The Future of Financial Advice and the effects on portfolio management

10 January 2012 | by Martin Hovey and David Wysel

The Minister for Financial Services and Superannuation has released the much awaited first t the draft legislation of the Future of Financial Advice (FOFA) for public discussion and anal proposed legislation includes the 'opt-in' proposals, the 'best interest' duty and standard for and the increase in ASIC's powers to enforce the new legislative elements.

In this paper, the authors investigate the proposed 'best interest' duty standards and whether have any impact on the quality of portfolio management carried out by financial planners on their retail clients.

According to the Treasury Media Release of 29 August 2011 (Media Release No 127, 2011b), the principle guiding the obligations for advisers is that "the objectives, financial situation and needs of the client must be the paramount consider providing advice".

This duty includes various steps that the adviser must follow in acting in the best interest of clients. Further, these steps made consistent with the current 'reasonable basis for advice' provisions currently provided under the Corporations Act.

The authors are interested in determining whether the new 'best interest' duty for financial planners will translate into be portfolio management and, therefore, better performance outcomes for clients to compensate them for the likely addition advice for those retail clients who seek financial advice from a financial planner.

Presently in the financial planning and investment industry, there is a wide range and variety of standards for reporting or investment portfolios to retail clients. The frequency may range from personalised, monthly updates for active, high net v clients, to annual investment balance and transaction updates provided direct to the client by fund managers without any input for which a trail or adviser fee is deducted from the client account (in addition to the investment manager's fee).

Certain anecdotal industry evidence suggests that the active management processes of the Australian investment planning may not add any additional value to clients over and above fees charged.

This line of argument is usually promoted by the direct investment industry and the 'do-it yourself' (DIY) investor.

To counter this argument, the funds management industry has developed various investment styles and themes which sui asset classes in certain parts of the investment cycle (see for example, McCormick, 2011) .

These investment styles usually do not outperform in all market conditions but never-the-less cater to the small account unaware of measures of risk such as (alpha) and (beta) and correlation of asset classes. The extant academic literature wit the management of portfolios provides additional guidance as to what might be considered an optimal portfolio managem

Managing investment portfolios for retail clients is a dynamic and flexible process where the skills of the planner are use systematic and structured way to achieve a consistent level of performance outcomes for the client.

Actively managing an investment portfolio requires a high level of involvement by the financial planner supported by dea information and material provided by the licensee. It remains to be seen which, if any, clients will pay for this under the interest' duty provisions.

Introduction

The greatly anticipated first tranche of the draft legislation of the Future of Financial Advice (FOFA) has been released l Minister for Financial Services and Superannuation for public discussion and analysis. This tranche embraces the 'opt-in' the 'best interest' duty and standard for advisers, and an augmentation of ASIC's powers to enforce the new legislative el

In this paper, the authors investigate the proposed 'best interest' duty standards and whether these will have any impact c quality of portfolio management carried out by financial planners on behalf of their retail clients.

ASIC lists some 259 Reports into the financial services and related industries prepared since 1999 with a number of these directly investigating the issues of the quality of financial advice, disclosure arrangements when providing advice, and the issue of performance of various investment sectors and products.

A sample of these key ASIC reports is shown in the Appendix but there are many more which investigated the operation activities of various parties in the industry.

Despite some 11 years of reporting, the industry appears to be subject to another round of legislation under the Future c Advice (FOFA) in an attempt to provide retail consumers with the professionalism and standard of advice which the indu like to offer, the government seeks to introduce and enforce, and which clients are suggesting through the greater use of investing and use of alternative investment strategies are not being matched by performance outcomes.

The purpose of this article is to discuss whether the introduction of the best interest duty conditions under FOFA will r improved portfolio management and recommendations and to introduce an alternative view – a futuristic view – of how t advice industry might better encapsulate the professionalism and the overall efficiencies in portfolio management expecte

The principle guiding the application of the best interest duty is:

"that meeting the objectives, financial situation and needs of the client must be a paramount consideration when providin (Explanatory Memorandum, 1.22, 2011).

