SEPTEMBER 2020
VOLUME 32 | ISSUE 08
The magazine for FINANCIAL PLANNING PROFESSIONALS

MONEY & LIFE

The collective approach

OLIVIA MARAGNA CFP® AND THE VALUE OF LONG-TERM CLIENT RELATIONSHIPS

PATHWAYS TO SUCCESSION
APPROACHES TO BUSINESS SUCCESSION

EXCHANGE TRADED FUNDS
SOLVING THE ASSET ALLOCATION CHALLENGE

BUSINESS VALUATIONS
BUSTING THE BUSINESS VALUATION MYTH

FPA
FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

SEPTEMBER 2020

CONTENTS

FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

MONEY & LIFE MAGAZINE is the official publication of the Financial Planning Association of Australia

ABN 62 054 174 453
moneyandlife.com.au
fpa.com.au

Level 4, 75 Castlereagh St, Sydney NSW 2000
T 02 9220 4500 | **F** 02 9220 4580 | **E** fpa@fpa.com.au

Supplied images ©Shutterstock. ISNN 1033-0046.

Paper+ Spark

Paper + Spark P.O. Box 443, Pyrmont NSW 2009

EDITORIAL TEAM
Jayson Forrest, Miriam DeLacy, Clifford Fram
editor@paperandspark.com.au

PUBLISHER
Zeina Khodr
M +61 414 375 371
E zeina@ paperandspark.com.au

ADVERTISING
Suma Wiggins
M +61 404 118 729
E suma@paperandspark.com.au

CIRCULATION AS OF
MAY 2020 12,500

Paper + Spark is the custom publisher of Money & Life (www.moneyandlife.com.au) for the Financial Planning Association of Australia (FPA).

A PLAN FOR YOUR BUSINESS

Having a plan in place is something financial planners get. In terms of a financial planning practice, having a plan in place for future leadership or ownership changes is critical. It enables the business to continue to grow and thrive, and ensures that personal matters and goals are considered and achieved.

Business succession planning is also an area that financial planners help clients prepare and plan for.

Has the recent environment made succession planning more or less a priority for you and your clients? With the pressures of the pandemic and a potential recession, how will your business fare?

This edition of your member magazine delves into the many facets of business succession.

FPA [VIRTUAL] CONGRESS

In July, our FPA [virtual] Congress brought you exclusive conversations with our regulators, and following each session a live panel of FPA members dissected and shared their views on what we learnt.

In August, we explored the pandemic's impact on the economy and portfolio design, and how to have compelling client conversations in challenging times.

On 3 September, our virtual Keynote Event brought together financial planners, key stakeholders in our profession and the general public for a showcase of the value of financial planning advice.

Throughout September, the FPA [virtual] Congress focuses on how to apply the FASEA Code of Ethics in Practice.

If you haven't joined us yet, you can register online anytime for access to a library of recordings and live sessions until the end of October.

AUSTRALIANS SEEKING FINANCIAL ADVICE IN TIMES OF CRISIS

Our recent consumer advertising campaign rolled out as the pandemic unfolded in May and June this year. The level of engagement with our audience via the digital advertising was a clear demonstration of how this health crisis has placed significant financial stress and strain on Australians.

During the six-week campaign, over 1,300 client leads came through the FPA's Match My Planner online service, connecting them with CFP® professionals via the app.

The advertising has helped to ensure Australians know they can turn to CFP® professionals for financial advice, particularly during a time of crisis. The ads are available to download from the FPA website and we encourage CFP® professionals to make use of these in their own marketing channels and keep the campaign momentum with the message 'Ask a CFP® professional' when you need financial advice.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter
@ddegori10

LIVE YOUR TODAY, PLAN YOUR TOMORROW: FINANCIAL PLANNING WEEK 2020

The last six months have seen many Australians facing tough decisions about their finances. From accessing super early to managing on a reduced salary, some households are really feeling the pressure. Other people have been saving money due to working from home and cancelled holidays. But with the uncertainty facing the entire economy, they may be more mindful than ever about their saving and spending habits.

Regardless of their unique circumstances, Australians need guidance and support on how to make sense of their financial situation and plan for the best possible outcome. This is the context for our annual Financial Planning Week campaign, which will take place from 5 - 11 October 2020 to coincide with World Financial Planning Day on 7 October. Each year, the Financial Planning Standards Board (FPSB) co-ordinates this event with global affiliates including FPA in Australia. The theme for 2020 is Live Your Today, Plan Your Tomorrow.

Here in Australia, we'll be taking up this theme for Financial Planning Week activities, designed to showcase how FPA members can help all Australians gain access to financial advice for life.

CONSUMER VIDEO COMPETITION

The FPSB is running a global competition in the lead up to World Financial Planning Day. From 5 August to 17 September, consumers can submit a video to show and tell us how working with a CFP® professional could help them plan their tomorrow. Up to five winners will be awarded US$1,000 each towards the cost of a financial plan.

Entries can be submitted at worldfpday.org

THE FPA MONEY & LIFE TRACKER: COVID-19 EDITION

In the lead up to Financial Planning Week, we'll be running a survey to find out how Australians are feeling six months into the pandemic. Touching on personal finances, investments and more, we'll be using these research findings to show the value of financial planning via traditional and social media, and the Money & Life website and newsletter. We'll be sharing a toolkit with FPA members, so you can share research insights with your clients and database.

The FPSB is also hosting a live global event for financial planners focusing on how financial planning professionals can survive and thrive in uncertain times.

More details to come in our Money & Life fortnightly email newsletter for financial planning professionals.

The FPA congratulates the following members who have been admitted as

CERTIFIED FINANCIAL PLANNER® PRACTITIONERS

NSW

Jason Menzies CFP®
Infineight Financial

Alex O'Loughlin CFP®
Ballingers Financial Planning

Daniel Creagan CFP®
William Buck

Danielle Liddy CFP®
UniSuper Management

Paul Selikman CFP®
Lipman Burgon and Partners

QLD

Luke Marshall CFP®
KDM Financial and Estate Planning

Mikaela Holmes CFP®
MGD Wealth

Luke Andersen CFP®
Eureka Whitakker Macnaught

Omarr Hussain CFP®
Commonwealth Financial Planning Limited

Darla Craven CFP®
Mutual Trust

VIC

Ga Yee Chan CFP®
Vostro Private Wealth

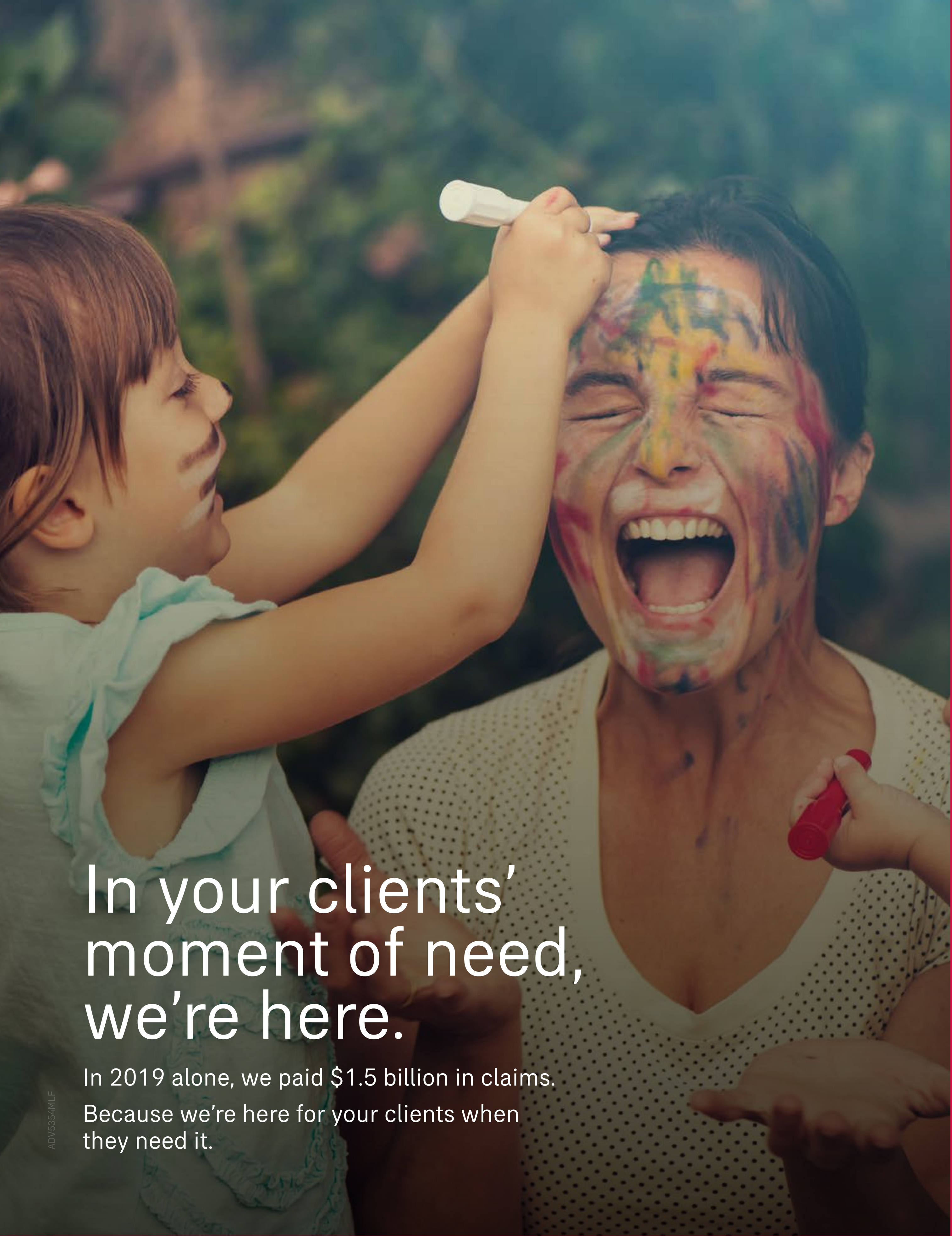
Andrew Greve CFP®
OP Wealth

WA

Bruce Cooper CFP®
Perpetual Trustee Company

SA

Steven Radic CFP®
My Plan Financial Planning



HEALTHIER, LONGER, BETTER LIVES

aia.com.au

ASK A CFP® CAMPAIGN DRIVES INCREASE IN CONSUMER ENQUIRIES AND CONFIDENCE

Each year, the FPA runs a consumer advertising campaign aimed at promoting the benefits of working with a CERTIFIED FINANCIAL PLANNER® professional. The 2020 campaign ran during May and June, with costs covered by the annual marketing levy paid by CFP® professional members.

This year we took a different approach to creating and rolling out the campaign. In developing creative ideas, we collaborated with a working group of CFP® professionals and shared these with the wider CFP® community for their input. This helped us ensure the overall campaign concepts would support CFP® practitioners in addressing the key needs of their potential clients.

In the context of COVID-19, there was also a need to refine this messaging to clearly address the most immediate financial advice needs of Australians at a very challenging time. The social distancing and work from home restrictions in place also meant a change in our distribution strategy, with an exclusive focus on social media and radio advertising, digital channels and podcasts.

The advertising messages framed some of the key financial concerns Australians have been facing through the COVID-19 pandemic. The five messages included simple questions such as: How long will my money last?, and How will my retirement be affected by COVID-19?.

Each question is paired with the answer Ask a CFP® professional, reminding Australians they can turn to CFP® professionals for help and guidance through these difficult times in order to deal with their immediate financial challenges and prepare for the future.

Strong results from the campaign have included significant growth in enquiries to the FPA's Match My Planner service, as well as 50,000+ website visits and high levels of trust in CFP® professionals.

2020 ASK A CFP® CAMPAIGN RESULTS

- 1,306 potential client leads generated from the FPA's Match My Planner service – a 353 per cent increase in monthly traffic to the service over the six weeks of the campaign.
- 53,277 website visits, with viewers spending an average of five minutes reading content.
- Of the five campaign messages, 'How long will my money last?' achieved the most interest.
- Research from CoreData* tracking consumer sentiment in response to the campaign showed an average awareness level of 38 per cent for CFP® professionals. This increases to 62.9 per cent for high income earners.
- This research also shows nine in 10 consumers trust a CFP® professional to deliver reliable and valuable advice when compared to other professionals.
- Consumer demand for the CFP® designation tops all the designations/qualifications in financial planning.

Social media images and a short animation from the 2020 campaign are available on the Advertising HQ section of the FPA website at fpa.com.au/advertisinghq. CFP® professionals are welcome to download and use this content in their own channels and marketing activities.

| *FPA COREDATA BRAND TRACKING RESEARCH, JULY 2020*

COMPLAINTS AND DISCIPLINE
APRIL – JUNE 2020

In the April to June quarter, the FPA received one new complaint, finalised one complaint, and have six ongoing complaints.

Of those ongoing complaints, four are in the process of investigation, where information has been requested from members and complainants, one is in the process of finalising the report for the Conduct Review Commission (CRC), and the final matter is currently with the CRC for determination.

AUTOMATIC TERMINATIONS

Two members were terminated during the quarter. Both members were subject to banning and disqualification orders from ASIC.

ACADEMIC MISCONDUCT

No Academic Misconduct complaints were raised in the April to June quarter.

ASSISTANCE AND ENQUIRIES

If there is a specific area of compliance, or ethics in financial planning that you would like explored, please contact the team by email at professional.standards@fpa.com.au.

