

30th July 2009

Committee Secretary, Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100 Parliament House
Canberra ACT 2600

RE:- Inquiry into issues associated with recent financial product and services provider collapses such as Storm Financial, Opes Prime and other similar collapses.

Submission to the Parliamentary Joint Committee on Corporations and Financial Services.

As former Storm Financial clients, we too have been left in an emotional and financially stressed position and have not been able to obtain any information on compensation procedures and liability of Storm Financial to our and others now stressed financial situations.

Our experience with Storm Financial was only short lived, leading our family to suffer a financial loss of over \$300,000.00 in as little as 18 months. We realise that our loss is not as great as others who were also former Storm Financial clients, but we feel as a young family trying to gain financial security for ourselves and our children the future has been jeopardised.

I am 37 year old mother of two children aged 7 and 11 years and have been studying at university part-time, while my husband 36 is self-employed and the sole income earner. In December 2006 I received an amount of money from an inheritance that we had planned to use to build upon and secure our financial future for ourselves and our children as we were a one family income and had very little savings. After looking around and inquiring with a few different financial advising companies and recommendations from other Storm Financial clients, we took the advice and invested \$195,000.00 with Storm Financial in April 2007.

Upon initial sign up with Storm Financial we were promised that there would only be one up-front fee for the life of the investment and that there was no way that the share markets wall fall below a certain point and that as we were still so young that we could reach our goal of financial security in as little as 5 years. A margin loan was taken out with Macquarie Bank for \$95,000.00 to make a total investment of \$250,000.00 and the other \$40,000.00 was split into \$20,000.00 surplus put into a Macquarie CMT for use to pre-pay the interest of the margin loan up-front for the first 12 months and \$19,544.00 to cover Storm Financials one off fee. We were a bit apprehensive about this major step in our lives as we were unsure about the security of the Australian share market. We were assured by Storm Financial that we were very secure with no risk due to the small amount of the investment and the fact that my husband and myself still have years of working life ahead of us.

In the time that we were Storm Financial clients, if we wanted any information about how our investment was going we had to contact the office only to be told by an assistant that our adviser would get back to us when they were available, this usually took several phone calls over several days to get a response that was a message conveyed by the assistant that all was fine. The next bit of correspondence received was in October 2007 that advised us to increase our investment taking advantage of the strong market at the time. As we were of the belief that they were advising us correctly we accepted the proposal increasing our margin loan to \$163,931.00, borrowing an extra \$64,894.00 to increase our portfolio to \$311,100.00 and at this time another fee to Storm Financial of \$3,794.00 for processing of their advice. We were also advised at the time to sell \$10,000.00 of our shares to put into the Macquarie CMT account; we queried this advice at the time as we

couldn't really understand why we should sell stocks when they wanted us to borrow more money to buy. The response was that this was the way things were done you sell some and you borrow more money to buy more. We had our full trust in this company and agreed to this next step.

In December 2007 and January 2008 we were offered two more increase advices that we did decline because we felt that after an increase in October 2007 we were not prepared to take on any more debt. As it turned out our portfolio was only worth just over 298,000.00 as at December 2007 so in two months we had lost \$13,100.00 so we were happy that we did not take any more increases. We did not receive any contact from Storm Financial again until I contacted them in March 2008 to see how our investment was going as a statement from Macquarie Bank showed a further drop of \$30,000.00 only to be told that everything was ok. In September 2008 I contacted Storm Financial again as I was concerned with the down turn of the economy and our statement showed another \$20,000.00 decrease, I was unable to speak to any advisors as they were out of the country on their annual Storm Investors get together (holiday) that advisors and clients were invited on. The 8th October 2008 we then received a phone call from our advisor stating that we had to get into the office that day a sign paper work to turn 50% of our investment in cash funds to save the remaining balance of our portfolio, no explanation of how this has happened we just had to do it. On the 21st October 2009 we received another advice in the mail asking us to sign paper work to turn the rest of our portfolio into cash funds. We signed for the remainder to be turned into cash funds and returned it to their office immediately. It was 3 weeks later before the remainder was transferred, were in this 3 week period \$51,980.00 was lost leaving us cash funds of \$189,000.00 and a portfolio value of \$193,472.00 by January of 2009, less than the initial amount we had given Storm Financial to set up the portfolio for us. But again we still received no information about why this was happening and if it was even going to help our situation.

