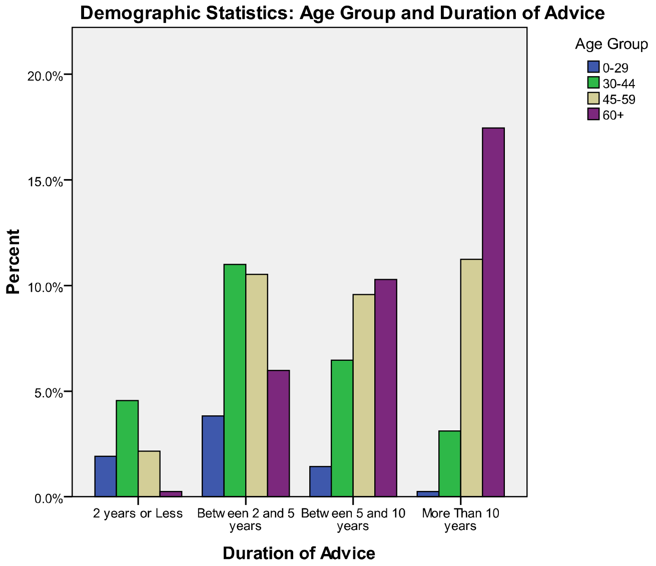


Chart 2d: Demographic Details of Respondents Age Groups and Investment Levels

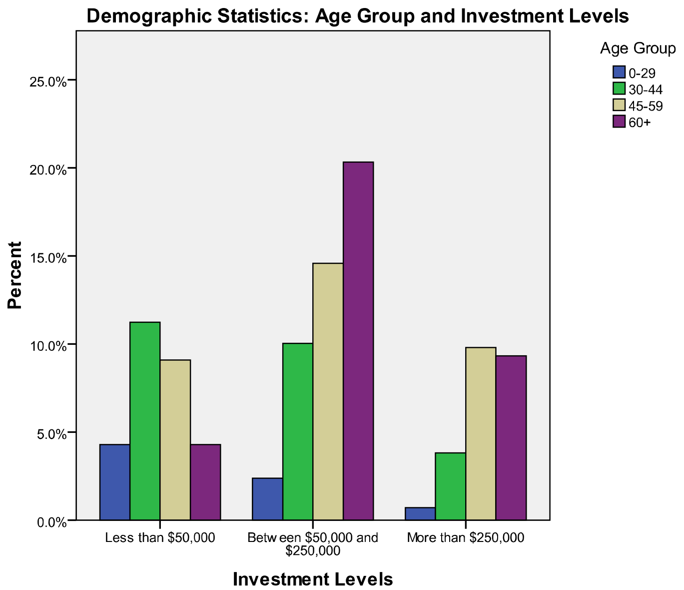
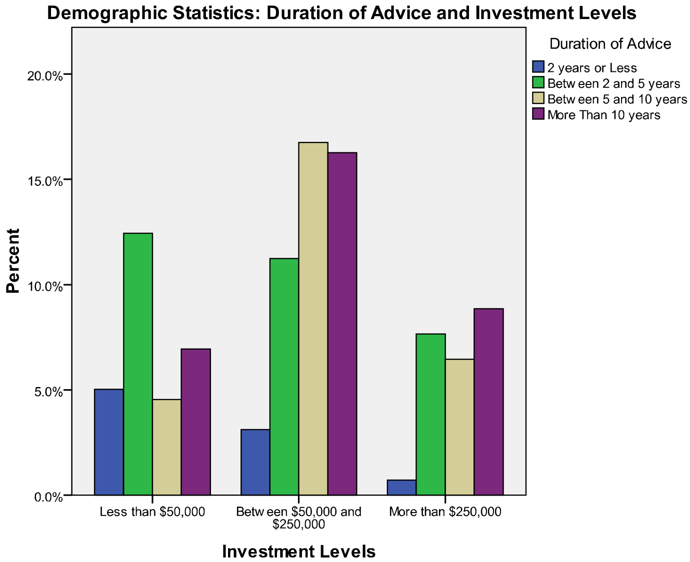


Chart 2e: Demographic Details of Respondents Duration of Advice and Investment Levels



