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MDAs key to proving value of advice

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By James Fernyhough | In Financial Planning

Managed discretionary accounts (MDA) could be a key area for financial planners wanting to add value to their service offerings in the post-FoFA world, according to Brett Sanders, joint chief executive of Philo Capital Advisers.

Sanders said that the bad rap advisers have received of late has led many investors to dispense with advice altogether and manage their own finances, often through self-managed superannuation funds (SMSFs).

But for these investors looking for a more actively-managed portfolio, MDAs are an attractive option and, if presented correctly, could attract many investors back to advice.

"In the old days, you'd need to write out a statement of advice (SOA) whenever you wanted to change the client's investment options. If you have 150 clients, by the time you've done all that market conditions have changed," Sanders said.

But with the discretion granted through MDA rules, advisers are permitted to make decisions on behalf of their clients, thus keeping up with market movements. "In our experiences, clients quite like that," Sanders said.

He said it is a particularly attractive model for clients who want to engage with their advisers and their portfolios more actively. Given the large proportion of SMSF investors - about half according to Investment Trends - who do not use financial planners, this could be a key selling point for this large market.

MDAs are regulated by Australian Securities and Investments Commission (ASIC). Currently, many MDA operators are running them on 'no-action letters' rather than full MDA licences.

But ASIC has said it intends to revoke these no-action letters, and bring all MDAs under formal regulation on the Australian Financial Services (AFS) Licence. It has proposed a two-year transition period.