

**Regular-and-ongoing financial advice must be judged as a whole**  
**- the parts cannot reasonably be judged in isolation from each other.**

7 June 2005

*“Reasonableness dictates that any new piece of advice in a long-term advice relationship, can only reasonably be judged in the context of the entire relationship and the entire communication process.”*

In the broad sense, this very important principle has not yet been accepted – but must be, to ensure that FSRA adequately accommodates long-term advice relationships for regular-and-ongoing advice providers.

The problem that continues to exist under proposed refinement 2.1 is that the discussion paper seems to assume (in refinement 2.1) an advice process which involves a big piece of initial advice followed by many minor pieces of advice. While this covers the advice process of some advisors, it does not cover many forms of good regular-and-ongoing advice. The best way to illustrate the issue is with the old riddle “What is the best way to eat an elephant?” Answer: One bite at a time. And so it is with financial advice.

Over the first few years of advising a client, you get to know a client a lot better than you can over the first few meetings – so necessarily the advice and strategy becomes a better fit over time – and therefore necessarily a big first-off financial plan is unlikely to be the perfect plan. With regular-and-ongoing advice, the "financial plan" is an evolving, living and growing concept that should not be expected to be captured in any one document.

It is possible that FSRA requires a technical amendment to allow the SoA concept to be used to mean a set of advice documents – allowing later advice documents to readily "assume" (or simply incorporate by implication) the set of advice documents that have gone before.

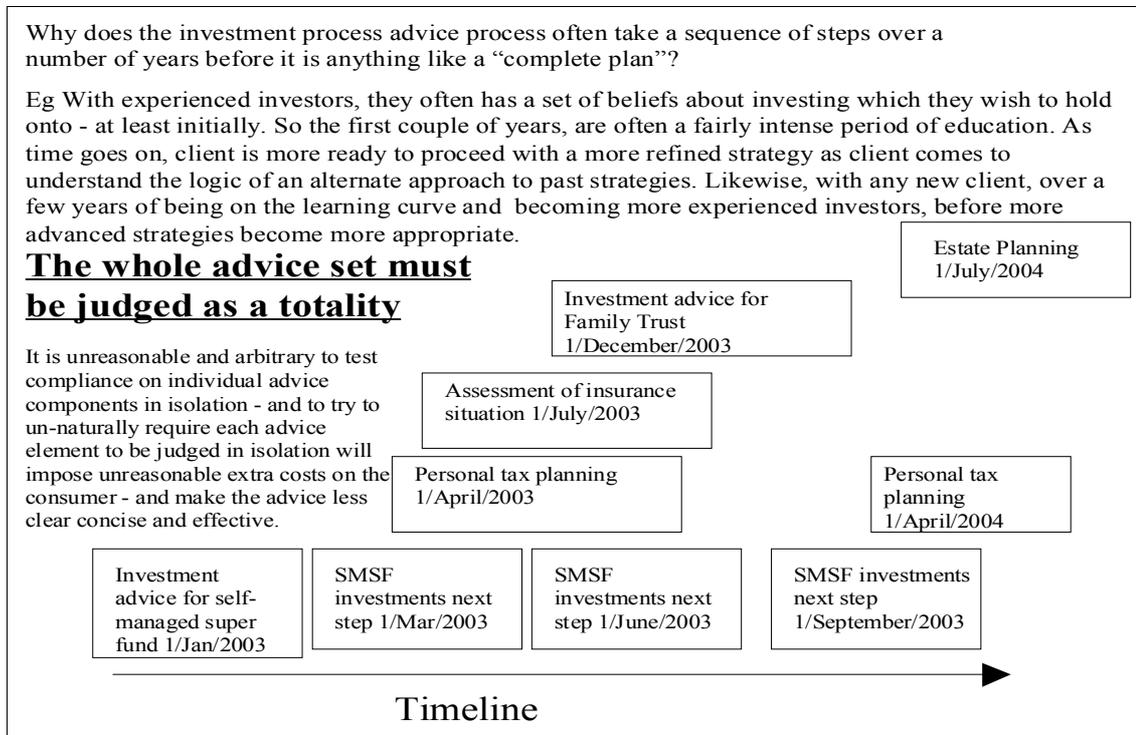
An approach some of us have taken to try to make FSRA fit regular-and-ongoing advice is to include the following type of statement appearing at the top of each new piece of advice.