APPENDIX 3: RELATIONSHIP BETWEEN DEMOGRAPHIC VARIABLES AND DRIVERS OF ADVOCACY

Chart 3a: Relationship between Gender and Drivers of Advocacy

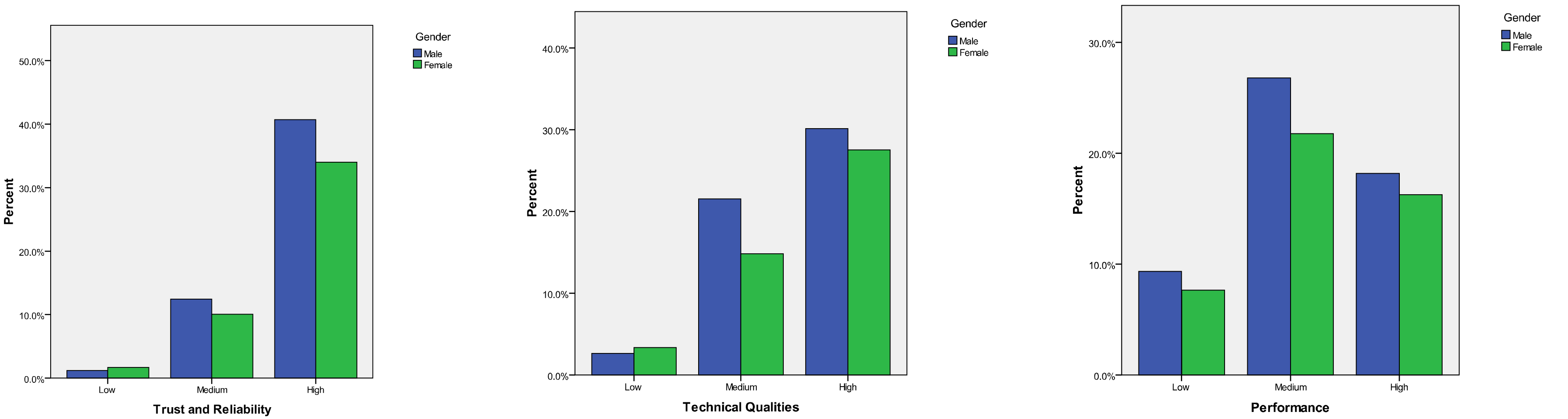


Chart 3b: Relationship between Age and Drivers of Advocacy

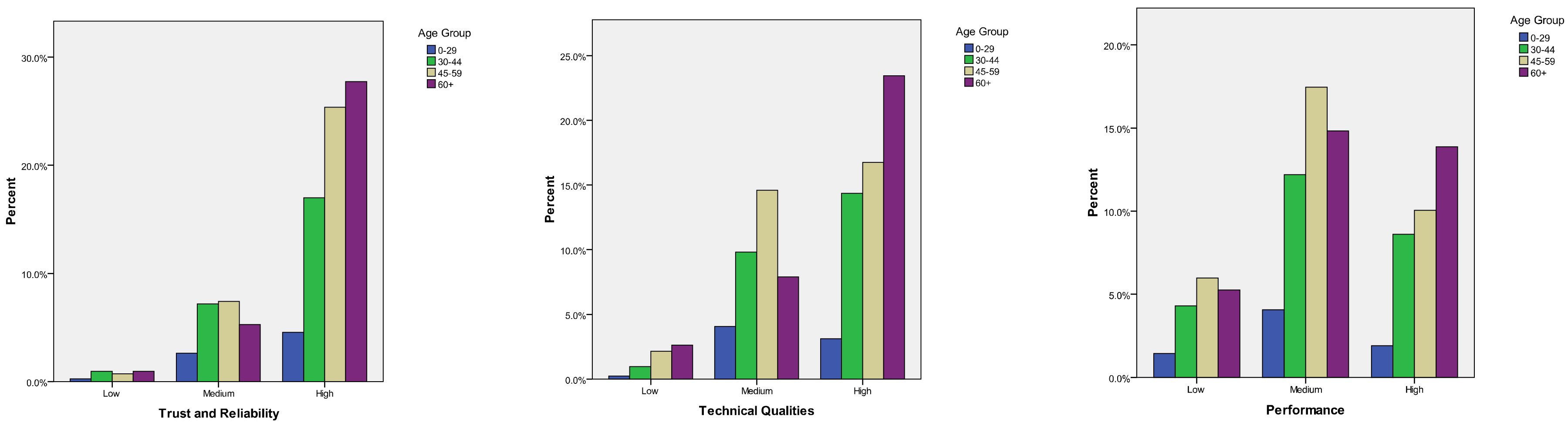
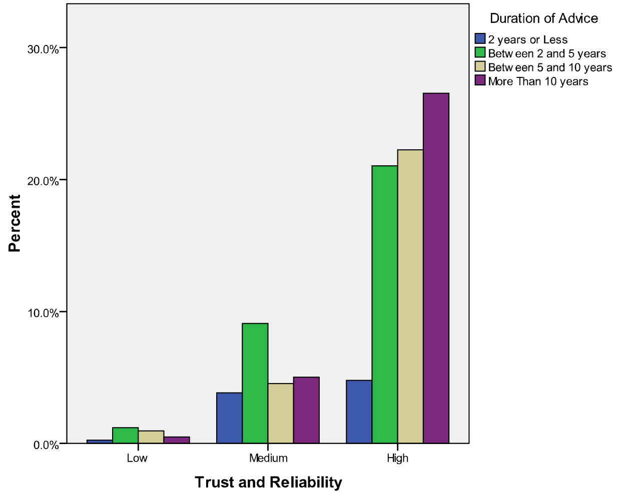
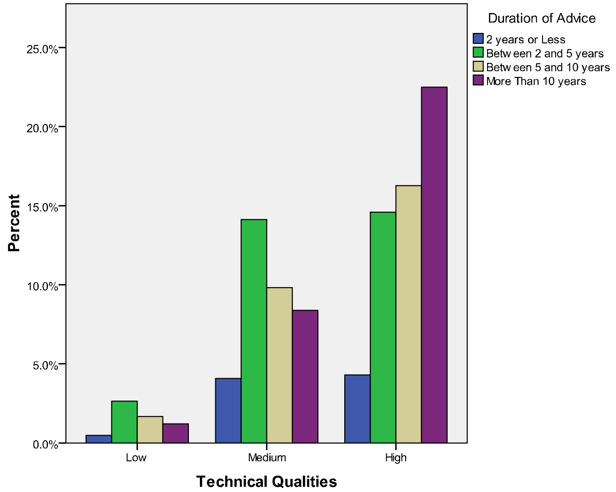


Chart 3c: Relationship between Duration of Advice and Drivers of Advocacy





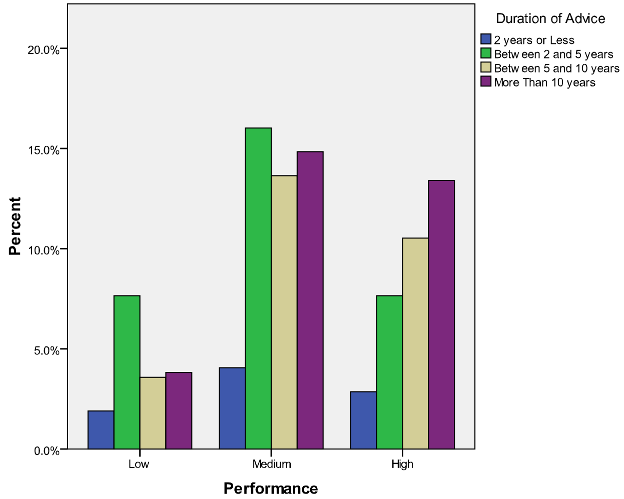
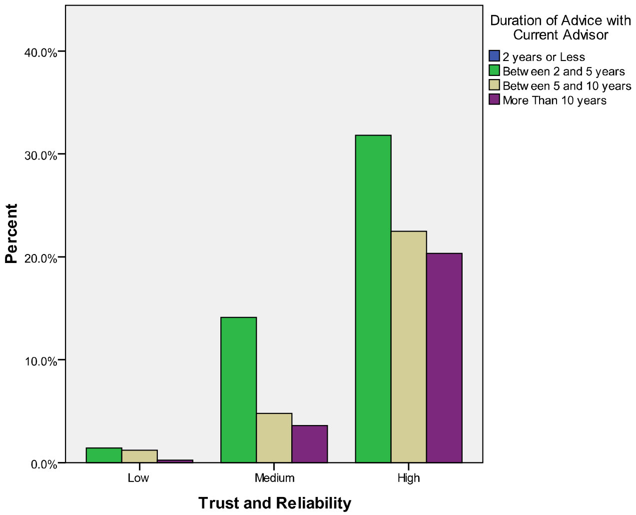
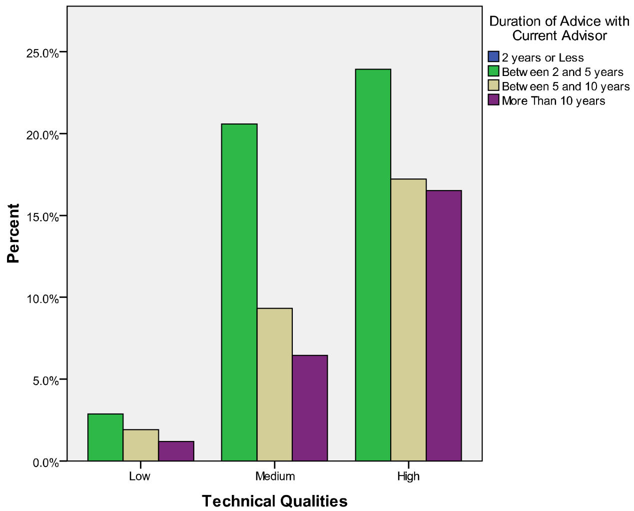


Chart 3d: Relationship between Duration of Advice with Same Advisor and Drivers of Advocacy





