15 February 2009

This statement is written on behalf of a number of ex-Storm clients:

Storm Financial was a con and we accept responsibility for being deceived but we want to warn other ordinary Australians about dodgy financial planners: always check the planner's credentials; get more than one statement of advice from different planners; do not borrow against/invest what you are not willing to lose; educate yourselves and do not invest in what you do not understand; if using a financial planner, demand details of all fees and opt for hourly rates or be sure your fees are reasonable; be firm and demand your money back when you want to sell an investment.

Emmanuel Cassimatis and his advisers repeatedly told us that our investments were safe, that the risk would be managed; in the 1990s we were told that they would use trigger points to get us out of the market and that we would never be left with debt. The Storm Financial founders need to be confronted with their claims that their advice and management of our lifelong earnings was sound, sober and conservative. Cassimatis has a delusional approach to planning and was an adviser for 14 years (operating as Ozdaq and then Storm) and not as he claimed in the media 35 years; this is only one example of the stories he has spun. He seems to have believed that the banks would maintain unsecured loans, tolerate poor business practices and ignore being sued by Storm. How many times did his businesses go broke before Storm (at least once we have discovered)?

We now know that Storm was a financial planning factory. Though when queried about his strategies, Cassimatis just claimed his critics were jealous and it was the "tall poppy syndrome." In mandatory seminars, before we became clients, we were told his approach provided the best hope of having a sound financial future. However, as Scott Francis, a planner with Clear Directions in Brisbane, stated in Alan Kohler's Eureka Report, the model was fatally flawed: " *The process typically starts with the use of fear: statistics about how many people retire on the inadequate age pension; and a bit of hope: people could invest in shares, which provide a safe way of improving their position. . . The Storm Financial story is one of a failure of advice. Specifically, a failure to accommodate personal circumstances."* There was the same strategy for all clients - borrow as much as possible and invest in the share market. We were advised to sell our homes and investment properties or mortgage our homes/business to 80%+ and add on huge margin loans (from Colonial/Commonwealth and Macquarie Banks). Debt was viewed as an asset, in that our worth was printed in statements of advice as being the sum of our liabilities and assets. Storm did not discuss risks, though there are general statements about risks in their documents; when asked, the advisers down played any risk.

We understand that the Financial Services Regulations (known as FSR) have increased costs; and advisers are using compliance as an excuse to charge ridiculous amounts to develop a financial plan. We do not need or want long statements of advice, but the ones we had were quite impersonal with no plans, projections or relevant information about us as the clients. The only personal information was about the loans to be obtained and the cash reserves we were to maintain. We understand that there is something known as a "Reasonable basis for advice - section S945." Surely Storm breached this. What does it mean? How could such advice have been reasonable in our cases? We now understand that we should have been given statements about withdrawing large amounts from our superannuation - all that could be, was withdrawn for those still employed; and many retirees had everything withdrawn to invest. There was poor communication re our loan to value ratio (LVR). Who is at fault? The banks, Storm?

Storm advisers were under qualified on the whole but good sales people - trained by Emmanuel Cassimatis who had been an insurance salesman for MLC; and many of the Storm advisers were ex-MLC sales people. According to the Financial Planning Association only five were certified financial planners. When asked, advisers knew nothing about other avenues for investment and they seemed to have a poor understanding of bonds, annuities, tax issues, superannuation matters. They were sales people and every time clients did step ups (borrowed more to invest), Storm got paid. Since we were only invested in indexes such as the ASX 200, and Storm did not even pick the stocks, why the pricey fees? The money we borrowed for out margin loans involved interest rates over 9% and this also limited our returns. Over the years we were told "trust us", "it's safe" and "don't worry, we do the worrying for you"; the stress was on repeating such phrases has been confirmed by ex employees who relate the Storm approach to that of a cult - with special secrets to life happiness delivered with a smile and a cappuccino. Thus the overseas trips with lots of glitz and glamour - paid for by clients and not Storm, by the way, to make you feel they were friends and we were with special business people.