The "best interest" duty is perhaps the less controversial of the changes under the FOFA proposals yet it may be arguec the more significant as it directly affects the professional relationship between an adviser and a client and the underlying relationship which this entails.

One of the major benefits of the best interest duty perceived by the government announced during the public consultatic is that:

"The changes (i.e. best interest duty) are important measures to improve the quality of advice and consumer outcomes. R will benefit because the measures are expected to reduce instances of sub-optimal financial advice and will result in an o

improvement in the advice quality, particularly product outcomes" (The Treasury, 2011a).

The best interest duty requires the provider of the advice to make a series of steps to demonstrate that a process has bee
to show the client's best interests have been considered. These are (from Mallesons, 2011):

1. Identifying that the objectives, financial situation and needs of the client have been ascertained.
2. Identifying that the advice is wanted by the client.
3. Carrying out reasonable investigations by the provider if information about the client is incomplete or inaccurate.
4. Warning the client that advice could be wrong if it is apparent the client should receive advice on another matter oth
   that asked
5. For the provider to decline to give advice if they do not have appropriate expertise.
6. Assessing if the client's needs can be met by purchasing financial products.
7. Carrying out a reasonable investigation into the financial products which might meet the client's needs.
8. Where a licensee's approved product list is used and it is apparent there is no suitable product on the list to meet the
   needs, the provider acknowledges they are not recommending from the list.

The Explanatory Memorandum (see Explanatory Memorandum, 1.23, Commonwealth of Australia, 2011) also expands on
steps which providers of advice must take in acting in the best interests of the client.

The government states that it is not possible in advance for the legislation to cover all the broad range of financial advic
relationships and the commercial nature of those relationships which are widespread across the industry.

The starting point is for the adviser to identify the client's objectives, financial situation and needs of the client as disclos
client through instructions to the adviser and the subject of discussions (see Explanatory Memorandum, 1.24, 2011).

The final step in the new best interest duty under FOFA is for advisers to base all judgements in advising clients on the
financial situation and needs of the client (Explanatory Memorandum, 1.33).

Advisers are expected to follow the "know your client" and "know your product" requirements of the present Corporati
although the steps required under the best interest duty are considered more expansive than previously required by the C
Amendment (FOFA). This would be expected to raise the standard of advice by advisers.

The government has made it clear that the new best interest duty guidelines are to achieve a higher stand of process of a
clients and should not be seen as outcomes based or standard. This is interpreted to mean that the adviser may have use
interest duty processes but, unfortunately for the client, achieved a lower performance outcome.

However, the adviser cannot rely solely on the instruction from the client and must make further certain inquiries to the
where it is reasonably apparent that information is incomplete, inaccurate or generally insufficient for the adviser to provi
complete advice. The test for reasonably apparent relies on

"what would be apparent to a person with reasonable level of expertise in the subject matter of advice"

and

"This means the test is of a higher standard when the subject matter of advice is highly complex and technical in nature"
Explanatory Memorandum, 1.27, 2011).

Portfolio management

The definition of portfolio management is taken from Maginn et. al. (2007) to be an on-going active process in which the nature of economics, markets, currencies and general investment market outlook for various asset classes are all actively along with the changing nature of the client's circumstances. This involves:

1. Establishing the client's investment objectives and various constraints;
2. Developing investment strategies;
3. The structure and composition of the portfolio are defined;
4. Investment decisions are made and implemented;
5. The portfolio performance and outcomes are measured and evaluated.

Monitoring a portfolio is a continuous process which requires the adviser to evaluate events and trends and changes in a: to watch for divergences and to adjust the portfolio back to the client's asset allocation profile.

There is some complementary wording in the government's examples as to what is expected by the best interest duty anc and wording of portfolio management as shown above.

In strategic asset allocation decisions, the adviser takes into account the investor's return objective, risk tolerance, and inv constraints are matched to the long run goals of the client.

With tactical asset allocation, the adviser is making shorter-term decisions about rebalancing asset weightings in response market valuations and making decisions about particular investment selection to reduce overall systemic risk.