Alternatively, if you are facing an wethical conundrum that you would like to discuss with an independent expert, the Ethi-Call service with The Ethics Centre is available for Members. Further information about this service can be accessed on the FPA website at ***fpa.com.au/ethi-call.***

6	Complaints ongoing as at 1 April 2020
1	New complaint
1	Closed complaint
6	Complaints ongoing as at 30 June 2020
0	Members suspended
0	Members expelled (Conduct Review Commission)
2	Members terminated (Constitution)
1	Other sanction
0	Referred to Professional Designations Committee (PDC) for Sanction

AUSSIE CONFIDENCE DROPS WITH COVID SECOND WAVE

1 IN 3

Australians expect to spend less time at their workplace as a result of COVID-19.[1]

78%

of SMEs have reported a decline in revenue due to COVID-19.[3]

31%

of people born overseas felt very concerned about their health due to COVID-19, compared to 13 per cent of people born in Australia.[2]

2 IN 5

SMEs have had to reduce staff numbers.[3]

69%

of SMEs have reported increase concern about the personal wellbeing of staff.[3]

SOURCE:

1. Household Impacts of COVID-19 Survey, 10-15 June 2020, Australian Bureau of Statistics.
2. Household Impacts of COVID-19 Survey, 10-23 May 2020, Australian Bureau of Statistics.
3. COVID-19 SME Research Tracker, ACA Research.

YOU SAY

There's no doubt that business owners throughout Australia face challenging conditions for turning a profit. With economic disruption set to continue, three financial planners comment on what this could mean for business valuations and succession planning.

Alex Ilievski CFP®
Director
Sydney Wealth Partners

James McFall CFP®
Managing Director
Yield Financial Planning

Fran Hughes CFP®
Head of Financial Solutions
Nexia Perth Financial Solutions

Business succession has slipped down the agenda for many owners. For the time being, they're likely to be more preoccupied with keeping their business going, rather than making plans to realise its value through a transition to new ownership.

Have recent changes to the business environment made succession planning more or less of a priority for owners?

AI "From my experience there hasn't been any additional urgency from business owners to get their succession planning in order. If anything, it has been pushed down the priority list for many. Business owners who have seen a contraction in revenue have in turn focused their mind on business costs.

As a result of this focus, business succession has been seen as an additional cost in an environment of declining revenue, rather than a long-term necessity."

JM "The dramatic reduction in financial planner numbers over recent years would suggest that this is definitely the case. Future changes to financial planner education standards, the abolition of investment commissions, the reduction of insurance commissions and the heightened regulatory environment have likely led all financial planners to question whether they want to continue. Whilst several have already left, I am aware that several more are preparing to exit. Those that stay must reinvent themselves or are already part of the new wave of thinking, which is transforming the financial industry in Australia."

FH "Succession planning is typically triggered by the need of the business owner to exit due to retirement or to crystallise capital gains. In these uncertain times, it is no wonder business owners are holding off succession planning for fear of fluctuating factors around such things as goodwill, net profit and future sales.

With the COVID-19 economic pause, valuations may be artificially dialled down due to a slow-down in business activity, causing a mismatch of the business owner's expected sale price from potential buyers."

How has COVID-19 changed the risks owners face when it comes to the continuity of their business?

AI "For the first time in our lifetime, we've had a health crisis that has triggered a global economic crisis with no clear path as to how or when conditions will abate. The continuity of many businesses is now at the mercy of Government support continuing, having temporary relief to trade while insolvent, and avoiding further lockdowns. All factors beyond their control.

We simply don't know what the landscape will look like and how much collateral damage will occur when Government support is wound back or withdrawn. Apart from further lockdowns, and changes to long-term consumer behaviour, the collateral damage associated with any wind-back of Government support is perhaps the most significant short-term risk when it comes to continuity.

A thriving business in 2019 may no longer be a concern in 2020."

JM "The obvious change we have had to make is shifting how central our office is to our services. COVID-19 has demonstrated to us that we can function as a team and continue to service our clients efficiently and remotely. At Yield Financial Planning in Melbourne, we have been particularly negatively impacted by a second round of lockdown, but technology has helped us to manage this. The trade-off being a heightened cyber security risk. Other risks include market risk and the risk this presents to practice revenue, anti-money laundering challenges and it makes attracting new clients harder."

FH "What we are seeing when analysing the financials of businesses, is that cashflow is being propped up by the Government's stimulus package, including the cashflow boost and Jobkeeper.

Some are using this time to reinvest and innovate their business in times of recession and in preparation for the recovery. That being said, banks are using new techniques to find out who's 'swimming naked' and is resilient enough to get through to the other side. The risks faced by owners is when the Government's safety net is pulled from under them. Can the business survive?"

What are the challenges owners might face when it comes to succession planning during a recession?

AI "Valuations seem to be the area of most uncertainty. Significant challenges can occur when deciding on an appropriate EBIT multiple for valuation purposes. A shift in profitability can leave business owners with the dilemma of how to appropriately value their businesses. Looking beyond this, if Australia is unfortunate enough to suffer more significant economic damage due to lockdowns, business owners may find it difficult to fund all of their succession arrangements through insurance. It is not inconceivable that insurers could withdraw or significantly modify all forms of disability cover for fear of significant numbers of mental health claims."

JM "Technology is the key here. Effective succession planning centres around transferral of process and relationships. Business owners that do not already rely heavily on technology in how they run their practice will struggle creating an effective succession plan, as they are relying on physical documents. Buyers should naturally be wary about buying books of business on multiples of earnings, that are market linked. Banks are more cautious about lending, making funding harder to come by. People are naturally more cautious when there is uncertainty, preferring instead to focus on making their own position secure, which could result in fewer motivated buyers too."

FH "Three common ways to sell a business is through a management buy-out, employee share-scheme or an outright sale to an external buyer.

With succession planning beginning 18 to 24 months out from sale, the challenges for owners is how do they maximise the outcome on the back of a recessionary environment? How can they strengthen the balance sheet, increase sales and improve the valuation to meet expectations? Furthermore, are there prospective buyers with capital funding ready to make an offer?

However, we are seeing more interest from business owners seeking to explore a succession plan involving a progressive buy-out by key employees."

DON'T GO THROUGH COVID, GROW THROUGH IT

For more than 20 years, Keith Abraham has explored how top performers bring out the best in themselves and their businesses. At this challenging time, he shares his insights on how financial planners can set themselves up to thrive.

I came across this quote recently from Pablo Picasso: "Without great solitude, no serious work is possible." Well, we certainly have had plenty of solitude lately. And when 60 of my 2020 events were cancelled or postponed until 2021, I decided it's not about getting through COVID. Now is the time to grow through it … personally, professionally and commercially.

Now, I know what you may be thinking … 'seriously, is now the time to think about growth?' Absolutely, now is the time to think about growing your client relationships, skills, your expertise and even growing your business. During the past 24 years, I have worked extensively with the top 5 per cent of financial planners in 19 different countries. The advice I have been giving them centres on mastering these three 'next normals' in their business and role:

1. **ENGAGE –** creating engaged, loyal and profitable clients in uncertain and unknown times.
2. **DEVELOP –** developing yourself as a business leader who thinks bigger, bolder and braver in our new business world.
3. **GROW –** generating massive business growth in a market that has changed so drastically that it is hard to keep up.

In order to master these next normals, you and I need to get our heads around what we can and can't control. The way I see it, we need to get clear on this to come out on the other side of this situation and rebound successfully. As you know, the journey is predicted to be long, so here is the roadmap I believe we need to follow to give us something to control and focus on right now.

PHASE 01

RESPOND + REVIEW

With so much confusion, chaos and speculation around, what you and I need to do now is respond and review. We need to respond to what we can control in our life, role, team and business. All we can control now is how we think and what we do next. Some of my clients are thriving and some are just surviving. So, what can you do now and what do you need to do next to ensure you thrive?

For me, I have two main things to focus on. One is to connect with all of my clients and make sure they are okay. When COVID first hit, I made 300 personal phone calls in the first four weeks. Since then, I have made an additional 100 phone calls and sent more than 150 text messages, just to check in with people.

I am not selling anything, I just want to be a calm voice and be of service to the clients who have been so great to me over the past 24 years. Both you and your team must reach out to key clients and business partners frequently to check in on them.

If you want to be proactive and grow your business during these times, then identify everything you need to fix, improve, transition and create in your business while you have the time. This may be the only time in your working life you can dedicate enough time to work on your business to-do list.

Look to complete everything that will assist you to rebound faster, stronger and better than before in the history of your business.

It is so easy to become reactive as we go through this situation. Now is the time to be adaptive and work on becoming proactive.

PHASE 02

RESET + REFOCUS

Whatever goals you had set for 2020 or this current financial year, they are going to have to change. So, you will need to reset your goals and each one of your team members will need to do the same. They need to establish their own next normal. It would be easier to just keep putting out the fires, but you need to reset the goals – not for the rest of the year, just for the next 30 and 90 days.

The next part of this phase is to refocus yourself and your team members on these key areas: projects, people, priorities and personal. To clarify your thinking, answer the questions below and ask your team members to do the same:

PROJECTS

What projects do you need to be working on that will create momentum once the crisis is over?

PEOPLE

What additional skills, knowledge and talents do you and your people need to support the way business will be done moving forward with your clients?

PRIORITIES

What objectives do each of your team members need to complete this week and what is their number one focus for the week ahead?

PERSONAL

This is all about you. What non-negotiable daily habits are you completing consistently to ensure you have the energy and mental wellbeing to rebound successfully?

PHASE 03

RECALIBRATE + REBOUND

There will be a new normal. No one is sure what that looks like at the moment and it is difficult to predict, but how we went about our business in January 2020 is going to be very different by the time we get to December 2020. So, we need to recalibrate our mindset and be agile enough to cope with vastly different and rapid change.

My suggestion is to pick three sets of skills you and your team members need to master in the next 30 days. In the past three months, I have mastered presenting on Zoom, discovering apps and software to better connect with clients online in order to deliver a unique compelling presentation experience, so I can create a virtual offering to connect with anyone at anytime, anywhere in the world. What should this set of skills be for you?

One of my greatest concerns for the business leaders I work with is they are exerting a great deal of energy, effort and emotional capital at the moment. My fear is that you will also become fatigued as you hold your business and team together. So, my question to you is what mindset or attitude do you need to have now in order to have the energy and enthusiasm to take your business on the next part of the journey, so it can rebound in a tough marketplace? Do you need to be courageous, tenacious, limitless or empowered? You have to pick a mindset and then live it moment by moment if you want to rebound triumphantly.

Keith Abraham is a professional speaker, educator and author on creating high performance leaders and building business growth. He will be presenting a session at the FPA [virtual] Congress on 19 October titled: Conquering the Next Normal.

POLICY PLATFORM IN FOCUS: LICENSING OF INDIVIDUALS

Continuing with our in-depth series on the FPA Five Year Policy Platform, Affordable Advice, Sustainable Profession, we explore the context that has given rise to recommendations about licensing of individuals to practise as financial planners.

The introduction of a single disciplinary body for financial planning professionals was a key recommendation of the Financial Services Royal Commission. The Federal Government has committed to implementing this recommendation and, notwithstanding delays due to the COVID-19 pandemic, we can expect this to be put into practice within the next 12-18 months. We are moving towards a future where this body will play a central role in upholding professional standards and compliance for the delivery of financial advice.

In making the recommendations in our Policy Platform, we are, in part, acknowledging that this transition is already taking place and seeking to guide the establishment of a disciplinary body that is fit for purpose. It makes sense to advocate for this new body to serve financial planners and consumers in a similar manner to the professional bodies that exist for other professions, such as law and medicine. As the central source of information on medical professionals, their qualifications and status as practitioners, the Medical Board is a trusted, legitimate source of current information on doctors, nurses, psychologists, dentists and more. Law Societies play a similar role for lawyers.

The move towards a central registering body for financial advice professionals is essential for providing consumers with the assurance that they are dealing with a trusted profession and with individual practitioners who are qualified and personally accountable for their conduct.

BENEFITS OF AN INDIVIDUAL FOCUS

With the education and ethical standards introduced by FASEA, financial planning is already well on the way to a model where individual practitioners are held personally responsible for the advice they deliver. Combined with the existing AFSL system that provides a licence to practise to a third party, this model will create two tiers of regulation which will lead to duplication, as well as possible conflicts between the responsibilities of the licensee and the financial planner.

> *"With the ongoing evolution of the financial planning profession away from product recommendations and towards independent, holistic advice, the time may well come for a more comprehensive overhaul of the Corporations Act as it applies to financial advice."*

A move to registering financial planners individually should be accompanied by a removal of the AFSL system from the provision of financial advice. This would avoid the duplication and potential conflicts, and make it clear that practitioners bear the direct responsibility for the delivery of their financial advice. This focus on individual responsibility also introduces a greater degree of freedom for financial planners in choosing how they operate, enabling them to tailor and scale their services to meet the changing needs of consumers.

This is not to say that licensees and dealer groups will no longer have anything to offer to financial planners. We expect that licensees will continue to provide a valuable service to many financial planners through the delivery of support services, compliance assistance, education and training, access to technology, marketing and professional indemnity insurance.

These business models will continue to offer financial planners with economies of scale and services that they need to support business growth and provide the best service to their clients.

The change we are recommending is one of regulatory focus for the Government and a confirmation that responsibility for delivering a piece of financial advice should rest with the individual planner, not a third party.

