

FINANCIAL PLANNERS MARKET RESEARCH

(QUANTITATIVE PROJECT)

KEY HIGHLIGHTS

Final
July 2006



Background

For the second year running the Australian Stock Exchange (ASX) has worked with leading market research company ACNielsen on its annual research of the financial planner market. ASX's participation has involved the provision of its membership database for the sample of the research.

Through this research ASX was keen to:

- better understand the extent to which Financial Planners are using and recommending listed investments to clients, and the rationale behind the choice
- gauge the sources used for information and research especially in relation to listed investment
- ascertain the relationship dealer groups have with brokers
- determine the perceived role ASX occupies in the financial planner market and
- gain a better appreciation for the financial planner market as a whole.

This research will continue to assist ASX in developing its role in the financial planner market and identifying the areas where further listed investment support is required to assist financial planners servicing their clients.

This study was undertaken as an online survey in May 2006 to which 740 people in the financial planning industry participated. Other syndicated members to this research were the Financial Planning Association of Australia and Investor Daily, which adds to the credibility of the sampling and hence the findings.

For more detailed results of provider competitive positioning, allocation of business amongst providers and satisfaction, please contact Glenn Wealands (8873 7954) or Stewart Crammond (8873 7970) from ACNielsen

Key Findings

The key findings from this research are divided into:

- ⇒ Respondent Profile
- ⇒ Use of Approved or Recommended Lists
- ⇒ Listed Investments: Demand, Training, Administration and Remuneration
- ⇒ Broker Relationship
- ⇒ The Role of ASX
- ⇒ In Brief: Information and Research, Advisor Allocations of Business, Dealer Group Dynamics, Remuneration and Desktop Financial Planning Software.

Respondent Profile

- The 2006 respondent base consisted of 79% financial planners (up from 72% in 2005), 5% general managers/business owners, 4% para-planners, 2% specialist SMSF and 10% other (eg research, compliance etc).
- As in 2005, a quarter of respondents manage between 101 to 200 clients each, while one in five manages between 201 to 500 clients. The average number of clients increased marginally from 183 in 2005 to 186 in 2006.
- Once again, around a half work for organisations that have more than 500 clients. Such clients are diverse ranging from retirees, pre-retirees, wealth accumulators etc.
- Similar to the previous year, around two in five have at least 25% of their clients with \$500,000 or more managed by them. For around a half of respondents this was less than 25% of clients.
- In terms of clients with SMSF portfolios, figures were again consistent, with one in two respondents having less than 10% of clients operating such a fund. One in five had at least 30% of their clients operating a self managed superannuation fund.

Use of Approved or Recommended Lists

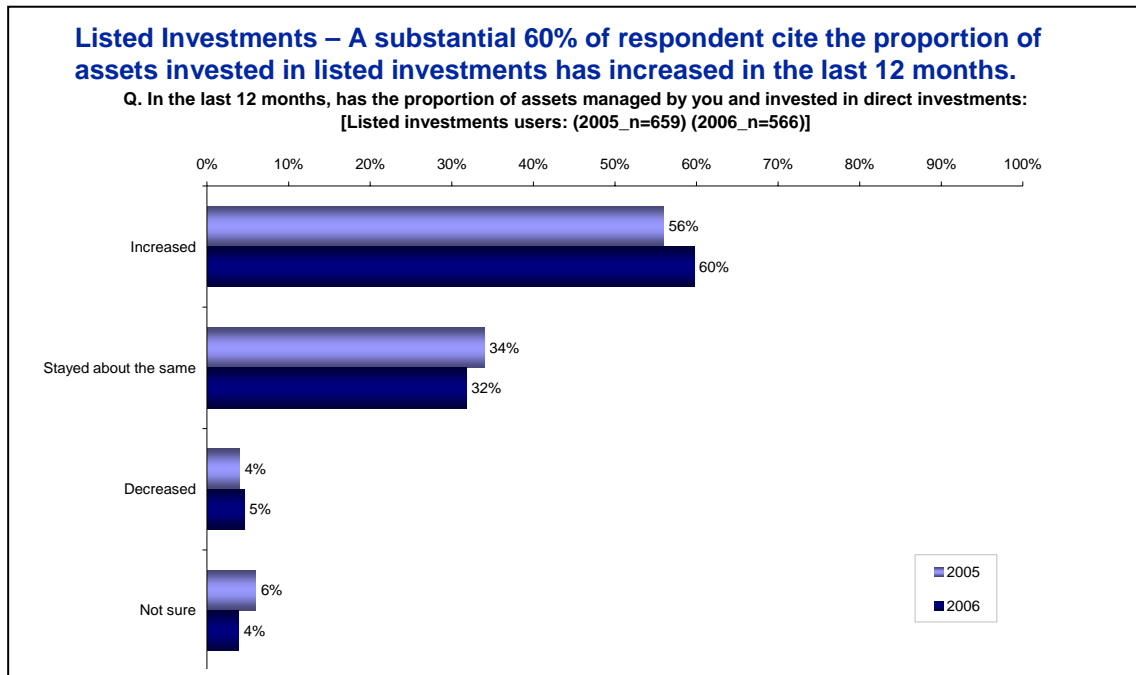
- Of financial planner respondents, once again, nine in ten provide clients with recommendations from an approved list, of which 85% cited their dealer group as being responsible for compiling.
- As shown below, the main products included on the approved list and used in client portfolios are managed funds and allocated pensions/annuities. This is followed by Listed Property Trusts and Australian shares. While insurance bonds are a main product included on approved lists, its usage is somewhat limited.
- What is of interest in the drop in the penetration of financial planner respondents having Australian shares, listed investment companies, listed infrastructure funds and instalments included on the approved list and being used in clients' portfolio, when comparing 2006 to 2005. This was also the case for unlisted mortgage trusts and property syndicates.
- Once again this highlights that the challenge continue to be two fold - to educate dealer groups to have listed investments included on the approved list and to educate financial planners in how to blend them with unlisted products in clients' portfolios.

