Prior to investing with Storm Financial in 2006, my wife and I (now aged 56 & 58) owned a small business, we owned our own home and had 2 investment properties under a comfortable level of finance with Westpac. In addition, we held a portfolio of share funds and direct shares, a small percentage of which was very modestly geared. We were referred to Storm Financial by our business advisor at a time when we felt we needed professional guidance towards our approaching retirement.

Our Storm advisor, progressively increased our borrowings from WBC, initiated margin lending from Macquarie as well as getting us to make substantial cash investments. Storm also had our home and 2 investment properties re-valued twice during our period with them, so that borrowings could be increased. While we're not experts, in our opinion, the valuations did not seem to be excessive in our case. However, the WBC loans were arranged through the Townsville branch...rather than the branch we held the original loans with.

The additional WBC loans approved under the Storm SOAA of 12DEC2007, are definitely cause for concern. A few months before this, we had some early warning signs that we were over geared and over committed, but at the time, we didn't realize this.

The following 2 events should have raised our concerns, however Storm had reassured us at every stage that everything was going well...

- MAY2007. My wife and I acted as **guarantors** for our daughter when she was purchasing her 2nd salon. We had cash to fund this if needed, and provided our financial statements to ANZ. However, to our surprise **approval was refused** for the loan.

- SEPTEMBER 2007. I provided full financial details to Bank of Qld (Goodna) and asked to extend my **visa card limit** (used for business) from $4500 to $9000. This was **refused**, despite the fact that the business itself was in very good shape, and we had always paid out the card account in full, never using the credit facility. I was absolutely amazed that we couldn't even get such a small extension on the credit card!

A third event also suggested financial problems were a concern…

- FEB2008. I had just purchased a new four wheel drive for the business 2 months earlier. Storm recommended that I sell it to a finance company and lease it back. I ran this by the CBFC, with whom I'd financed 3 previous vehicles, and they advised that it was straight forward, and should be finalized in 2 days. What should have been a simple sale/lease back arrangement turned into quite a saga. Despite owning the vehicle outright, the amount of information required to approve the loan, was several times greater than we'd ever needed to supply before. It ended up taking 3 weeks with a lot of effort on our part. We had a continuous & blemish free history with CBFC since 1996! It was extraordinary at the time, but our financial status was of very obvious concern to them. It was also interesting that Storm had recommended a finance broker, who had done a lease buy back for Storm clients just recently! And we were advised that it was a very straight forward, simple and quick exercise!

In view of the above, we firmly believe that WBC (Townsville branch) must have authorized much higher risk loans with Storm clients, than would otherwise have been allowed. The following, although admittedly not first-hand information, also tends to support this belief...

- An ex-NAB employee has told us that the NAB Garbutt branch was approached by Storm with their model & offer to do business with them. The branch manager refused to work with them, based on the high risk that clients investments were exposed to.

Examples of Storm "Optimizing our Financial Position"

- Storm initially wanted us to borrow against our business (@ $500,000), but I was adamant that that was not an option.
- Storm on a couple of occasions recommended we sell our investment properties, as this would release more funds, that could then be used more efficiently in the Storm investments. We declined to do that.
- Storm wanted us to sell off our share portfolio and managed funds to redirect this cash directly into the Storm funds (which had a higher LVR limit of 80%). We didn't want to pay capital gains, and brokerage costs, then re-entry costs, so didn't proceed.
- JAN2008. Storm advised me to enter a LEASE-BUYBACK on the Land Rover I had purchased for cash, to invest more funds.
- JAN2008. Storm suggested Cheryl's sell her 2005 Honda and enter into a LEASE-BUYBACK deal on a new one. Fortunately, we decided against that!
- JAN2008. Storm got us to cancel our business overdraft facility of $20,000, so that we had less liabilities and greater equity to gear against.
- Storm got us to consolidate our superannuation into a single internally geared fund, to reduce the management costs. Bad move!

Like others who received a margin call, we had to sell down our investments near the bottom of the market and realize major losses. We have lost our original pre-Storm share portfolio, the extra cash invested into the Storm funds, the fees paid to Storm, huge loan break fees with Macquarie Margin Lending, and the massive interest payments already made in servicing the loans. We are also left with large extra loans to repay (the funds for which have disappeared). Including lost opportunity costs we have lost approximately $1.5 million, and this just keeps increasing with time, due to continuing loan interest accumulating, and opportunities passing us by, because our investment capital is gone.

While Storm's model was obviously flawed, and their advice turned out to be very poor, we don't believe that they did anything illegal in regard to their dealings with us. However, there is enough evidence to us, that a cosy arrangement existed between Storm Financial and their finance providers. From our experience, Storm Financial, Westpac and Macquarie Margin Lending must share direct responsibility for our situation. Additionally, we feel that both ASIC and the Financial Planners Association have failed demonstrably in their duty of care, as both parties publically state that they act to protect investors, and both were advised of problems with the Storm model well in advance of the market's demise. Websites for both FPA and ASIC very clearly state this, and we, the private mum and dad investors gained confidence in "knowing"/believing that Storm Financial was approved by both ASIC and the FPA. They were both advised of problems with Storm, and if either of them taken action, as their websites state they could, we would have taken immediate action to rectify our position. FPA should have ceased Storm's membership. ASIC should have investigated Storm immediately they were notified of problems. Why did they both fail to act on this knowledge, and allow investors to come to grief? (In February 2009, I wrote to both FPA & ASIC asking for their explanations, but have not received a response from either.)

The **FPA website** states…

The FPA is the peak professional body for financial planning in Australia, representing approximately 12,000 individuals and businesses. Over 9,000 of its 12,000 members are practicing financial planners. The FPA and its members strive to improve the financial wellbeing of all Australians.

The FPA provides the leadership and professional framework that enable members to deliver quality financial advice to their clients. FPA members include financial planners from a variety of backgrounds and disciplines, including over 5,500 CERTIFIED FINANCIAL PLANNER™ professionals – the global symbol of excellence in financial planning. All FPA practitioner members are bound by a code of ethics, high professional standards and must meet continuing professional education requirements.

The **ASIS website** states...
As the *financial services regulator*, we license and monitor financial services businesses to ensure that they operate efficiently, honestly and fairly. These businesses typically deal in superannuation, managed funds, shares and company securities, derivatives, and insurance. We have powers to protect consumers against misleading or deceptive and unconscionable conduct affecting all financial products and services, including credit.

To us, this clearly demonstrates that both ASIC and the FPA, as well as Storm and the banks have a case to answer.