

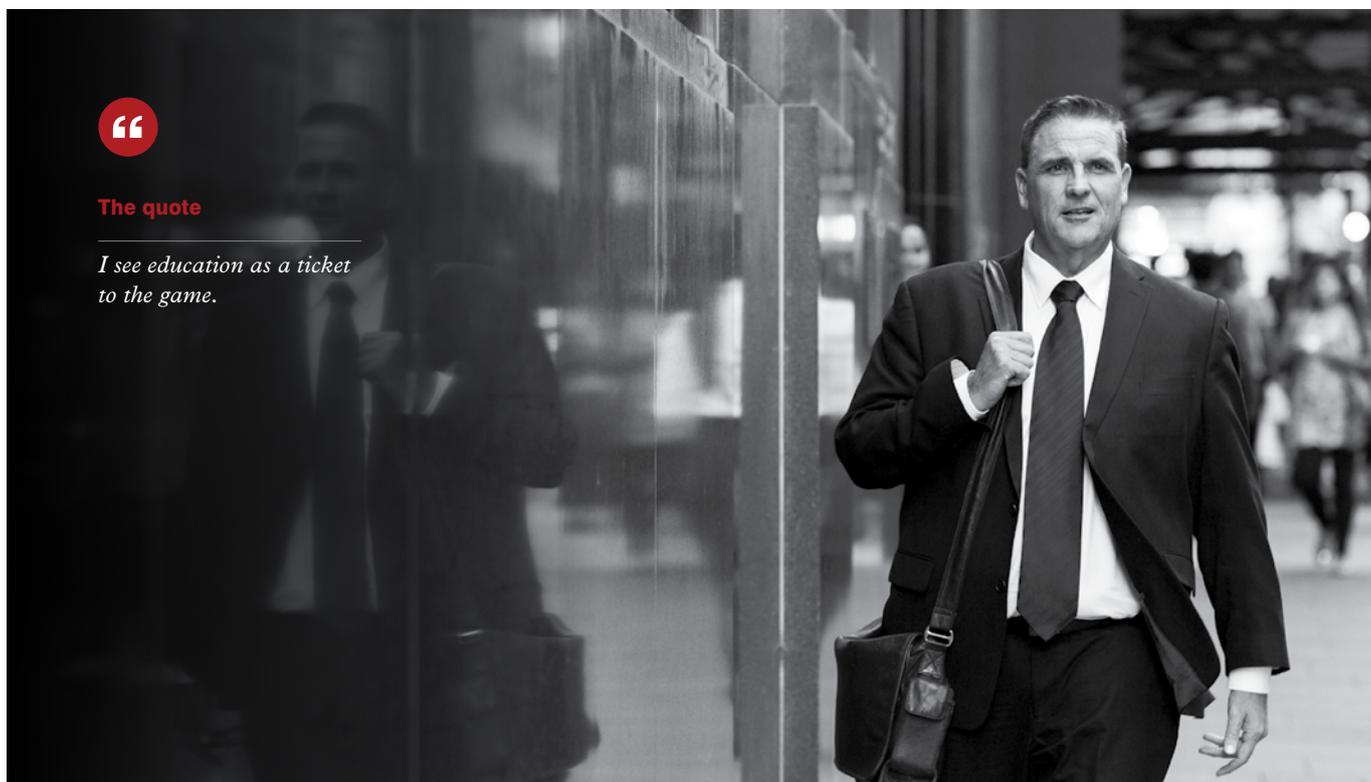


A NEW APPROACH

David Reed, retirement adviser, The Retirement Advice Centre

FS Advice spoke with 2015 AFA Adviser of the Year, David Reed, who believes that financial advice must move into a retirement coaching role to enable clients to achieve their goals.

Photograph by Hayden Brotchie



The quote

I see education as a ticket to the game.

Helping others has always been a big part of David Reed's life and after spending eight years as a plain clothes police officer Reed decided it was time to turn a hobby into an award-winning career.

"I started in the police academy in the late 1980s and I was there for 10 years. It was an enjoyable experience, but it's kind of a rule that you're either in it for life, or 10 years. I chose the 10-year route.

"Good friends of mine were in the financial planning industry, for probably 30 years now, and I used to trade stocks and read about quantitative investing a lot back in those days, just as a bit of a hobby.

"It's about the opposite of what I do now in a way, but their suggestion at the time was 'why don't you turn a hobby into a profession' and that was the start of it back in 2002."

