"Submission to the Senate Inquiry Into Financial Products and Services"

Santo and Marianne C Perna-Former Storm Financial Investors

Santo and I were married in May 1981 and we both wanted to be financially secure in our retirement. Santo was 31 and I was 22 so we knew we had plenty of time to ensure that was to happen. Santo had purchased a group of 3 shops with a flat upstairs as a start towards that goal. We bought our first house in Wavell Heights and with the attached mortgage started on our journey. We lived well within our means, trying to pay as much off our home as could before I left work to start a family. Back then the interest was 18% and we were also paying off the investment property.

Santo worked for BP or Amoco as it was then, he started working for them in 1974 and I was an administration assistant in the Commonwealth Government. We both had old cars and kept them well maintained and only bought our furniture when we could afford it. We didn't own a television for over 18months. Santo came from Mackay originally and we always travelled home there for our holidays.

We gradually started buying some shares in blue chip Australian companies. We moved to our home in Mango Hill in 1988 with our 2 children and by selling our first home and our investment in Mackay were able to buy this one outright. We bought another investment house which was close to where we lived so we didn't have to ask someone else to look after it. We had our 3rd child after moving to Mango Hill. Santo still worked for BP and I now was retired from work so I could be a stay at home Mum and look after our children.

We bought blue chip shares as we could and in 1997 had our first foray into managed funds. We started off small and tried to understand how it worked. We didn't like debt even productive debt and always made sure that we never used our home as collateral. Our advisor understood our cautious nature although he would have liked us to be more adventurous. Our private portfolio was growing steadily and we were happy with the way the fund was doing. Then our advisor became an advisor for Storm Financial. He liked their ideas and was sure that it could help us be able to retire without ever having to be a government funded pensioner.

We owned our own home $600,000 (no debt), had an investment property $320,000 (Investment Loan $125,000) and a private share portfolio $250,000 as well as a managed fund $95,200 (Loan $30,000 and margin loan $30,000). We were comfortable in using any equity we had from our investments for building our retirement nest egg. We were always convinced that we were better off not including the value of our house for investment collateral. That idea was changed initially when a bank employee stated "if for any reason we defaulted on a loan then the bank would sell any property, not just the one that might be mortgaged. "

Our advisor, after noting our assets, advised us to utilize the capital growth that we had in our home to offset a margin loan to get more into the managed fund. Our asset pie was shown to have too much in property and not enough in shares and cash. To enable Santo to retire by 60 years (after 35+years in the one job) we were encouraged to utilize the equity in our family home or we would never have enough to sustain our retirement.

We attended many investor meetings to attempt to understand the style of advice. All through investor sessions and throughout the Storm Financial plans it showed and illustrated how the fund would follow the ASX 300 and that there were levels that could trigger either a buy/stop loss. We were always assured that the trigger points had taken into account any information on previous market falls over the life of the stock exchange. There was a section called Index LV's , Your LV's Benchmark LV's and LVR guidelines. It showed that if the market had falls of certain percentages then steps/guidelines would be followed. It was also stated that to sell when the market was going down was to follow the herd, but in the event of the market going below what was the single worse indication on record, than that would mean that the world's financial market would be in meltdown and that would never happen. There was also the ability of converting the shares to cash and waiting until the market had settled and then to move back in.

We still had reservations about the use of the family home but, after much discussion we decided to go ahead and start small and see how it worked. We used our bank NAB as we didn't want to go through the hassle of changing our banks. We attended regular investor updates/sessions to keep ourselves informed. We also continued to increase our private portfolio of individual shares. We also continued to ask , "what if…….", and was always continually told not to worry, Storm would ensure that our managed fund was well looked after. That our debt/asset ratio was good and well balanced. The asset base was used to pay the interest, by drawing down and then utilizing the available cash from the margin loan to purchase more shares. The fund was to be self sufficient and would require no cash input from us.

In Nov 2007 as Santo neared retirement the property prices had moved considerably and we were encouraged to re value our houses and to borrow the equity to invest as the market had had a slight correction and it was a good time to put a lump sum in. Storm had always asked could we convert our superannuation from "defined benefit' to an "Accumulated Account" so we could also borrow against the value of that. We always were able to say that couldn't happen with our fund.

Our home was then valued at $1,100,000 (debt now $880,000) and the investment house $360,000 (Debt $290,000) managed share fund $ 2,387,000 (Margin Loan $1,387,000) and private shares $67,000 (no debt) and BP shares $147,000 (No debt).

