

2012 - My plan for a difficult year

TZANEEN, SOUTH AFRICA: I believe that 2012 is likely to be another very difficult year in the investment markets. This is going to make financial planners' lives very difficult as more investors become disillusioned with their savings and investments. In addition, regulatory pressure on advisors is likely to increase as governments try to prevent future financial disasters through over-regulation. This will provide great opportunities for high quality advisors to capitalise as their peers struggle.

INVESTMENTS

Most investments available to South Africans (local and international) performed poorly in 2011 as markets waited for the politicians to solve the economic woes of the US and Europe. This has had a massive knock-on effect on all markets, South Africa included. It is clear that increasing numbers of private investors are suffering from investor fatigue as their investments react like small ships in violent seas. This relentless volatility is proving more difficult for private investors to stomach than stock market crashes. We all keep waiting for a major correction that never comes and this anticipation is wearing investors down. This trend is likely to continue in 2012 and it will cause more investors to sell out until "things get better". This is naturally a very destructive decision and it is the job of financial planners to help their clients avoid this pitfall.

We are going to increase our investor communication this year in an attempt to remind (possibly re-educate) our clients about investment fundamentals. We will remind them that although the stock markets have declined slightly in 2011 (down 0.6% in the case the Johannesburg Stock Exchange) the markets have become substantially cheaper as illustrated by the declining Price Earnings (PE) ratios of the JSE. We will also remind them that many of the world's biggest companies are increasing their profits at a rapid rate and are improving their balance sheets on a continuous basis.

We will increase the number of phone calls, individual meetings and group presentations to clients. In our experience, clients prefer personal contact in difficult times. This cannot be accomplished by bulk emails, newsletters or social media. This is particularly relevant to older investors and especially to retired people. We are also increasing the number of social engagements with our clients via group lunches where clients can ask us a range of questions and engage with their peers. We find that the group sessions are valuable as our clients realise they are not alone and that there is a structured game plan with their financial planning.

Behavioural Finance has helped us understand the pitfalls that investors should avoid but I don't think this enough. We are going to be working hard on finding more efficient ways to understand our clients' tolerance for investment risk. I feel that some good work has been done in the USA and more recently in Australia but we are only scratching the surface. Investment planners need to develop a very deep understanding of their clients' tolerance for risk. Most of the financial planning errors that I see with investments relates to a misjudgement by financial planners and their clients of risk tolerance. Our industry needs to find repeatable and defensible methods of gauging risk tolerance and communicating this back to clients.

MY HOPES FOR 2012

I hope that we can get some policy stability with regard to the way that politicians and regulators solve the economic problems being experienced in the US and Europe. This needs to happen as speedily as possible so that business and stock markets can determine their own fortunes once again.

I hope that the technology providers to the financial planning industry will help our industry take a great leap forward. There are so many different sources of information and planning tools that financial planners need that are provided by a range of providers but they generally don't talk to each other and it is often impossible to provide clients with consolidated information. It seems that financial planning software and the information provided by product providers is light-years behind where it should be. A more efficient technological platform would make it easier for financial planners to run more cost effectively in a time when costs are rocketing due to regulatory pressure.

In South Africa specifically, I hope that the drive by regulators to make financial products simpler and more client-friendly will gain momentum. Treating Customer Fairly (TCF) legislation is being mooted at this stage, I hope that action is taken soon so that our product providers become compelled to provide better products to our clients. Currently, I feel that the life assurance industry is not operating in the client's best interests as their products are too complex which makes comparisons impossible. In addition, high quality financial planners cannot say with confidence that their clients are fully covered due to the range of exceptions and exclusions the industry uses to avoid paying claims. I hope that TCF legislation will swing the balance in favour of the client once again.