

**SUBMISSION – TO THE PARLIAMENTARY SENATE INQUIRY INTO  
CORPORATION AND FINANCIAL SERVICES**

**THE FAILURE OF STORM FINANCIAL**

**From** – Gordon and Shirley Heard

The Committee Secretary  
Parliamentary Joint Committee on Corporation and Financial Services  
P.O. Box 6100  
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FROM: Gordon and Shirley Heard

SUBMISSION – To the Parliamentary Senate Inquiry into Corporation and Financial Services – Failure of Storm Financial

Attention: Committee Chairman – Bernie Ripoli

Dear Sir

We are ex clients of Storm Financial and have lost all of our funds. We are now on the Age Pension from Centrelink. We owned our own home and had Superannuation with MLC and LG Super. The LG Super was doubled up for 10 years and had a LG Spouse Super. These Superannuations were invested in the Storm Financial Colonial First State Index Share Funds (Industrial; Resources; Technology)

We first became aware of Storm Financial through our MLC Financial Planner, Mr Gus Dalle Cort when he joined Storm. We attended an information evening and were introduced to the Storm product and the ‘chicken and egg’ scenario which was the Storm trademark sales pitch. Later we attended the client educational classes and regrettably became clients of Storm Financial in June 2004. At this time Gordon was still working.

The Home Loan (equity in shares) is with Commonwealth Bank, Aitkenvale and the Margin Loan was with Colonial Geared Investments.

We had a little bit of experience with the share market as we had purchased privately shares in Telstra, Suncorp Metway, and Gasnet which we later sold privately to purchase a caravan. We did not have any experience with Margin Loans.

At the end of August 2005 Gordon retired from the workforce. We were now proud to be self funded retirees and not relying on the government for help.

In November 2007 Storm Financial advised that they were going to float the company on the Stock Exchange (this did not happen). This entailed buying out the other branches and this led to the manager positions being mainly salesmen working on commission. They kept pushing you to sign the Next Step straightaway or you might miss out while the market was low.

At an appointment on 22<sup>nd</sup> January 2008, we told our advisers Gus Dalle Cort and John Fuller that we should be redeeming shares and putting it into cash while we were making a profit. They thought it was a sensible idea but they never acted upon it.

On 27<sup>th</sup> March 2008 we did a next step and one thing we didn't like was the capitalising of interest on the interest payments for each month until June 2008 the end of the financial year on the Variable Rate Loan. This was the first time that interest had been capitalised.

On 21<sup>st</sup> May 2008 we were advised to revalue our home which we weren't in favour of but the adviser John Fuller persisted that as it hadn't been done for two and half years and that we needed the extra equity of the house to lower the Loan Value Ratio. The adviser kept insisting that the market would correct itself working on past experiences, but it didn't it kept going down.

We asked the advisers Gus Dalle Cort and John Fuller in November 2008 and December 2008 what happens when we get to May/June 2009 for interest payments on the Margin Loan and the Home Loan, we were told not to worry we will think about it then which was only 5-6 months away. We thought this was unusual as they being financial advisers always insisting at looking towards the long term.

On 10<sup>th</sup> October 2008 we had to sign a document to switch our portfolio into cash and be placed into an Accelerator Cash Account to protect our portfolio going into negative equity. This document stated that it was strongly advised that these funds were not to be used to pay down debt.

On 25<sup>th</sup> October 2008 about 80% was redeemed into cash. On 26<sup>th</sup> November 2008 some more of our portfolio was redeemed and on 5<sup>th</sup> December 2008 the last of our portfolio was redeemed.

On 12<sup>th</sup> December 2008 there was a meeting of Storm clients with Gus Dalle Cort at the Cairns Storm Office where we were advised that Commonwealth Bank had closed down the Storm Index Share Funds. He also told us that some of us would never get back into the market again and that some of us would lose our family homes.

Christmas 2008 was the worst Christmas that we ever had as we didn't know how we were to going to survive? Would we have to sell our family home to get out of debt and as retirees we were concerned about the loss of our house as it will be hard for us to start again as this stage of our life as we did not have enough money to buy anywhere else. We should be enjoying the rest of our twilight years and not worrying about this debt that is hanging over our heads. If we had to sell what would we do with all of our family treasures and mementos and where would we go, we only had the caravan to live in which was an option or we could rent which would be a struggle to make ends meet when on an Age Pension. We didn't want to go back into the workforce. What of the inheritance that we were going to leave for our children.

We have paid out the Margin Loan with Colonial Geared Investments incurring a substantial break fee when we broke the Fixed Interest Rate. We had a bit of a surplus left over but not enough to clear the House Equity Loan with Commonwealth Bank.

We have approached the Commonwealth Bank for the Hardship Relief Deal and have received the Deed of Settlement which we have not yet signed. One clause in this Deed of Settlement will give us life tenancy in the house until we die and then it will be sold to repay the debt.

At no stage were we ever contacted or interviewed by anyone from the Commonwealth Bank or Colonial Geared Investments in regards to the House Equity Loan or the Margin Loan on our capacity to repay these loans. All of these Loans were arranged by the Townsville Office of Storm Financial on advice and information from the Cairns Storm Office advisers Gus Dalle Cort and John Fuller.

Storm Financial would never combine the two (2) Loans (House Equity and Margin Loan) under Loan Value Ratio. The emphasis was always on the Margin Loan Value Ratio. They would brush off the loan on the house as if it was unimportant.

It appears to us that Storm Financial employed the same strategy for investment and used the same plan for the portfolios for all of their clients regardless of their age, circumstances or goals. They should have looked at each situation differently. We as an Investor sought advice on our financial situation and Storm Financial advised us to borrow heavily. We as Retirees should have never been placed in this situation.

We did understand that there were Risks and Volatility in Shares. **We strongly advised the Advisers of Storm Financial that we were definitely not interested in High Risk as per Risk/Volatility Statement of 9<sup>th</sup> March 2004** and had paid Storm Financial high fees for their expertise to manage our portfolio. We did not expect the market to fall so drastically and we therefore placed our trust in the Advisers and Storm Financial to guide us safely through this, instead of falling into the greed trap which led to their and our undoing.

We were very surprised that Storm Financial, a firm of their size with all their sophisticated mechanisms and data at their disposal that they did not have safety trigger points in their system which warned them when clients were getting close to a margin call. If they had, it may have saved a lot of Storm Clients from heartache and despair of losing their livelihood and their family homes.

Storm Financial broke a golden rule of investing "Do not put all ones eggs in one basket". They did exactly this as we all were invested in Storm Financial Colonial First State Index Share Funds.

Who purchased the units at the point that the Storm Fund was closed down?  
Is there any evidence to suggest inside trading at this point as the Storm Fund was at it lowest point.

Why did not Storm Financial act sooner in getting the clients into a better position?  
Where was ASIC?

We believe that there should be tighter regulation of financial planners, margin lenders.

We welcome a Senate Enquiry.

The Financial Planning and Banking Systems need a major overhaul to protect the average citizen, in terms of Licensing, Borrowing and Banking Fees.

Both the Financial Advisers of Storm Financial and The Commonwealth Bank did not show due care and diligence to their clients.

We will close with a favourite saying that Mr. Cassimatis had “You are not here for us, we’re here for you” (to milk us and get us into debt)

Yours faithfully

Gordon Heard

Shirley Heard