Client Profile – Financial Clarity

Survive the squeeze

The right price for financial advice is somewhere between 1.25 and 1.4 per cent including investment management and administration, according to experienced financial adviser Ken Bloomfield.

While there's no industry consensus on what constitutes a fair price for comprehensive advice, with some corners charging in excess of 3 per cent, Bloomfield is adamant that sophisticated clients with between $500,000 and $1 million under advice should pay no more than 1.4 per cent all up.

He believes the market will ultimately dictate this price, forcing advisers to abandon inefficient and expensive unit trusts, master trusts and wrap accounts in order to remain competitive.

His prediction is a scary thought for the majority of advisers who still depend on managed funds and platforms. However, there's a simple way to survive the squeeze, Bloomfield says.

His Sydney-based practice Financial Clarity, which specialises in self-managed superannuation funds, has utilised managed discretionary accounts since 1989.

Today, the firm's $110 million in funds under advice and management are invested in direct shares, direct fixed interest, exchange traded funds and a limited number of international managed funds via managed accounts.

The average client pays an average of 1 per cent for strategic advice and investment management plus 0.25 per cent for administration, and transaction fees and underlying managed fund fees add another 0.15 to 0.2%.

Portfolios are tailored according to clients' individual needs, objectives and tax situation, yet investment decisions can be executed *en masse* without the need to produce a Record of Advice for each change to the portfolio.

As an example, around a quarter of Financial Clarity's 110 clients don't want to hold gaming stocks in their portfolio. When the firm decided this time last year to invest in listed casino, Crown Resorts Limited, its managed account system prevented it from buying Crown for 27 clients.

"It's an extremely efficient and flexible system and there's minimal paperwork," Bloomfield says.

"We're able to react quickly when circumstances change and we can implement changes to the whole portfolio in one day for all our clients if necessary."

But this wasn't always the case.

Bloomfield's penchant for managed accounts started in 1989, when a wealthy client appointed him as his financial adviser on the proviso that he wasn't sold managed funds. The client insisted on a diversified portfolio of direct shares, which pushed Bloomfield to look into managed accounts. It was an uncommon structure then that people knew little about, referred to in those days as "individually managed accounts", or IMA's.

In the late 1990's, he was licensed by MLC's Apogee dealer and supported MLC's MasterKey Custom platform. Bloomfield had a discretionary trading authority from MLC and dabbled in managed accounts on the side. This became a larger part of his business as he gained referrals from clients.

He tried several different software providers but found the technology clunky.

In 2005 MLC revoked his trading authority due to the introduction of the Financial Services Reform Act. Two years later, the Australian Securities and Investments Commission introduced even tougher rules around the provision of managed discretionary accounts to retail investors.

By 2006, it had become almost impossible to run an efficient business, Bloomfield says.

The practice had to send every client a Statement of Advice for each change to the portfolio. It would take a week for 80 per cent of clients to respond and authorise a change. The remaining 20 per cent would take a further three weeks to chase up with a couple of outliers missing out on timely opportunities altogether.

Bloomfield decided to leave MLC and gain his own AFSL. He restructured the business, sold a chunk of his client base and ended up with 65 select clients. In 2008, he launched a new MDA solution in partnership with specialist managed accounts provider, managedaccounts.com.au (formerly called IAS). All clients transitioned to the MDA.

The practice established formal principles and processes around the management of money. This included the creation of a five-man investment committee, consisting of Bloomfield, fixed interest manager Doyle Mallett, McGregor Asset Consulting director Rob McGregor, Longview Economics' chief market strategist Chris Watling and global equities manager Nitesh Patel.

According to Bloomfield, the group's core model portfolio has consistently delivered top quartile returns over rolling three-year periods.

He estimates clients need around $500,000 in investable assets to make it cost effective for them to have an MDA. For younger clients or those with lower account balances, Financial Clarity is looking to offer a wholesale superannuation product, which will also sit on the managedaccounts.com.au platform.

Over the past few years, as an increasing number of clients have approached or entered retirement, Financial Clarity's investment committee has lowered the level of volatility in the portfolios and adjusted return expectations.

"We achieved some stellar performance in the past with a relatively high level of volatility but we've improved our risk management processes and our aim is now to deliver a return comparable to the average superannuation fund but with lower volatility," Bloomfield says.

"Our clients are more focused these days on preserving capital and achieving their financial objectives not beating a benchmark. We were very cautious during the Global Financial Crisis and we came out of it well because we recognised early that they wanted less volatility."

For advice businesses which don't have the skill or resources internally to analyse and pick stocks, those responsibilities can be outsourced to a professional under the MDA structure, Bloomfield says.

Leng Ohlsson is a consultant for managedaccounts.com.au

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