

Supplementary submission to Parliamentary
Joint Committee on Corporations and Financial
Services

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

July, 2009

Preamble

My name is Radomir (Ron) Jelich.

I am a Director of Ron Jelich Professional Planning Pty Ltd (ACN 010 645 495). I previously was a Director and Shareholder of Jelich Professional Planning Pty Ltd (ACN 121 590 010).

I am party to a number of agreements with Storm Financial Pty Limited (ACN 064 804 691). These agreements include:

- A Share Purchase Agreement dated 15th March 2007;
- A Consultancy Agreement (undated but signed 15th March 2007);
- An Escrow Deed dated 15th march 2007; and
- An Executive Services Agreement.

By virtue of the Share Purchase Agreement referred to above I transferred my shares in Jelich Professional Planning Pty Ltd, financial planning business, to Storm in March 2007 with nil cash consideration and the promise of \$8 million worth of shares in Storm when it floated to become a public company. I understand that this business was subsequently transferred to Storm.

I have lost between \$15-\$20 million in assets in the recent financial downturn and I am now in a position where I am left without a business or any consideration for that business that was transferred to Storm.

A number of issues have come to light since I tendered my original submission (May 2009), compelling me to provide the committee with this additional information by way of a supplementary submission.

I trust the committee will give these supplementary thoughts due consideration as I believe they are important and fundamental to an understanding of the circumstances leading up to and surrounding the collapse of Storm Financial.

CGI's unconscionable behaviour

I refer the committee to Mr Stephen Wilson's submission No. 109. Subsequent to reading his submission, I have established a close relationship with Mr Wilson, allowing us to exchange information that I believe is fundamental to your inquiry.

A central theme of many of the submissions tendered to this committee has been the behaviour of Colonial Geared Investments (CGI) and the treatment of client margin lending facilities during October-December 2008.

Hundreds of ex-Storm clients, staff and other stakeholders have maintained that the CGI reporting system was flawed, inaccurate, and dysfunctional and was subject to long delays in displaying data. This in effect prevented clients, staff and advisers from making informed decisions during this calamitous period.

In addition, as outlined in my May 2009 submission, it is my contention that CGI were grossly understaffed during this critical period and were unable to handle the copious workload. This situation caused mass hysteria and led to my six-week hospitalisation for stress-related illness in late December.

It should be noted that Mr Wilson was a CGI client, but was NOT a client of Storm Financial.

I will quote directly from his submission:

“CGI have now admitted in an email to my adviser that their figures and website were inaccurate from the 25th September 2008 until the 20th October 2008. I believe this to be a critical failure that contributed significantly to my predicament.”

This point is worth repeating: that Mr Wilson's adviser has evidence that a CGI employee admitted to her in an email that the CGI systems were inaccurate during the latter part of 2008, thus confirming the fundamental reason that people's financial lives have been ruined.

Mr Wilson gives full details in his supplementary submission regarding his attempts to contact the 2 key CBA staff who confirmed these dates. He

has been left with a negative equity position and I would have thought his adviser had a duty to disclose to her client the reason for that position.

Fundamental questions need answers

This information prompts the following questions:

1. Can the committee order Mr Wilson's adviser, (whose name and contact details are given in his supplementary submission), and/or CGI to provide the committee and Mr Wilson with the relevant email relating to the flaws in the CGI system?
2. Why won't the Queensland State Manager of CGI, Aaron Ferguson, respond to Mr Wilson's email relating to this critical issue?
3. How many other bank staff knew the CGI systems were inaccurate during this critical period? I respectfully encourage the committee to ask this fundamental question when interviewing key CGI staff.

“Rules” flagrantly ignored

I would like to draw the committee's attention to these “7 Handy Rules for Investing” taken from the Colonial First State website:

www.colonialfirststate.com.au/marketawareness . Maybe the representative from the CBA can explain why the various subsidiaries of the Bank didn't adhere to the same rules that they were promoting to investors??

- Rule 4: Plan for the long term; don't react to the short term

This is a vital rule to understand if you are trying to 'time' your entry into, or exit from an investment: **it's time in the market not timing the market** that counts. By taking a long-term view of investing, investors can ride out any short-term fluctuations in the market and take advantage of the potential growth over the long term. If you invest in a fund with a seven year timeframe but you decided to sell your investment after three years because of disappointing results you could lose out on four years of potential growth.

COMMENT: Most of the Storm clients were looking at the long term. Why didn't CBA/CGI follow its own advice in this respect?

- Rule 5: React now and you might regret it later

It's common sense that before you make an investment you understand all the implications, risks and costs

involved. Exactly the same is true before you withdraw from an investment. It's vital to know what the implications and costs will be. There are three major considerations which you should consider before you withdraw from a fund or other investment.

Crystallising losses

Selling as a knee-jerk response to market movements can create problems. If the value of your investment is falling, you are only making a loss on paper. A rise in prices could soon return your investment into profit without you doing anything. Selling your investment makes those losses real and irreversible.

COMMENT – how ironic for the CBA to say that selling is a knee-jerk response when that appears to be exactly what the CBA/CGI did by selling down Storm clients' portfolios without advising the clients and without regard to the consequences – in financial and human terms – of their actions. Having been forcibly sold out of the market, we are unable to take advantage of the inevitable recovery in prices.

- **Rule 6: Keep Yourself Informed**

To be a sound investor you don't have to be a stockbroking hotshot, but it pays to stay informed about your investments and keep up to date with the latest developments. There are a number of ways Colonial First State can help you do this.

Monitor your investments online via FirstNet, our secure online service. Registration is simple. You can monitor your investments, make additional investments and update your details online.

Subscribe to e-iQ, our electronic newsletter. Stay up-to-speed with expert market commentary, performance information and more. It's free and you'll be helping the environment by switching to electronic delivery. We'll also donate \$2 to Planet Ark for every investor who converts to paper-free investing.

COMMENT – I and other Storm investors were desperate for information during the critical period under investigation but, because of a combination of panic, system overload and under-staffing, we were deprived of that vital information. This may be an academic issue as we now know the web-based monitoring system was inaccurate anyway.

- **Rule 7: Get some financial advice**

Trusting your financial well-being to tips from mates and handy hints on the TV is a bit like going to your grandmother for medical advice. The best piece of advice you can get is often 'get some professional advice'. There are many examples that show how good advice from a well-informed financial adviser can bring financial benefits that far outweigh the cost of the advice.

A voice of reason When the sharemarket is going through periods of volatility, your financial adviser can offer a calm professional voice that will cut through what you hear in the media and ensure you make informed decisions based on your needs, objectives and personal circumstances.

COMMENT – This is sound advice but the same people who wrote this rule were unable to provide Storm and its advisers with the information required to allow clients to make informed decisions.