There are a various styles and themes which providers follow on behalf of a client when managing a portfolio. The main management styles are an active or a passive approach.

With the active investment style, economic and investment market conditions are monitored routinely with the objective t outperform a given benchmark such as a margin above risk free returns, or the manager's benchmark, and adjusting the a: investment holdings in the expectation to outperform the benchmark, adjusted for transactional costs.

With a passive investment approach, of which indexing is the main style, there is little expectation or attempt to outperfo market rather than just achieve parity with the manager's and client's nominated benchmark.

In practice, individual advisers have neither the experience nor operating capacity and time to actively manage individual They adopt a variety of personal and more reactionary approaches to managing client portfolios.

For commercial reasons and following the processes outlined above, advisers are required to focus on the initial asset all decisions matching client risk profiles to asset attributes which, in the main, are performed at the point of set up only usi number of profiling methods available.

Advisers tend to ignore the shorter term tactical risk mitigation investment decisions, such as those often discussed by Rı (2011) unless prompted ex post by a client inquiry or severe market reaction.

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The aim is to meet defined investment objectives with the overall philosophy, benefit and wealth of the investors in min

In truth, the choice of assets that make up a portfolio are selected for many impetuses. For example, it may be that the i
simply enjoy owning a particular asset.

For instance, a vintage car may be both an investment and owned due to the pleasure derived from it.

An individual's principle residence provides protection and maybe prestige. However, the theory of finance considers ass
as an investor.

"One should always divide his wealth into three parts" (Rabbi Issac bar Aha, 2011) is advice provided in the 4th century
portfolio allocation.

In line with this stems the naive diversification approach that applies an equal allocation of investment across N assets –
rule. The inception of Markowitz's portfolio theory (Markowitz, 1952, 1959; Markowitz, 1955) brought about the notion o
the expected return of a portfolio for a given amount of risk – the efficient frontier (see Figure 1).

Risk is made up of two components, systematic (market risk) and idiosyncratic risk and idiosyncratic risk can be diversifie
the capital asset pricing model (CAPM). It should be noted that, to some extent, market risk can also be diversified thoug
international portfolio, thus giving the investor the ability to minimise even market risk. CAPM is often contrasted with t
pricing theory which is advocated as an alternate model (Roll and Ross, 1980; Ross, 1973).

Please note: The solid line represents the efficient frontier. The dots are assets within the portfolio showing the level of
the expected return. Assets below the efficient frontier are not performing as well as those on the line as their expected
not commensurate to the risk that they bear.

More recently such models as the Fama-French three factor model have gained attention and are used relatively widely (
French, 1992, 1993).

Jorion (1997) then introduced "Value at risk: the new benchmark for controlling market risk" which is a means of evaluat
risk, based on the worst-case scenario. It is not based on variance. A popular means of modelling VaR is the Monte Carl
simulation.

The models and approaches used continue to progressed, but no single approach has emerged as being absolutely best f
allocation and timing decisions – there are strong proponents of the 1/N rule today (see for example, DeMiguel, Garlap
Uppal, 2009; Pflug, Pichler, and Wozabal, 2011) as well as the mean-variance model which has been extensively applied i
allocation and active portfolio management (Meucci, 2009).

The notion of the fundamental instruments of financial decision making and portfolio management have involved optimiz addition to practices and research which have revolved around various approaches such as decision support tools, foreca logic, simulation and stochastic processes.

For example, Berleant, Andrieu et al. (2008) create optimal portfolios in the first instance by applying the standard mean-r and then apply stochastic dominance (SSD) and Information-Gap Theory on the portfolios to accommodate the choices c rational, risk-averse investor in acute uncertainty.

Ko and Lin (2008) posits that an optimal portfolio can be achieved through a resource allocation neural network model, v modifies the investment dynamically and achieves a greater return than a buy-and-hold strategy. Veraart (2011) discusses investments in the foreign exchange market.

In recent years multi-criteria decision analysis is one model that has come to the fore. It is based on the notion that in pr single objective or philosophy is seldom used to make decisions.