	Included on approved list	Use in client portfolio
	2006	2006
Managed funds	98%	95%
Allocated pensions or annuities	91%	83%
Listed property trusts	78%	63%
Insurance bonds	71%	41%
Direct investments in Australian shares	62%	59%
Hybrid securities	52%	35%
Listed investment companies	39%	26%
Unlisted mortgage trusts	36%	24%
Property syndicates	31%	20%
Listed infrastructure funds	30%	18%
Instalments	29%	15%
Listed corporate bonds or floating rate notes	28%	18%
Trading warrants and other warrants	17%	6%
Exchange traded funds	12%	5%
Direct investments in overseas shares	12%	8%
Direct investment in property	11%	13%
Exchange traded options	5%	2%
Futures	2%	0%

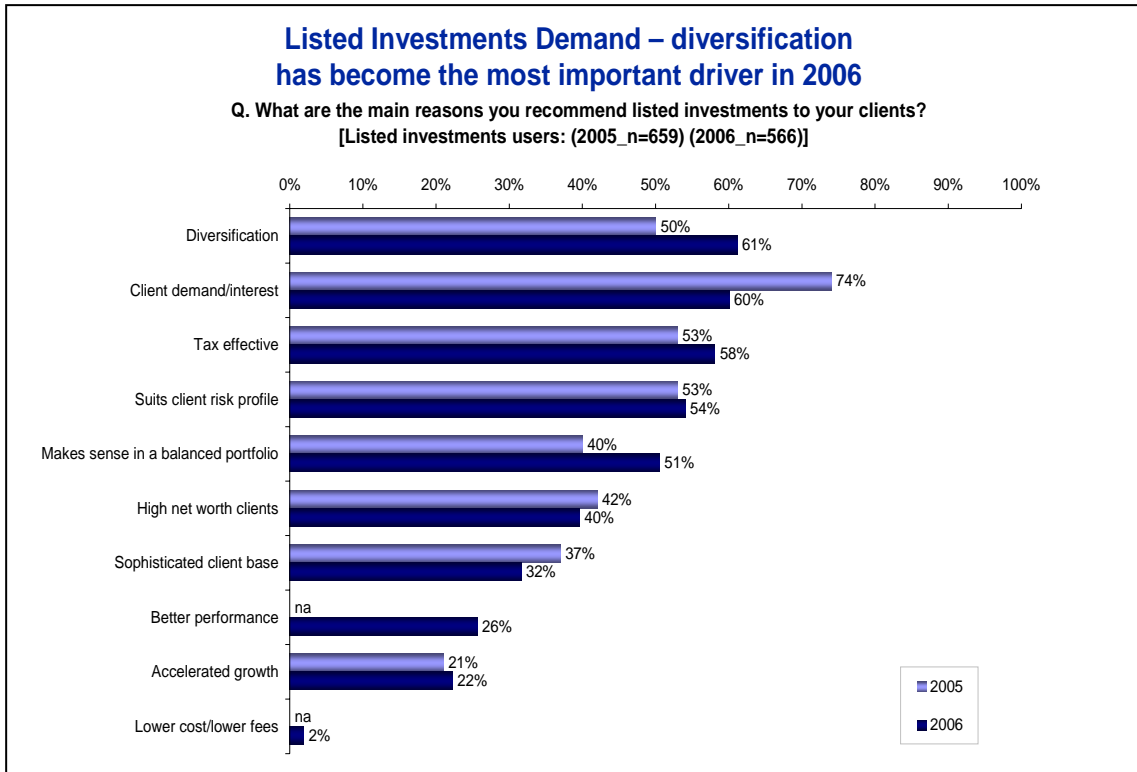
Listed Investments

Demand for Listed Investments

- In total 76% of respondents cited use of listed investments – a drop from 83% in 2005. However of those who use listed investments, 60% claimed that in the past 12 months the proportion of assets managed by them and invested in direct