9 June 2009

DJ & AL LOCK

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Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600
corporations.joint@aph.gov.au

Dear Sir,

I offer the following submission on behalf of my wife and myself. Our names are David John Lock and Ann Lillian Lock. I am 68 and Ann is 67, our birth dates being 08/07/1940 and 24/08/1941 respectively. We are Australian citizens. We are both retired after farming in the Wagga Wagga district in NSW for 45 Years. On our retirement we were able to sell most of our land and move here, needing an investment to maintain our income.

The Role Of Financial Advisers

A financial adviser should ascertain the needs and the potential of their clients and design strategies for investment with regard to the level of risk the client can accept without jeopardizing assets. Clients should have a sound knowledge of the strategy, the risks and how to avert them and be fully informed when risks and opportunities become apparent. Advisers should ensure this happens and maintain a duty of care to clients as is expected of other professionals and service providers, ie; legal, accounting, health, food and other product providers.

Regulatory Environment

This can be flexible enough for the client/adviser relationship to achieve the investment strategy desired but rigid enough to ensure that strategy is followed until it is mutually agreed to make variations after following the above protocol.

Commissions and fees

Since these are derived from the client's finances they need full disclosure and unless significant discounts or rewards are available to the client, fees should not be charged. Any entity receiving these must give the same duty of care to the client-provider of the fee and hold mutual responsibilities with the adviser.

Advertising

As with any product advertising must be truthful and if there is a risk to the consumer it should be recognized e.g.; Tobacco; food and medicinal expiry dates.

Licensing

Only those who have demonstrated that they have the knowledge required, can fulfill the role to clients and continue to give the service and duty of care necessary, are eligible.

Appropriate Information and Advice

Clients should to be given all the information they need to fully understand the investment they have chosen and advice given has to be appropriate to the level of understanding. As this level declines the level of care and responsibility of the advice needs to rise.

Education and Understanding

The client needs to know and understand where and in what his money is invested. Exactly what the costs are and how and when they are collected. How the investment earns, how much it earns and when the earnings become available. More importantly he needs to know its potential to lose, the causes, the speed at which this can happen and how he can be protected from loss. The advisers and the industry generally have a duty to provide this education.

Professional Indemnity

Cover adequate to protect clients from negligence.

Legislative and Regulatory Changes

Legislation will require financial institutions to assume responsibility with the advisers with whom they have a beneficial interest when funds are provided to retail clients for investment whether it is margin lending or business loans with collateral in the form of property or other assets. Regulations will ensure that advisers are fit for the task and will give the level of service and protection of client's assets appropriate to his appetite for risk and understanding of the product chosen.

Storm Financial

We chose Storm Financial as our adviser when we sold our farming business and moved to our present address in 2005. We attended the educational sessions and believed their model to be safe enough and remunerative enough to suit our needs. Much emphasis was placed on the ability of a margin loan to accelerate asset earnings in a rising market but no mention of the speed at which our asset deteriorated when the market began to fall or the need to close the loan as soon as possible in that cycle.

The investment model had us investing our surplus cash in an indexed fund boosted by a margin loan from Macquarie and a business loan with our house as collateral with the ANZ Bank again matched with a margin loan. All the dealing was done at Storm's office with no contact at all with the respective loan providers. The investment model was presented as being totally safe having an LVR maintained at 40% to 45% and a cash reserve of 25% to 30% of the total investment. There was great emphasis put on these safety nets that were there for our protection. Had this been adhered to our position would be very much better now.

The other aspect of the model was a strategy to invest some of the cash reserve as the market fell in order to pick up the gains on the subsequent rise. This then led to advice being given to buy more units at intervals as the fall continued. Interest and living expense had used up the cash reserve but we were assured that there was no danger in increasing the LVR and drawing on the margin loan to make the purchase.

Next our liquidity came into question and we were advised to have our house revalued to raise another loan in order to buy more rapidly falling securities, this time with BoQ as the relationship with ANZ was finished. ANZ however still wanted our custom and competed for and won it when they learned of the approach to BoQ. The market, meanwhile, nose-dived and the proceeds of that loan were used to prop up the margin loan and finally we were advised to sell down securities to lower our LVR. This advice was given and approved in early October 2008 but took until mid November to finalize.

We made repeated requests for information and guidance to protect our position from the time the market started to fall and were always assured that we did not have to worry. As late as early December 2008 were told that we would be able to use the margin loan to re-enter the market in due course and that the loans against our house were safe and we would not be forced to sell.

The reality is that we had to close the margin loan losing all the money in it and do not have the resource left to pay out the house loan and will be called on to sell when the capital we do have is consumed by interest payments.

Thank you for your time and attention.

Yours faithfully,

David J Lock , Ann L Lock.