Thus the approach aims to develop suitable methodologies that can be applied when multiple decisions with conflicting f objectives or philosophies are take into account simultaneously (Spronk and Hallerbach, 1997; Xidonas and Psarras, 2009; and Doumpos, 2000).

In considering the timing of advice and the review and rebalance of portfolios, to a large extent it is contingent upon the horizon and wealth utility maximisation of the client (Brandt et al., 2005).

On the other hand, more recent advocates have introduced the notion of intertemporal choice which is the study of the r value people assign to two or more payoffs at different points in time (Baumann and Muller, 2008; Breeden, 1979).

Thus, Portfolio choice does depend on the investor's horizon. However, it should be noted that typically, myopic investr shown to be a less advantageous approach to investment though widely practiced and the dynamic may have considerable (Brandt et al., 2005).

Thus, the multi-period approach of creating portfolios, a relatively new development, could provide a solution. But there be more research conducted regarding applying the model in practice (Fabozzi, Huang, and Zhou, 2010).

An interesting phenomenon is that lower risk preferences have a tendency to be adopted by investors after riskier option a period of poor performance and the reverse is also true. This practice tends to lead to poor overall portfolio performan though it may be what the investor prefers, it could well be asked if it is indeed the best approach to portfolio managem applying 'best interest' duty.

Since each approach has its benefits and drawbacks, some methods may be more suitable depending on the context and p of the investor, as well as implementation and the transaction costs. Will the new 'best interest' duty for financial planner into better portfolio management?

That obviously depends largely on many aspects primarily relating to such aspects as transaction costs, portfolio methodo the available research and knowledge to drive asset allocation methods and practices. In the following section, a propose achieving better outcomes is proposed.

A futurist's view of the future of financial advice

In this section we take on the role of a futurist to consider what developments may transpire in the financial services sec

Certainly, the future of the sector as a whole should not be taken without due consideration and attention.

As a futurist might consider emerging events and innovation and extend the prevailing trends forward to foreshadow a ne beyond tomorrow, so we endeavour to extrapolate the circumstances we observe today in an attempt to offer conjecture could be, especially if we were to grasp the opportunity to propel the sector towards an advantageous outcome.

In a quickly advancing information age and a period of rapidly evolving global markets the financial services sector woulc advised to consider the future with an innovative and unrestricted outlook. The sector should not be distracted to ensure possible opportunities that the future holds are grasped securely and industriously pursued.

This is of great importance and is relatively urgent as significant change is imminent. After all, what is to stop a tsunami c arising and crashing ashore in the financial services sector? Retailers have suddenly been confronted with unforseen ever

Innovators and strategist are ever pursuing new and exciting ways to change our world, and there is no doubt that financi are well and truly in their sights. Consequently, the future for the sector is very likely to change, and ultimately change b imagination, as have so many other areas in the information age. Remember, information is power and none more so than financial services sector.

If the source and flow of information alters, so will the services that are driven by that information, as has been observe retail sector. This is in addition to the obvious and imminent change arising from the political and regulatory forces spoke paper.

In the mix also is the growing sophistication of markets, financial instruments and products, client knowledge and global of economies. Combined, these events will impact on the future of a client's requirements and expectations.

A significant concern for a client's overall financial strategy is the management of the client's entire portfolio of assets ac of the asset classes including both direct and indirect investments, as well as lifestyle investments. Australians have an in owning and renovating their own home, there has been phenomenal growth and interest in superannuation, and there is s development and activity in direct investing, especially since the government's privatisation of assets, along with the grow of collectables as a means of preserving wealth.

Such a comprehensive wealth portfolio could include a mix of self-managed superannuation, trusts, mutual fund products bonds, foreign exchange, derivatives, risk management, real estate and collectibles.

It is not unreasonable for clients faced with all these options to form a comprehensive financial strategy and to need inve tax advice in each and of these asset classes and areas. There are many aspects to consider including efficient frontier (ris trade-off) for each aspect of the portfolio and the portfolio as a whole.