investments increased (a marginal increase from 56%). Once again, for around a third it was the same amount, with a small proportion citing a decrease (one in twenty).

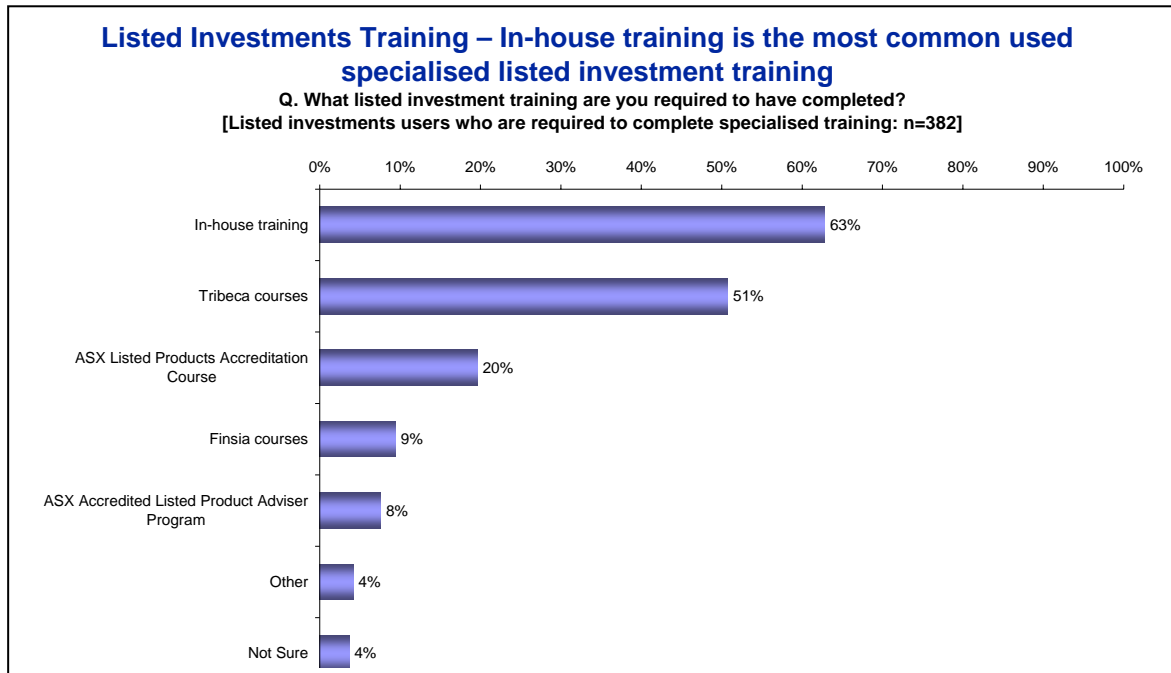


- As can be seen from the graph on the next page, the main reason for recommending listed investments to clients was because of ‘diversification’ which increased from 50% in 2005 to 61% in 2006.
- ‘Client demand/interest’, while still being a key reason has decreased from 74% to 60%. Other key moves have been ‘tax effective’ increasing from 53% to 58%, and ‘makes sense in a balanced portfolio’ going from 40% to 51%. This suggests that financial planners are increasingly seeing the benefits listed investments provide their clients and may be more comfortable in recommending such products.
- However, among those who do not recommend listed investments (24%), the most common reasons were once again ‘not licensed to recommend listed investment’ and ‘not on the approved list’.