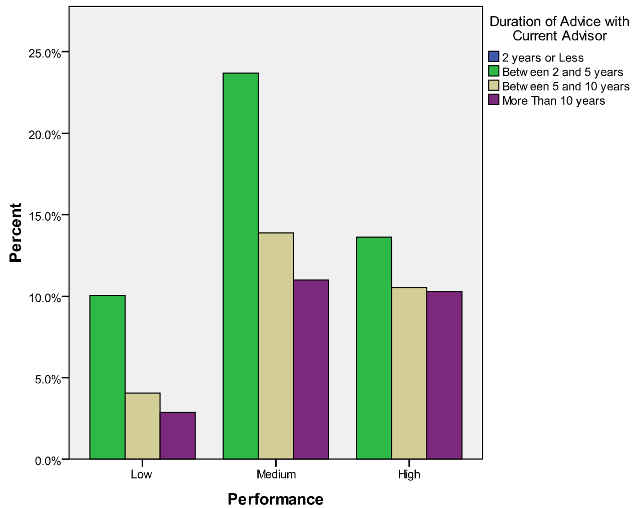
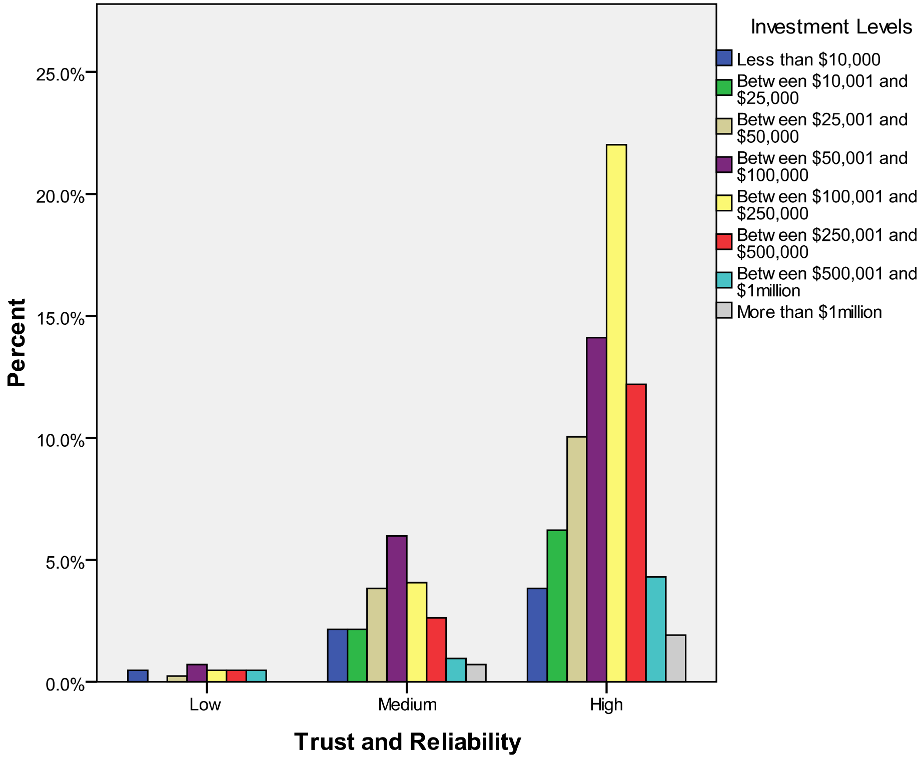


Chart 3e: Relationship between Investment Levels and Drivers of Advocacy



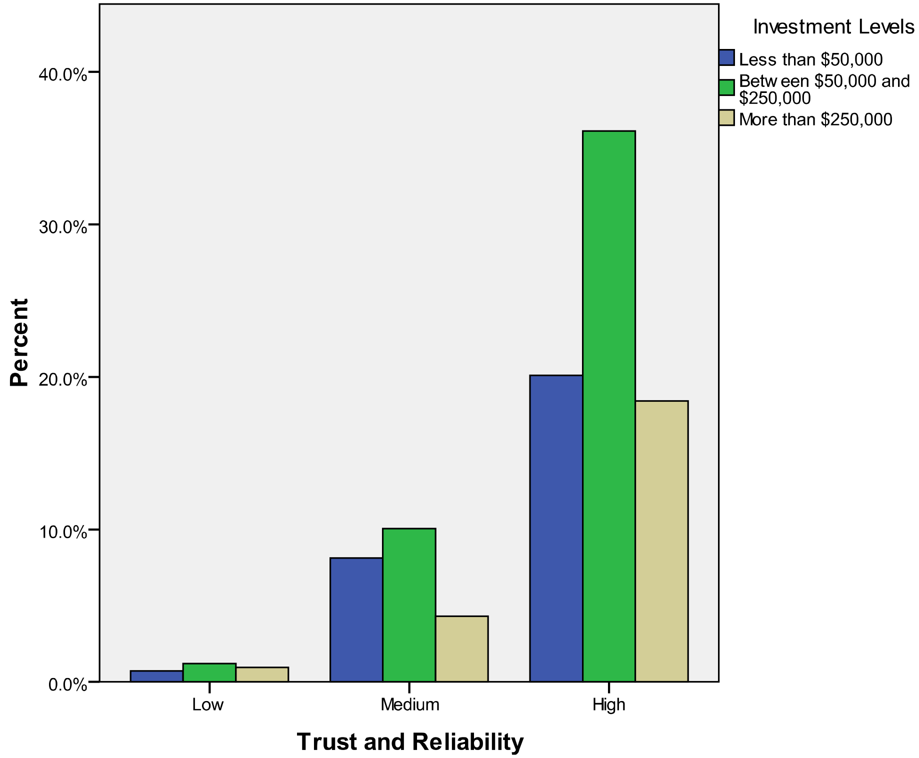
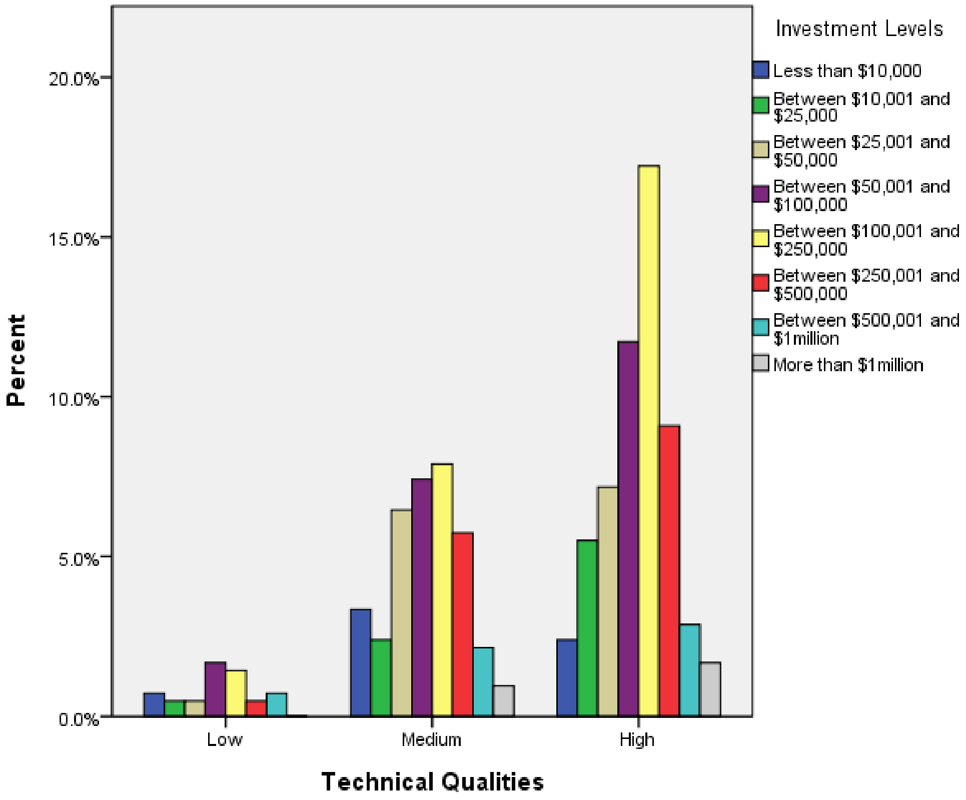