A LONG-TERM VIEW ON LEGISLATIVE CHANGE

The clear separation of the regulation of financial product from financial advice under the *Corporations Act* is another recommendation that would assist in delivering a fit-for-purpose regulatory framework which promotes

delivery of financial advice in the client's best interests. In making this recommendation, we recognise that reforming the *Corporations Act* is a complicated task and not one that is likely to occur in the short-term or in a single reform effort.

However, while this reform is something that cannot be rushed, we have included it in the Policy Platform in the spirit of ensuring legislation will continue to be reviewed and reformed with this goal in mind. It is consistent with the Royal Commission recommendation that legislation should focus on fundamental norms, and avoid being qualified by exceptions and carve outs.

With the ongoing evolution of the financial planning profession away from product recommendations and towards independent, holistic advice, the time may well come for a more comprehensive overhaul of the *Corporations Act* as it applies to financial advice.

IMPROVING ACCESS TO REAL-TIME DATA

Both Centrelink and the ATO have been making advances in their use of digital technology to enable simple, timely and transparent capture and reporting of personal financial information. In entering into a working relationship with a financial planner, a client is entrusting them with access to their financial affairs, including information recorded and reported by the ATO and Centrelink. In having a suitable level of access to this information, financial planners can base their modelling, planning and recommendations for clients on more accurate, real-time data on their financial position.

PROGRESS TOWARDS A VIABLE FRAMEWORK

Throughout this Policy Platform document, we have aimed for a balance between simple actionable steps and longer term goals for reform in our profession. However, in all our recommendations, we are focused on moving towards a simpler, more practical policy and operational framework that supports the highest professional standards and the best possible outcomes for consumers.

You can download the Policy Platform in full from the FPA website at fpa.com.au/advocacy/fpa-policy-platform. We welcome comments and conversations on this document from members on our FPA Community Portal community.fpa.com.au.

LICENSING OF INDIVIDUALS RECOMMENDATIONS – A SUMMARY

3.1 PROFESSIONAL REGISTRATION

Registering with the single disciplinary body and maintaining accurate information on the register should be the individual responsibility of each financial planner, not their employer or licensee.

Information on the register relating to a financial planner should be verified by the single disciplinary body and represent an authorised record of whether a financial planner has complied with their professional standards.

3.2 SEPARATION OF PRODUCT AND ADVICE

The law should be changed to separate regulation of financial products from the regulation of financial advice.

3.3 FUTURE OF LICENSEES

The law should be changed to focus the AFSL system on the regulation of financial products and remove the requirement for an AFSL to cover the provision of financial advice.

3.4 TAX AND CENTRELINK AGENT STATUS

The Australian Taxation Office and Centrelink should improve their online access arrangements to ensure financial planners are able to act on behalf of their clients with respect to their tax obligations and benefits administered by Centrelink.

REDEFINE YOUR BUSINESS WITH REINVENTION

The 2020 FPA [Virtual] Congress is in its final two months of live online sessions, with an outstanding line-up of speakers ready to inspire and empower practitioners.

Kicking off in July, the 2020 FPA [Virtual] Congress has featured a series of interactive discussions with key regulators that have delved into the major issues that are reshaping the financial planning profession.

As part of the July line-up of speakers, delegates were able to hear about a range of issues from regulatory stakeholders, including ASIC Commissioner Danielle Press, Tax Practitioners Board CEO Michael O'Neill, FASEA CEO Stephen Glenfield, and AFCA CEO and Chief Ombudsman, David Locke.

Commenting on these July masterclass sessions, FPA CEO Dante De Gori CFP® said each of the regulators agreed that financial advice is of national importance, and the affordability and accessibility of financial advice is a critical issue that must be addressed.

"To help address this, there were conversations around the need for scaled and single issue advice, as well as the need to further explore the tax deductibility of advice," De Gori said.

Of particular note was the low level of complaints against financial planners, as confirmed by David Locke. He said that just 1.6 per cent of total consumer complaints received by AFCA were related to financial planning.

De Gori acknowledged the participation of key regulators and Government ministers in this year's series of online events, which included the Assistant Minister for Superannuation, Financial Services and Financial Technology, Senator Jane Hume and the Shadow Minister for Financial Services, Stephen Jones.

He added that as the profession worked towards a brighter future for financial planning, it was essential for the FPA to maintain an open dialogue with Government and the regulators.

"The regulators and Government ministers' presence in our online events this year reflects the important work the FPA is doing on behalf of members and the broader financial planning industry. We are actively engaging these key stakeholders to ensure the concerns of our community are heard," De Gori said.

In August, the FPA [Virtual] Congress explored the economic impact of COVID-19 and how this pandemic has affected portfolio construction.

TWO MONTHS TO GO

This month, the FPA [Virtual] Congress enters its final two months of live online sessions, covering two streams: the FASEA Code of Ethics in Practice, and Professional Wellness and Client Care. These sessions have been specifically designed to bring the financial community together to share insights, learn from the experts and enable practitioners to access CPD hours.

Following the hugely successful [Virtual] Keynote Event on 3 September – where industry experts, including CHOICE CEO Alan Kirkland, Paul Clitheroe and Dr Pamela Hanrahan, joined journalist Helen Dalley to discuss the topic of 'Uncovering the value of financial advice' – there are only seven live masterclass sessions remaining for delegates to access. Here is a rundown of these final seven sessions.

THE FASEA CODE OF ETHICS IN PRACTICE

7 SEPTEMBER,

10:30am-12:00pm (AEDT)

TOPIC: Professional dilemmas and how to use the FASEA Code of Ethics Guidance

PRESENTER: Dr Matt Beard – Moral Philosopher, Fellow at the Ethics Centre

OVERVIEW: In this session, Dr Matt Beard will help you unpack the FASEA Code of Ethics Guidance and explain how they relate to real client situations.

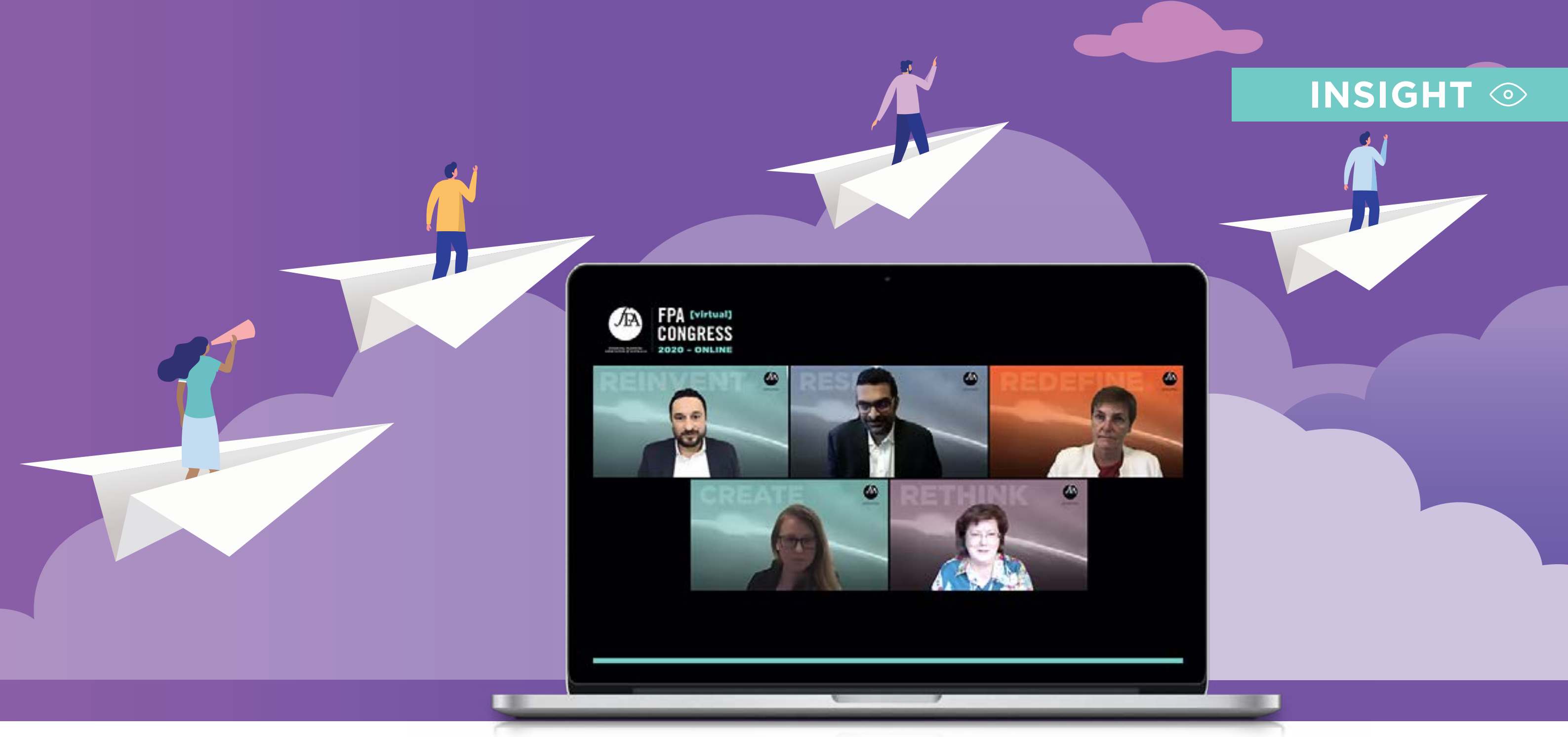
14 SEPTEMBER

10:30am-12:00pm (AEDT)

TOPIC: The education-ethics-trust trilogy

PRESENTER: Dr Michelle Cull – Associate Dean, Senior Lecturer Accounting and Financial Planning, Western Sydney University

OVERVIEW: Learn more about the relationship between education, ethics and trust in this masterclass where Dr Michelle Cull will explore how the FASEA Code of Ethics can be used as a basis to build trust with your clients.



21 SEPTEMBER

10:30am-12:00pm (AEDT)

TOPIC: Navigating a practical understanding of ethics for advice solutions

PRESENTER: Louise Biti CFP®, Director, Aged Care Steps

OVERVIEW: This session brings the FASEA Code of Ethics to life when working with vulnerable clients, including those who lack capacity, have special needs or are experiencing major life upheavals.

PROFESSIONAL WELLNESS AND CLIENT CARE

28 SEPTEMBER

10:30am-12:00pm (AEDT)

TOPIC: How to redefine your value, reimagine your client experience and reinvent your practice for relevance

PRESENTER: Mykel Dixon – Speaker and Creative Leadership Expert

OVERVIEW: Mykel addresses the specific challenges facing financial planners, with a focus on developing mindset and skills to return to work with a renewed clarity, creativity and confidence.

6 OCTOBER

10:30am-12:00pm (AEDT)

TOPIC: Mastering your health for better client outcomes

PRESENTER: Vanessa Bennett – CEO and Founder of Next Evolution Performance

OVERVIEW: Mental health helps you to free up more effective time in your day, take on more clients, identify more opportunities for your business, and enable you to provide better service to your clients without burning out.

12 OCTOBER

10:30am-12:00pm (AEDT)

TOPIC: Tough times don't last, resilient financial planners do

PRESENTER: Heidi Dening – Speaker, author and educator

OVERVIEW: This session is designed to build your resilience, which will enable you to bend rather than break during these high pressured and challenging times. This will also allow you to lead your clients through these challenges, without compromising your own health and wellbeing.

FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

FPA [virtual] CONGRESS 2020 – ONLINE

19 OCTOBER

10:30am-12:00pm (AEDT)

TOPIC: The three simple steps to creating clarity, finding focus and massive momentum

PRESENTER: Keith Abraham – Speaker and author

OVERVIEW: Keith will share with you how to become very clear on the goals you want to achieve for the rest of 2020 and then put in place the strategies to set yourself up for 2021.

LAST CHANCE TO REGISTER

To register for these final live sessions go to fpa.com.au

Remember, by registering for the 2020 FPA [Virtual] Congress, participants can also view on-demand any of the 17 sessions for up to 12 months by accessing the recorded version. By doing so, you can earn up to half your CPD hours for the year.

For more information, visit fpa.com.au/virtualcongress, contact events@fpa.com.au or call 1300 337 301.

“Our clients are always telling us they wish they’d started working with us five, 10 or 15 years ago. If I get the sense that we can’t make that big a difference to someone’s future, then I’ll help them find someone suitable.”

A COLLECTIVE APPROACH TO BUSINESS SUCCESS

Aspire Retire founder and CEO, Olivia Maragna CFP® is an award-winning financial planner and entrepreneur. She believes business success comes from having an entire team focused on delivering outstanding service to clients. She talks to Miriam DeLacy about the value of long-term relationships to the Aspire Retire business model.

There's no question Olivia Maragna CFP® runs a successful business. In the 17 years since she co-founded Aspire Retire, she has collected an impressive swag of awards. From picking up the Telstra Queensland Young Businesswoman of the Year award in 2008 to becoming the first woman to win AFA Adviser of the Year in 2012, Olivia has been recognised as a high-achieving professional, in both financial planning and the business world.

But despite being sought out as an expert for TV appearances and speaking engagements Olivia definitely doesn't think of herself as a 'star performer' and is humble about her achievements. In building the Aspire Retire business and her 15-strong financial planning team, she has shaped a culture where it takes a whole team of dedicated experts to ensure every client gets the service and peace of mind about their finances that they deserve.