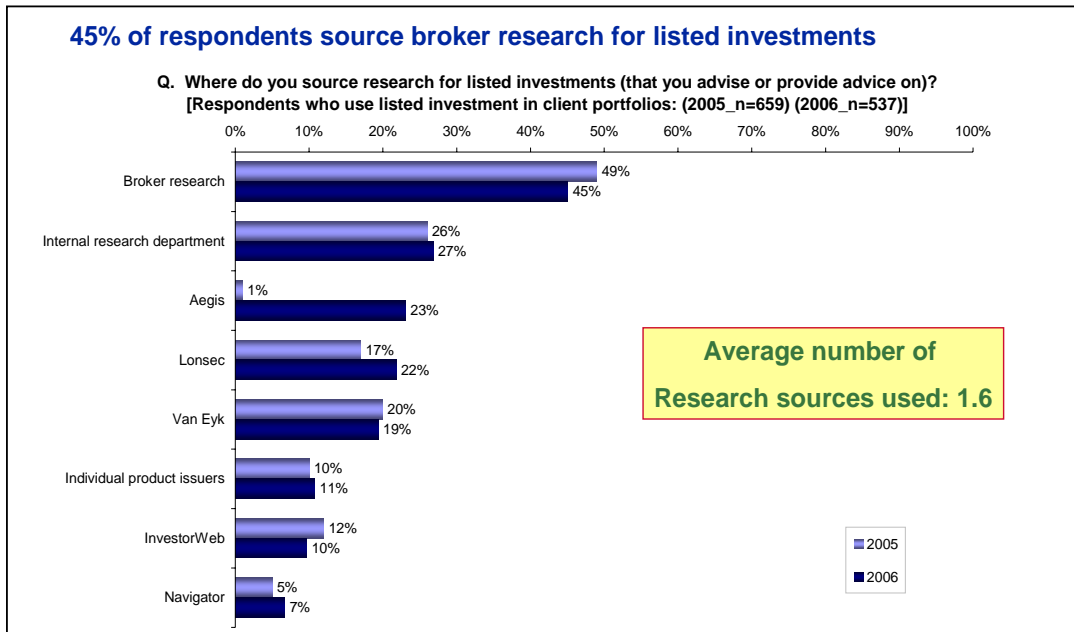
Listed Investment Training

- Two thirds of listed investment users are required by their group/dealership to complete specialised investment training, which are either conducted in-house or by Tribeca. Around a quarter were required to complete specialised training conducted by ASX.



