

BACK GROUND TO FINANCIAL PLANNING SERVICES

To help you better understand our services and how you can get the most out of them we have decided to provide an overview of financial planning and the processes that we will undertake with you.

It is important that you understand these issues before retaining us as these issues will form a part of our agreement with you to provide our service.

What is financial planning?

“Financial planning” is the process of providing advice and assistance to clients for the purpose of determining whether and how clients can meet their financial needs and life goals through the proper management of financial resources.

The financial planning process typically includes but is not limited to the following elements:

- Establishing and defining the client / adviser relationship,
- Gathering client data,
- Establishing client goals,
- Analysing and evaluating the clients’ financial status including problem identification,
- Developing and presenting recommendations and / or alternatives for negotiation with the client,
- Implementing agreed recommendations,
- Reviewing and updating the financial plan as required.

A client may be an individual, a family unit or a legal entity.

Comprehensive financial planning will include the basic areas of financial position analysis, investment planning (portfolio design and management, superannuation, borrowings, taxation and legal structures), risk management and insurance, retirement planning and estate planning. Education funding, charitable planning and business succession planning may also be covered as required.

The financial planning process can be applied to meet your needs on

- A full range of goals and lifestyle considerations on a comprehensive basis,
- A sub-set of these on a more limited basis, or

- A specific goal on a specialised basis.

Tailoring and customising advice

The process of financial planning can result in you receiving a full, comprehensive financial plan or it can be more limited either

- Because you do not provide us with all the information we need, or
- Because you ask us to look at just one part of your financial life.

What happens if you do not provide us with all the necessary information?

Whether we are providing you with a comprehensive plan or simply limited advice, it is vital that you give us as much accurate information as you can. Without that information our advice may be inappropriate and in such case you are not able to rely on it.

If we believe that the information we receive is incomplete or inaccurate, we are required by law to warn you that the advice may not be appropriate.

What happens if you want us to look at only part of your financial life?

Your financial situation has a number of dimensions and taking action in one area is likely to affect another.

If you ask us for advice on a limited aspect of your financial situation we may need to have information about your whole financial position before being able to help. If we only know about part of the picture we will not be liable for the appropriateness of the advice and will have to warn you as we required to do so by law.

How will you know how much information to provide?

We need to know everything that has any bearing on your objectives, your financial situation or needs, your relevant personal circumstances, the purpose for which you want the advice, and your desired results.

We have developed a questionnaire to help guide you through the process.

How does the process work?

1. Together we will establish precisely what you want from us and reach agreement on the terms relating to our services.

2. You will provide us with all necessary information to enable us to properly provide our service.
3. We will analyse and evaluate your current financial status (including any problems).
4. We will develop and present our recommendations.
5. We will discuss these recommendations with you in detail, including any changes you would like.
6. You will then make your decisions and advise us of these.
7. We will implement your decisions including helping you to buy or sell any investment products.
8. We will monitor your financial situation, as we agree with you, in accordance with our regular review procedures and provide updated advice as necessary.

Ongoing review

Monitoring your financial plan is a vital part of maintaining the health of your plan.

That monitoring can consist of

- Ad hoc advice regarding a particular investment if the appropriateness of that investment changes;
- Regular performance reviews of your investments to ensure reasonable performance levels within the selected asset category, and
- Regular review of your personal circumstances to ensure the continuing relevance of the assumptions you instructed us to make in preparing the strategies associated with your financial plan.

The level of review will be limited in its scope and both of us will need to be vigilant to ensure that the limited advice does not damage the strategies of the plan or have a detrimental affect on the financial well being of you or your family.

Although we will help you to consider these matters at the appropriate time, you bear the prime responsibility for advising us of any change to your circumstances and of the potential for any advice we provide at the time of a review to be inappropriate to the general financial well-being of you or your family.

Our authorised investments

In providing you with suitable recommendations about investment products it is necessary for us to have researched these products in order to assess them. We must also regularly review and renew that research.

Given the vast range of products on the market it is simply not possible to research and regularly monitor all available investment products.

We have established a list of authorised investments, being products that we have researched and continue to monitor and that we are confident in recommending to the right client.

We can only recommend products on that list. If you want us to arrange for you the purchase of a product not on our list we will require a release confirming that we have not recommended the product and have not provided financial product advice in regard to it.

