Need for financial advice is greater than ever

THE need for financial advice is greater than ever, according to Ian Middleton, the managing director of Masthead Middleton, he points to the majority of South African consumers who are under-saved, under-insured and under-providing for retirement.

He warns, however, "The challenge advisors face going forward will be to earn loyalty from a wider base of diverse customers.

"Over the past 10 years, the country's economic base has broadened and more individuals have moved from the middle income space to become high income earners. Many have benefited from empowerment initiatives and they now require advice on how best to invest their newly gained wealth.

"On the other hand, there are also the many consumers who are still financially embattled. Job insecurity, rising inflation, increasing electricity tariffs and worries about the likelihood of earlier interest rate hikes are major concerns. They need to prioritise financial planning."

He says advisors who deliver professional service and succeed in developing loyalty among their clients will continue to differentiate themselves in the industry going forward. To assist independent financial advisors in this pursuit, Masthead focuses on developing the appropriate skills.

"Our support services are geared in such a way that we support our network of advisors to be able to deliver independent advice, build sustainable businesses and continue to be around to deliver on promises made to customers and their families.

"In this way we believe consumers can have peace of mind, knowing that they are dealing with a compliant, professional advisory business," says Middleton.

He identifies an increase in direct competition and consumers' beliefs that they can successfully manage their own financial affairs as the main challenges advisors face.

"We encourage advisors to form long-term relationships with customers by delivering on the promises made to them at the start of the relationship," he elaborates.

We encourage advisors to form long-term relationships with customers by delivering on promises

He acknowledges that the recession of the past two years has been a significant test of loyalty for both customers and advisors alike. While many of the former have had to re-evaluate their budgets, advisors have had to take additional measures to retain clients.

"Many people struggling to keep up with their insurance premiums and investment contributions, have sought to cut corners without considering the consequences of their actions," he explains.

"This has included cutting out the advisor and dealing directly with a financial services company of their choice."

This is evident in the greater number of people who are investing in collective investment schemes without professional advice. He says in 2005, financial intermediaries generated 41 percent of the inflows into the unit trust industry, while direct investments from consumers totaled 15 percent of inflows. In the 12 months ending 31 March this year, investments channeled into unit trusts via financial intermediaries dropped to 36 percent of the inflows, while 30 percent of the total inflows came from investors who placed money directly with unit trust companies.

"A short-term saving often has dire financial results over the long term," explains Middleton. "During the past two years, many self-styled investors realised losses because they were not investing in a balanced portfolio, were not investing according to their risk profile or panicked and sold out of their investment at the wrong time. Others cancelled their insurance products and lost out on benefits at a crucial time."

He cautions that many people may still be making serious financial mistakes because they have not been professionally advised. "The unit trust industry attracted net inflows of R107-billion in the 12 months ended 31 March 2011. Of this amount, some 57 percent was invested in the domestic fixed interest sector, while equities attracted a mere 3.7 percent.