

Shona Batge
The Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

30 June 2009

Dear Ms Batge

We are writing to provide a submission to the Inquiry into the issues associated with recent financial product and services provider collapses. We were clients of Storm Financial and our lives have been turned upside down, in an extremely negative way, by the collapse of this company. We have attached a complaint that we sent to Kordamentha, the Administrators for Storm Financial, on 9th February this year. To this day, we have not received any correspondence from Kordamentha in relation to our complaint.

We believe that Storm Financial's advice was not individually tailored to meet our needs and that we were actually given misleading advice in the later half of 2008. When we first became Storm Financial clients in 2004 we specifically stated that our desired retirement income would be about \$35,000 to \$40,000 per year and it appears that this was not appropriately considered, if at all, by our Advisor, Mr Gus Dalle Cort.

Whilst we do understand that there are risks involved with borrowing to invest, when we inquired about just how much risk we were taking on and what impact this would have on us, we were advised to leave the strategy planning to the professionals and not to worry, because the Cash Management was recommended to ensure our portfolio would be protected. We were also advised that the market would have to fall by over 50% for us to have a margin call, and if this was to occur everything would be closed; banks, shops etc.

We were encouraged to borrow against the equity in our home, which we had owned for over twenty years, and when we were hesitant we were assured repeatedly the risks were minimal.

In addition, it was recommended that we pre-pay the interest on our loans, when seemingly interest rates were more likely to decrease. Our own taxation situation did not require for us to pre-pay our interest as my husband was retired and was not in receipt of an income and I had semi-retired and was working only one to two days a week. We are now faced with high penalties for breaking out of the loans to pay out the debt.

In many cases when we asked questions we were advised to leave Storm Financial to the management and 'worry' of the portfolio and advised that we should continue on with enjoying life.

Below is an excerpt from the original Statement of Advice dated 13th December 2004:

Investment Time Horizon

The advised investment time horizon was 5 to 7 years only

Your Investment Timeframe

During our discussions, you have indicated that you initially wish to consider wealth creation over 5 to 7 year time period. An Investment may be profitable within shorter or longer time horizons depending on which part of the economic cycle prevails at the start of your Investment. However, it is our advice to you that your selected time horizon will allow you to ride out whatever volatility the market presents and still allows for a profit to be generated. Please note, for a geared investment such as this, a more prudent timeframe to adopt is 7 to 10 years.



The building of wealth is a journey – it is not a single event. We anticipate that implementation of these Recommendations is the beginning of a process that will endure for the rest of your lifetime. However, it is reasonable to expect to begin to enjoy the proceeds of the Investment well before your lifetime is over! Before proceeding with implementing this Plan, it is important that you understand that a minimum of 5 to 7 years is required before you can expect to be spending from the profits of the Investment.

Personal Profile

The agreed personal profile was “I am prepared to accept volatility if in the medium to long-term the investment growth is higher and the **risks over that time are minimal or eliminated**” (this can be found on page 15 of Confidential Financial Profile)

Additional Information Provided During the Meeting

Additional notes taken by Gus Dallectort included certain objectives were advised; these included:

- ✓ We do not intend to add any funds into our investments and to keep them going they had to be self-funded

- ✓ We do not want to become very wealthy people and we’re happy with our lifestyle as it was at the time, where at that time Francis had retired and Sandra was working two days a week on a Permanent-Part Time basis earning \$30,000 per year, which she intended to do so until age 60.

Additional information provided during the meeting that was not contained in the Confidential Financial Profile was our advice that we required a level of income of between \$35,000 and \$40,000 per year in retirement.

This is the complaint we posed to FOS

Our initial complaint is on the basis of “Inappropriate Advice” as we feel the advice given to us in the initial Statement of Advice; dated 13th December 2004 to be inappropriate in line with our goals and objectives and when we voiced these concerns we were advised to leave the strategy planning up to them and for us to get in with enjoying our retirement/semi retirement. Specifically;

Based on our financial assets at the time of \$423,040, assuming the funds were required for a period of 25-years in retirement, and a fund earning rate of 7%, we were already on track to create an annual income of \$36,301 per year in retirement, which was in line with our required retirement income without the need to take on the additional risk of borrowing to invest.

This was not advised to us by Gus Dallecort, in fact in the Statement of Advice dated 13th of December 2004 it states “we have identified that your current asset base is not large enough to fund the lifestyle you desire now or in the future”. In addition, it does not state what level of retirement income is required, or the shortfall we had in creating the desired level of retirement income. As stated in our letter of complaint addressed to the Administrator Kordamentha dated 9th February 2009, we are still unsure today, based on the situation at the time, whether the recommended investment/borrowing levels were what we required to meet our desired income of \$35,000 to \$40,000 per year in retirement.

