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18 June 2009

Submission to a Senate Committee inquiry
Like many other small time investors we engaged Storm Financial to seek financial gain by entrusting them with our lifesavings to invest into a customized share portfolio with our personalized requirements and situation in mind. Following the attendance of the compulsory Storm Financial Workshops a lengthy and thorough application process (by Storm Financial) took place. During that time we have been made aware of some of the risks associated with investing into the share market should the all ords go down. Previous negative investment portfolios (not related to Storm Financial) triggered the inclusion of safety measures into our Storm Financial Statement of Advice (some extracts below) ensuring a conservative rather than aggressive approach.

In hindsight 'after the horse has bolted' I would like to raise the following questions and comment on some issues relating to the collapse of Storm resulting in our financial downfall.

Within our Storm Statement of Advice it states;

- ***Safety depends on information. Our models and engineering is to give this information clearly. Proper testing is done on all aspects of a recommended plan to ensure informed decisions can be made.***

<u>My Question</u>;
With many years of experience within the field (as they claimed) where were Storms safety margins to ensure that clients been informed/advised as well as protected in times of negatively performing portfolios? As we all know during the recent fall in share market things happened very quickly, but in my opinion Storm Financial and lenders must have had safety margins in place to encounter such events (that's why we small investors are engaging the "experts"). It appeared that once the rollercoaster was on the downturn spiral the so called experts buried their heads in the sand, hoping it all would pass.

Within our Storm Statement of Advice it states;

- ***Margin Call Test. You see from the Margin Call Lending to Valuation Ratio (LVR) that the value of your Margin Loan relative to the value of your Share assets should not exceed 79.95%. If this occurred, you would be in Margin Call and the lender would require you either repay some of the loan, or offer more security for the loan. Your post-plan Margin Lending Ratio is at 51.21%, which is well within our recommended guidelines as being prudent.***
    - ***The three layers of protection before a Margin Call could occur are***
    - ***1. A 47.71% buffer before a margin call would occur if you offered your cash Reserves as additional security to the Margin Lender. This***

equates to being able to withstand a fall in the market of about 3503 points from its current level (December 07).

- ***2. If you were to purchase additional shares during a market fall and offer these as additional security, you have a 42.96% buffer before a Margin Call occurred. This is the preferred option in the event of a market fall, as it means that you are purchasing successively cheaper assets as the market declines. This adequate to being able to withstand a fall in the market of about 3154 points from its current level. (December 07).***
- ***3. If you offered no additional security to the margin lender at all, then there would be a 38.74% buffer to Margin Call. This equates to being able to withstand a fall in the market of about 2844 points from its current level (December 07).***

My Question;
I am not a financial expert but the way I read the top part the LVR should not exceed 79.95%. Why then did we only get out of the market after our LVR reached approx 97.2% leaving us with just $21,000? If Storm had stuck to their advice and we would have got out of the market at 79.95% (as per our Statement of Advice) the sum we would have got would be more around the $170,000 despite some losses caused by the rise of the LVR.

In addition, why were we not contacted to enable us the opportunity to add additional money towards the margin loan to stay in the market. In hindsight, that would have been one option to remain in the market and even whilst incurring some losses we would have been on the road to financial recovery once the market improved, as it did over the past few months.
The three layers of protection are in my opinion misleading as we were put into a false sense of security in case the market dropped as it did.
Why were there no automatic trigger points within the system which could be computer generated and once the LVR reaches a set level automatically suspends trading or at least notifies clients to undertake actions based on advice from our financial planners? Remember, we paid substantial fees for the service. Yet again for a company with so many years experience a poor setup.

Within our Storm Statement of Advice it states;

- ***Trigger points for next stage of investment. As has been explained during our discussions, our procedures for reviewing your investment are primarily driven by changes to the value of your investment, and this is related to movements in the share market. We suggest that your portfolio should be reviewed if there is approximately a 10% or 20% movement in either direction from the levels as of December 2007.***

My Question;
It appears that the trigger points are working, at least in one direction as it did not take long for Storm to encourage us to undertake our first and only step around August 2008.

In hindsight where was the notification that a review was required after the first drop of 10 or 20% as indicated? Yes, we would have encountered losses and in all fairness tempers would have been boiling. But to loose the lot because no one from Storm Financial was on the ball, has put us in a position which can only be described as devastating.

Within our Storm Statement of Advice it states;

- ***Fees: If you implement this plan, the fee payable to Storm Financial Limited would be $57, 932 (initially) and a further $15,976 (first and only step).***

<u>My Question;</u>
I think it is fair to say that we have been made aware of the fees prior to signing the contract with Storm. However, we joined Storm in March 2008 and got out as part of the Storm closure in December 2008 (approx 8-9 month), which relates to approx $8600/month in fees. The only contact we had with our financial advisor was during the time we decided to undertake the next step (around August 08).

- Where was the service and advice as per Statement of Advice from Storm?
- If the LVR limit was to be 79.95%, what information was given to the Colonial Geared Investments as they got us out of the market at approx 97.2%?
- I believe we have a case to claim at least compensation (exit LVR at 79.95%) which as indicated earlier would be according to my calculations approx. $170,000 minus $21,000 (already received). As we did not had a mortgage upon entering Storm we now have one in access of $480,000 as well as having lost our lifesavings. Would we have received the approx $170,000 we would have lesser repayments as well as we had a chance to reinvest into the market to get back onto our feet. These are all costs to us and should also be considered when seeking compensation.
- Who is at fault? Without access and/or inside into all relevant documentations it is my opinion that there is a shared responsibility between Storm and the Colonial Geared Investments who clearly breached their conditions and duty of care.

Now in recovery mode and with more details emerging regarding the dealings between Storm Financial and lenders (in our case Colonial) it appears that there was a mutual relationship between them where one was benefiting from the other during the good times. However, when the going got tough we were sold out without hesitation or appropriate information. At no time did any of the safety margins (as set up) eventuate during the down turn in the market. At no time have we been asked to increase our portfolio to avoid a margin call which we would have been able to do to ride the downturn out.

Regards

Andrew Groenwoldt