In 2008 as the market was declining and the American Financial System was in a major decline the values of the shares/fund against debt ratio was getting of concern. We rang Storm and had several meetings with our advisor, who assured us that Storm Financial Head Office were dealing with the situation and to stop worrying, everything was under control, Storm Financial was in constant negotiations with CBA/Colonial and that all was OK. We were in fact told to stop ringing and questioning what was happening as they were very busy in keeping the situation under control. We were further told that "EC" had sufficient private funds to cover any/all possible margins calls until the situation had rectified itself. The Colonial statements were starting to show the gap between the assets and debt was getting closer. In July 08 we were asked to put some of our private shares in to boost the value of the assets.

By the Sept 08, Colonial Margin statement, the value of the assets were shown as $2,312,874.10 and the loan $1,951,249.46, again calls were made to Storm about the closing gap, again assured that all was under control and to stop our panic. A general meeting was held in Redcliffe attended by Emmanuel Cassimatis who went on to tell everyone not to be herd followers and that everything was under control. It was certainly a glitch but he in communication with the margin lenders and had a good rating with them due to the sizable value of the Storm Funds.

In Oct 08 Storm asked clients to sign an authorization to convert all shares in the fund to cash so as to protect the asset base, until the volatility had subsided.

On the 8th December we received a call from Colonial to inform us that we were in a margin call and could we pay $100,452.54 as the value of our loan now exceeded the assets. The shares by this time were finally converted to cash and eventually placed in a CBA Cash Accelerator Account. How were we intending to pay and how soon could we pay the margin call? We had had no other call from Colonial informing us of our position. After many emails and phone calls between Colonial and us, we entered into a commitment to pay the amount off gradually, but as soon as possible and to keep them informed of the process. We started by using the last of our Macquarie Cash Management money and listed our other private shares for sale in the market and lastly by using our Taxation refund cheque that we were waiting on. Although these measures would eventually repay the margin call, the margin loan ($1,951,249.46), for which we had prepaid the interest until June 09 no longer was generating income to supplement the payment of interest. Added to that worry and nightmare was the $1,168,000 loan against both our family home and our investment house held by the NAB. We had sufficient funds available in our accounts to make 3 months repayments.

We had gone from being established in our financial goals and looking forward to retirement to facing absolute ruin because of the inability of someone not being able to do their job properly. Who is that someone, who do we blame, why did it happen? No one can tell us. In fact at the time when it was necessary to be able to talk to our financial advisers to discuss what the best option, they the financial advisers and Storm were effectively gagged. Who made the decision to stop Storm and its advisers from talking to their clients, was it Storm Financial, was it ASIC, or was it the FPA? The end result was that at a time when it was of paramount importance to find out what was happening and what needed to be done, we the clients could not get any answers to any questions or concerns. If this sounds a bit melodramatic I ask that you consider the situation we found ourselves in. Our position as of April 2009, family home $1,1,00,000 Investment home $360,000 combined debt $1,168,000, Managed fund NIL, margin call $101,453, individual shares $13,000.00, BP shares $100,000, with the managed fund no longer in existence there in no income coming in to pay back the NAB bank loan on the homes.

What happened to the safety net, the ratio between assets and loan not exceeding 80%, no one can answer these questions. There was meant to be steps in place to ensure that the loan/asset ratio didn't exceed 80%, it was written in black and white in every prospectus. The fund was converted to cash at a LVR ratio of 105%. The cash from the sale of the funds sat somewhere for over 11 days before being placed into our ACA. We are talking of $1,850,000 a very large amount to not be earning interest on. Again why?

To get back to our Secure Financial Retirement plans, there are none left we are back to square one except we now have to pay off a $1,168,000 loan before we can restart our saving plans again. Santo certainly cannot afford to retire now. I now have to try and find employment to assist the repayments. We have had to run the gauntlet of many people who are very wise after the event saying that Storm Clients were greedy, and should have known better. What is greedy about not being on a government pension in retirement, what is greedy about earning an average 13% on your investment? That was the same as banks were offering at the time. Much media attention was also given to the notion that Storm Clients were given special privileges in the way of expensive overseas trips/holidays. We had not taken any trips with Storm as we were saving for our retirement. The so called "free" trips were actually paid for by the clients who went on them, not paid for by Storm Financial. Our daughter will now incur a HECS debt instead of us being able to help pay her way at Uni. Our elderly parents, who I might add were not investors in Storm, but live in a granny flat on our property, will have to uplift at 81 and 84 years of age. Our son who had a serious car accident late last year and had his car written off will not be able to buy another one as we had to use his money to help repay the margin call.