"When we started Aspire Retire, I really stepped into the clients' shoes to consider what someone would want when they engage a professional to look after their financial situation," says Olivia. "Would I rather have one brain working for me or multiple brains looking at what's best for my money and my future?"

"There's also the benefit of each client having a whole set of ongoing relationships within the business," she adds. "It means they'll never be left unserviced when someone from our team takes time off for a holiday or to start a family. I had older clients who approached me early on saying they wanted to work with a young financial planner so they could be confident that I would outlive them and have this knowledge of where they've come from, their goals and what's important to them. And one sure way to foster long-term relationships in our business is to create opportunities for multiple team members to form a meaningful connection with our clients."

> *"Our team approach means each client gets the best skillset from across the firm. As a team, they are 100 per cent across everything and they make sure nothing gets overlooked. They bring different perspectives and types of expertise to the conversation and the strategy that comes from it."*

A BROAD FOUNDATION FOR SUCCESS

Instead of meeting with one financial planner who is the main contact for the client, each Aspire Retire client is matched with a whole team, specifically chosen for their skillset and to listen, understand their goals and work collaboratively on a strategy. "It's beneficial for everyone, including all my team members," says Olivia. "Our team approach means each client gets the best skillset from across the firm. As a team, they are 100 per cent across everything and they make sure nothing gets overlooked. They bring different perspectives and types of expertise to the conversation and the strategy that comes from it."

"It's after our initial meeting that we hand pick the team that has the right skills to suit the client's situation and goals," says Olivia. "We might pull in someone with expert knowledge in direct share investing or estate planning, for example. Not only does this increase the number of touchpoints our client has within the firm, it puts them in front of the most relevant subject matter expert so they're getting the insights from someone who really knows their stuff and they can trust to guide them towards the best outcome."

Trust between clients and their Aspire Retire team also comes from the personalities involved. Olivia is very aware of the gender balance in her broader team and the people selected to service each client. "At the moment our gender split at Aspire Retire is 60 per cent female, 40 per cent male," she says. "We'll always aim to get a mix of men and women on a client's team to give them that diversity of thought and experience."

CREATING LASTING CONNECTIONS

This focus on connection and diversity is also a big part of the 'family' culture that makes Aspire Retire such a close knit community, for team members and clients alike.

"As a female business leader, I'm very conscious that many women in our profession have struggled to progress in their career simply because they wanted to take time off to have a family," says Olivia. "Having this collective approach to client services means no team member is ever in a positon where they don't have the flexibility to take time off, whether that's to travel, study or care for family. They can achieve a balance in life without having to feel their clients will be neglected as a result."

Olivia feels that giving each team member this room to grow as individuals is key to the continuing strength of the team as a whole and the relationships clients have with Aspire Retire. This is why she follows a recruitment process designed to ensure anyone who joins the business will fit right in and make their contribution to this supportive, collaborative culture.

"We don't see a client only once to come up with their plan and it's the same with new recruits," she says. "When we see candidates, it's ultimately the team that decides who will join us. We ask some of our team members to take candidates out for coffee and spend time together, so that everybody gets a feel for whether they belong. It also gives each candidate the chance to ask questions and get the team's perspective about what it's like to work here, so they can feel confident that it's a culture they identify with.

"Listening to our team and getting that culture right is really one of the greatest contributors to our success," Olivia adds. "We want everyone to enjoy coming to work and we are a really close-knit group of people. We enjoy lunch together and many see each other outside of working hours. Celebrating the successes, big and small, is very important to us. Those proud moments when someone welcomes a new member to the family, buys a home, passes an exam or has a work anniversary are all times when we come together to celebrate what each of us has achieved."

ADVOCATES FOR FINANCIAL PLANNING

It's not just team members who get to feel like they're part of the Aspire Retire family. "Thanks to the close and long-lasting nature of our working relationships, the team are treated like family by clients too," says Olivia. "We'll get invitations to birthdays and weddings and will often be the only non-family members attending."

The selective approach Olivia takes in choosing team members also applies when it comes to clients.

"We're very particular when it comes to working with clients and only take on about one in 10 of our initial enquiries," says Olivia. "We take time to speak to prospects on the phone and ask important questions to find out what their concerns and goals are and what they are hoping to achieve from seeking financial advice. Rather than the focus being on the size of the client's investments, it's about the value we can add to that client. No matter what their level of assets may be, if I don't think we're the right practice to help them, then we will point them in the direction of finding a suitable adviser.

"I'm a big believer in only taking on clients that you can confidently add value to and being honest when you aren't the right fit for a client – this is a vital part of advocacy for the financial planning profession. As a successful business, we want to engage with those clients who will become raving fans of our service and of financial planning as a positive force in people's lives.

"Our clients are always telling us they wish they'd started working with us five, 10 or 15 years ago. If I get the sense that we can't make that big a difference to someone's future, then I'll help them find someone suitable. Taking on clients should never be about just raising another invoice – advocacy comes first."

DELIVERING EXCEPTIONAL VALUE

Although Aspire Retire is committed to advancing the positive reputation of the financial planning profession, Olivia and her team also enjoy the personal rewards that come from their work.

"It's so much more than a job," she says. "We are all driven to make a tangible difference in the lives of our clients. Seeing them achieve their goals or helping them take steps that make their long-held worries disappear. This is what we come to work for."

This sense of purpose and a strong, collaborative team might be key for delivering these outcomes for clients. But there are two other qualities that are just as essential to the Aspire Retire success story.

"It takes hard work," says Olivia. "We can't make an impact if we don't give it 100 per cent. And avoiding complacency is also a cornerstone of our service approach. We constantly strive to do better and be better. What you've put in place may be the best you could do at the time with the resources you had. But things change and that means you could be having a greater impact if you go back to the drawing board and rethink the strategy."

This idea of scrutinising their own work to ensure they're delivering value extends to how they determine fees for each client from year to year.

"Every time we do a client review, we quantify the impact we've had on their whole financial position," says Olivia. "We look at the strategic decisions we've made and how this has advanced each client in how secure they are now and how much closer their goals have become. We then look at the year ahead and the value we can add. If we don't feel confident that we can continue to add as much value, we'll reduce the fees.

"With a handful of our clients, we've actually converted them to pro bono," she adds. "One of the first clients we ever had when we started the business 17 years ago is a good example. We've seen him through his working life and his retirement and now his wife is in aged care. He can still benefit from our advice but his situation is so much simpler now so we can't justify charging him fees. That's a real mark of success for us, that we can still service him and include him as part of our Aspire Retire family, albeit on a pro bono basis."

LESSONS FROM THE FAMILY FARM

Olivia's early family life saw her develop this passion for helping people. Growing up on a farm in Central Queensland also brought her an understanding of the worlds of business and finance and how money can make or break people's lives.

"I didn't spend my weekends playing sport or hanging out with friends," she says. "I'd be up at 4am, planting cane and picking fruit. It was hard work but I really got to understand how business works. We sold produce locally and interstate and I was aware of what it took to sell a box of our mangoes at markets in Melbourne and still make money from it.

"What I learnt on the farm isn't taught in school so I consider myself to have had a very fortunate upbringing," she adds. "Farm work taught me about what you can and can't control, how to make wise decisions and how it all comes down to the numbers.

"In selling our produce direct from the farm, I also talked to many retirees, dropping in to buy fruit on their travels. Speaking to them about their lives made me realise, from a very young age, how making good decisions can have a long-term impact on your wealth, and not just for yourself. Getting on top of your money can have benefits for the next generation and the one after that. So I've always had this relentless desire to make sure people have better lives, because it's more than just one person you're helping."

BUSINESS UNUSUAL

Like every other financial planning business, Aspire Retire has had some big adjustments to make due to the impact of the COVID-19 crisis. Making sure clients stay connected with the team has been at the top of the change agenda for Olivia.

"It goes without saying that each party really missed face-to-face contact," she says. "Now that we're back to having some meetings in person we all find it strange that there can be no hugging as that's how we greet most clients. Other clients are still preferring the convenience of being at home and will continue with remote meetings.

"We've always been very careful to make it as easy as possible to meet with clients by suggesting a time that allows them to avoid driving here in peak hour traffic, for example" she adds. "Now it's a case of using the platform they're most comfortable with to host the meeting, whether that's Zoom, Skype or Microsoft Teams. We'll switch between several apps to use the one that they prefer. And we'll always thank people for inviting us into their home when we start a call with them. We've been careful to acknowledge what a privilege it is to be having this more personal view on people's lives than we used to have when we met in our office."

> *"We constantly strive to do better and be better. What you've put in place may be the best you could do at the time with the resources you had. But things change and that means you could be having a greater impact if you go back to the drawing board and rethink the strategy."*

Although the change in working practices has introduced challenges, Olivia was certainly ahead of the curve when it came to transitioning the team to remote working.

"We are fortunate to have contacts in the US and got the heads up with what they were doing to prepare for COVID-19 long before restrictions started in Australia," she says. "When we contacted our IT team about setting up everyone at home we were the first of their customers to be making these arrangements. Our review meetings are booked well in advance so I wanted to make sure we didn't miss a single client meeting and could keep our clients fully informed during the lockdown. Because we got onto it early it's all flowed really well.

"If it takes a pandemic to show what you're made of, then I can only say how proud I am of how Aspire Retire and our clients have come through this. And it really comes from having such a united team and genuinely strong relationships with our clients. This is what has set us up to succeed in spite of these extraordinary changes and I'm confident it will continue to see us through the changes we still have ahead of us."

PATHWAYS TO SUCCESSION

Developing and implementing a business succession plan is a key part of business planning, yet only one in 10 practices have an effective plan in place. Jayson Forrest talks to two successful practices about their different approach to business succession.

There's no denying that the advisory world has been dramatically disrupted over the past 12 months, with many advice businesses working their way through a global pandemic, the ramifications of the Hayne Royal Commission, and adjusting to the FASEA professional and education standards.

However, amidst all this change, what is particularly concerning are the number of financial planners who are still unprepared with their succession planning and exit strategies. Research from this year's Business Health's Future Ready VIII report revealed a staggering 72 per cent of planners have no written succession/buy-sell plan in place, with only one in 10 practices having an effective succession plan.

But that's not a problem for Melbourne-based Hewison Private Wealth and Quantum Financial in Sydney, with both independent advisory practices developing their own unique approach to business succession.

In fact, John Hewison CFP® takes succession planning so seriously that the founder and chair of Hewison Private Wealth established a Graduate Mentoring Program in 1995 to groom the next generation of stakeholders for the business.

"Business succession planning is absolutely essential," says John. "Succession is often referred to as an exit strategy, but for us, it's part of our business plan, which we've had right from the get-go in 1985."

Today, the Graduate Mentoring Program is an important part of Hewison's succession planning strategy, by identifying and training talented people, with a view towards equity ownership of the business. The five-year program has been specifically designed to give practical experience and mentorship to university graduates joining Hewison, including enabling them to complete their post-graduate studies and the CFP® Certification Program.

> *"Too many business owners wait until they get within five years of retirement before deciding to have a succession plan. That's simply too late. You need to prepare much earlier."*
>
> | JOHN HEWISON CFP®

"Until our staff complete this program, we do not deem them as being financial planners and they are not permitted to advise clients, although they do work closely with our senior planners as part of the overall training process," John says.

"We implemented this program in the belief that if you get good people and train them up, but don't give them the opportunity to share in the ownership of the company, then you'll lose them. So, our aim was to attract good people to the business, train them and retain them for the long-term."

John's son, Andrew Hewison CFP®, is a product of the Graduate Mentoring Program, having done the hard yards himself by working his way through the business to eventually become an equity owner, as well as the managing director of Hewison Private Wealth.

"Our succession plan creates a great deal of clarity for key staff members," he says. "By providing a clear pathway to equity ownership, staff know there is value staying with the business over the long-term. Without this clarity about what succession looks like, then staff would most likely be more interested in the short-term."

EQUITY OWNERSHIP

Since rolling out the Graduate Mentoring Program 25 years ago, 16 individuals have successfully completed the program, with 10 becoming senior client advisers, four of whom are now equity holders within the business.

"This program has resulted in developing people who embrace the philosophy and mission of our business, which has had a massive impact on the culture at Hewison Private Wealth," says John. "That's because everybody has buy-in with the business and ownership of our collective mission."

While this approach to business planning has been a huge part of Hewison's success over the years, Andrew is also quick to add that the business has never lost a planner to its succession planning process.

"We don't expect all our team to become equity partners in the business, but they are all provided with the same opportunity," Andrew says. "We've always been very clear that our business succession plan does not involve selling the whole business to another organisation. People are more motivated to become a part of the growth and the fabric of this business because they know it's not going anywhere."

EVERYTHING AND NOTHING

Quantum Financial partner, Tim Mackay CFP®, views business succession planning as both "everything and nothing". He says succession planning is everything in the sense that without a plan, you can't get from A to B.

"But it's also nothing, in the sense that things invariably happen differently to how you planned them. So, the value is in the planning process and not in the predetermined plan itself, because the plan will never be able to cover all the eventualities that crop up."

As a partner of Quantum Financial, Claire Mackay CFP® shares her brother's sentiment, adding that as circumstances or information changes, business owners need to be flexible with their planning.

"Business succession planning is a thought process," says Claire. "It's about putting time aside to think about how you want your business to look like and then navigating your way towards that, just like we do for our clients."

But unlike Andrew, who served his apprenticeship early in the profession by working his way through the Hewison business, the founder of Quantum Financial, Bill Mackay CFP®, took a different approach to succession planning. Instead, he sent his children out into the wider world to first gain practical experience, before joining the family business.