Chart 3e: Relationship between Investment Levels and Drivers of Advocacy



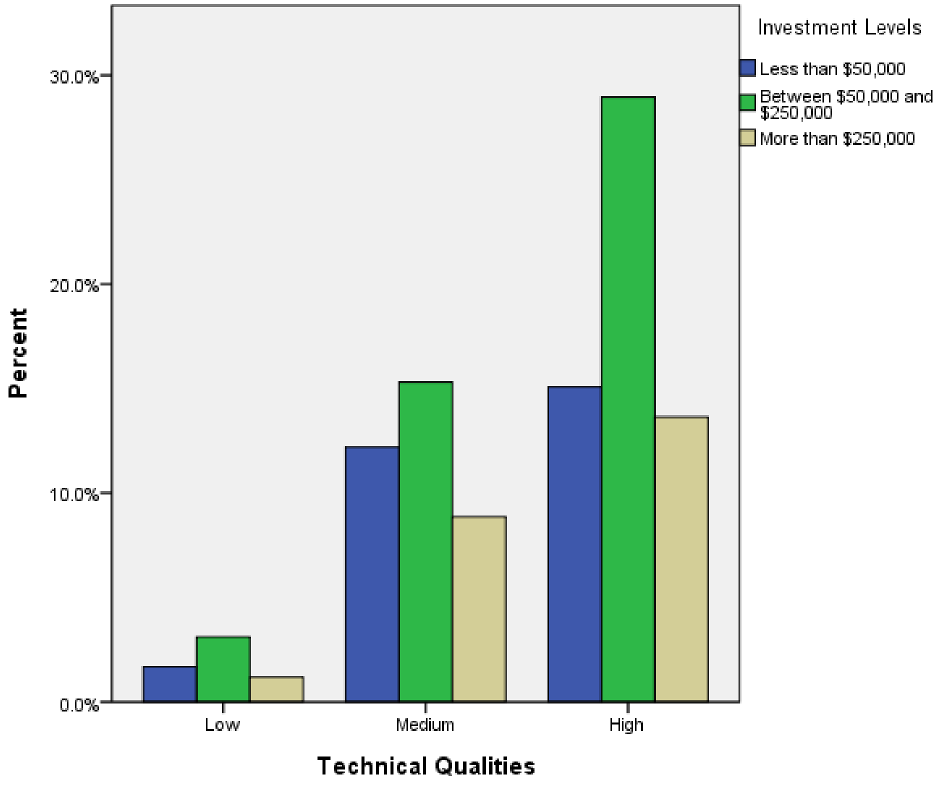
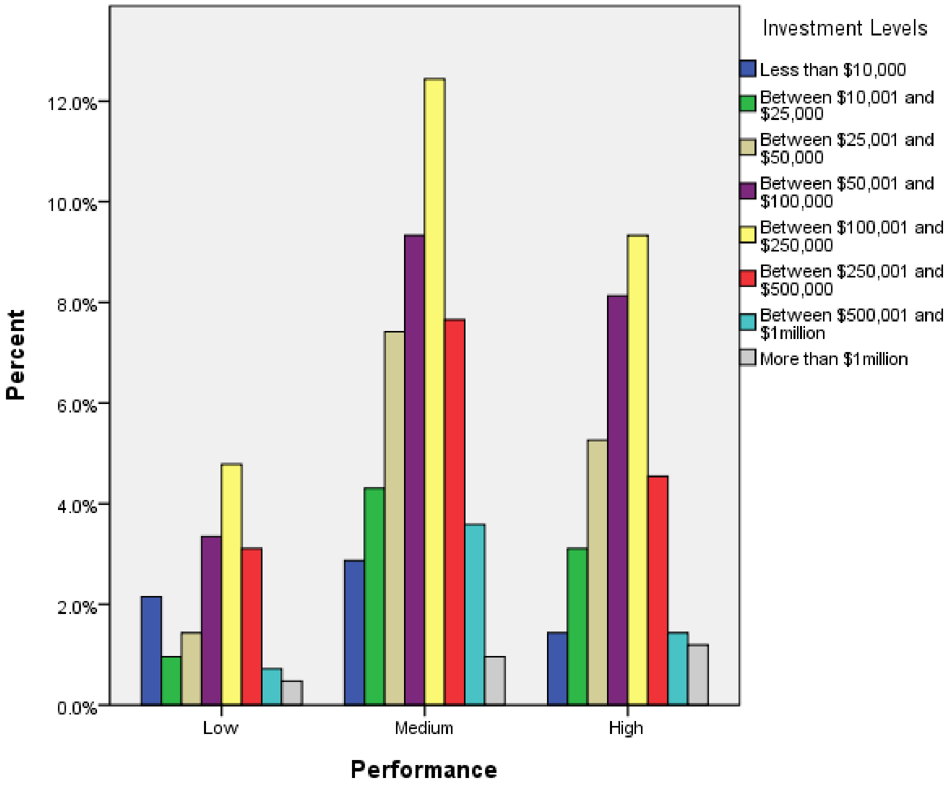
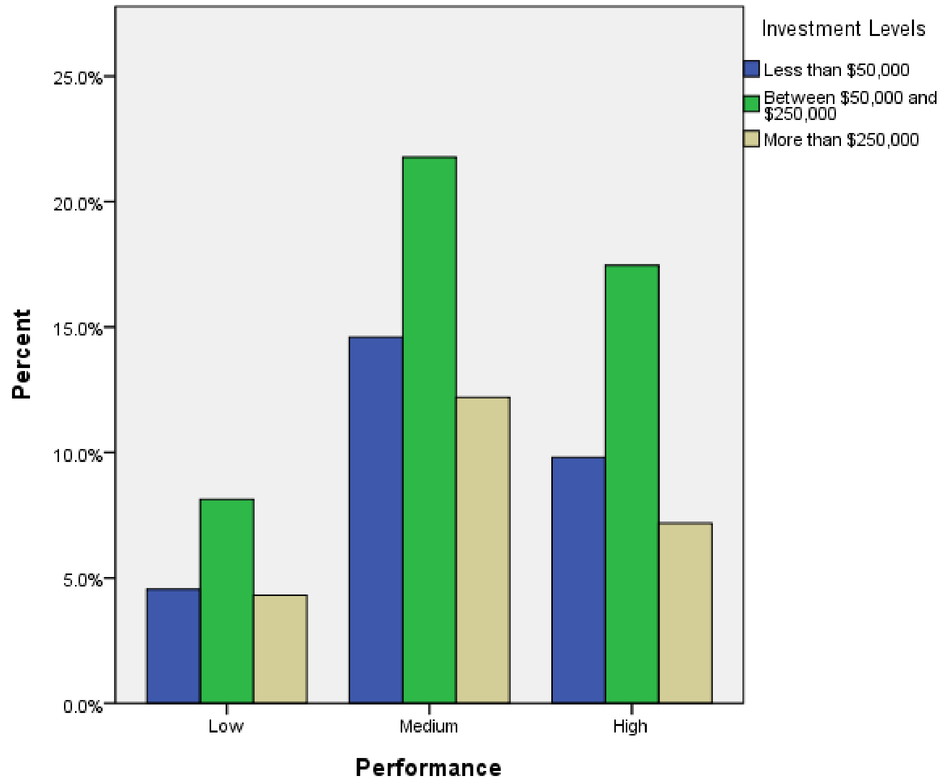