Storm Financial held an investors seminar in November 2009 supposedly to update investors on the situation, this turned out to be a meeting where all questions asked by clients were glossed over and the situation was made to appear not as bad as it sounded, with blame being placed on the housing crisis in America. I and other clients left this seminar thinking that the financial economic situation was going to recover and our investments even though a little battered were still safe and there was no reason to be worried, there was no mention or explanation at this stage about funds being frozen (recording of seminar available if required).

In November 2008 we had contacted Storm Financial to obtain some money as it was necessary to purchase a vehicle for my husbands business. We were told NO in point blank terms that we could not touch our money. The advice that was given to quote "Forget your business and go back to working for wages". Now at the time we had several thousand dollars of promised works that needed to be completed and there was no way that we could not do the work due to legal liability. At this point I contacted Macquarie Bank to arrange for the funds directly; where I was advised that we were unable to touch our funds, as when the shares were transferred they were held in security against the margin loan. There was no advice on this act at all from either Storm Financial or Macquarie Bank; until I contacted them we had no idea that even though there was money showing in the account our portfolio was gone.

As Storm Financial had gone into administration in January 2009, we sought advice from the Financial Planning Association and given details of other financial advisors to help us sort out our situation. We then contacted Investment Options Australia for help. During this time we started to receive contact from Challenger Investments about share rates and Macquarie Bank in regards to the margin loan. Challenger advised that they had introduced a buy/sell spread on the storm index trust to supposedly protect investors. Macquarie Bank advised on the 19th January 2009 that they had sold all their margin lending to other parties excluding any lending associated with Storm Financial and that we had to either refinance or close our loan account by the 31st March 2009.

Then on the 27th January 2009 Macquarie Bank stated in their letter that they were going to redeem the cash funds held in the CMT account and to seek other financial advice as well as charging us fees to break the loan. This is another argument we had with Macquarie Bank as to why we should have to pay break fees when they were the ones pulling the loan out from underneath us, we are just one of the lucky ones that had enough funds to pay the loan out.

After contacting Investment Options Australia with the information given by Challenger and Macquarie we were advised to pay out the margin loan and go ahead with the redemption. By the 1st February 2009 we could not get any straight answers from anyone as to what to do to finalise the account, our new advisors were telling us that they were waiting on information from Macquarie Bank before they could do anything about of situation. So after a month between January and February 2009 living in limbo and thinking the worst for our future we contacted Macquarie Bank and Challenger Investment directly to try and salvage what we could, leaving all financial advisors out of it. By the 5th February 2009 we personally had repaid the margin loan and finalised dealings with Challenger Investment, leaving us with a grand total of \$8,752.00 out of an initial personal investment of \$195,000.00. This whole situation has left us with even less trust in the Australian Share Market and unable to consider investing again as we are unable to believe what any of the financial advisors have to offer and there are no apparent boundaries restricting these people misusing cash funds.

I acknowledge that our situation is not as bad as other Storm Financial clients, but our future financially has been affected by this situation and has put us in a worse position than what we were before our initial investment. Compensation of our initial \$195,000.00 is all we seek to replace the inheritance that has been lost due to the incorrect advice that was given to us and the lack of response on the part of Storm Financial to ensure the best interest of their clients, we feel that Storm Financial were aware that there was a problem with their clients accounts due to the quoted advice we were given and did nothing to reverse or minimise the situation. We also believe that there should be a duty of care by Macquarie Bank to take when processing applications for margin loans and there is a hidden problem, because Macquarie Bank took the step to sell off their margin lending section and had no remorse or concern for Storm Financial clients.

Jason and Alessia Keech