"For dad, that experience was all about the good and the bad," Tim says. "It was quite a smart approach, as it meant he didn't have to pay for our mistakes. But it also meant we were professionally trained and had gained valuable experience before joining the practice."

Tim spent time working overseas, which exposed him to foreign markets, networks and contacts. His time spent in investment banking provided Tim with exposure to industry sectors, investing styles and best-of-breed product providers.

And Claire's time spent woking at PwC and Macquarie Bank, also set her up with a valuable skillset that complemented Tim's.

"Working outside Quantum provided us with the discipline we needed to enable us to work more effectively as planners," Claire says. "We have clients who are business owners and who work in large organisations. So, having that experience reassures them. Conversations become much deeper when clients know you've got a lived experience they can relate to, which enables us to better relate to them."

JOHN HEWISON CFP®
ANDREW HEWISON CFP®

POSITION:
JOHN HEWISON –
CHAIRMAN AND FOUNDER
ANDREW HEWISON –
MANAGING DIRECTOR

PRACTICE:
HEWISON PRIVATE WEALTH

ESTABLISHED: 1985

LICENSEE:
HEWISON & ASSOCIATES

FPA PROFESSIONAL PRACTICE:
AUGUST 2011

PLANNERS: 16

TOTAL STAFF: 37

GENERATIONAL OWNERSHIP

With Bill Mackay sadly passing away two years ago, Tim and Claire have firmly taken over the reins at Quantum Financial, with Tim confident they have successfully navigated phase one of the succession plan – the handover.

And what about the long-term? Does Tim expect to hand the business over to the third generation of Mackays as part of phase two?

"It's unlikely," Tim concedes. "Like our father, we accept the fact that it is improbable the business will be passed onto our family. When dad sent us out into the wider world, he didn't expect both of us to come back into the business."

And while Tim is hopeful that he and Claire may be able to eventually hand over the business to their children, he remains pragmatic.

"There was never any pressure put on us to join this business. So, I wouldn't ask my kids to take over, as that would put pressure on them. And while the opportunity exists for our children to eventually join the business, it will always be their decision to make."

Instead, he accepts that Quantum Financial will most likely be sold to an external buyer or internal staff who they feel comfortable with.

"That's our succession plan, which is a more standard approach that most planners would go through, rather than being able to rely on the next generation to carry the torch."

ADDRESSING SACRED COWS

When formulating a business succession plan, a key element that is often underestimated is the time it takes to develop and implement an effective plan.

"Too many business owners wait until they get within five years of retirement before deciding to have a succession plan. That's simply too late," says John. "You need to prepare much earlier."

John adds it's not enough to simply employ staff with a view to succession, because finding the right calibre of people who will embrace the culture of the business, understand how the business operates, and be competent to eventually step in and run the practice, takes time.

"Succession is a long-term process. It requires a five to 10-year outlook in order to get the right people, train them and provide them with the relevant experience."

Andrew agrees: "By looking at your growth rate in clients and FUM, you need to anticipate in advance when you'll need to put on an extra planner. This could be in three or five years' time based on your expected growth. For us, that means placing an individual in our Graduate Mentoring Program, which means we need to start looking at that new hire now, so they'll be ready in five years, because study and mentoring takes time."

Another issue John has encountered over the years is the reluctance of business owners to give up value within their business to staff, as part of their succession plan.

"Owners need to be willing to sell part of their business at a 'friendly', not market, price. You need to look at this as a growth strategy, which does pay off in the long-term because you achieve growth that you wouldn't have been able to do by yourself."

Andrew also adds transparency and flexibility as two other important considerations of business succession panning.

"Transparency for stakeholders is critical for any long-term succession plan. You need to get these people on board early with the plan, so they can get excited about their future with the business."

> *"Stakeholders need to know where the sacred cows are and where are the opportunities for innovation and new thinking that is essential for any successful business."*
>
> | *CLAIRE MACKAY CFP®*

For Tim, the key to a good succession plan is people, which includes understanding their goals, aspirations, strengths and weaknesses.

"And while there are also all of the additional mechanics of a plan to consider, like the financials and target timings, it really does come down to people, and how they work together and fit culturally within a business."

It's a view shared by Claire, who adds that an important part of any succession plan is a "meeting of the minds" – understanding where you agree and where there are differences, and navigating your way through that.

"There's nothing worse than arriving at a situation where there are very different views on how to address something, and not having a way of working your way through that problem. In a sense, succession planning is a state of conflict. It's about one leadership group handing over control to another, where people will have different ideas about the future which might conflict with the way things were done in the past. And this can create unintentional conflict," she says.

"So, an important part of the succession planning process is honesty. Stakeholders need to know where the sacred cows are and where are the opportunities for innovation and new thinking that is essential for any successful business."

A LEARNING PROCESS

Having successfully run the Graduate Mentoring Program as a core part of its business succession plan for 25 years, John says there have been a number of key learnings for Hewison Private Wealth over the years. He concedes that any business succession plan doesn't come without its challenges.

"Business succession is not easy," John says. "As an owner, you have to be willing to give up the decision-making process, and sometimes that has its challenges, but it's necessary. It can be hard for an owner to step back and let other people take over, so that's where trust kicks in."

Andrew agrees: "Business succession is challenging. If you're not a founder of a business, then you won't fully appreciate the enormous effort required to get a business up and running, and the amount of emotion an owner may have personally invested in the business, which can make it hard for them to let go."

Claire shares his view: "There's a great deal at stake when you're handing over your business. But our father was incredibly generous in giving us the freedom to make change. His counsel was invaluable to us, both as financial planners and business owners."

Claire adds that while the business her father ran and the business the siblings now have are very different, at their core is a shared ethos. "And that's important when maintaining continuity, to ensure the values of the business are respected and maintained."

And while Tim agrees that business succession planning can be challenging, he is also a strong advocate of seeking out other professionals, particularly from outside the industry, to gain their perspective on how they do succession planning.

"Before dad passed away, we got involved in the Australian Institute of Company Directors. That allowed us to share ideas and talk to people outside our own industry who were also working their way through similar transition issues," he says.

"These people or businesses don't have to be in financial planning. That's because it's not the financial planning issues you need to worry about but rather, the business succession issues, which is common across all industries and professions."

A DIFFERENT APPROACH

Ask John if he would do anything differently with the business succession plan at Hewison, and he reckons the business has got it "absolutely right".

And while Tim and Claire are very comfortable with Quantum's succession plan, the two things Tim admits they could have done better was to start the process earlier and to engage with an external third-party professional to help them with the transition.

"I definitely would have brought in an external third-party professional much earlier into the process than we did," says Tim. "And this third-party doesn't have to be a succession planning expert. You just need a third-party who can objectively mediate some of the more contentious issues, remove the emotion from the process, and keep you accountable to your plan," he says.

START THE PROCESS NOW

With only one in 10 financial planning practices having an effective business succession plan in place, what advice do these business owners have for other practices yet to develop a plan?

"That's simple. Do it now," says John. "The sooner you can implement it, the better. Unfortunately, a lot of business owners think their business relies solely on them and nobody else can do it better. That's the wrong attitude to have. Our approach is to hire people who are smarter than us. I think it's important to have that sort of mindset."

It's a view shared by Tim: "Start now and just get something down on paper. Accept that it won't be perfect initially but by revisiting your plan regularly, you will be able to fine-tune it."

John also encourages businesses to invest in their business succession.

"It's expensive to put people through post-graduate studies and train them onsite. And while you get pay-back relatively quickly, it's still a business expense you need to accept as a growth investment in your business."

In contrast, Andrew advises practitioners to listen to their own advice, just as they would expect a client to do.

"As a business, understand what your goals and objectives are," he says. "John's goals were very clear. He wanted to see the culture and philosophy of his business carried on. But I know other planners whose goals are different. Their goals are to build up their business with the aim of selling it and leaving. And that's fine for them because that's their objective.

"So, you need to understand what you want, and then set your goals and objectives. The earlier you put a plan in place, the more successful it's going to be."

TIM MACKAY CFP®
CLAIRE MACKAY CFP®

POSITION:
TIM MACKAY – PRINCIPAL
CLAIRE MACKAY – PRINCIPAL

PRACTICE:
QUANTUM FINANCIAL

ESTABLISHED: 1994

LICENSEE: QUANTUM FINANCIAL SERVICES AUSTRALIA

PLANNERS: 4

TOTAL STAFF: 11

However, Claire questions why a business wouldn't have a succession plan in place and what is stopping a practice from having one.

"You need to address the barriers that are preventing you from having a plan, like fear of losing control of your business. These concerns and fears can be incorporated in a plan," she says. "But you need to work through these barriers.

"However, if the barrier is not having the time to sit down and work out your business succession, then engage an experienced professional who can help you with the process. It's something you won't regret."

Hewison Private Wealth is an FPA Professional Practice. An FPA Professional Practice is dedicated to the highest professional and ethical standards, through commitment to the FPA Code of Professional Practice and CFP® Certification.

ETFS: A PRACTICAL APPROACH TO ASSET ALLOCATION

Getting the asset mix right is as crucial as ever during the current pandemic-induced investment cycle. Clifford Fram explores how investment professionals are approaching different asset classes and sectors and finds ETFs have matured into powerful asset-allocation tools.

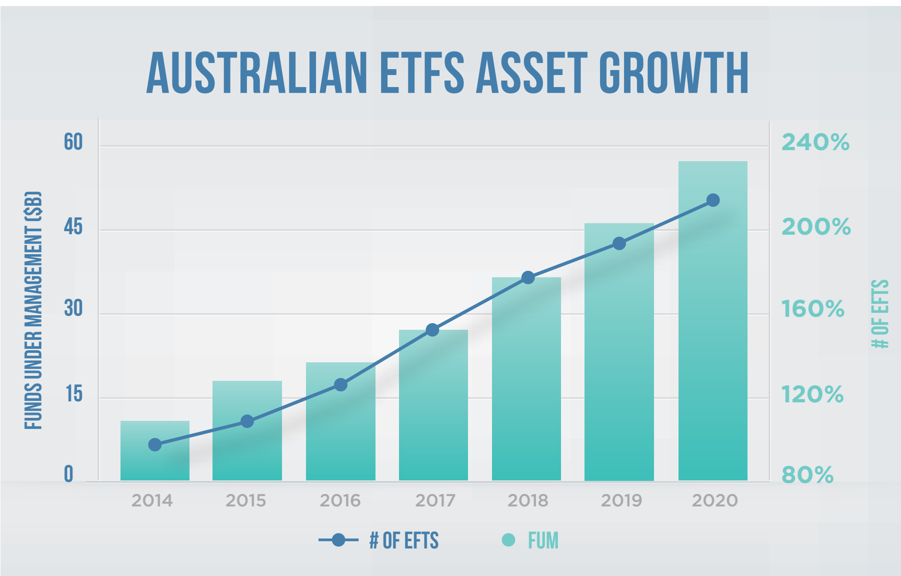
If there's one thing financial planners are inclined to agree on, it's that asset allocation is a more critical component of portfolio performance than market timing or stock picking. It's a notion backed by academic research, with contemporary studies continuing to cite the 1986 claim by Brinson, Hood and Beebower that strategic asset allocation decisions can explain 93.6 per cent of performance variation.

For financial planner, James McFall CFP® – Managing Director of Yield Financial Planning – the key to balancing risk and return is to satisfy the sleep test.

"A big part of getting asset allocation right is about managing it in the context of the client's risk profile because that's going to factor into their comfort level," he says. "Some of our clients have been nervous about COVID and the recession. A large part of the conversation has involved us reassuring them that we have their asset allocation right; that they are positioned in such a way that they don't need to sell growth assets at the wrong time."

TACTICAL CHALLENGES

Nobody's saying just yet that the long-term performances of the various asset classes are going to be fundamentally different from their historical trajectories. But there are tactical challenges: negligible returns on cash, a quirky bond market, limited diversification options on the ASX and COVID-19 impacted retail, office and hospitality rentals. At the same time, gold is at a record high.



| *SOURCE: Stockspot, ASX, March 2020.*

"Many financial planners are using tactical asset allocation to take into account market conditions at the present time," says Alex Vynokur, the CEO of ETF provider, BetaShares.

"The world has undoubtedly changed very significantly with COVID-19. The synchronised plunge of economies, the corresponding stimulus by global central banks, the ultra-low interest rate environment and very low growth are certainly presenting challenges that need to be taken into account.

"The need to get asset allocation right in this environment is as important as ever. Each of the elements, whether it's Australian equities, global equities, fixed income or alternatives, for example, presents its own opportunities, even in the difficult and uncertain environment."

A VITAL ENABLER

Alex sees ETFs as a vital enabler for financial planners to serve the asset allocation needs of their clients.

"Being able to use simple, transparent and cost-effective building blocks such as ETFs to implement asset allocation is a very compelling proposition. That's one of the reasons why the ETF industry around the globe has grown so significantly, and it's why the proportion of financial planners in Australia who use ETFs has grown significantly over the past decade and will continue growing."

Sally Huynh CFP®, a Private Client Adviser at Shadforth Financial Group, has coined the acronym CFC (COVID-19 Financial Crisis).

"Whether we call it CFC or GFC, it's another event on the share market. In any major economic event, asset allocation has to be right," she says. "It's not about treatment. It's about prevention. Setting the right expectation and getting everything right from the beginning will achieve the right outcome for clients. But it is absolutely dependent on the client's goals and objectives and their specific circumstances.