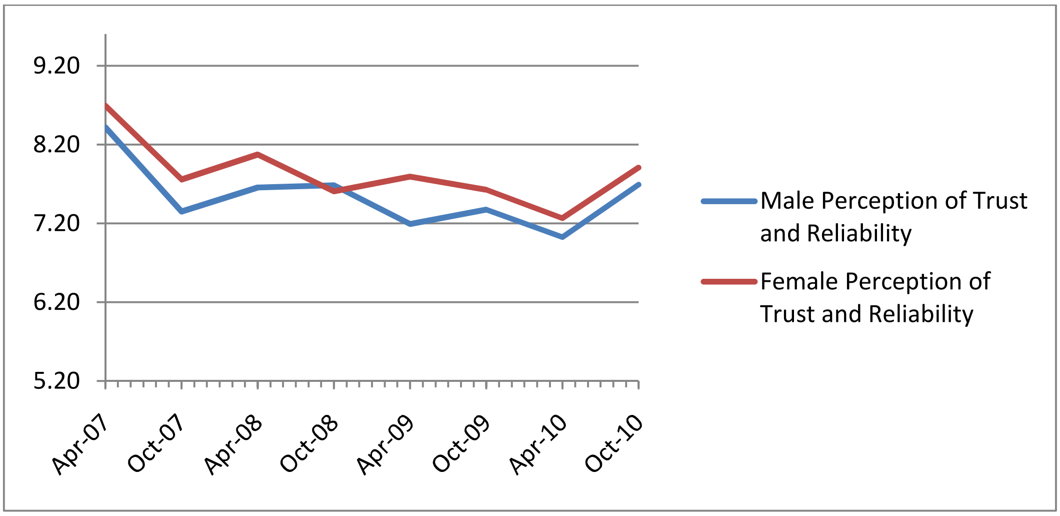
Chart 3e: Relationship between Investment Levels and Drivers of Advocacy