**Statement of Advice.**

*This Statement of Advice must be seen as part of the set of advice provided to you over time (including all previous Statements of Advice and any advice provided by ABC Pty Ltd under any pre-Australian Financial Services Licence) and does not stand separate from previous advice. Therefore you must regard all previous Statements of Advice as being included in this Statement of Advice except to the extent that later advice supersedes previous advice. Part of the basis for my advice may also be found in newsletters and papers that I have prepared and circulated.*

**Eating the elephant – a client's requirements for financial advice can be large and evolving.**

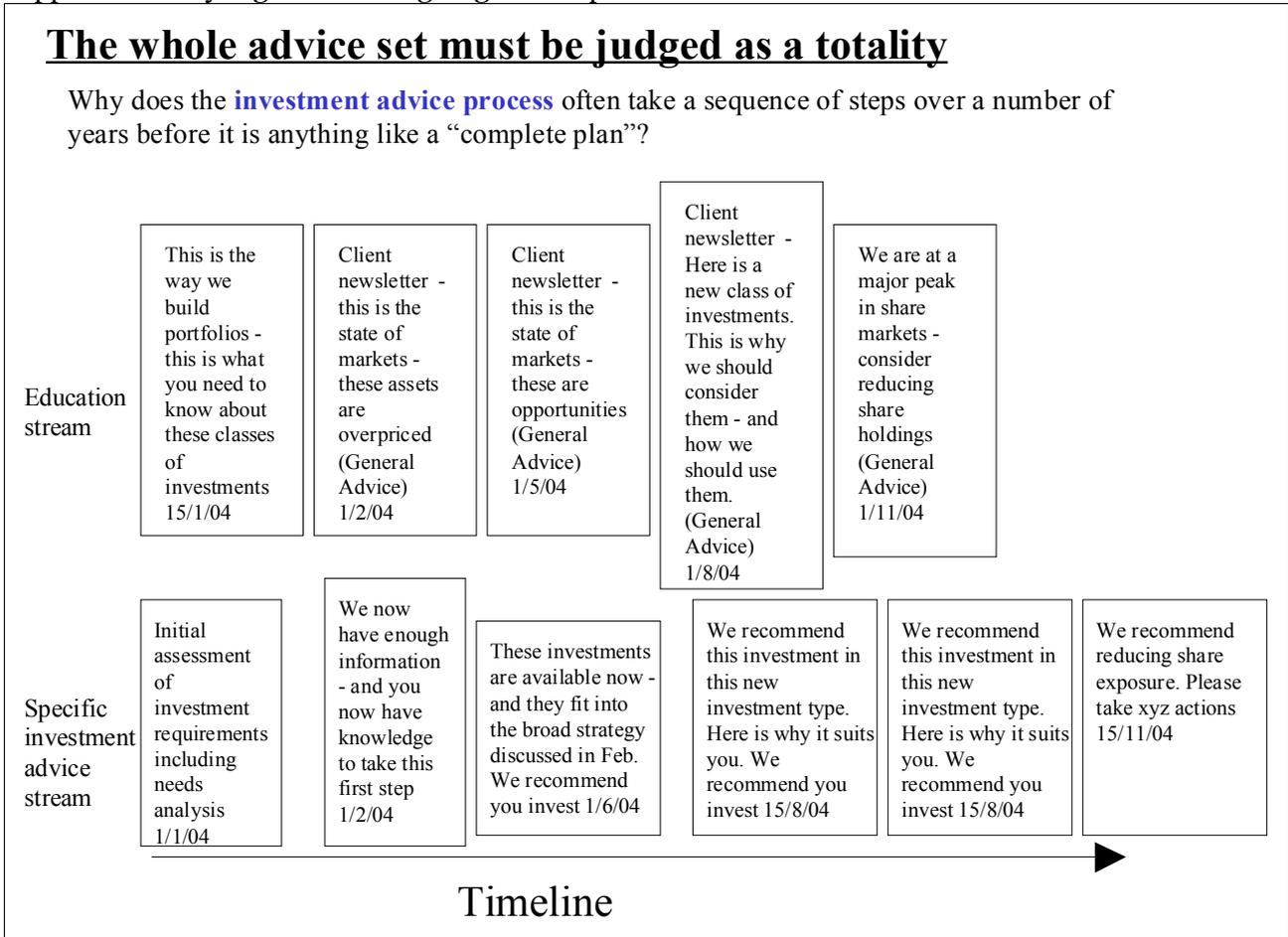
The best way to illustrate the nature of regular and ongoing financial advice is with the old riddle “What is the best way to eat an elephant?” Answer: One bite at a time. And so it is with financial advice.