Grove Securities Pty Ltd is not owned by any product provider so we are free from this type of influence in selecting investment products for inclusion or exclusion in our authorised list.

What is risk analysis?

Risk analysis is the process of determining what type of risks you want to take with your money.

Terms like "high risk" are very subjective. What is "high risk" to a retired person might be low risk to someone in their twenties working in the finance sector. We therefore need to be more scientific and objective about your risk tolerance.

Risk analysis is designed to enable us to select the right mix of investments to achieve a specific balance of risk and return for you. Through the process we will be able to establish your risk profile which will form one of the bases of our product recommendations.

The inherent risks in investing

It is important to understand that there will always be risks when it comes to investing your money. The goal is to effectively manage that risk.

It is often said of investing that the higher the risk, the higher the return. While this is not an absolute, it is fair to say that low risk investments like bank accounts also provide the lowest returns.

If you want, therefore, to increase your possible returns you may have to be prepared to invest your money where the risks are greater.

No one can ever guarantee beyond any doubt that the value of your investments will never decrease. Look at all the major corporate failures here and overseas in the last 10 years. What we can do is put processes in place that manage the risks.

As your financial planner we can help to control that process. We can provide to you the information you need to assess the situation. We can help you to understand the relevant issues and make informed decisions about your investments.

We cannot control the sharemarket, government regulation, the economy, the laws on tax and social security or any of the myriad of possible changes to your personal life that could affect the appropriateness or value of your financial situation.

We provide the following explanations to assist you in understanding investment risks and basic investment manager styles.

Investment risks

- Inflation risk:** The possibility that the purchase power of your money may not keep pace with inflation. The risk is a poor real return on funds invested.
- Diversification:** If you put all your investment capital into one basket a fall in that market (eg international shares) will adversely affect all your capital. Diversification is a strategy aimed at reducing the impact that volatility in one asset class, sector or product will have on your overall portfolio.
- Market risk:** The possibility that movements in a market can cause an investment to decrease (as well as increase) in value.
- Re-investment:** The possibility that if you invest in fixed rate investments you may have to re-invest maturing money at a lower rate of interest if rates generally decline during the life of that investment.
- Liquidity:** The possibility that you may not be able to readily access your funds when you want or need them because they are invested in illiquid assets (eg real estate).
- Credit risk:** The possibility that an institution holding your capital may fail to pay interest or return your capital.
- Regulatory risk:** The possibility that government policy changes negatively affect your financial strategy.

Timing risk:	The possibility that a strategy of trying to time entry and exit from markets will expose you to greater short term volatility.
Value risk:	The possibility that you will pay too much for a particular product or that you will sell it too cheaply.
Manager risk:	The possibility that you will invest with a fund manager based primarily on their recent past performance without regard to their fundamental ability to cater to your particular needs or performance expectations over the time frame you have in mind.
Currency risk:	The possibility that investments held in other countries may rise or fall in value due to changes in the relative value of the currency they are held in (i.e. exchange rate).

Manager styles

During economic and share market cycles investment managers with different styles can be expected to perform better or worse than their peers. It is therefore important to understand the style of each investment manager in order to assess the appropriateness of their funds under the prevailing conditions and to your risk tolerance and needs.

Common styles are identified below. Combinations of styles are often used to achieve a desired outcome.

Top down:	Considers investment in businesses after first considering the context of the economic, industry and sector environment.
Bottom up:	Selects investments by first evaluating businesses from their fundamentals.
Value manager:	Seeks to buy shares that are cheap or good value.
Growth:	Seeks to buy shares in businesses likely to grow.
GARP:	Seeks growth shares when at a reasonable price.
Stock picker:	Consistently seeks to pick stocks that will out perform the market, relying on their expertise.
Style neutral:	Seeks to avoid additional management costs required by more active styles that are not viewed as likely outperform over the course of a number of economic and market cycles.
Indexed:	Seeks returns that follow a benchmark index.
Enhanced index:	Follows benchmark index but enhances through techniques such as participation in floats and option writing etc.

Return on capital: Focuses on how well a business manages its capital, including net generation of cash.

SRI: Socially responsible investment which, in addition to financial performance, looks for businesses with non-financial performance in areas such as the environment, human rights, working conditions etc.

Thematic: Look for broad economic, social or political themes. Eg health-care sector with an aging population.

Please ask us if you would like further detail on these styles or any other matter.