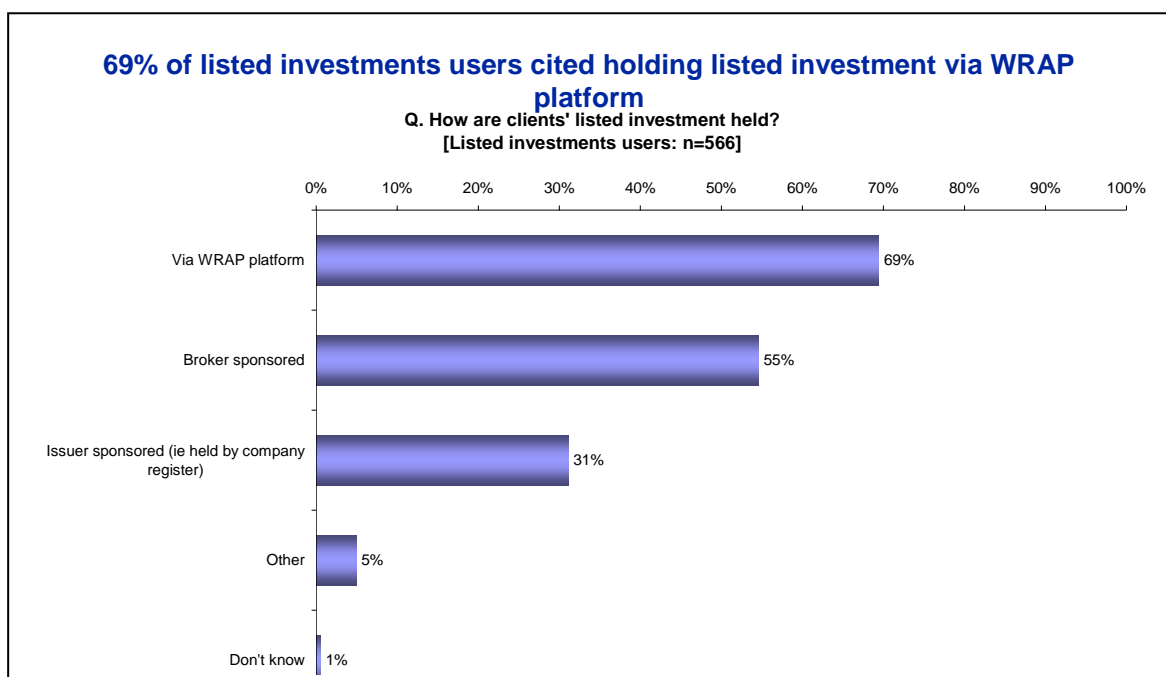
Sources of Listed Investment research

- As highlighted in the graph below, almost half tend to source research for listed investments through broker research, with a quarter using their own internal research department. In 2006, the average number of sources used to research listed investments was 1.6.



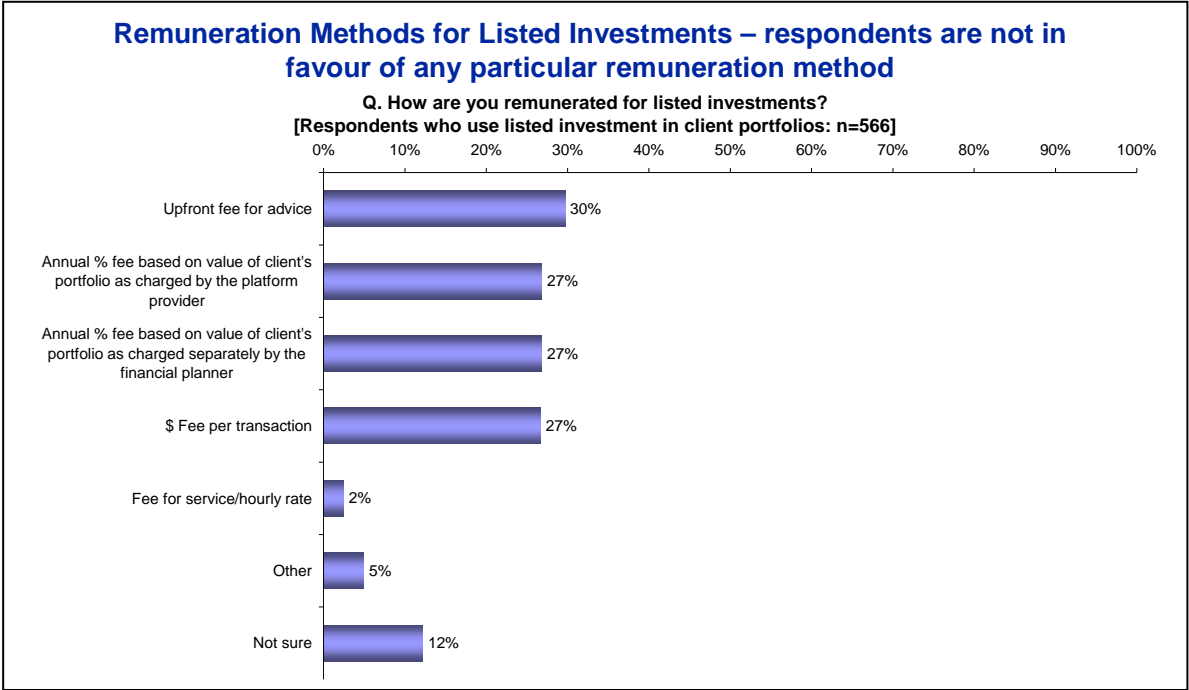
Administration of Listed Investments

- Of listed investment users, 69% hold clients' listed investment via a WRAP platform, while for 55% this is broker sponsored.