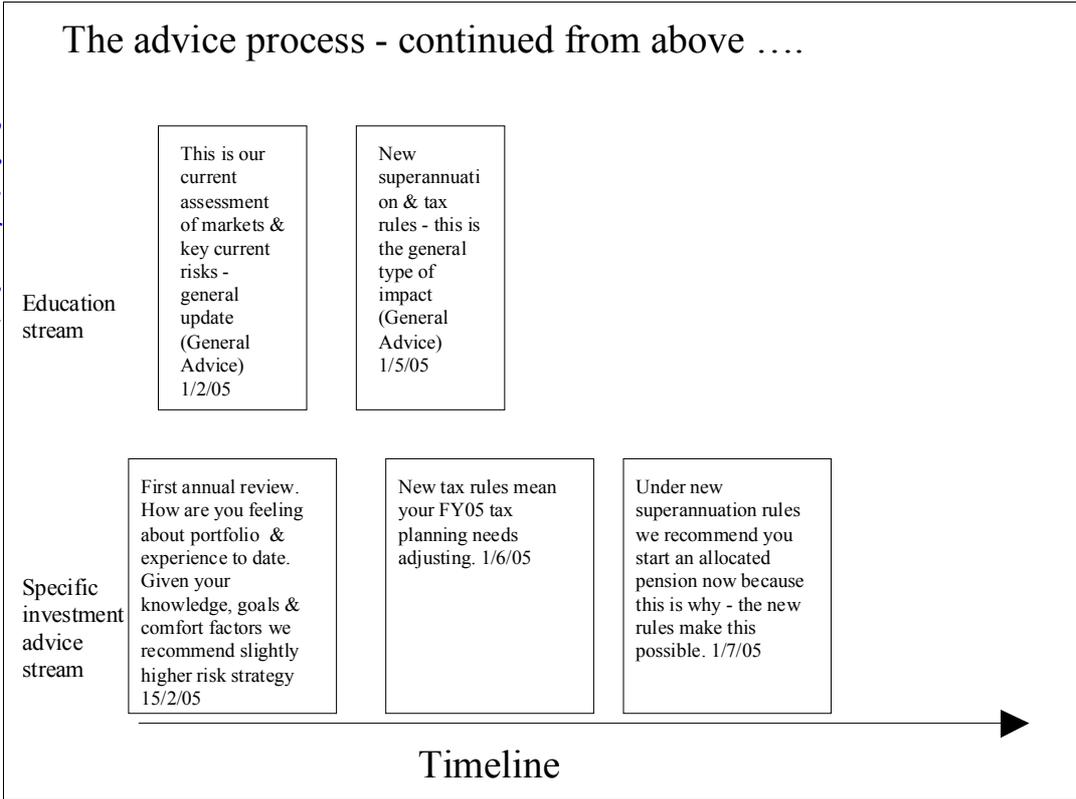
Over the first few years of advising a client, you get to know a client a lot better than you can over the first few meetings – so necessarily the advice and strategy becomes a better fit over time – and therefore necessarily a big first-off financial plan is unlikely to be the perfect plan. With regular-and-ongoing advice, the "financial plan" is an evolving, living and growing concept that should not be expected to be captured in any one document.

**The investment advice might take some months or year to build into a whole.**

For tailored, long-term regular and ongoing advice, this is not necessarily a natural fit to the advice process. I enclose a couple of diagrams where I seek to simplistically characterise what often happens in many regular-and-ongoing advice processes.



*These 2 diagrams are meant to be taken together representing part of one advice process for one client.*



Obviously there are very many variations of the theme.

The point is - regular-and-ongoing advice is not about one big once-off sale (which might be more appropriate for a product distribution channel.) Therefore, many regular-and-ongoing advice providers DO NOT start the relationship with an initial large Statement of Advice document – as these advisors feel this does not suit their style of advice.

As with the analogy in our meeting at Treasury in Canberra on 19/5/05, with a long-term male-female relationship, everything does not happen on the first night. As 2 people get to know each other in a relationship, then there is a natural evolution. The growing depth of the relationship includes a growing closeness in the way you assess the world, a greater understanding of each others goals, needs and aspirations, a rationalisation of priorities, a greater ability to act as an effective team, perhaps a decision to get married and create a family - and as the relationship developed. Necessarily the "right next step" in the relationship changes as the relationship evolves.

A long-term regular-and-ongoing client-advisor relationship, is very similar to the male-female relationship indicated above. It is often one of the most intense and strongest inter-personal relationships which a client might have beside the relationship with their life partner. And the right next step evolves over time - as the client's investment knowledge and experience grows, as market conditions change, as tax and superannuation law changes, as new investment alternatives emerge and as personal circumstances change.

**Bottom line:** Trying to break these long-term client-advisory relationships into small discrete pieces for compliance purposes is un-natural and unreasonable. The total advice set needs to be judged as a whole.