

## **SENATE SUBMISSION**

**To**

### **Parliamentary Joint Committee on Corporations & Financial Services Inquiry into Financial Products and Services in Australia**

**- ANTHONY AND MICHELLE OLD**

#### **Client History**

We first joined Storm Financial in September 2001 prior to which we spent 12 months formulating our investment plan with our advisor Emmanuel Cassimatis.

Our first investment was modest, but over the coming years we built on this gradually adding to it whenever any spare money was available.

As a general rule, we used the value of our Investment as security for our margin loan, which was held by Colonial.

#### **Key points**

We at no point were provided with the option or a deadline to re-finance our portfolio;

We at no time were asked to provide extra equity to secure our portfolio and prevent its sale at the lowest point of the market;

We were not advised of the sell down of our holdings until AFTER the fact;

We were at no time advised that we were in margin call;

The only time we received any contact from the bank was after our portfolio was sold down and converted to cash held by the bank in a cash management account, leaving us in a position of negative equity;

Our valuations were accurate, our documents were current and professionally obtained and reviewed, and all information being used to secure our finance was updated, reviewed and checked regularly;

Had we been given the option, we could have comfortably provided additional equity to secure our investment portfolio. We wanted to stay in the market at all costs and ride the down-turn. We were not given this opportunity;

A short time after the lowest point in the market, it recovered enough to be a viable investment, pity we have nothing left!

## **Comment**

Despite where the blame lies, and as the blame game continues, it seems evident now that as things spiralled out of control and the market hit rock bottom, Storm were unable to act, they were unable to communicate with their clients and they were unable to access crucial and up to date information regarding their clients' portfolios.

It has come to light that Storm were prevented from communicating with their clients due to ASIC's involvement which had a detrimental outcome for clients. Clients were panicking they were desperately trying to get information in order to protect their investments and were not able to do so.

It is absurd for Colonial to continue to allege that the responsibility to advise clients of their position fell totally with Storm when they were essentially gagged! And at many times Colonial themselves were not able to provide accurate or timely information. Not only that, but hundreds of thousands of dollars of OUR money went missing after our holdings were sold, before it was then deposited back into our account. I wonder where it went? ...Our advisors were not able to communicate with us – the clients – at a time when it was needed the most, now whose fault is this?

We on numerous occasions contacted Storm to check on our on lending ratios and position and were not able to accurately get this information....largely as Colonial were not able to provide it!

It is unfortunate that much of the media coverage misses the point and as a consequence provided an enormous amount of mis-information. The investment model that Storm adhered to should have been fail safe. Had the CBA held up its end of the deal everybody's investment would still be intact. The portfolios were designed to be income producing and self funding. Ours certainly was and could have easily have weather the "storm" had the bank not jumped ship!

You don't need to be a financial analyst to see that every client's investment would have survived had they been permitted to stay in the market. The all ordinaries index is at approximately 4100 points and that position was hit around October last year on the way down! Had the CBA shown some foresight, NONE of this would have happened! The market was always going the recover, and the Commonwealth Bank and Colonial who had been making a small fortune collecting the interest on Margin loans, should have had the balls to hang in there when the going got tough.

Something that escapes most people, especially the media is the self funding nature of such an investment.

If you borrow to invest say \$100,000 and the interest rate on the borrowings is 6.5% (\$6,500 p.a.), if you then receive dividends of 3.5% (usually about 4%) p.a. and a tax break on the borrowings of 30c in the dollar depending on the clients marginal tax rate, that means that the investment is neutrally geared (self funding). All the fuss about retirees having no income but being able to borrow money anyway is nonsense. The borrowed money is an asset which is used to

produce income, passive income, the best kind. THAT is the whole idea, to invest money that will produce a passive income.

More importantly, the investment remains in tact and has the capacity to grow when (not if) the market recovers.

The investments were an index fund, they were never going to lose their value entirely. Simplistically, for an index investment fund to drop to zero, it would have meant that the whole stock market would have gone to zero ... including our beloved CBA, BHP, NAB, ANZ, WBC, BOQ and ALL of the other top 500 companies registered on the ASX, yes every one of them!

Clearly that will never happen nor is there any real likelihood of that ever happening. The safety (as such) of an index fund is actually one of the reasons that CGI allowed such high LVR's on those funds. It was everyone's belief (including CGI) that index funds were virtually indestructible ... until CBA panicked.

## **Conflicts**

Did ASIC act independently, the Commonwealth Bank wields enormous power, after all isn't the same person ultimately signing their pay checks!

Whose interests were being investigated, certainly not mine, the client, the consumer!

And what about the timing of events, the fact that the Commonwealth Bank appears to be coming to the party. How convenient! Hand in the cookie jar springs to mind! People are mostly gullible and in this situation many are desperate and will take whatever they are offered. The CBA should not make a measly peace offering, or worse threaten and intimidate those they have destroyed, they should be made to pay dearly for the actions they took.

They should be asked to reinstate people's investments at the point at which they would NOW had the CBA not taken the action they did shutting down the Storm Funds and calling in loans!

It is also ridiculous to claim that investors were not aware of where their money was going, with which financier and using what security. The Storm education process is thorough to the point where there could never be any doubt unless clinically brain dead how the money was invested, the risks associated with the investment, and the process by which the investments were purchased, managed and processed.

Claims that suggest that people didn't understand the process are absurd, inaccurate and laughable! When we first joined Storm the education seminar on the nature of the investment process went for two full days. What other financial advisor offers education this comprehensive...I would suggest not many!

We were well informed, educated, experienced investors, and the reason our life savings were lost is wholly and solely the Commonwealth Bank's fault. They

panicked, and the sold every body out, without so much as a backward glance...it was a despicable act of treachery for which they should be held accountable.

Nobody is suggesting that the CBA is responsible for the fall in the stock market, they are however responsible for selling out their clients at the bottom of the market as they scrambled to call in there margin loans.

What was the hurry after all, the CBA in most instances had the interest on most of the margin loans paid in advance until the end of the 2009 financial year. Why sell out the majority of their clients in January and then, just for good measure pass on the cost of the break fees to the clients...which in some instances ran to hundreds of thousands of dollars in fees alone.

It is absurd for the bank, who had in the past always been joined at the hip with Storm, to abandon both Storm and its clients, to assert that no responsibility lies with them. Storm were not even able to get accurate information on client files as everything was unravelling let alone advise clients accordingly. By the stage the 'proverbial' was hitting the fan it was too late....damage done, portfolio sold, Storm nor us any option but to sit and watch the toilet flush...

## **Conclusion**

All this grief and financial ruin COULD have, and SHOULD have been avoided. The disastrous effects of the Commonwealth Bank's reaction should be rectified.

This situation has ruined many people both financially and emotionally and the Commonwealth Bank and its self serving actions should be scrutinised carefully.

Regards

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