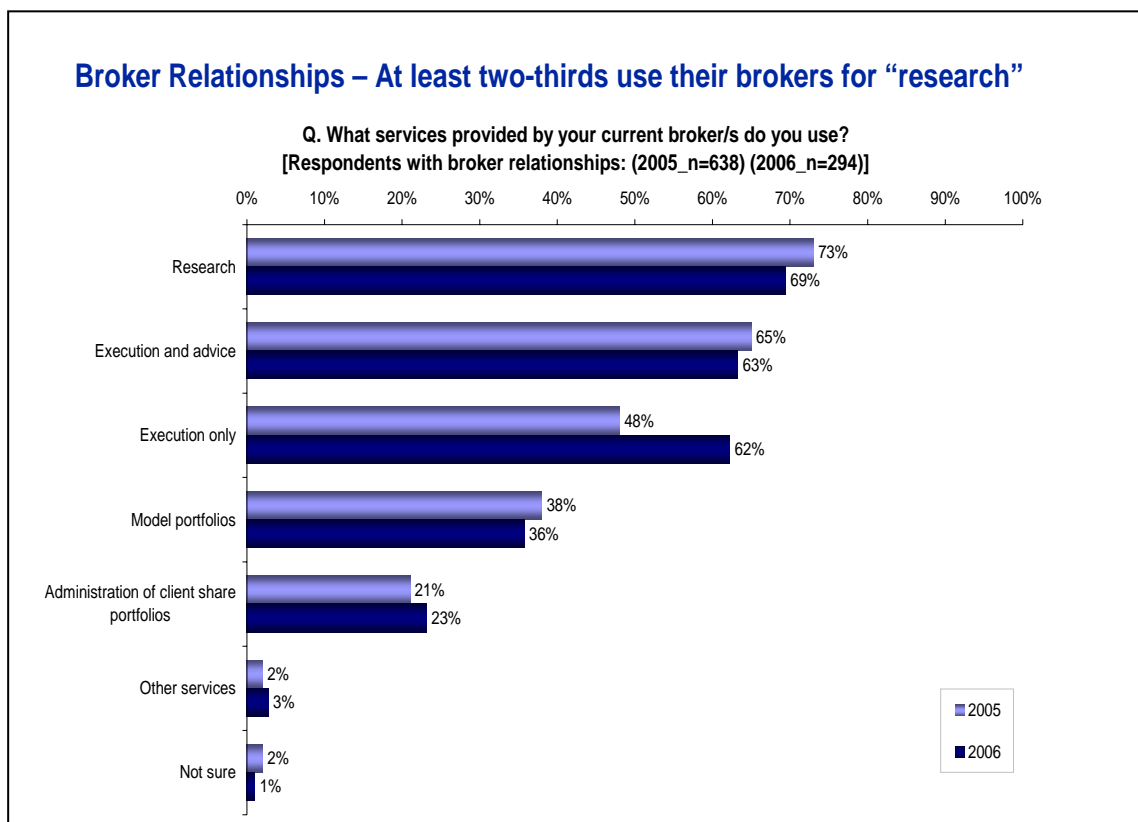
Remuneration for Listed Investments

- As shown below there is no main method being used for the remuneration of listed investments. This may suggest that is dependent upon the business model of the firm or the financial planner market as a whole is still trying to ascertaining the preferred remuneration approach for listed investments.