Who is to blame, well Storm are blaming CBA, CBA are blaming Storm and us the clients, because CBA /Colonial believe it was up to us the clients to know what our position was. However we had paid for financial advice and expertise, and Colonial were quite content to take that advice from Storm for the setting up and running of the fund's monetary issues prior to 8^{th} Dec 08. In fact prior to Dec 08 we had never had a personal contact from Colonial regarding any shortfall or margin call. Colonial continued to explain that they were in constant and daily contact with Storm, Storm stated they were in negotiations with Colonial to clarify any margin calls. Again neither party contacted us, the clients, WHY???? What right did these businesses have to make arrangements that are clearly to our disadvantage without consultation with us the clients?

What happened to the banks regulations, why were we given the privilege of our margin loan exceeding the regulated percentage of 80%, we didn't ask for a loan ratio of 105% and refuse to accept the blame. Why did ASIC upon receiving information from CBA decide to silence, with the threat of legal action, Storm and its Advisers at a time that was detrimental to us the clients? We had the right to expect that the management of our funds was in the best interest of us the clients, that we were treated with ethics and integrity.

After accepting an offer from Colonial for a free investment advice meeting we were told that things were in fact very grim and that it was very unlikely that Santo could retire in the near future. We had few options other than to sell the family home, if we could, and hope to make enough to repay some of the NAB loan back. There might be some funds to buy another house for a family of 7 to live in. Santo's wages could then used to keep repaying the NAB loan.

Not exactly our dream retirement plans, in fact it was and still is a living nightmare, except when you wake up each morning you realize that it was no nightmare it is very real.

Santo has recently been awarded The Moreton Bay Regional Inaugural Sportsperson of the Year Award for 2008 for his tireless community voluntary work at several local sporting clubs including Redcliffe Little Athletics, Peninsular Soccer Club and the Southern Cross Catholic College over the last 19-20 years. It was an honor to win the award but it was very hard to acknowledge at a time when he felt an overwhelming sense of futility and embarrassment due to the situation we found ourselves in.

As the end of the financial year approaches what and how will Storm or the CBA deal with the paperwork? Our position is now family home $1,100,000 debt $880,000, no investment home- now sold, Margin loan Nil, Margin call paid in full, recalled the prepaid interest and paid down the margin loan, incurring a $28000 penalty for repaying the loan early, private shares $100,000 no debt. We arranged for our NAB personal banker to visit to discuss our situation only to be told that they were unaware we were Storm investors, which was surprising because we had a $1,100,000 loan from them to invest in Storm Funds. They were most sympathetic but were unsure what they could do to assist us. So long as we could still meet the repayments and that it was important for Santo to stay healthy then they would leave the loan as it was for now.

Again we ask, Why? Are you able to tell us? Who is at fault? Who should take responsibility for the outcome partly due to the fall out between CBA/Colonial and Storm Financial? Why is the buck stopping at the clients door, is it because the larger corporate institutions have unlimited access to legal representation and unlimited funds with which to intimidate the clients? We acknowledge that part of the financial crisis facing the world today is the falling share market and the associated decline in revenue for the banking and financial institutions but correct us if we are wrong were not the banks well compensated for that by Federal Government monies and guarantees?

We engaged a financial adviser to advise us appropriately and with integrity in our plan for financial security pending retirement. We paid in advance for that advice expecting that advice to be ongoing and with our best interest as the foremost intention.

We chose a financial adviser that was a financial and current member of the Financial Planners Association, one that we thought had adequate indemnity insurance just in case the advice was not in our best interest. It was also noted on the advertising brochure that Storm Financial had an Australian Financial Services Licence Number (228905) which should imply that it abided by the regulations for financial products and services. We chose an adviser that was considered competent and reliable based on current FPA standards, one that would know how to gauge and understand risk management with regards to the client.

Consumer education and understanding of financial products and services is of no use to anyone when by a mistake or oversight by someone has the ramifications of a total meltdown of an entire Managed Fund that had several millions of dollars invested. It appears to make no difference if the consumer was under the impression that the FPA's qualified financial adviser carried adequate indemnity insurance for such an event.

Again we ask the question, WHY?

Regards

Santo and Marianne Perna

25th May 2009.