It is argued in this paper that it is very unlikely indeed that one single individual financial planner or adviser would have and sufficient expertise in each of these areas. The AFA found that "More than half of respondents (57.0%) consider the be a 'generalist' while two in five (43.0%) consider themselves a 'specialist' (AFA, 2011, p3).

But consider the opportunity and service to the needs of the client if a model of the sector were to be developed that co facilitate such a worthy aspiration and which was grounded on the true professionalism which is so often claimed by the

planning sector in Australia to become an accepted and respected profession.

If we were to consider other professions which operate with a true collective approach to client management and how th developed to master such an array of complex choices and life changing circumstances, one that could be emulated is th profession.

The medical profession relies on a collaborative model made up of general practitioners supported by specialist medical practitioners, and surgeons, plus a range of other professional health care providers.

Within this model fundamentally the general practitioner (GP) assumes concern for the medical care of individuals, and c entire families.

The GP aims to provide on-going and inclusive medical care, albeit with the heightening acknowledgment of the right of make decisions regarding their own medical needs. However, based on professional experience and medical knowledge, c situation arises that requires specialist advice (e.g. after consultation and assessment) the GP refers the client to a speciali practitioner or health care provider.

Depending on whether the need requires a greater level of skill and knowledge - to a specialist, or may be referred to nu to have a wound dressed regularly for example.

The client relationship is maintained and managed by the expectation that the GP is kept informed through communicatio the GP from the other health care professionals. In some instances, for example when a special test or x-ray is required, may then advise the client as to the final recommendation.

A model that emulates this collaborative approach, composition and relationship could similarly serve the client in the fir services sector much better than the current model which is typically based on client ownership and control for fees to t exclusion of other speciality services.

The financial services professional, the GP of the sector, could provide an overarching and comprehensive financial strat and advice. It would encompass a broad range of knowledge in the many and varied fields that make up the overall finan portfolio and asset base of the client. The objective may be to diversify and create a new approach, indeed, established w inclusive portfolio optimisation objectives as the primary focus.

For example, the optimal portfolio could be based on Modern Portfolio Theory and an efficient "Markowitz" frontier – t portfolio being comprised of a series of optimal portfolios of the various assets owned by the client. However, the term "Coordinator" can refer to a position within an organization or business with significant responsibilities for acting as a liais other specialisations, clients, stakeholders and information sources, and which requires many technical experience and kn manage.

Thus, the aim would be to invest in a portfolio of assets that conjointly provide a lower overall risk for a given expected vice versa, but which incorporates the total wealth generating capacity of the client. Ideally the model would consider th opportunity cost of each investment portfolio alternative.

In the financial planning sector context, this model will allow the different characteristics of the various asset classes to l acknowledged explicitly for the contribution they make to a client's sense of wealth and the exposure or "risk" to change markets.

To facilitate the collaborative model in the medical profession ethical standards have evolved over centuries. These are r well developed and thus the profession has a "specific ethical responsibilities towards patients" (Williams and World Me Association, 2005, p83).

They also have appropriately strict and high level educational requirements, all in all giving them one of the highest leve respect in the community. Within the context of the discussion of the collaborative model, it should be noted that the W International Code of Medical Ethics provides three guidelines with regard to the medical practitioner's relationships with

Firstly, a restriction on "paying or receiving any fee or any other consideration solely to procure the referral of a patient" and World Medical Association, 2005, p84).

There is also a restriction on "paying or receiving any fee or any other consideration solely to procure the referral of a p p84). Lastly, there is a requirement "to report unethical or incompetent behaviour by colleagues". (Williams and World M Association, 2005, p84).

What is the suggested model for the sector?

At the present time, there is a considerable confusion about who can call themselves a financial planner. This is acknowl the FPA as follows:

Legally the term 'financial planner' can be used by a wide variety of those involved in the sector and who offer financial various ways. The list is extensive and includes, but is not restricted to: accountants and auditors, business development the sector, and client service representatives in the sector, lawyers, life and general insurance brokers, para-planners, pro representatives, real estate agents & property developers, stockbrokers; mortgage brokers, and tax agents (FPA, 2011a).