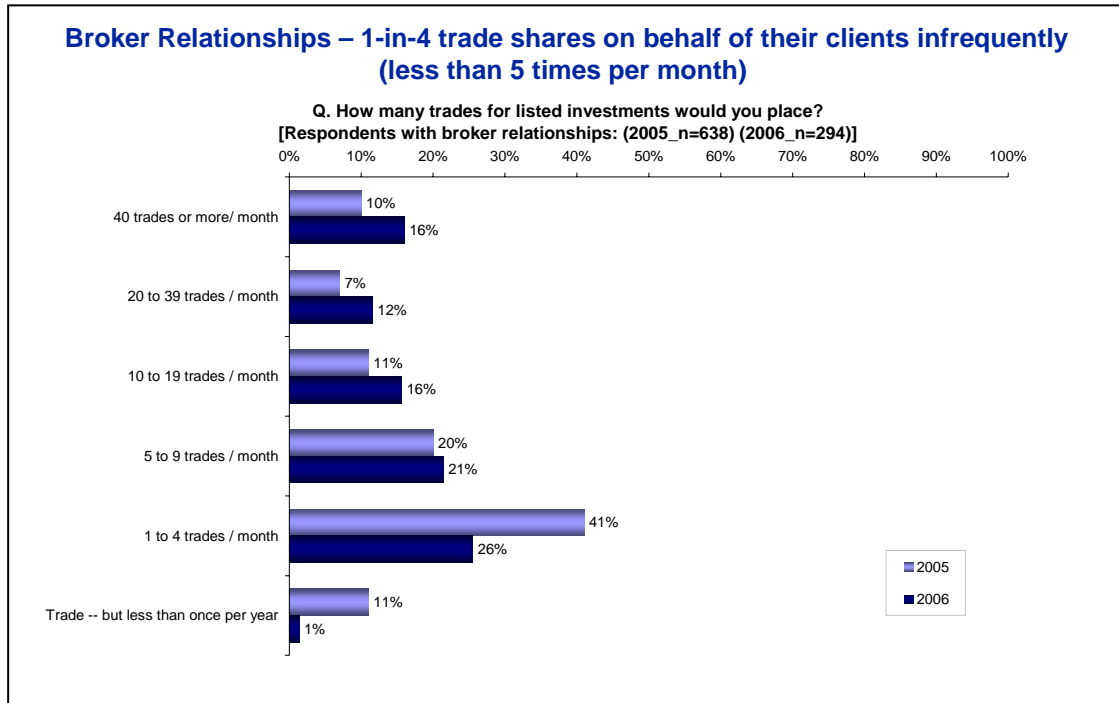


Broker Relationships

- Of respondents who do use listed investments, 39% execute such transactions through a single broker or firm. For 26% this is via a platform and 13% through a panel of brokers. One in five do not place trades on behalf of their clients, hence referring them directly through a broker instead.
- The most frequently cited brokers were Citigroup Wealth Advisors, Bell Potter Securities, GSJB Were, CommSec and Macquarie.. Overall 85% of respondents are very/somewhat satisfied their main broker, an increase from 74%
- As the next graph shows research, and execution and advice are the main services consistently provided by brokers. Of interest, those providing execution only increased from 48% to 62%.



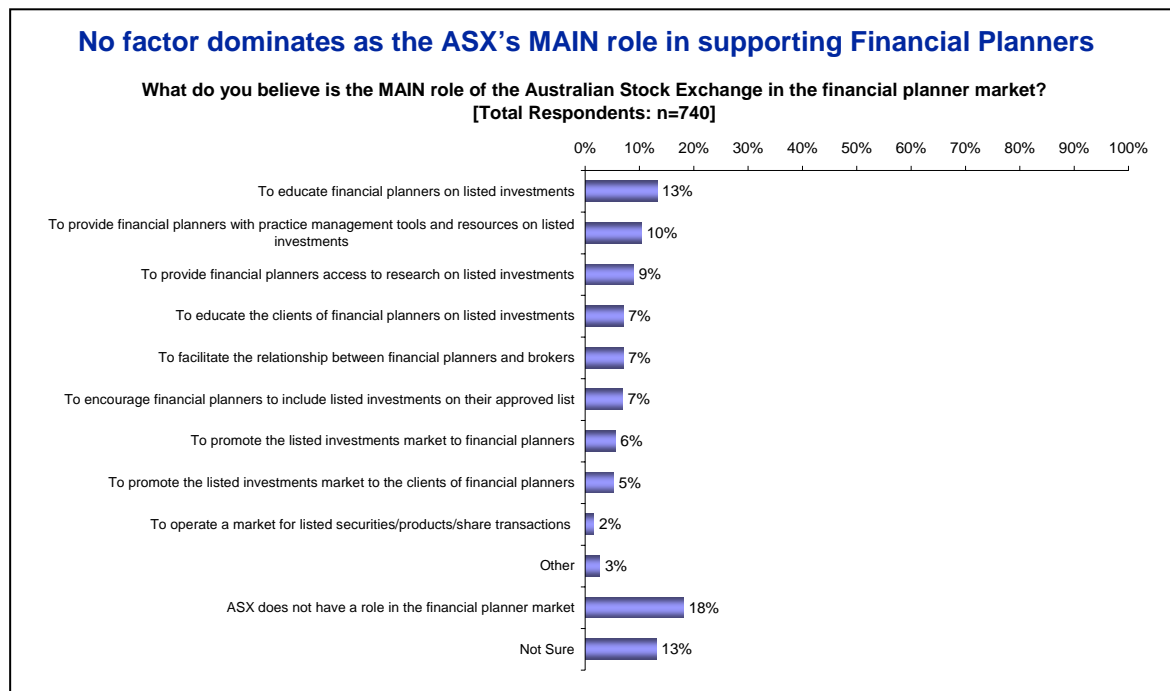
- Activity of financial planners with listed investments is further reinforced with the proportion of financial planners placing at least 20 trades per month increasing from 17% in 2005 to 28% in 2006. Those placing four or less trades per month halved from 52% to 27% respectively.



- Overall three in five financial planners believe that brokers are too dependent on transacting to be able to give good advice (consistent with 2005), while 37% believe that brokers do compete directly with financial planners (down from 46% in 2005).
- Opinions towards their main broker are more favourable and on the whole remain unchanged from 2005:
 - Seven in ten believe their broker provides quality research
 - Seven in ten also have no complaints about their broker
 - Three in five trust the recommendations by their broker
 - Half have brokers which give rebates/discounts on brokerage
 - Only one in ten believe their broker does not understand their needs
 - Once again, two in five remain happy for their clients to deal directly with their broker.
- The only opinion to have changed positively is that more financial planners believe their broker provides a fee structure that suits them (from 67% in 2005 to 80% in 2006).

