First timers urged to take time with guide

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The first time that you visit a financial planner, you must be given a document called a Financial Services Guide or FSG.

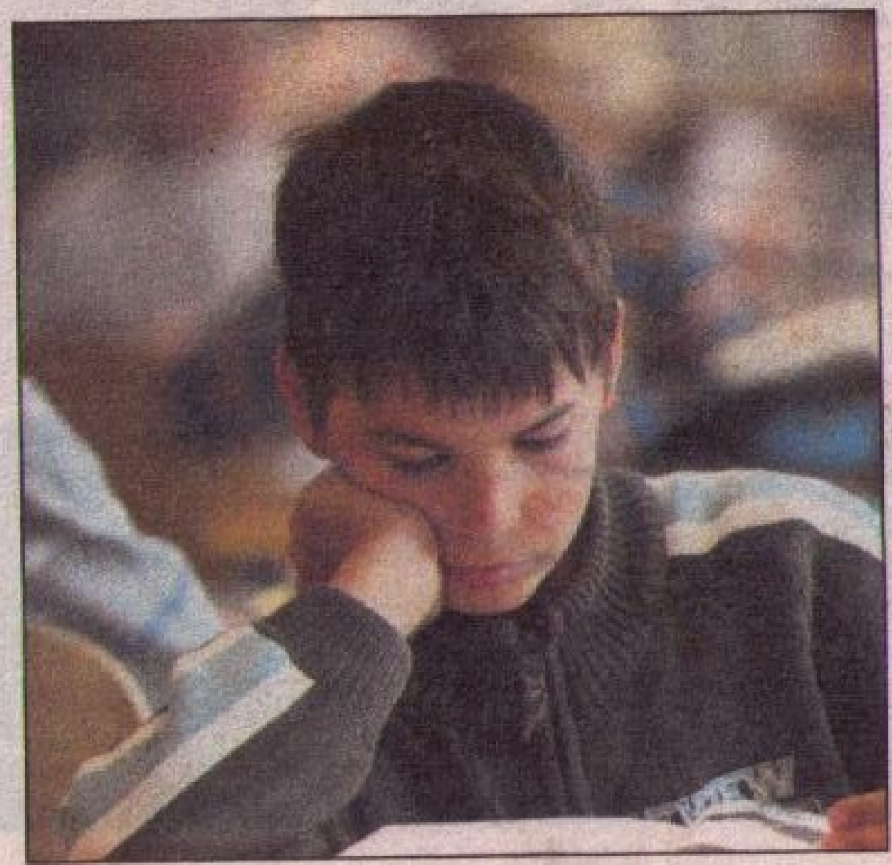
The FSG sets out important information that you need to think about before becoming a client and you should take the time to read the FSG and ask your planner about anything that you don't understand.

When you read the FSG, look for the answers to three questions. The first is who has authorised your planner to give advice. A planner cannot give advice unless they have an Australian Financial Services Licence which is called an AFSL or they are authorised to give advice by another firm that has an AFSL.

Some planners have their own AFSL but most planners are members of a dealer group which holds the AFSL and authorises planners to give advice on the dealer group's behalf. Some dealer groups are associated with or owned by big financial institutions which are in the business of manufacturing and selling financial products. Without you realising it, the planner that you are talking to might be a link in a chain of businesses that ends with a company that manufactures the financial products that are being recommended to you.

While there is nothing necessarily wrong with this, you need to think about conflicts of interest that your planner may have that result from this kind of arrangement, the most important being that your planner will recommend products to you that have been issued by a company that is associated with the dealer group.

You might want to check what your planner is authorised to provide advice about. Your planner might not be authorised to provide advice about a product that you are interested in.



Take care: Read the fine print.

You need to understand what limitations apply to your planner, otherwise you might only receive advice about products that fall under their AFSL rather than other products that could also be suitable for you.

Your planner may also only provide advice about products that are on an approved product list that has been decided on by the dealer group. Ask for a copy of the approved product list and think about why products provided by some companies and not others are on that list, particularly if the dealer group is associated with an issuer of financial products.

The third question is how your planner will be paid for their advice.

Many planners are paid by commissions that can be received by them in a variety of ways such as an upfront fee that is paid when you buy a product or trailing commissions that are paid at set intervals depending on how long you continue to invest your money in the product.

These commission payments are built into the fees you will pay to the issuer and will be deducted from the amount you have invested. These fees have an important influence on the overall return you will receive and it is important you think about how these fees will affect your returns.

Commission payments also raise potential conflicts of interest — the comparative level of commissions your planner will receive may influence the advice that you are given.

Some planners receive what are known as soft dollar commissions, such as interest-free loans or a contribution to the costs of the planner's computer systems. You need to ask whether these benefits affect the quality of the advice you receive.

The Government intends to ban many forms of commission payments with future financial advice will be provided on a fee-for-service model where, for example, you would be charged for time that your planner spends providing advice to you.

David Huggins is a lawyer who specialises in resolving disputes about poor financial advice