In multiple reviews throughout a year, the strategy was always to increase margin loans and house mortgages; then Storm got more fees. Many of us felt pushed, even bullied to take more equity out of our home - to invest more (e.g. from savings, inheritances) or to borrow more to invest. Now most of us have lost everything and we have to sell our homes and go back to work - a big challenge in a recession when you are in your 60s, 70s and even 80s. Cassimatis claims their fees were amongst the lowest in the industry and we know this is untrue; but 7%+ up front plus ongoing fees meant you were not going to go to another planner quickly. Two clients paid initial fees of over $70,000 on an investment which involved a major loan on the house and withdrawal of their entire super; now these people owe hundreds of thousands and are homeless. Storm downplayed the risks and Cassimatis stated that they were the best in the business and this was not speculation and there were really no risks as the strategies were superb. Clients were encouraged to borrow hundreds of thousands of dollar or millions and if you suggested buying property, you were scoffed at. Some of us had secure investment property and were advised to sell everything so now that is lost too. However, what was the real motivation? Paul Resnick wrote in Money Management (Are you an agent for me or my money?) . . . "*the riskiness of the plans and product recommendations seem to have been unrelated to the risk tolerance of Storm clients. Rather, there are fears they have been structured to maximise revenue for the Storm business.*" All of us paid tens of thousands of dollars of fees and despite our advisers' claims that these fees were claimable on tax they were not. Their lifestyle (mansions and diamonds) and the $5 million dollar new office opened in Townsville in 2008 are a key to their motivation, as our fees paid for all that.

We were not stupid, but all of us were introduced by family and friends who had done well through Storm and believed the Cassimatis line that their approach involved proven, conservative planning strategies. However, it was obvious in early 2008 that our shares in the market were losing value; but when some of us tried to get out and sell our portfolios, Storm blocked us. We were put us off, and warned we were acting like the "herd" who sell when the market is low. Advisers even stated that it could not be done that day/that week and asked us to come back later; even stop loss documents handed to specific staff somehow disappeared in their office. Only a very assertive approach - got action to withdraw and immense pressure was put on clients to not get out. We knew we were in trouble, but the online data was delayed and was not an accurate reflection of our position; when one phoned the funds like Challenger we were told we had to speak to our adviser at Storm. Storm had minimal Professional Indemnity Insurance and they have ruined the lives of thousands of people. Clients were geared to such high levels that we were doomed with even a small drop in the market; long before a "black swan" event as Cassimatis claims. We know many clients of other financial planners in Queensland with clients who lost investment worth with the economic downturn last year, but not to the extent we did. Storm clients were in a dire situation before the market dropped 50% or got to where it has been in 2009. It is now clear as to why portfolios were not cashed out long before we were in trouble. Storm would have lost revenue and it seems Cassimatis did not believe the market would do it to him - drop to a low level. We owned brokerage rights and there would have been no fees to get back into the market but advisers did not seem to care.

The lies continued when our "equity was turned into cash" - in plain English our investments were sold and our losses crystallised - i.e. we lost everything. In October 2008, as many of us were told we were taken out with our portfolio being worth more than our debt; but this is not true. Employees from the Commonwealth/Colonial phoned demanding tens or hundreds of thousands of dollars after they had sold our portfolios. Some of us were even approached in October and November 2008 to borrow more and to take out mortgages we did not have; others had friends who were phoned in December 2008 and told this was their chance to get in and buy low; but this is suspicious as a few days later the administrator was called in. Our aim was to become financially secure and self funded retirees; to ensure our financial future. Now we are broke and face being homeless because we trusted Storm and allowed them to block us in managing our investments. Cassimatis is blaming the banks and avoiding telling anyone that in recent years his strategies became much more aggressive, lending levels skyrocketed and trigger points to sell down to protect clients were eliminated. The approach involved clients staying invested until death and now we have the death of our financial world and there is nothing to leave our children and grand children. As we stated at the beginning we take responsibility for our mistakes and being duped but we want to warn others.

Where are the regulators? The Australian Securities and Investments Commission (ASIC) gave Storm the license and tools to promote themselves as professional providers of financial advice; they had a government stamp of approval. ASIC has fielded many complaints regarding Storm, from bankers, clients and financial planners as has the Financial Ombudsman Service (FOS). The banks - Commonwealth, Macquarie are not blameless in this situation as most clients had hundreds of thousands of dollars or millions of dollars of margin loans and never met with an official or had to document their ability to repay or even saw loan documents. We were told by the banks that we would be sold down long before our loans reached the value of our portfolios (at 80-85%); obviously this did not happen. Therefore:

- 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.