"Clients definitely need us more during this time. This is the time to stay closer to them and truly understand their thinking, which will help us provide the right information to support them." she adds. "We remind and reassure them that, although this health pandemic is rare, the volatility we're seeing in equities is not uncommon. It actually forms part of the normal investment journey."

It pays to work extra hard to make sure clients are fully informed and don't make wrong decisions, she says.

James focuses on reminding clients that that markets go up and down, and not in a straight line either. "We encourage them to be true to their investment strategy. We show them that they are in a position to ride out the bumps and just carry on enjoying their life."

SELLING OPPORTUNITY

That said, James believes the market has bounced back sufficiently to offer clients some flexibility.

"It comes back to the client's individual circumstances and to re-evaluating their risk profile. One thing we are saying to clients is that there is an opportunity for us to reflect on whether we are invested appropriately for their comfort level."

If the market were in the depths of its COVID-19 fall, he would not be changing risk profiles.

"Volatile markets like these can highlight to some clients that they are invested in a higher risk profile than they are comfortable with, but once

> *Being able to use simple, transparent and cost-effective building blocks such as ETFs to implement asset allocation is a very compelling proposition."*
>
> *ALEX VYNOKUR*

markets are in free fall, it is usually too late to change. Right now, there's an opportunity."

People nearing retirement and those already relying on their investments for income are a particular challenge in the current environment.

"We've had to re-evaluate how we approach the income-generation needs of clients," says James. "Typically, we don't invest just for yield. We look to meet income requirements from a combination of the income being generated and capital. It's about structuring assets to be invested in the best way they can be for the climate to maximise the longevity of funds overall."

But James is concerned about the almost perfect storm of challenges across bonds, commercial property, Australian equities and global equities.

"Traditional bonds are not the investments they were as recently as a year ago," he says. "And a recession is always a bad thing for commercial property. Businesses downsize or close, and the need for space reduces. Layer COVID-19 on top of that and you've got a severely changed landscape. Until COVID-19, valuations were very high because the yield was being chased. But now there is uncertainty there."

Sally is less pessimistic about property and sees growth opportunities amid the upheaval in some sub-sectors within property.

"If you look at distribution centres for e-businesses, their demand has increased. There are different sub-sectors within property, and some do behave differently. Property, like other growth asset classes, has its up and downs, but reducing its allocation when it has already gone through a major decline is probably not a sensible strategy in my view."

Although the Australian economy is in better shape than many international counterparts, James is concerned that lower immigration levels will hinder growth. He is also worried about the impact of the Banking Royal Commission on lending policy.

At the same time, central banks are pumping liquidity into Australian and international markets, which is both

supporting share prices and raising concerns about long-term consequences.

For example, the 37-state OECD has welcomed international stimulus measures as necessary to prevent a catastrophic economic collapse. But it has warned that countries should take care not to sow the seeds of enduring trade distortions, including excess capacity.

GOING OFFSHORE

For Sally's clients, the most significant asset allocation change over the past six to 12 months has been increased exposure to overseas equity markets and reduced exposure to the ASX.

The main drivers have been diversification away from financials and resources and a wish to gain more exposure to other sectors such as international technology, health and utilities.

"Taking a 10-year view domestic equities don't appear to offer a good growth outlook, and sector concentration in the ASX could mean higher risks compared with more diversified global markets," she says, "Our biggest shift has been more allocation to overseas shares."

For overseas investments, 50 per cent of the foreign currency is usually hedged, Sally says.

"Currency in the long run is a zero-sum game. Our view is that you cannot predict the trend in the short term, so we take the middle ground."

James also favours global shares over Australian and has been talking to clients about what he describes as a two-tier economy. Some companies are failing and flailing; think travel and hospitality. Others are surviving and thriving; think tech and healthcare, he says.

James believes ETFs are a powerful way to isolate investment opportunities, an area in which he says active managers have traditionally had an edge.

> *"Whether we call it CFC or GFC, it's another event on the share market. In any major economic event, asset allocation has to be right."*
>
> SALLY HUYNH CFP®

Modern ETFs cover almost every investment need. These include traditional local and global index funds, ethical investments, niche sectors, high yield products, derivatives, gold bullion, model portfolios and almost everything in-between.

"The filters ETFs can apply can give investors a very targeted strategy, much like in the past you relied on managers to provide," says James.

Alex, who founded BetaShares 10 years ago, is proud of the growing sophistication of the ETF industry.

"We have been working with our clients to improve the positioning of their portfolios. Now more than ever is the time to focus on quality exposures – companies that have low financial leverage, strong balance sheets and good pricing power in the market."

The BetaShares Global Quality Leaders ETF is one example of a fund that helps financial planners tick those boxes, says Alex.

"The focus on quality enables the planner to shift asset allocation in a way which positions client portfolios to deal better with the uncertainty of this market environment."

Alex says some people might describe products like Quality Leaders as smart beta exposure.

"It's not a pure capitalisation-based index. It is an index that is tilted towards quality companies by removing those with high financial leverage, stretched balance sheets and challenged cash flow."

ADDING VALUE

Alex believes the increasing sophistication of ETFs will challenge active managers and drive the growth of the industry.

"The evolution that we have seen in the way financial planners think about ETFs has been phenomenal and has got many decades to go. ETFs will continue to grow in importance to investment portfolios and will continue to add value," he says.

Alex believes there is space in the market for both index management and active management to coexist.

"For us, this is not about active versus passive. It is about the reality of the investment process and the reality of the investment world. In addition to that, there are a number of ETFs that are actively managed. ETFs are not just about passive exposure."

Alex believes ETFs have a place in any portfolio.

"The democratisation of investing that ETFs are bringing to the fore has been benefitting financial planners and has been helping their clients. It is not only the fact that ETFs are lower cost than actively managed funds. A fact that is quite often ignored is that, for the most part, portfolio performance is actually improved by combining or replacing active management with index funds.

"The evidence over one, three, five, ten and twenty years is that three-quarters of active managers tend to underperform their benchmark net of fees."

Another factor in ETFs' favour is the ease of investing, says Alex.

"Whether you believe in active or passive, ETFs can deliver the investment experience in a much more investor-friendly way."

For many people, the tradability of ETFs is preferable to the rigmarole of having to fill in and email complex application forms and proof of identity documents.

"You can buy and sell an ETF on the stock exchange just like any share, and you can have liquidity like with any share. You don't have restrictions or lockups. And also you have the convenience of having the certainty of the price at which you buy and sell. The experience of buying and selling ETFs is what the vast majority of investors expect in the 21st century.

"The investor experience, transparency and confidence of transacting at a known price, whether you are a buyer or a seller, is a very significant advantage of ETFs."

MODEL PORTFOLIOS

James is an advocate for using model portfolios to match asset allocation to clients' risk tolerance.

"We follow an investment philosophy of change when change is needed, not change for change's sake," he says.

"Therefore, model portfolios give us a level of transparency and confidence in knowing what any one client is holding at any one time. The investments that we hold across those models are the same across the different risk profiles; we just hold them in different weight."

Alex says model portfolios go a long way towards addressing the question of asset allocation.

"Model portfolios are a very cost-effective and efficient way, for both planners and end investors, to benefit from the advantages of ETFs. They effectively enable a portfolio of ETFs to be produced in accordance with the risk appetite and return expectations investors have.

"We run several model portfolios which essentially correspond to the risk appetite of the client. We have balanced, conservative, growth and high growth, which offer solutions for both strategic asset allocation and tactical asset allocation.

> *The filters ETFs can apply can give investors a very targeted strategy, much like in the past you relied on managers to provide."*
>
> JAMES MCFALL CFP®

"A significant number of planners rely on our asset allocation capability to help them run their practice, and a number of self-directed investors are doing the same."

Alex wants the world to know how significantly ETFs have evolved over the past decade.

"What ETFs allow financial planners to do today that was not possible 10 years ago is to play the offence as well as the defence for clients. ETFs can be both a source of growth and capital preservation in a portfolio."

BUSTING THE VALUATION MYTH

Valuing a business during times of uncertainty can be challenging, but demand remains for quality practices that have 'volatility proofed' their business models. Jayson Forrest reports.

> *"The reality is that while both valuation methodologies are used, EBIT is increasingly becoming more prevalent, and not only for internal succession but also as a determining factor for trade sales."*
>
> | STEPHEN PRENDEVILLE

Valuing your business is an important and necessary part of getting finance, attracting investors and stakeholders, as well as selling. But valuing a business in times of uncertainty and volatility, can be challenging and fraught with risks.

As the Founder and Director of Forte Asset Solutions, Stephen Prendeville has helped numerous buyers and sellers of financial planning practices. He agrees that business valuations can be significantly affected during periods of volatility, like COVID-19, if practice owners don't properly prepare.

"We regularly assess the value of businesses, and I've found myself asking questions of businesses that I wasn't asking last year," Stephen says.

"During this pandemic, we're asking more questions about the client, including: what number of clients have been impacted by the coronavirus; how many SMEs are accessing JobKeeper; how many clients have accessed their super early, and if so, how much FUM has been withdrawn. Each of these considerations have financial implications for a business – either now or in the future."

Stephen then builds upon these initial questions by asking a second tier of questions for the practice owner to ascertain the business' response to the pandemic.

These questions include: what has been the level of communication to clients; how have staff performed by working remotely; what changes have been made to the practice's infrastructure; what future fixed costs does the business expect; and what has the FUM performance been for the first and second quarters of 2020?

Stephen concedes that while many of these questions weren't asked in 2019, each of them today provides much greater insight to the value of a business during these unprecedented and volatile times.

But for Graham Burnard – a consultant at Elixir Consulting – the value of a business during this period of volatility depends on the nature of the business.

"We've seen some businesses over the last six months increase their revenue and continue to take on new clients. Their business valuation has gone up because they are growing, profit has continued to increase, and they are in good shape," says Graham.

"However, there are other businesses that have variability in their income, as they are still on asset-based fees and are possibly more of an investment-focused value proposition, rather than a holistic advice proposition. These are the types of businesses that have probably suffered the most and have experienced a drop in earnings, which means, a drop in valuation. So, it really depends on the nature of the business."

A TIME TO SELL

When it comes to selling a business, the managing director of CoreData, Jason Andriessen CFP®, agrees that buyers don't like uncertainty. But for the past several years, the one constant that financial planners have dealt with is change and uncertainty.

"For the most part, COVID-19 has just been another thing for planners to deal with, just as they have done with the FASEA standards. There will be 'no normal' for them to return to. This is the new world, so planners need to adjust

> *There's a lot that owners can do to make their business more saleable and attractive to buyers. Moving clients to fixed fees rather than asset-based fees is a great first step."*
>
> | GRAHAM BURNARD

and re-engineer their businesses in order to operate within it," Jason says.

So, given this 'new world' reality and the continuing uncertainty surrounding the COVID-19 pandemic, is now a good time to sell a financial planning business? Surprisingly, for quality practices that have 'volatility proofed' their business models, the experts agree it is.

"Currently, we're seeing the greatest imbalance of supply and demand for financial planning businesses that I've seen in 17 years," says Stephen. "The demand for practices is excessive, but the supply level has remained steady."

Stephen attributes this high demand to the rising costs of doing business, which means the need for scale has never been greater.

"Historically, in a recessionary environment, financial services has actually boomed because that's when the need for advice is at its greatest. It's a period that sees growth for the industry and demand for practices," he says.

However, on the supply side of the equation, Stephen says the market has been operating as if valuations have collapsed, which he emphasises, they haven't.

"In actual fact, valuations are still reflective of 2019 when there was a depreciation in the market. We went from 3x recurring revenue to 2.5x, but EBIT valuations have remained constant around 6x," he says.

The reason for this, says Stephen, is because the vast majority of valuations are focused on profitability. For example, on a purchase price based on 6x adjusted EBIT, there is a 15 per cent minimum return on investment.

"Compared to other industries, financial services is in the middle of the greatest disruption we've ever seen. With the exit of the banks from financial advice, a vacuum has been created for mass advice, which is creating opportunities for the industry. We are already seeing significant interest from domestic and international investors looking at this sector."

In fact, Stephen says the financial advice sector has experienced an inversion, where up until recently, 70 per cent of the advice industry was dominated by the banks. However, that figure has now reversed, with 70 per cent of the industry being independent or non-aligned.

And what of planner numbers? Does Stephen expect an exodus of planners under the new FASEA standards to affect business valuations or the supply of businesses for sale?

"Not at all," he says. "About 5,000 planners left the industry in 2019 but from Forte's perspective, we did not see a lift in business sales. This is largely because those who left or were forced to leave were mostly salaried bank planners or non-profitable businesses. These practices did not come to the open market.

"And it has been reported that an additional 2,000 planners have so far left this year, but again, I believe most of these departures are the same cohort as those who left in 2019. So, we have not seen an increase in supply of businesses for sale. In fact, it's the opposite."

Instead, Stephen confirms there remains significant demand for businesses but a continuing undersupply of practices for sale. "Therefore, if you have a quality practice and you're thinking of selling it, now is a great time to be doing just that," he says.

Jason agrees: "There are genuine buyers in the market. They are long-term focused, career-minded planners, who have met all the FASEA requirements, and have used technology to adapt to the COVID-19 environment. These planners are ready to grow their businesses."

Despite the challenges of adapting to this new COVID world, Jason remains bullish about the opportunities available for planners. In fact, over the next 25 years, CoreData estimates the size of the advice market will increase to $3.6 trillion.

