

## WEEK 1

### Financial Planning and the Profession

#### 1. Discuss the need for financial planning service

##### → Define financial planning

Process of developing strategies to assist clients in managing financial affairs to meet life goals

##### → Why is there a need for financial planning?

- Aging population = retirement funding needed
- Lack of expertise / time
- More wealth and investment responsibilities
- Complex regulatory systems

#### 2. Discuss economic conditions and behavioural biases in financial planning

##### → List 3 economic variables and outline their impact on the market

###### - Interest Rates

- Impacts bonds VS shares market
- ↑ interest rates = ↓ share price, ↑ cost of borrowing, ↓ cash available

###### - Inflation Rates

- ↑ inflation = ↑ cost of borrowing, ↓ capacity to save and invest
- ↑ interest rate = ↓ share price

###### - Unemployment Rates

- ↑ unemployment = ↓ consumption, ↑ savings
- ↑ interest rates + bankruptcy

##### → What economic conditions are favourable for financial planning? Why?

- ↓ interest rates, ↓ inflation
- More cash available to invest and save

##### → What is the difference between Business and Market Cycle?

###### - **Business Cycle:**

examines the past + present, shows economic growth

###### - **Market Cycles:**

examines the future, shows changes expectations with regards to cash flow, risk + risk tolerance -----> how this influences prices

→ What factors can cause **share prices** to fall?

- ↑ interest rates
- ↑ inflation
- Economic outlook (expected to expand, they will increase)
- Political / economic shocks (act of terrorist, rising electricity costs)
- Changes in economic policy (may lead to changes in interest and inflation rates)
- Value of AUS dollar (increase makes products more expensive, less sales, lower share)

→ List 4 challenges involved when managing finances. What are they influenced by?

- **Challenge 1:** Economic & Market Fluctuations

- Economic environment is cyclical in nature. Planners must be aware of its impact on the investment market. Must observe:
  - Economic variables / data / indicators: interest, unemployment, inflation
  - Business + Market Cycles

- **Challenge 2:** Central Bank & Government Actions

Monetary	<ul style="list-style-type: none"><li>- Central bank management of money supply interest rates</li><li>- Control over Inflation, consumption, growth</li></ul>
Fiscal	<ul style="list-style-type: none"><li>- Government adjusts spending and taxation</li><li>- Control over growth, business cycle, economic output</li></ul>

- **Challenge 3:** Behavioural Biases

- **Propensity to Save:** ↑ income = ↑ MPS
- **Limited attention:** focus on money grabbing assets
- **Overconfidence:** resulting in excessive trade
- **Disposition effect:** ride on loss, cut on profit

- **Challenge 4:** Information & Media Attention

- Prices are reflected by news
- Media/press can influence investment decisions e.g. Bitcoin hype

→ How does a financial planner address these challenges? What is their role?

- Specialisation of labour + capital
- Information is updated, relevant, reliable
- Technical expertise to interpret, identify, implement

### 3. List the 6 steps of financial planning

→ What is the Financial Planning Process? List the 6 steps.

1. Establish Goal
2. Gather relevant data
3. Analyse data + formulate strategy
4. Prepare Statement of Advice (SOA)
5. Implement plan
6. Review + monitor

→ Where does information collection start?

- Information collection starts at the "Fact Find"
  - Current situation
  - Financial Position
  - Goals and Objectives
  - Financial Literacy
  - Risk Profile Assessment

→ What are the 2 things risk profiling should consider?

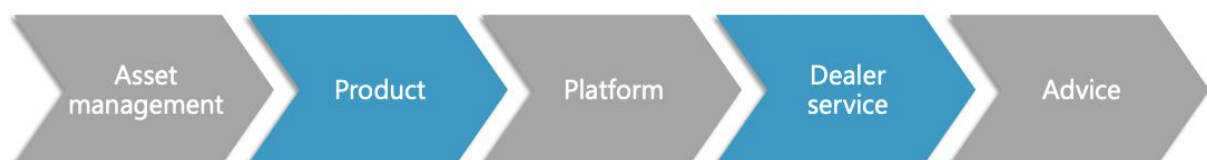
- Risk Tolerance -----> psychological attribute
- Risk Capacity -----> financial attribute

### 4. Discuss the structure and historical development of the financial planning industry

→ What are the 4 parts of the financial planning industry?

- Client + Advisor
- Financial Product Providers + Dealers
- Professional association + Educators
- Regulators

→ What is the Wealth Managements Industry value chain?



→ What is a Dealer Service?

- The license that holds the Australia Financial Service Licence (AFSL) under which most advisors operate

→ What are the 3 Financial Planning Business Models?

- Large Financial Institutions
  - Wealth division, employs advisors
  - Dealers: Westpac, CBA, NAB, ANZ
- Medium Sized Companies
  - Operated by service / product firms such as accounting firms, mortgage brokers
  - Financial Wisdom, Crowe Horwath
- Small Boutique
  - More “ independent”
  - Less restrictive Approved Product Lists

5. Discuss the regulatory and licencing framework of the financial planning industry

→ What is the Financial Planning Association (FPA)?

- The first professional organization that is dedicated to financial planning. Has its own:
  - Ethical principles
  - Practise standards
  - Professional conduct rules.

→ List the 5 key roles of the FPA

1. Professional Representation
2. Advocacy
3. Setting Standards
4. Awarding Certifications
5. Professional Development

→ List the 8 FPA code of ethics principles

<ul style="list-style-type: none"><li>- Client First</li><li>- Integrity</li><li>- Objectivity</li><li>- Fairness</li></ul>	<ul style="list-style-type: none"><li>- Professionalism</li><li>- Competence</li><li>- Confidentiality</li><li>- Diligent</li></ul>
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### → Difference between compliance and Ethics?

- **Compliance:** meeting minimum regulatory requirements
- **Ethics:** how to deliver the best outcome, supported and reflected by community values

### → What is Australian Securities and Investments Commission (ASIC)?

- The direct regulator of the financial advisory industry
- **Chapter 7 Corporations Act:** source of regulations in financial advice
  - Includes: securities, derivatives, superannuations, bonds, insurance
  - Excludes: health insurance, funeral bond, reinsurance

### → List 3 other relevant regulators and law

- **APRA** (Australian Prudential Regulation Authority)
  - Reduce risk in banking, insurance, superannuation sectors
- **ATO** (Australian Taxation Office)
  - Interpret and supervise taxation laws
- **ACCC** (Australian Competition and Consumer Commission)
  - Consumer protection eg. price collusion

### → List 4 Reviews and Reforms

- **Financial Services Reform Act 2001**  
Forms part of Chapter 7 Corporations Act
- **Ripoll Inquiry 2009**  
Product and advice failures
- **Future Advice Bill - Bowen Review 2012**  
Conflict of interest driven by commission based remuneration
- **Financial System Inquiry - Murray Report 2014**  
Lift entry standard of financial advisors of retail clients

### → What is the RG146?

- Minimum educational requirement needed to offer personal financial advice professionally
  - **Tier 1:** all financial products except those listed in Tier 2
  - **Tier 2:** general insurance, basic deposit products, non cash products