The Role of ASX

- No one factor dominated what respondents perceived as the main role of the ASX in the financial planner market. As shown below, reasons ranged from ‘to educate financial planners on listed investments’ to ‘to promote the listed investments market to the clients of financial planners’.
- Promisingly, only 18% did not believe the ASX had a role in the financial planner market.



In Brief

Information and Research

- Four in five respondents use specialist magazines and research providers for information and research on investments overall. This was followed by newspapers at one in two.
- The most popular specialist magazines cited for information and research were 'Money Management', 'IFA' and 'Asset'.

Fee Income Allocation

- Approximately 11% of financial planners' fee income is accounted by listed investments. Platforms account for the largest share at 29% followed by superannuation at 18%.

Dealer Group Dynamics

- Of respondents, 77% are a member of a dealer group (up marginally from 74%).
- Although satisfaction with their dealer group has increased from 74% (very/somewhat satisfied) in 2005 to 81% in 2006, the key recommendation for improving satisfaction is to 'extend the approved products/investment list'.

Remuneration

- Within the Financial Planning industry, the most frequently cited remuneration method by seven in ten was trail commissions. Around half mentioned entry fees from managed funds as a fee source. Those mentioning initial consultation fees fell from 58% in 2005 to 51% in 2006.
- The main sources of remuneration were once again trail commissions and fee based on funds under management (each cited by around three in ten).
- Going forward, almost equal proportions (around 40%) of respondents believed the above two methods will be their main source of remuneration.

Desktop Financial Planning Software

- For those with desktop financial planning modelling tools or software (around 90%), the most popular, once again, was Visiplan.

Final Comments

The focus for ASX appears to be three fold:

1. Strategies to increase the proportion of financial planners who use listed investments
 2. Continue to promote listed investments to financial planners and their clients
 3. Continue to develop a relationship with dealer groups and financial planners
- As the majority of respondents use an approved list, having listed investments on that list is key. With 85% of respondents citing their dealer group as being responsible for compiling the approved lists, suggests that the dealer groups need to be encouraged to place listed investments on that list.
 - Among those not using listed investment with clients (24%) cited 'not licensed to recommend listed investment' and 'not on the approved list' as main reasons, again suggests that targeting dealer groups for increased awareness is paramount.
 - This is further reinforced with the main recommendation cited by respondents to increase satisfaction with their dealer group being to 'extend the approved investment list'.
 - However placement alone is only part of the strategy, financial planners need to be encouraged to use listed investments with their clients. Those using listed investments declined from 83% to 76%, with noticeable drops in those using Australian shares, listed investment companies, listed infrastructure funds and instalments.
 - What is promising is the slight incline in those citing an increase in the proportion of assets managed and invested in direct investments from 56% to 60%. Also, among users those placing at least 20 trades per month increased from 17% to 28%, while those placing 4 or less trades per month decreased from 52% to 27%
 - This suggests that continued education of financial planners is important as is the provision of tools to help them recommend these products to their clients.
 - As identified, the key reasons for recommending listed investments to clients are 'diversification', followed by 'tax effectiveness' and 'makes sense in a balanced portfolio'. These are clearly communication messages to reinforce.
 - Key communication avenues to reach financial planners are specialist magazines, namely 'Money Management', IFA" and 'Asset', and newspapers
 - With two thirds of listed investment users required by their group/dealership to complete investment training which in part is conducted in-house may suggest an opportunity for ASX to further promote its education courses to this market.
 - Despite declining in popularity, 'client demand/interest' is still a main reason for using listed investments. This does suggest that client education is still warranted.
 - While no one factor dominated respondents perception of the role of ASX in the financial planner market, it does appear to be two fold – to promote, educate, provide tools and provide access to research on listed investments to financial planners; and to promote and educate their clients on listed investments.

About ACNielsen

ACNielsen, a VNU business, is the world's leading marketing information provider. Offering services in more than 100 countries, the business provides measurement and analysis of marketplace dynamics and consumer attitudes and behaviour. Clients rely on ACNielsen's market research, proprietary products, analytical tools and professional service to understand competitive performance, to uncover new opportunities and to raise the profitability of their marketing and sales campaigns.