See insert from Statement of Advice:



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*We have identified that your current asset base is not large enough to fund the lifestyle you desire now, or in the future. You have sought our advice on ways to expand your income streams so that you can become more financially independent from work and have more lifestyle choices in the future. To improve the provision of capital growth and income for the future, the **SIZE** of your asset base should be increased.*

The advice given was not consistent with our Personal Profile where it clearly states “the risks over the investment term are to be minimal or eliminated” or our Investment Time Horizon, which was 5 – 7 years.

Any subsequent Statements of Additional Advice, where it was recommended we borrow even more funds to invest; we also believe was inappropriate advice.

We also believed we received inappropriate advice in relation to pre-paying the interest on our loans. Our own taxation situation did not require for us to pre-pay the interest on our loans as Francis Grainer was retired and Sandra Grainer was earning only \$30,000

We believe we received misleading advice at a meeting held at Cazaly's in Cairns on the 3rd of November 2008 by Emanuel Cassamatis and Gus Dalle Cort and staff of Storm Financial in Cairns; where a number of clients were in attendance, including us, as they were not upfront about having already cashed the funds out of our investments. In fact they lead us to believe we were all still invested. We have since identified that Storm Financial gave the instruction to cash out of our managed funds investments, with the majority being cashed in October 2008. Emanuel Cassamatis also stated during this meeting in reference to a mass mail out sent previously, where they asked for clients to sign a document allowing the cashing of a percentage of the managed funds that any clients who are cashed out of their investments, could get back into the market “free of charge” when the markets returns to 4,400 points. We have since found out this was always going to be impossible, as we no longer had the equity required to return to the market. This statement by Emanuel was completely misleading and deceitful.

On the 10th of November 2008 we asked Gus Dalle Cort if we had been cashed out of our investment and Gus would not, and did not answer the question. His response was “there are strategies in place to overcome the impact from the markets” and he himself is in the same position as us with his investments. He advised us “you are well paced and in a better position than a lot of other people”.

This was described in our letter of complaint addressed to the Administrator

It is our opinion that there are many flaws in the general regulatory environment for Financial Planning products and services. One of the things that makes us feel so ‘let down’ by the government is that we were told ‘by law’ that we were required to seek financial advice from an ‘accredited financial planner’ and by doing so we have been ‘wiped out’. We were happy to be receiving financial advice through our accountant. However, rather than looking forward to a self-funded retirement, we are now both facing the prospect of working well into our ‘retirement’ years (especially considering Frank was already retired and is now back at full-time work) and requiring assistance from the government to see us through – just devastating.

We have also attached a letter that we sent to ASIC on 9th February, and all we received on 4th March was an acknowledgement that our letter had been received by them. We have received NO information from ASIC as to what steps they have taken in relation to the collapse of Storm Financial. Where has ASIC, a government body, been during all of this chaos? This is an institution that is ‘supposed’ to be a watch-dog protecting investors. It is our understanding that ASIC received complaints a number of years ago regarding Storm Financial statements of advice and fee levels, yet nothing was done. How are people supposed to have any confidence in a system if it just isn’t doing what it’s supposed to do?

We feel that the Banks’ roles in this debacle should be investigated and that they should be held accountable for their actions. We believe that we were in a situation whereby we could have met any margin call made, however we were NEVER contacted by the bank or Storm Financial before our shares were sold.

Yours sincerely

Frank Grainer & Sandra Grainer

The Manager
Kordamentha
22 Market Street
BRISBANE QLD 4000

9 February 2009

Dear Sir/Madam

We are writing to submit a complaint regarding our treatment as clients of Storm Financial. Overall our complaint is based on the fact that we were not given individual tailored advice at the outset or during our time with Storm Financial and in the later half of 2008 were given misleading advice.

We will do our best to summarise all relevant information in relation to our dealings with Storm Financial over the past years.

We attended a meeting on 25 November 2004 where a "Confidential Financial Profile" was completed. We were never provided with a copy of this document.

In the Initial Statement of Advice dated 13 December 2004, it stated on page 9 that "we believe our recommendations should be based on your needs" however, there is no indication of what the "needs" are. Also, on page 12 it states "we have identified that your current asset base is not large enough to fund the lifestyle you desire now or in the future". Again, there is no indication in the initial SOA or any subsequent Statement of Additional Advices of what our 'desired' lifestyle level was. It did not state the desired level, how the recommendations were going to meet the desired level, or what level of income we would be on track for if we implemented the advice.

There are some graphs towards the back of the Statement of Advice, however these are unclear, nor do they indicate what projected return may be derived from the investment. During the meeting held on the 25th November 2004, where the Confidential Financial Profile was completed, we advised Gus Dalle Cort that an income of around \$35,000 to \$40,000 per annum was the level of retirement income we required (for both of us) in retirement. We were advised by Gus Dalle Cort in that meeting to expect more than \$35,000 to \$40,000 per annum by investing with Storm Financial.

