

Money Management

Non-aligned planners should not emulate institutions for service offering

6 December, 2013 **Jason Spits**

Non-aligned financial planners need to vertically integrate their own businesses by offering advice and investment solutions that are not controlled by institutions, according to a portfolio construction consultancy.

Philo Capital Advisers said that non-aligned financial planning businesses have a once-in-a-generation opportunity to implement new advice and investment strategies — but should avoid looking to institutions or established models to provide direction.

"Vertical integration strategies should be developed around the needs of investors first and foremost, and any strategy that cannot demonstrate how investors will be materially better off is a strategy that is unlikely to be fully supported by clients, advisers and staff."

The comments are part of a paper released by Philo, and co-authored by Philo joint chief executive **Brett Sanders**. In the paper Philo stated that non-aligned planners could use a unit trust structure, a template model on a platform or managed discretionary account (MDA) to vertically integrate their business.

However Philo claimed that using a planning process that results in a choice between a handful of funds via a unit trust structure "always seemed incongruous and more of a reflection of a product distribution activity rather than an advice activity".

Philo also stated that while platforms were now the dominant form of applying advice to investment, few non-aligned firms had meaningful platform capabilities and the use of badged platforms still relied on rebates which "is a strategy in run-off as far as revenue generation is concerned".

According to Philo, planners should use MDAs because their structure offers non-aligned planners portfolio customisation and scalability and "a meaningful investment role for advisers".

"The quality of experience that can be delivered with an MDA is superior to both that of a multi-asset class fund of funds and template model functionality and is an experience that can justify a separate fee."

Philo also rejected the idea that non-aligned planning groups should look at institutions for models of how to integrate because "their advice businesses exist to distribute product and for no other reason".

Sanders and his co-authors stressed that an advice and investment model should reinforce the non-aligned status of planners and not replicate what works elsewhere.

"You are competing with banks, life offices and industry funds — make sure you look different, not the same. There is no intrinsic merit in their business model for a non-aligned planning business that makes it worth emulating them. Their models make sense for them, not for you."