The extent and capacity of these functions and the nature of the financial service provided, together with the level or br advice that they are authorised or capable of providing can be confusing, especially for the public. The matter is compou the products that can be recommended by the adviser are restricted either due to the limited expertise of the advisor or t availability on an Approved Product List.

Even if clients ask suitable questions and research of advisers, getting the right financial advice can still be tricky under t industry structure.

It is the view of the FPA "that consumers should be able to find out easily and clearly what advice they will receive, ho it, and who they can rely on to provide it" (FPA ibid) and "It is reasonable for consumers to have an expectation that wh given financial advice, this is provided by a professional backed by appropriate qualifications and an ethical framework th adhere to.

Restricting the use of the term 'financial planner' is now acknowledged by Government as the way to achieve this" (FPA

The FPA Code of Professional Practice (2011b) enables the financial planner to limit the scope of engagement to provide professional services depending on their capacity to provide a service. Rule 1.4 states:

"Rule 1.4 Subject to the Member's capacity to provide professional services, a Member will limit the scope of the servic provided in accordance with Rule 1.1 'at the request of the client'.

With the current financial planner coordinating the flow of technical information and managing, liaising, overseeing the in providing role for the client based on current FPA standards for engaging with clients, there are a number of specialisatic come to mind for the financial planning sector.

These can be based on current legislative guidelines, professional licensing, and/or special academic and professional trai required. The following are suggested but this is not an exhaustive list but allows discussion of the referral opportunities be used.

1. Superannuation - is even now a speciality planning area advising on providing properly for the future through various of retirement planning and superannuation that individuals and companies might adopt. For instance, specialty superan advice firms, lawyers who advise and prepare deeds, etc. and superannuation tax consultants, and actuaries who speci: the superannuation area.
2. Estate planning - which is already a speciality of the legal profession which often involves complex real property and transfers, trustee and taxation planning which may need to be managed over a number of years.
3. Insurance Planners who become involved in advising on comprehensive insurance and risk management practices as v business planning arrangements such as Buy-Sell agreements and other succession planning and assessments of assets transfers.
4. Taxation planning which extends beyond just the knowledge of the tax implications for a product to incorporate a clie whole of business, personal and trust taxation planning
5. Asset Consultant - This area has typically been the province of the larger institutional funds management sector but t no reason why high net worth clients should not incorporate these services into their portfolio planning particularly f knowledge of more difficult products such as various types of complex derivate products for which separate accredit: and training is required
6. Property planning - Specialist property consultants can provide expertise and analysis and advice in all aspects of pro real estate portfolios. This might include appraisals based on listed Australian property and global listed property.
7. Debt planning - The role of gearing and development risk in a property or equities portfolio can be extensively analy modelled as part of the overall client wealth management strategy.
8. Direct investment in securities markets - Investment consultants that specialise in direct investment in securities mark as equity, bonds, derivatives, hybrids and foreign exchange can offer expertise, analysis and advice in facets of both d and international portfolios.

It could be that some of the above sectors that presently exist and provide advice may also need to be refined to ensure interests of the client are met and that optimum portfolios are formed as discussed previously in this paper. One of the s advantages for the industry is that referrals may be bi-directional. That is a specialist may refer a client to a coordinating : evaluate an overall portfolio.

In summary, through a process of referral to other specialists and a reporting back to the Coordinating financial planner a the management of the client can be maintained along agreed lines for professional engagement and disclosed in Statemer Advice given to clients.

This would significantly add to the portfolio optimisation objectives in line with risk/return trade-offs and far exceed the somewhat broad approach to asset allocation and the methodologies currently in use. This activity would be controlled ar by the GP planner for the client follow up and recommendation.

Surely, this proposed practice of referral and engagement with clients is fundamental to the activities of advisers who wis the best interests of their clients and to place the interests of their clients ahead of their own interests and benefits when

personal advice to retail clients as set out in the Future of Financial Advice Bill, Explanatory Memorandum (2011).

According to Santacruz and Lukashenok (2009) financial planners already face a great deal of competition from other pro including accountants, stockbrokers, private banks as well as insurance brokers and retirement fund managers (i.e. superar funds) lobbying for the opportunity to provide limited advice to their members.