"This will provide a significant opportunity for planners to plug the advice gap that is emerging," he says.

It's a view shared by Graham, who adds that for quality practices, business value will continue to increase, while practices that have not re-engineered their businesses to be "volatility proof", can expect to take a hit in earnings and be priced at a lesser value.

"Good businesses are in demand and are attractive to buyers. So, if you've done the hard yards and created a contemporary value proposition that is well priced, you'll have a business that is very saleable," says Graham.

RE-ENGINEERING A BUSINESS

Part of the reason for the current undersupply of businesses for sale is not only the myth of low valuations

> *"There are genuine buyers in the market. They are long-term focused, career-minded planners, who have met all the FASEA requirements, and have used technology to adapt to the COVID-19 environment. These planners are ready to grow their businesses."*
>
> | JASON ANDRIESSEN CFP®

during times of volatility, but also as a consequence of the handing down of the Hayne Report in February 2019, which has resulted in many practices re-engineering their businesses to ensure they are compliant with the Hayne recommendations.

Many businesses that were considering selling in 2019 have actually deferred their sales and began re-modelling their businesses to optimise their valuation.

This included moving to annual renewals and a fixed fee structure, which from a valuer's perspective, is more secure than percentage-based fees. These re-engineered practices also outsourced their asset management, introduced managed accounts for improved efficiency, refined their client value propositions, implemented client relationship management systems, digitalised client files and processes, and used technology to streamline business processes.

"We saw this happen during and post FOFA where again, the common belief was there would be an exodus of planners. But the reality was better businesses emerged after adaptive structural change occurred," says Stephen.

Graham advises practices that have not yet "volatility proofed" their businesses, to step-back, re-evaluate and re-engineer their practices in order to realise a higher valuation.

"There's a lot that owners can do to make their business more saleable and attractive to buyers," says Graham. "Moving clients to fixed fees rather than asset-based fees is a great first step. I've had clients who have been doing this through the past six months, and often with a fee increase at the same time. And provided they do it well and correctly position their value proposition, they have been able to successfully move clients across to a more equitable fee structure.

"Just as you would renovate your house before a sale, do the same with your business. However, the reality is there are some businesses that buyers won't touch if these types of improvements haven't been made, because without them, there is added risk."

As part of preparing a business for sale, Jason also recommends that sellers take the time to closely examine their practice, identify any issues and properly address them.

"Make a plan and give yourself some time to work the plan. It will be the best investment in your business you ever made," he says. "If you've been operating for several years, there will be historical or legacy issues within the business that will need to be addressed. If these issues aren't addressed, they will be a huge drag on the valuation."

Jason recommends business owners develop a client strategy, including defining the ideal client they want to service.

"Everything flows on from that, including governance and processes," he says. "By understanding your ideal clients and their needs, you can then design your services and messaging for those clients. If you have a client strategy and a client value proposition that is anchored on those clients, your business will be in much better shape when selling.

"And don't forget efficiency. We know that the cost of doing business and running a business will only continue to increase. So, the efficiencies of your practice and the protection of your profit margins are very important. Therefore, make sure you are investing in processes and technology to reduce your costs to service your clients."

BUSINESS VALUATION METHODS

Traditionally, financial planning businesses can be valued in several different ways. But when it comes to valuing businesses under the current pandemic conditions, Stephen believes 'EBIT' and 'recurring revenue' remain the two best ways.

EBIT is the methodology traditionally applied to internal succession or partner negotiations, while recurring revenue is most often applied to trade sales.

According to Stephen, the predominant methodology being used today is adjusted EBIT, which has a focus on profitability.

"There is always a relationship to profit – the higher the profit, the higher the multiple applied," he says. "However, the reality is that while both valuation methodologies are used, EBIT is increasingly becoming more prevalent, and not only for internal succession but also as a determining factor for trade sales."

He believes if a business wants to maintain value, it needs to operate at an EBIT level of about 40 per cent. "And there's never been a greater time to leverage profitability because of the technology that's now available, enabling businesses to significantly reduce their operational overheads."

Graham agrees that adjusted EBIT is the preferred business valuation method currently being used, as it reflects the quality of the business in two ways. "Firstly, you've got the actual profit – what the EBIT is – and then you have the multiplier."

This means that for buyers looking to make an acquisition, there are a number of key factors to consider. These include:

- How robust is the revenue stream?;
- What is the profit being generated?;
- How repeatable is that profit?;
- Are clients already signed up to annual fee agreements?;
- What's the likely attrition rate of clients if they are not signed up to annual fee agreements?; and
- Is there any legacy/grandfathered revenue that still needs to drop out of the business?

"So, it all comes down to the quality of earnings," Graham says. "That's what planners are looking for, rather than just a multiple of revenue, which doesn't explain what the quality of that revenue is."

When pricing a business, Jason believes that planners need to look beyond COVID-19. Instead, he says the much bigger issue are the Royal Commission recommendations and the regulatory impact of these.

"From that perspective, if you're pricing a practice and anchoring your expectations on FUM, then that's not a sustainable anchor point. What you should be considering is the revenue you're generating from your active client relationships. That has the greatest value, if you're pricing on a valuation of a multiple of revenue," Jason says.

"Otherwise, it's a multiple of sustainable profitability, which is EBIT. But obviously, this does depend on the buyer and their strategic reasons for purchasing a business."

CHALLENGES OF FINANCING

When it comes to financing a business acquisition, Stephen warns buyers to do their due diligence and be mindful of the information required by financing companies for the purchase.

"Finance companies will make an assessment on the quality of the management of the buying group and their business plan. They want to see how the purchase will be done, what the transition plan is, and what the financials will look like. They will also look at debt – both the principal's and business."

Graham agrees: "When it comes to financing, lenders are looking at the financials, including commission statements to validate the income being listed. They want to see how robust the income is. And even the non-bank lenders are asking for the same type of information, but they are probably more flexible with what they can offer and not as demanding in some of the caveats they require post purchase."

And what of 'buyer of last resort' (BOLR)? Is that all but gone from the industry?

"BOLR has tightened up quite significantly," Graham says. "The most obvious one was AMP, which had to very publicly pull back its BOLR. And while you wouldn't say BOLR doesn't exist within the industry, it certainly is not offered to the extent or format as it was in previous years."

However, despite the fact we're currently in an incredibly low interest rate environment, which means that finance is the cheapest it has ever been, Graham cautions that obtaining finance to purchase a business can still be challenging.

"The big issue we are currently seeing with buying is the considerable difficulty in getting finance. A lot of the traditional banks and lenders have either pulled out or tightened up their lending criteria. They are also placing a lot of caveats on businesses," he says.

"So, it's one thing to work out a valuation when buying or selling, but the challenge is actually getting the finance to make that purchase."

DEMAND WILL REMAIN

As the world adjusts to living with the new norm of COVID-19, most financial planning businesses are poised to emerge from this crisis with more targeted business models, closer client relationships, stronger professional and ethical standards, and robust client value propositions, which will support current and future valuations.

And as Stephen says: "Remember, there is no oversupply of businesses, valuations have not collapsed and if anything, there is upward pressure. Good profitable businesses will always be in demand."

CHECKLIST FOR SELLING A BUSINESS

So, you're ready to sell. Here is a checklist to assist you prepare for the sale.

- **Do you have an understanding of your business value and current market conditions?**
- **Are there improvements you can make that will maximise price outcomes before coming to market.**
- **Check your Dealer Agreement for exit and client transition requirements.**
- **Address any compliance issues prior to coming to market.**
- **Ensure all financials are audited and complete.**
- **Ensure all client information is readily and electronically available.**
- **Segment all clients by age, location and revenue.**
- **Segment products – total FUM, platforms, super, investment, risk.**
- **Have an understanding of the likely timeframes of achieving settlement and the client transition.**
- **What costs are involved – valuation, practice improvement, accounting, vendor advocate/broker, legals and run-off insurance?**

SOURCE: FORTE ASSET SOLUTIONS

AFSL FUNDAMENTALS: CONSIDERING YOUR APPLICATION

Deciding whether an AFSL is right for your business requires some careful consideration, says Sean Graham.

"Before you start down this path, take the time to objectively consider whether, and to what extent, you and your business have the capacity, capability and financial resources to support a licence."

The first step in considering whether an AFSL is right for you and your business, is to assess your capability.

Most service providers advise you to start with your responsible managers. These are the people who'll play a significant role in your business and ensure you comply with the financial services laws and your licence conditions.

It's critical that you ensure that those you'll nominate will have the appropriate skill and experience to manage and sustain an AFSL, so it seems an appropriate place to start. But it's not.

Before you start down this path, take the time to objectively consider whether, and to what extent, you and your business have the capacity, capability and financial resources to support a licence.

If you do, then it's appropriate to turn your mind to those people on whom you'll rely to ensure organisational competency.

Your proposed responsible managers, as well as your key managers, must have appropriate qualifications, skill and experience to support the financial services that your business will provide.

Broadly, this means a responsible manager must:

- have worked in financial services in Australia for at least three in the past five years, or five in the past eight years;
- hold a university degree in a relevant discipline (for example, law, finance, commerce or economics);
- be able to demonstrate formal competencies (through industry courses or relevant vocational training);
- provide at least two references confirming their knowledge, skill and good character; and
- not have been banned, bankrupted or convicted, in the last 10 years, of any offence. In practise, this means they must not:
  - » have had a licence or registration suspended or cancelled.
  - » be subject to a banning or disqualification order.
  - » have been disqualified from managing corporations.

IDENTIFY 'FIT AND PROPER' PEOPLE

The Hayne Royal Commission has had some immediate impacts. In fact, a new 'fit and proper' test applies to all the people who will be involved in the management of your AFSL; all your officers, your controllers (owners) and responsible managers, irrespective of your corporate structure.

It's a higher standard than the old 'good fame and character' test, because it includes a formal assessment of an applicant's competency, character and conflicts.

A 'fit and proper person':

- is competent to operate a licensed financial services business (their competency is demonstrated by their knowledge, skill and experience);
- has demonstrated, and continues to demonstrate, good character, diligence, honesty, integrity and judgement;
- is not disqualified, and has not been banned, from providing financial services;
- has not, within the past 10 years, been convicted of an offence;

- has not been linked to a failure or refusal to abide by an AFCA determination; and
- is not conflicted, or not materially conflicted, from properly performing their role in your AFSL.

In practise, and using Credit Licensing as the model, ASIC will require each relevant person to complete and submit:

1. a national criminal history check;
2. a bankruptcy check; and
3. a 'Statement of Personal Information'.

CONSIDER YOUR BUSINESS AND YOUR PROPOSED ACTIVITIES

Your philosophy, your client proposition and the nature, scale and complexity of your business, will influence the authorisations you'll seek from ASIC.

A great tip is to start by preparing a business plan outlining how you'll operate once you're licensed. Try to articulate the 'nature, scale and complexity' of your proposed business.

To be licensed to provide 'financial advice' or provide financial planning services, you'll need to choose between:

- Retail and wholesale clients;
- Deposit and payment products;
- General insurance;
- Life products;
- Miscellaneous financial products;
- Managed Investment Schemes (registered or unregistered);
- Margin lending facilities; and
- Carbon credits.

MONEY, MONEY, MONEY

To be able to sustain your licence, you'll need enough financial resources to ensure that you:

- Are, and remain, solvent (and can pay all debts as they become due);
- Have assets exceeding your liabilities;
- Have enough cash (or equivalent financial resources) to cover your liabilities when needed; and
- Satisfy your audit requirements.

You need to carefully consider how you'll satisfy the cash needs requirement but you have two options. In reality, you'll likely choose one of the following two options:

1. **Projection and buffer**
   This requires you to maintain, on a continuing basis, cash or liquid assets equivalent to 20 per cent of three months of expenses. So, cash or equivalent assets for 18 days outgoings based either on your reasonable projection of expenses or last year's cashflow.
2. **Contingency-based projections**
   This forecast requires you to prepare cashflow projections for (at least) the next three months and demonstrate how you'll satisfy your liabilities during the term of the projection. You'll need to document your assumptions and demonstrate that you'll have enough financial resources to meet your liabilities over the next three months at least.

SEEK SUPPORT

Self-licensing is a big step, but it shouldn't prove too difficult for a well prepared applicant. If you're considering it, or simply need some advice and support, there are specialist businesses that can help you. Good luck!

Sean Graham is the Managing Director of Assured Support and the architect for the OpenAFSL compliance platform.

> *"Your proposed responsible managers, as well as your key managers, must have appropriate qualifications, skill and experience to support the financial services that your business will provide."*

SURF'S UP AT OCEAN MIND

*As a volunteer mentor, **Matthew Torney CFP®** has taken an active role at Ocean Mind, where this not-for-profit is using surfing to enrich the lives and mental wellbeing of young people.*

future2
the Foundation of the Australian Financial Planning Association

Accepting the Future2 cheque: Rachael Parker (left) with FPA Geelong Chapter Chair - Lesley Duncan CFP® and Matthew Torney CFP®.

GRANT RECIPIENT: OCEAN MIND

GRANT AMOUNT: $10,000

ENDORSED BY: MATTHEW TORNEY CFP®

FPA CHAPTER: GEELONG

Since discovering surfing back in 2015, Rachael Parker has turned to the ocean, where she has combined her expertise as a youth worker and her love of surfing, by using this natural aquatic environment to create positive experiences and opportunities for young Australians.