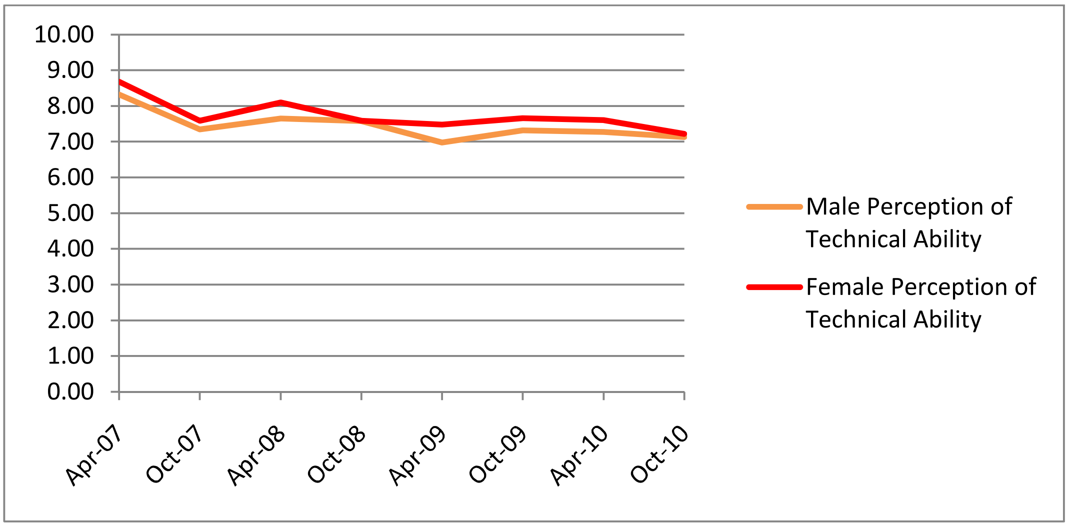




APPENDIX 4: HISTORICAL RELATIONSHIP BETWEEN DEMOGRAPHIC VARIABLES AND DRIVERS OF ADVOCACY

Chart 4a: Relationship between Gender and Drivers of Advocacy





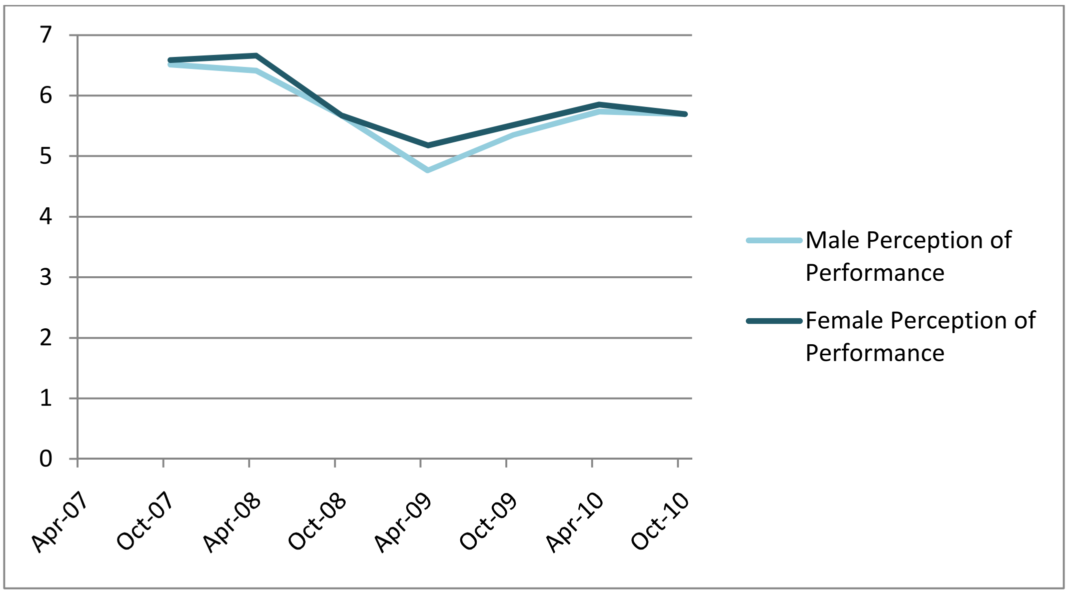
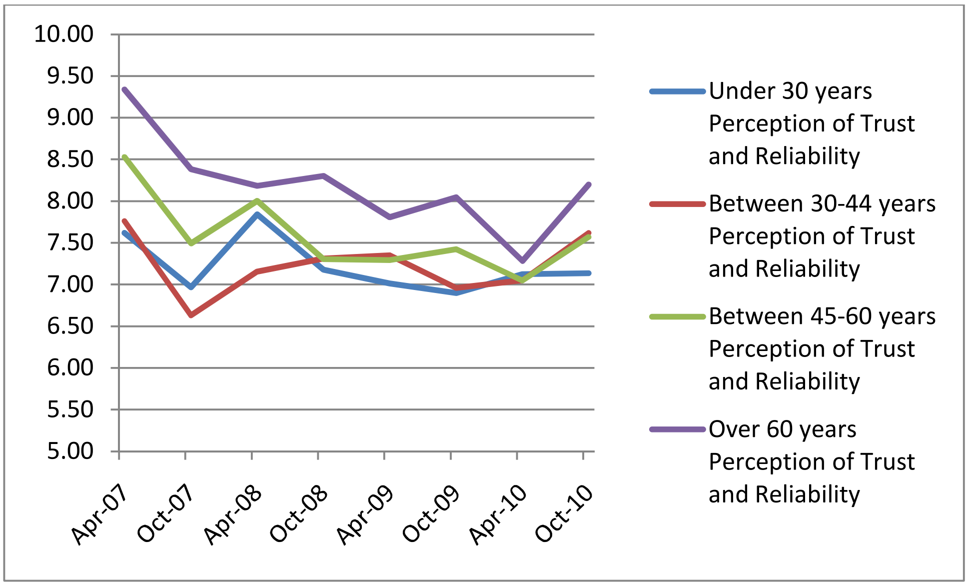
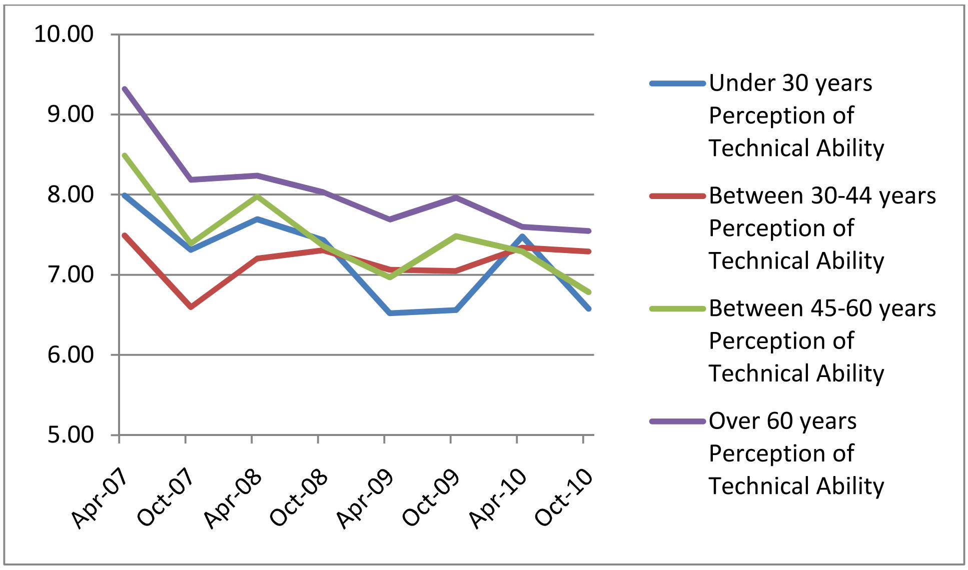


Chart 4b: Relationship between Age and Drivers of Advocacy





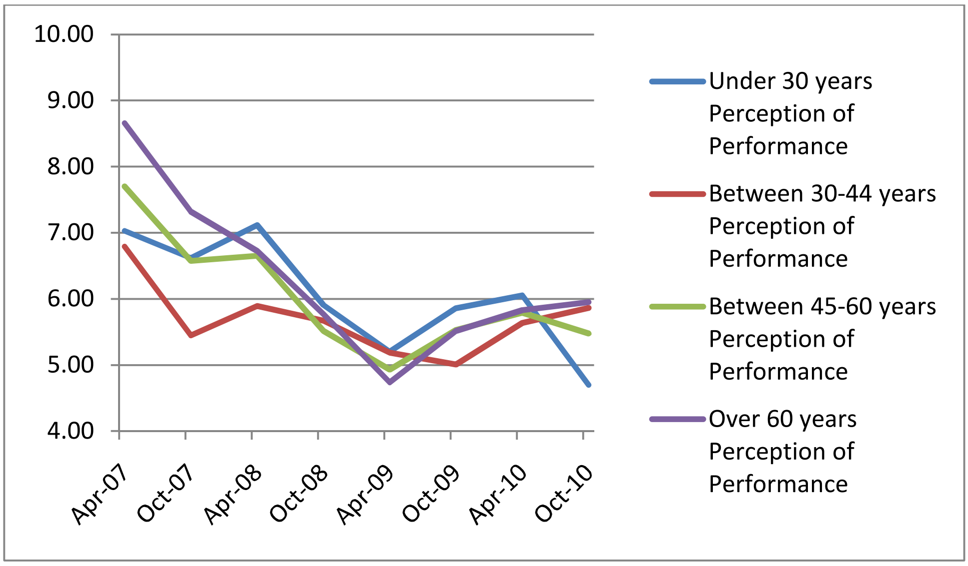
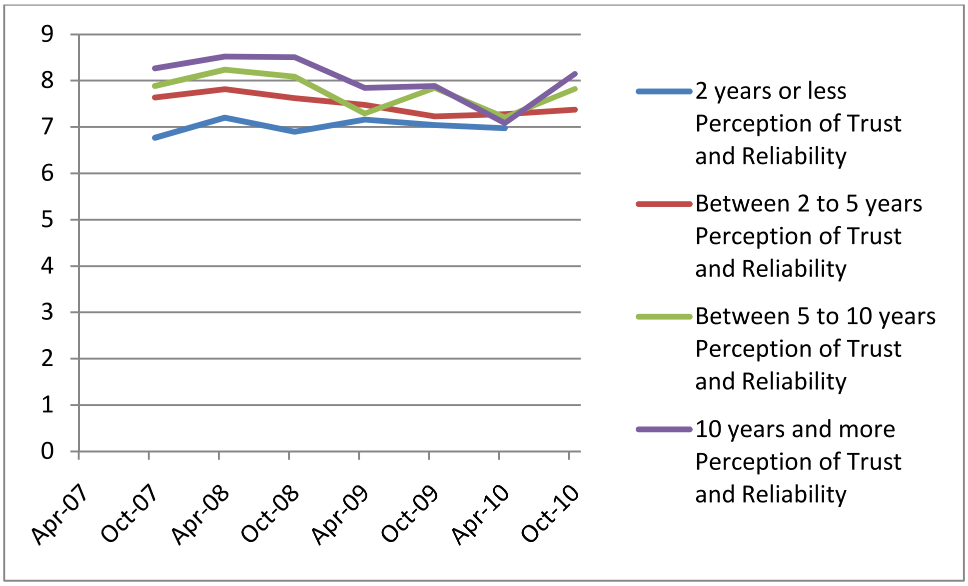
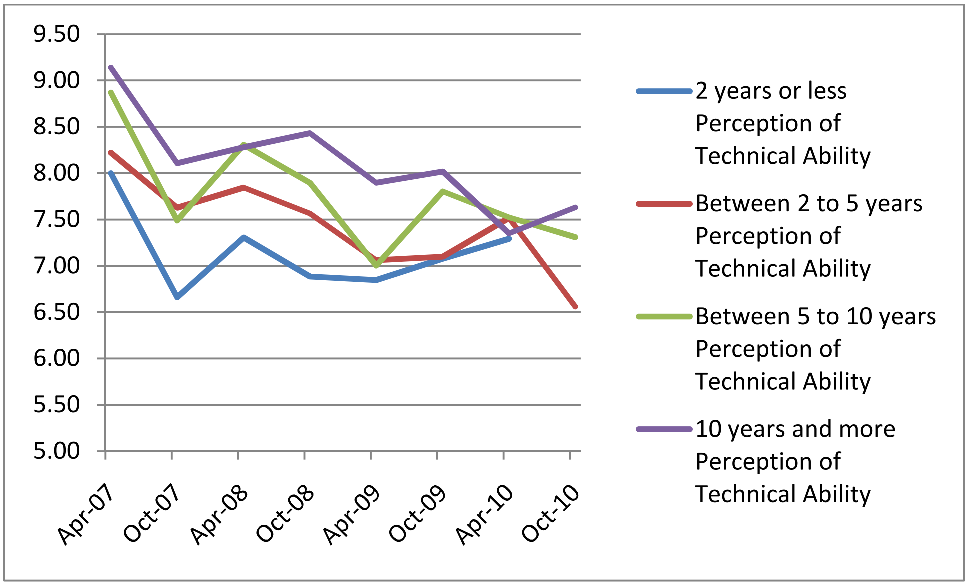