In addition, there are a number of online services that offer financial products to consumers. So, in some ways, the searc specialised services is already happening but initiated by different competitive forces including clients who are seeking a of opportunity, information and advice.

With Future of Financial Advice (FOFA), and a raft of additional regulatory changes in the pipeline, the wealth managem insurance and retail financial services industries are indeed living in challenging times.

According to PWC, "Whether you are an asset manager, dealer group or financial adviser, private wealth manager or priv insurer, broker, superannuation fund, platform or service provider, regulatory developments are set to impact financial pl their business and/or marketplace" (PWC, 2011, p2).

Conclusion

In this article, the authors have considered the best interest duty under FOFA and whether this is likely to improve the for clients of financial planners in terms of the management and investment performance of portfolios.

They conclude by finding that the role of the traditional financial planner in the financial planning industry and the relati their client will need to change to a revised futuristic model for providing financial advice in order to serve the industry by persisting with the existing advice model structure.

Despite some 11 years of reporting by Government authorities with a range of inquiries into the financial services and re industries, its market participants and practices, the industry appears to be the subject of another round of legislation und order to provide retail clients with greater professionalism and quality of advice.

One of the benefits of the best interest duty under FOFA announced during the public consultation process was to impr quality of advice and consumer outcomes. Retail clients of financial planners are thought to benefit because it is claimed interest duty will result in an overall improvement in the quality of advice along with product outcomes.

There is a complexity of investment and management styles used across the financial planning and investment industry. T academic literature with regards to the management of portfolios provides some additional guidance as to what might be an optimal portfolio management strategy.

From the literature, the primary model used in practice has been the mean-variance model which is extensively applied in allocation and active portfolio management.

In recent years, multi-criteria decision analysis is one model that has come to the fore. It is based on the notion that in p single objective or philosophy is seldom used to make decisions.

Thus the approach aims to develop suitable methodologies that can be applied when multiple decisions with conflicting f objectives or philosophies are taken into account simultaneously.

However, there needs to be more research conducted regarding creating portfolios applying the multi-period approach.

It is argued in this paper that it is very unlikely indeed that one single individual financial planner would have significant sufficient expertise in each of these areas.

In practice, individual advisers have neither the experience nor operating capacity and time to actively manage individual relying on a variety of other approaches to managing client portfolios. Financial planners are required to focus more on t asset allocation decisions matching client risk profiles to asset attributes rather than ongoing monitoring.

Advisers tend to work through and ignore the shorter term tactical risk/return investment decisions such as active re-wei assets in a portfolio, instead recommending that clients invest "for the long term".

The future for the financial services and advice sector is very likely to change as ultimately, the source and flow of infor the specialised nature of information accessed by financial planners and provided to clients are broadened under the futu model. The industry would do well to consider a new model for the provision of financial advice with the planner playin role in coordinating the flow of information and advice to clients.

The Futuristic model was discussed that emulates this collaborative approach and which would serve the client in the fin services sector much better than the current model which is typically based on an individualist service approach to the e: speciality services.

The futuristic approach suggested would incorporate portfolio optimisation objectives as the primary focus based on, for the total client portfolio being comprised of a series of optimal portfolios of the various assets owned by the client. The would have significant responsibilities for acting as a liaison between other specialisations and clients and for information

With the financial planner coordinating the flow of technical information and managing the client relationship based on cu standards for engaging with clients, there are a number of specialisations which were suggested. These are based on curr legislative guidelines, professional licensing, and/or special academic and professional training required for membership t professional associations.

Surely, the proposed practice of referral to specialisations and engagement with clients is fundamental to the activities of who wish to act in the best interests of their clients and place the interests of their clients ahead of their own interests w providing personal advices. With FOFA and a continuum of regulatory changes underway in wealth management, insuran retail financial services industries, we are indeed living in challenging times.

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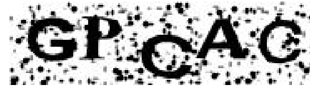

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