In November 2016, Rachael founded Ocean Mind, by piloting an evidence-based surf therapy program created by the Wave Project in the UK.

"We use a simple formula of surfing, mentoring and friendship to create a therapeutic environment for young people experiencing mental health issues, social isolation and disability, to challenge themselves, learn new skills, and develop and strengthen relationships," says Rachael.

Today, the not-for-profit organisation embraces a simple vision: to enrich the lives, relationships and mental health and wellbeing of young people through surfing.

"Our mission is to create a supportive environment for young people to realise their potential and build self-efficacy, resilience and confidence," says Rachael. "By harnessing the energy of nature, young people are challenged, developing positive lifelong skills and learning positive behaviours. Young people discover who they are and what they can achieve in a safe and supportive space."

Each young person involved in the program is matched with a mentor, transport is provided to increase access to the surf therapy program, and socialisation games have been implemented to support the development of friendships.

So seriously does Ocean Mind take its work that it has partnered with Deakin University, where together, they are undertaking a research project to understand the therapeutic benefits of the program's model.

"This is the first in the world and will provide an evidence-based understanding for the world surf therapy community."

PERSONAL INVOLVEMENT

Matthew Torney CFP® – a partner at Geelong-based Muirfield Financial Services – saw how Rachael and her team of volunteers were changing the lives of young Australians along the beaches of Victoria's 'Surf Coast'. He was immediately drawn to the organisation and its innovative surf therapy program.

However, Matthew's involvement with Ocean Mind extends much deeper than donating financially. He has committed his personal time to the not-for-profit by becoming a mentor of the program, as well as volunteering at fundraising events.

"Contribution and community are important to me," says Matthew. "As a volunteer mentor, I am able to see first-hand what Ocean Mind is achieving with young people who are experiencing difficulties, by changing kids' lives through surfing. It's incredibly rewarding to help these troubled kids feel more accepted, positive and comfortable with themselves."

THANK YOU TO OUR **FUTURE2 SILVER PARTNERS**

Ocean Mind is using a formula of surfing, mentoring and friendship to create a therapeutic environment for youth in need.

In explaining his involvement as a volunteer mentor, Matthew says he believes strongly in the objectives of Ocean Mind, where surfing, learning and social connection, all have a positive impact on mental health and wellbeing.

In fact, as a young person growing up on Victoria's 'Surf Coast', Matthew got to know and appreciate the joy and power of the ocean.

"Using the ocean as a platform to engage with youth helps to break down barriers. It's a simple but powerful formula that nurtures young people and creates a safe environment for young people to challenge themselves, relieve anxiety, create new friendships and develop new skills."

So, it was a 'no-brainer' for Matthew to endorse Ocean Mind's application for a $10,000 Future2 grant for its Therapeutic Surfing Program, which it was successful in winning as part of the Future2 grants allocation for 2019.

THERAPEUTIC SURFING PROGRAM

Ocean Mind's six-week community-based Therapeutic Surfing Program is aimed at addressing the needs of young Australians aged eight to 18, who are experiencing issues and disadvantage in their lives, including social isolation, family breakdown, family violence, substance abuse, disability and mental health issues. The program is divided into three phases.

PHASE 1: An introductory six-week surfing program for newly referred children and young people. Ocean Mind assesses the participants and then individualises the program to the specific needs of the young person involved. The support ratio for each session is one to one, ensuring that participants can go at their own pace.

PHASE 2: Participants can join a fortnightly surf club, where they continue to receive support from mentors. The emphasis at this stage is on building social trust, developing communication and teamwork skills, and reducing social isolation.

PHASE 3: Young people over 16 are invited to volunteer as peer mentors to support other young participants entering the program. Accredited training is also offered to help these peer mentors prepare for entering the workforce.

"The six-week program uses surfing to engage with young people, giving them a non-threatening environment to challenge themselves, learn new skills and connect with their mentor. The program runs on the weekend and young people attend once per week over the six weeks," explains Rachael.

"Each session has a different theme, concentrating on the development of important life skills. Themes include communication, socialisation, teamwork and personal challenge."

On completion of the program, the achievements of the group are celebrated and participants are invited to join the 'Ocean Mind Surf Club'.

The club conducts surf sessions fortnightly for two hours at a variety of beaches on the Surf Coast. Ocean Mind provides the surf gear (wetsuits/surfboards) and bus transport for those young people who are unable to get to the beach.

The Surf Club is run by trained surf coaches with the support of volunteer mentors, ensuring there is a minimum ratio of one adult to three participants.

HIGH DEMAND

However, according to Matthew, because Ocean Mind takes referrals from professionals working with vulnerable children and young people, the demand for its surf therapy program is high and there is often a waiting list.

"Hopefully, the Future2 grant will extend the reach of the program by enabling more sessions to run, so more kids can have the opportunity to thrive."

Rachael agrees, saying the Future2 grant will help to provide more places for young people to access and participate in the program.

A FORTUITOUS MEETING

Since Matthew first reached out to Ocean Mind in 2018 at a local surf carnival in Torquay, the CFP® professional has become a firm supporter of the not-for-profit through his volunteer mentoring and fundraising involvement.

"The relationship with Matthew has extended to his team members at Muirfield Financial Services by way of pro-bono accounting work and subsidised bookkeeping," says Rachael.

"The engagement with a local FPA member has broadened Ocean Mind's volunteer base with philanthropic-minded people who truly value the need for innovative mental health services to support our local youth."

And at a time when the profession is in need of some positive stories, by being a leader in the community and openly giving back to it, Matthew says it's a terrific way of demonstrating that financial planners go beyond the delivery of just personal advice.

"Through our involvement with the local community, we are changing lives and the future of our youth," says Matthew. "And that's something to be proud about."

CPD MONTHLY

Each month, Money & Life publishes two CPD Monthly articles. The following are overviews of this month's two CPD accredited articles. To read the full versions of each article, and to receive your CPD hours, click on the Learn tab at moneyandlife.com.au/professionals.

ARTICLE 1

Janet Manzanero-Caruana
IOOF TECHCONNECT

UNDERSTANDING SPECIAL DISABILITY TRUSTS

The benefits of a special disability trust (SDT) for the principal beneficiary and its donors can be quite substantial. Not only is an SDT a means to provide for the future care of the principal beneficiary, it provides significant social security and tax concessions for both donors and the principal beneficiary.

However, prior to setting up an SDT, trust restrictions, trustee responsibilities and the cost effectiveness of an SDT should be carefully considered by all stakeholders.

This article takes a close look at SDTs and weighs up their pros and cons. The article also explores some of the key considerations of an SDT, including: balancing the potential benefits against the costs of establishing and maintaining the SDT; the principal beneficiary's disability, long-term care needs and expected life expectancy; the running costs; and the estate planning, tax and social security implications.

WHAT YOU WILL LEARN

- Exempt special disability trust assets and income
- Gifting concessions
- Disregarded capital gains and losses
- CGT main residence and principal home exemptions

This article is worth **0.5 CPD HOURS**

ASIC knowledge area **FINANCIAL PLANNING**

FASEA CPD areas **TECHNICAL COMPETENCE**

ARTICLE 2

John Perri
AMP

THE MANY FACES OF TRANSITION TO RETIREMENT INCOME STREAMS

Notwithstanding the loss of the tax exemption on income from its supporting assets, and the reduced tax effectiveness of transition to retirement income stream (TRIS) based strategies, there are still plenty of reasons left to consider the benefits of commencing a TRIS.

The transition to retirement condition of release allows superannuation fund members who have reached preservation age (but have not 'retired' for superannuation purposes) to commence an income stream using their preserved benefits.

This article aims to address some of the strategic applications of commencing a TRIS.

WHAT YOU WILL LEARN

- Meet expenses and manage cash flow
- Use income payments to make spouse contributions to equalise account balances
- Income swap strategy
- Gradual re-contribution strategy for estate planning purposes

This article is worth **0.5 CPD HOURS**

ASIC knowledge area **SUPERANNUATION**

FASEA CPD areas **TECHNICAL COMPETENCE**

To read these articles in full and answer the questions for CPD hours, go to the Learn tab at moneyandlife.com.au/professionals

FPA CHAPTER DIRECTORY

NSW

SYDNEY
Jade Khao CFP®
Chairperson
T: 0488 889 138
E: jadekhao@gmail.com

MID NORTH COAST
Lucas Garside AFP®
Chairperson
T: (02) 6584 5655
E: lgarside@berryfs.com.au

NEWCASTLE
Mark Alexander CFP®
Chairperson
T: (02) 4923 4000
E: mark.a@crosbiewealth.com.au

NEW ENGLAND
David Newberry AFP®
Chairperson
T: (02) 6766 9373
E: david@newberry.com.au

RIVERINA
Graham Cotter CFP®
Chairperson
T: 0408 011 322
E: graham.cotter@stateplus.com.au

WESTERN DIVISION
Peter Roan CFP®
Chairperson
T: (02) 6361 8100
E: peter@roanfinancial.com

WOLLONGONG
Mark Lockhart AFP®
Chairperson
T: (02) 4244 0624
E: mark@jamfinancial.com.au

ACT

Andrew Saikal-Skea AFP®
Chairperson
T: (02) 6219 7255
E: andrew_saikal-skea@firststatesuper.com.au

VICTORIA

MELBOURNE
Julian Place CFP®
Chairperson
T: 0418 111 224
E: julian_place@amp.com.au

ALBURY WODONGA
Wayne Barber CFP®
Chairperson
T: (02) 6024 1244
E: wayne@mws.net.au

BALLARAT
Paul Bilson CFP®
Chairperson
T: (03) 5332 3344
E: paul@wnfp.com.au

BENDIGO
Gary Jones AFP®
Chairperson
T: (03) 5441 8043
E: garyjones@platinumwealthbendigo.com.au

GEELONG
Lesley Duncan CFP®
Chairperson
T: (03) 5225 5900
E: lesley@planwellgroup.com.au

GIPPSLAND
Rodney Lavin CFP®
Chairperson
T: (03) 5176 0618
E: rodneylavin@bigpond.com

GOULBURN VALLEY
John Foster CFP®
Chairperson
T: (03) 5821 4711
E: john.foster@bridges.com.au

SOUTH EAST MELBOURNE
Scott Brouwer CFP®
Chairperson
T: 0447 538 216
E: scottb@prosperum.com.au

SUNRAYSIA
Stephen Wait CFP®
Chairperson
T: (03) 5022 8118
E: stephenwait@thefarmprotectors.com.au

QUEENSLAND

BRISBANE
Duncan Forbes CFP®
Chairperson
T: (07) 3031 1610
E: duncan.forbes@sfg.com.au

CAIRNS
Lyle Filer AFP®
T: 0425 337 256
E: lyle@lighthousepartners.com.au

FAR NORTH COAST NSW
Shane Hayes CFP®
Chairperson
T: 0411 264 002
E: shane@agedcarearchitects.com.au

GOLD COAST
Kearsten James CFP®
Chairperson
T: (07) 5531 6295
E: kearsten@cwealth.com.au

MACKAY
Brendan Hughes AFP®
Chairperson
T: 0439 781 190
E: brendan@efsmackay.com.au

SUNSHINE COAST
Natalie Martin-Booker CFP®
Chairperson
T: (07) 5413 9264
E: natalie@wealthmed.com.au

TOOWOOMBA/DARLING DOWNS
Naomi Alletson AFP®
Chairperson
T: (07) 4638 5011
E: nalletson@achieveitfp.com.au

TOWNSVILLE
Gavin Runde CFP®
Chairperson
T: (07) 4760 5900
E: gavin@runde.com.au

WIDE BAY
Louise Jealous-Bennett AFP®
Chairperson
T: (07) 4153 5212
E: louise@c2g.com.au

SOUTH AUSTRALIA

Andrew Harris CFP®
Chairperson
T: (08) 8373 1711
E: andrew.harris@minerdsbell.com.au

NORTHERN TERRITORY

Susie Erratt CFP®
Chairperson
T: 0411 331 870
E: admin@advfps.com.au

WESTERN AUSTRALIA

Fran Hughes CFP®
Chairperson
T: 0418 713 582
E: fran@intuitivemoney.com.au

TASMANIA

Todd Kennedy CFP®
Chairperson
T: 0407 101 231
E: todd.kennedy@tptwealth.com.au

MEMBER SERVICES

1300 337 301
Phone: 02 9220 4500
Email: fpa@fpa.com.au
fpa.com.au

FPA BOARD

CHAIR - Marisa Broome CFP® (NSW)

DIRECTORS

Alison Henderson CFP® (NSW)
David Sharpe CFP® (WA)
Delma Newton CFP® (QLD)
Jane Bowd (NSW)
Marisa Broome CFP® (NSW)
Michelle Tate-Lovery CFP® (VIC)
Paul Ruiz (NSW)
William Johns CFP® (NSW)

COMMITTEES

Governance and Remuneration Committee
CHAIR: Marisa Broome CFP®
MEMBERS: Jane Bowd, Paul Ruiz and David Sharpe CFP®

Audit and Risk Management Committee
CHAIR: Paul Ruiz
MEMBERS: Delma Newton CFP®, Alison Henderson CFP® and Jane Bowd

Policy And Regulations Committee
CHAIR: Alison Henderson CFP®

Professional Standards and Conduct Committee
CHAIR: David Sharpe CFP®

Professional Designations Committee
CHAIR: William Johns CFP®

Regional Chapter Committee
CHAIR: Delma Newton CFP®

Congress Committee
CHAIR: Michelle Tate-Lovery CFP®