Chart 4c: Relationship between Duration of Advice and Drivers of Advocacy





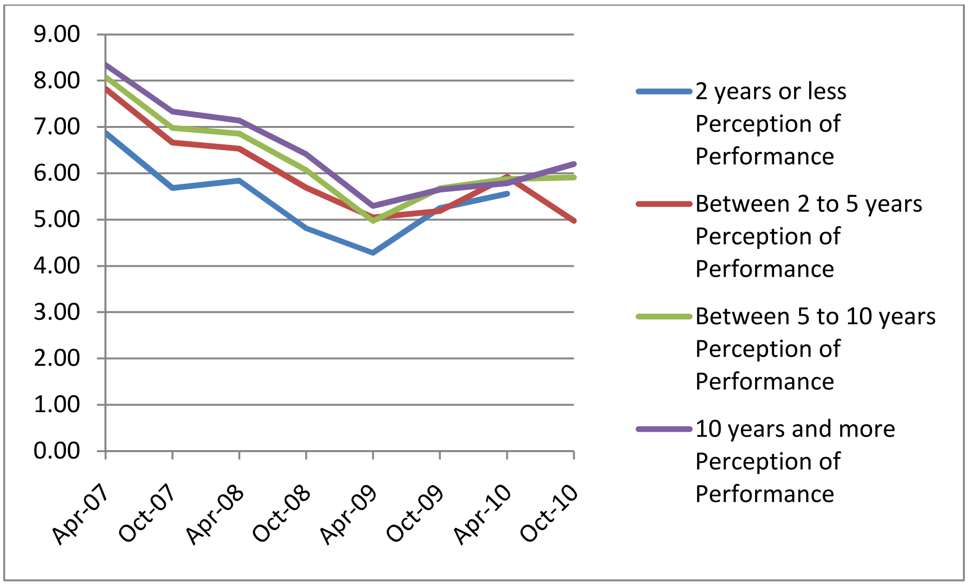
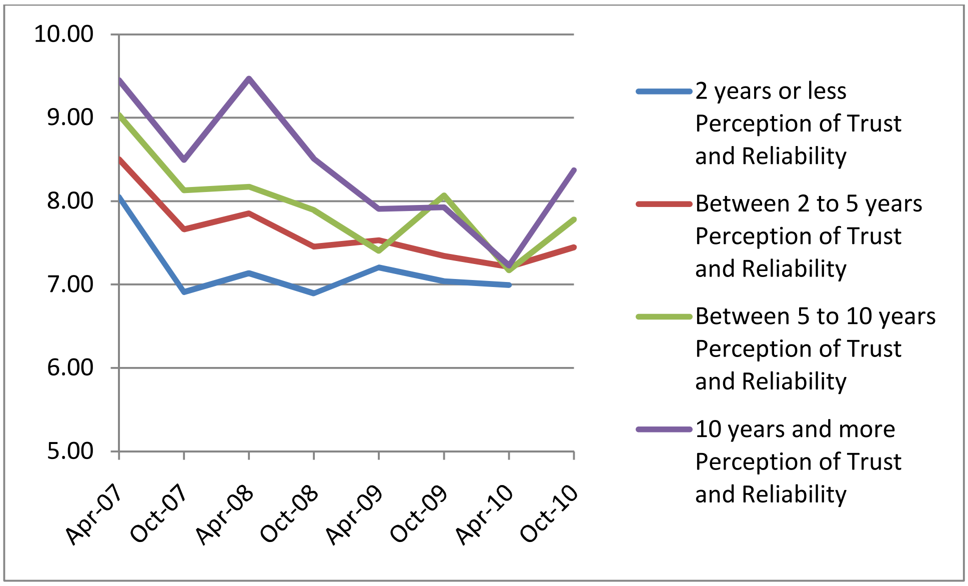
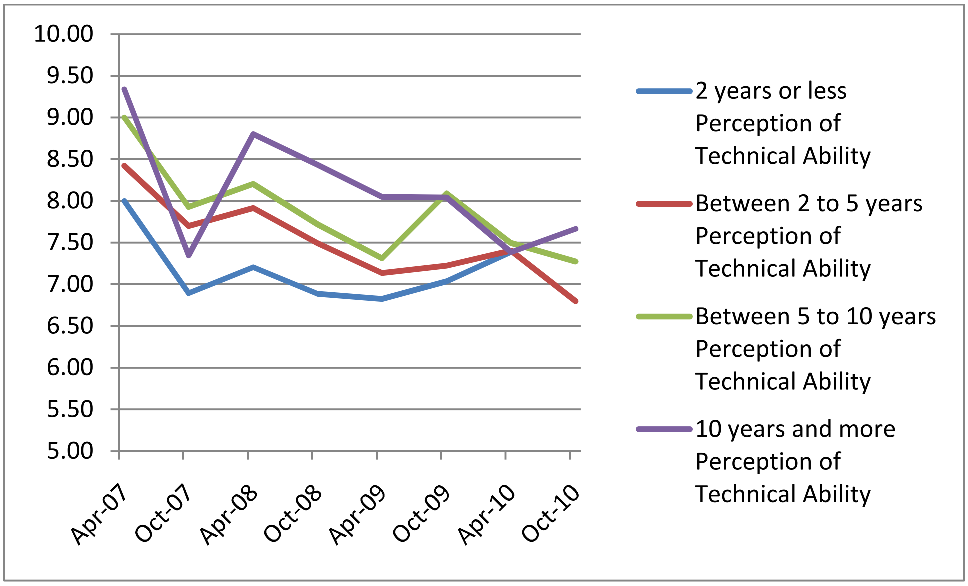


Chart 4d: Relationship between Duration of Advice with Same Adviser and Drivers of Advocacy