We are still unsure today, based on our situation at the time, whether the recommended investment/borrowing levels were what were required for us to meet our desired retirement income of \$35,000 to \$40,000 per year in retirement.

No investment Profile was conducted at any time, and the risks involved with borrowing to invest were not explained. Whilst we do understand that there are risks involved with borrowing to invest, when we inquired about just how much risk we were taking on and what impact this would have on us, we were advised to leave the strategy planning to the professionals and not to worry, because the Cash Management was recommended to ensure our portfolio would be protected. We were also advised that the market would have to fall by over 50% for us to have a margin call, and if this was to occur everything would be closed; banks, shops etc.

We were encouraged to borrow against the equity in our home, which we had owned for over twenty years, and when we were hesitant we were assured repeatedly the risks were minimal.

In addition, it was recommended that we pre-pay the interest on our loans, when seemingly interest rates were more likely to decrease. Our own taxation situation did not require for us to pre-pay our interest as my husband was retired and was not in receipt of an income and I had semi-retired and was working only one to two days a week. We are now faced with high penalties for breaking out of the loans to pay out the debt.

In many cases when we asked questions we were advised to leave Storm Financial to the management and 'worry' of the portfolio and advised that we should continue on with enjoying life.

Page 28 of our Statement of Advice states "we suggest that your portfolio be reviewed and if there is approximately 10 to 20% movement in either direction in the investment, where if the investment falls by this percentage a recovery portfolio should be implemented and if it increases by this percentage more assets should be purchased". They did not seem to follow this advice, where they did contact us to borrow and invest more money when the market increased, however did not recommend a recovery portfolio when it decreased. In fact, in May 2008 they recommended we borrow more money and invest the borrowings in our Challenger Storm Index Funds.

We have identified that Storm Financial gave the instruction to cash us out of our managed fund investments, with the majority been cashed in October 2008. In a meeting held at Cazalys in Cairns on the 3rd of November 2008 between Emanuel Cassamatis, Gus Dalle Cort and staff of Storm Financial in Cairns and a number of their clients, including us, they were never upfront about having already cashed the funds out of our investments and we left the meeting believing that we still had all of our money in the market. Emanuel Cassamatis also stated at this meeting that he would put all Storm Financial clients back into the market "Free of Charge" when the Markets get back to 4,400 points. We have since found out this was always going to be impossible, as we did not have the equity required to return to the market. This statement by Emanuel was completely misleading and very deceitful.

Upon receiving a statement after this meeting on the 3rd November, showing that a majority of our shares (in the Storm-badged managed funds) had been sold we met with Gus Dalle Cort on the 10th of November 2008. We asked if we had been cashed out of our investment and Gus did not and would not answer our question. His response was "there are strategies in place to overcome the impact from the markets, and he himself is in the same position with his investments". He advised us "you are well paced and in a better position than a lot of other people".

We received a letter in October in which we were asked to 'sign over' control of our portfolio, as they were claiming to have 'strategies' in place to manage our portfolios and prevent a margin call. It is our understanding that this was a blanket letter that went out to all Storm Financial clients advising they may need to cash some or all of us out of our managed funds.

We invested \$..... with Storm Financial. Our upfront fees were \$..... (6.9%) and from what we can determine there are trail fees of 0.55% on Index Funds and 0.275% on the Macquarie Cash Management Trust.

We have been financially and emotionally devastated by the collapse of Storm Financial and we cannot believe that the company was able to carry out business in such a manner for so long. We were told 'by law' that we were required to seek financial advice from an 'accredited financial

planner' and by doing so we have been 'wiped out'. Rather than looking forward to a self-funded retirement, we are now both facing the prospect of working well into our 'retirement' years (especially considering Frank was already retired and now back at full-time work) and requiring assistance from the government to see us through – just devastating.

As per my phone request on 3 February 2009, I would greatly appreciate it if you would forward me a copy of the Confidential Financial Profile as soon as possible.

Please find attached the following information in support of our complaint:

- ANZ Loan Contract
- NAB Loan Contract and Customer Particulars Report
- Macquarie Margin Lending
- FPA Storm Data Collection Form
- Challenger Transaction Summary Dated 24th October 2008
- Challenger Statement for the Period 1st October 2008 to 31st December 2008

Yours sincerely

Frank Grainer & Sandra Grainer

ASIC Complaints
Australian Securities and Investment Commission
PO Box 9149
TRARALGON VIC 3844

9 February 2009

Reference Number: 4346388

Dear Sir/Madam

Please find attached a copy of a formal complaint, and associated information, that we have submitted to the Administrators of Storm Financial, Kordamentha.

We would like to know what steps ASIC have taken and are taking to assist former Storm Financial clients in relation to the financial and emotional devastation the collapse of this company has caused.

We would greatly appreciate any feedback you have in relation to our complaint and your actions in dealing with this matter.

Yours sincerely

Frank Grainer and Sandra Grainer