

Submission to the Parliamentary Joint Committee into Financial Products and Services in Australia; specifically Storm Financial

My name is Ron Pearson

I am self employed and a investor and classified for taxation as a share trader.

I did not invest in Storm Financial .

I have been involved in the Share Market from approx 1986. In that time I have traded in various shares, options, warrants and CFD's that is Contracts for Difference in shares, Oil, Gold, and Index funds. During my continued education of myself and by attending some courses in options etc I have believed in a concept that you could make a safe investment in Index Funds with a insurance factored in by actively buying Puts or calls and or writing puts or calls on the Index Fund. I have yet to put it into practice as it is obviously a time required factor to set it up and monitor the day to day changes.

I learnt of the existence of Storm Financial through a friend and neighbour back in about 2003. We had both previously been involved in the share market in various ways.

Mark our friend had a good experience with his investment with Storm over some years.

I moved to Mackay area in 2004 and attended the first of the investment seminars with John at Storm's office in Mackay. The first seminar was a very basic introduction to Storm. Don't eat your chickens or you will have no eggs. Think outside the square and so on. Many of the 30 odd participants were very impressed. The Index fund was of course the main focus of the presentation. I told John the main flaw was the share market was already outside the averaged of 7% annual growth and a correction was inevitable sometime. A 21% increase of the ASX index I believe was in the presentation for the selected period. I have traded CFD's on the index and am aware of the top 200 and others. I repeatedly asked for a explanation of how was the index funds managed. Especially in a falling market when it happens. I was not happy with John's explanations. I had some discussion with him over a period of time. I did not attend any further workshops as such.

The Main Attraction of the Storm Financial concept was to let someone, a expert with many years in the business, manage the day to day stuff and make a consistent return with little personal input from us 60 year olds. The seminars were thorough with the request for your financials etc. and a request for the risk factor you wished to relate to with your investment with Storm. I remained interested in Storm and our friend Mark continued to reap a healthy return on his initial investment. My returns were variable but I was very aware how quick a margin call was made if you had insufficient funds in your account. Two CFD Provider's I have used IG Markets and CMC Markets.

IG Markets send a email, and a daily statement. On one occasion they rang my mobile to inform me of my current position in debit or margin. Normally but not always a 24 hour period was allowed for you to introduce funds via credit card or B Paye.

It is up to you to monitor your position. A statement of funds, your current position and margin required is available at the click of a button on your computer.

CMC Markets sent multiple emails the minute you are in margin by a few cents. They continued until it is in credit. On one occasion approx 3 years ago I had a CFD Put or sell on BHP. I had sufficient margin until some news came out and BHP reversed its down direction and quickly gained a \$1.00 plus in value. I was in margin on the BHP but the platform of Market maker froze on my computer. CMC avalanched me with multiple emailed margin calls and as I reached a stage of insufficient equity in the space of a hour they sold down my holdings in segmented pieces. I was not happy and have not traded with them since. It was my computer at fault and my phone calls to close out that were not acknowledge as being to sell the total parcel at the time.

I was in a position to clear the margin or exit the trade. A loss of \$4000 occurred. I had chosen not to have a stop loss in this trade.

To date I continue to trade CFD's at times and have had a good experience most of the time. CMC and IG Markets have both updated their Platform several times in the last few years.

What I am attempting to inform the Senate Inquiry is the fact that software is effectively available to monitor and advise clients of a insufficient LVR or margin of funds and has been for some years.

In September 2008 I and my wife visited our friend Mark. I was a bit concerned as to his portfolio with Storm. He showed me his statements which indicated a very healthy position. I stated I could not understand how Storm Clients were not on or close to margin calls, especially the newer comers who had entered the ASX 200 index in the 6000 or greater. There was a number of { managed } index funds. In my experience I could only believe their must be some method of covered options and other strategies to reduce the effect of a very obvious falling market. Mark gave me Stuart's phone number, a Storm Advisor in Brisbane. I contacted him in early October and received a phone call to my mobile. I asked him how come Storms Clients were not mostly in Margin Calls. He replied " The whole world is on explicative margin." He then had a discussion with me where he said "Its because of good management that No client of Storm is on Margin." He did say that a few had decided to leave but in the main all was good. I was to make a appointment with him as I stated I wanted to see the mechanism of how they managed a falling index and was it options . Subsequent events in late October and early November nullified any point in further discussion as to how the index funds were managed in a falling market.

My wife and I received correspondence from Storm Financial dated the 31st Oct 2008.

Copy is attached. 26 pages in total. Basically it is requesting information on a Confidential Financial Profile. Please take note of such statements as "To live self sufficiently and be happy until the day you die." That was how Storm promoted itself via seminars and presentations or workshops.

I have become aware that CBA's Comsec do provide options, Put, Buy, and various strategies which can be entered into by us in the retail sector of the public for the ASX 200. I firmly believe Colonial and Comsec and CBA and especially Storm Financial were in a position where they could have utilized their knowledge and {expertise} in managing clients exposure by writing and taking various strategies with options to protect and provide further income for Storm Clients. The fact that they did not speaks little for these expert Financial Advisors. The various strategies I speak of are promoted by Optionetics, and Comsec and others. Storm should have been bomb proof and black swan proof but thanks to lack of prudent management by all parties who took commissions with out any fire insurance in the form of option strategies it was not. Many of Storm Clients would not and had not invested previously in the Share Market but thanks to seminars and presentations with the safety factors supposedly there as a stop loss they trusted the experts. They had not had my experiences to question the how and when of the operations. Then again when we board a plane we never query any number of factors; Has it sufficient fuel, is the pilot qualified, when was the last maintenance check done?

Why should we and that is how Storm operated with the support of the Banking sector that wanted part of the action. Trust us; we know what we are doing.

Thankyou.