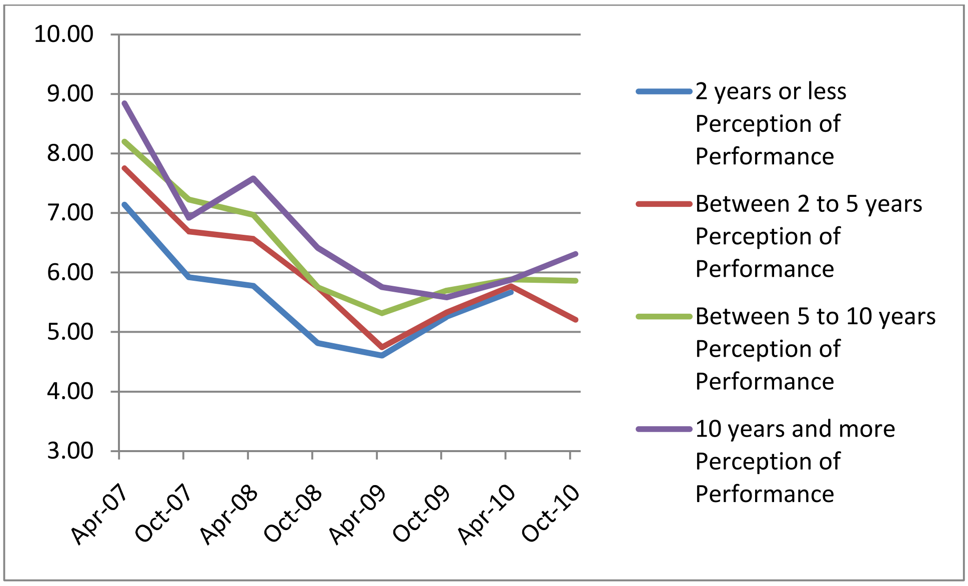
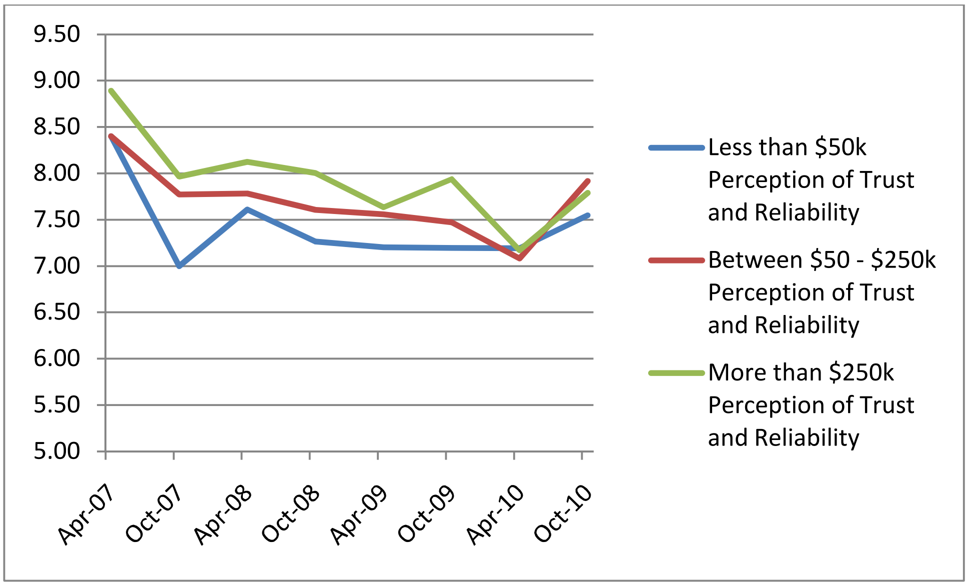
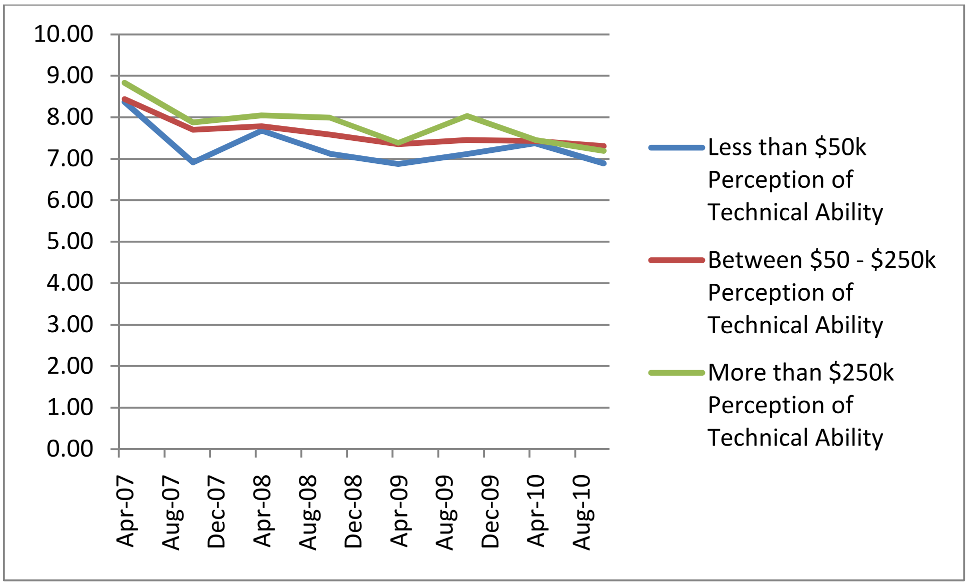


Chart 4e: Relationship between Investment Levels and Drivers of Advocacy





APPENDIX 5: HISTORICAL INDEXES

Chart 5a: Lifeplan ICFS Financial Advice Satisfaction Index

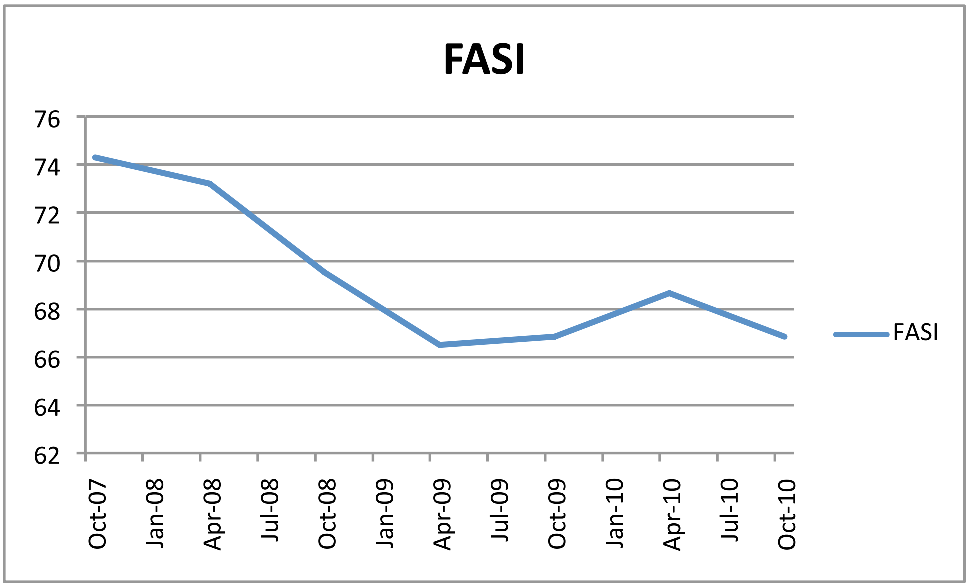


Chart 5b: Drivers of Lifeplan ICFS Financial Advice Satisfaction Index