Starting The Retirement Advice Centre, Reed wasn't so much interested in trading stocks or watching markets but instead developed a keen interest in the evidence based approach to investing and retirement, a trait he claims might have something to do with his police background.

"One of the big things that really interested me was the research around financial planning. I think it's got a lot better since I was first looking at the profession.

"It was a lot more art than science, there was a lot more intuition than fundamental academic evidence. I guess from my history back in the police, everything we did was always fundamentally based upon evidence and for me that was the way forward."

It was Reed's drive to create an experience rather than just a profession that helped develop his firm from being just another financial planning business to a firm that guides clients to not only achieve but to be prepared for their retirement goals.

Awarded the 2015 Association of Financial Advisers (AFA) Adviser of the year for his commitment to improving the financial literacy of both pre and post retirees. Reed and his firm provide specialist advice to clients on superannuation, pension, SMSF, investment, estate planning, tax and insurance. He has also authored two books with Canadian retirement psychologist Barry LaValley to help provide readers with expert guidance on the key lifestyle issues surrounding their retirement.

Psychology and retirement

To explain his approach to retirement planning, Reed speaks to one of his favourite analogies, claiming that a retirement plan or financial plan is much like a jigsaw.

"A lot of people start a jigsaw by the corners, but to start the jigsaw you have to know what the picture is on the cover of the box. For retirement that's really a case of spending a lot of time with clients and using the right framework and tools to get a lot more clarity on what that picture actually looks like and aligning money to that vision."

Playing down his growing number of achievements, Reed argues that for clients it's the small things that make a difference.

"I just see what we do as what we do. Whilst we might think that we're doing some really good things financially with clients, quite often if we ask them at the end of our meetings how they're tracking, what's been the most value they'll come up with some bizarre answers like – 'at the year out of our retirement you told us to replace the major expenses like the cars and whitegoods. In hindsight we're so glad you did that'. And that's purely incidental to what we think but delivers such value to them."



Photograph by Hayden Brotchie

Reed's approach to financial planning developed out of his keen interest in psychology and in particular the psychology behind the ageing process known as gerontology.

Gerontology is the scientific study of the ageing process and all the problems associated with that process. It is through his grounding in gerontology that Reed has propelled himself from a financial planner to a retirement coach. A job that not only requires an understanding of finance, markets and investment strategies but a passion for the importance of customer centricity and engagement.

"When I first started it was very much a case of – well I'm reading all this proven academic evidence from places like Chicago University – and I saw an opportunity to combine those academic principles and my mindset to start a business around an evidence-based methodology for investing and then it's expanded into retirement and psychology.

"To know the client you really have to understand what their phase of life is all about. It just blew me away in terms of the complexities of it – not just in the financial sense.

"We started with a blank sheet; our client's just wanted to retire. So we asked what are all the problems associated with retirement, what do we already know from the stats around divorce and suicide rates in retirees?

"I remember I stumbled across an old video of Steve Jobs that said to be successful, you've really got to start with the customer first and work backwards from that, and if you're doing it right the money will come. And that was the foundation behind our philosophy."

He explains that having such strong relationships with his clients has it upsides, like helping them re-discover their passions and hobbies in retirement that they might not have thought was possible.

"We've got a mid-70s gentleman who retired a number of years ago and one of his keen hobbies and passions was ancient history. He wasn't sure what he was going to do in retirement, and as part of our progress he's gone to Macquarie University, he's doing an ancient history degree and in-between semesters he flies to the Middle East or Egypt to do archaeological digs."

However Reed warns that the ageing process also has its downsides, something advisers must be aware of and consider when speaking with their clients.

"I did a retirement coaching course in the US that was looking at a more structured framework around ageing and the issues that were likely to occur. These range from financial literacy to divorce, disease, illness; the list goes on.

"When we speak with clients we've got to factor in the divorce issue, what they're spending their money on, generational wealth, how they want that to look, estate planning etc. The gerontology part has been so important for us to understand because absolutely it has not only a client engagement perspective but it also has a very significant commercial outcome from which we have to understand what that's going to be."

Through his application of gerontology, Reed is not only able to provide a more methodical approach to his advice but also help his

clients understand what retirement will really mean for them, looking further than just the money they have saved in the bank.

"We talk with clients about what academics call the 'retirement smile'. When a prospect comes in, particularly a husband and wife, they might tell us that they've got \$60-80k a year that they want to retire on. We're telling them that there's going to be a spike in their spending habits, because they've lost their time management, their status and their ego that they've associated with their work. Typically it's the male for toys, hobbies – for things they've never done before – and that spike in spending may occur and then daily life will settle in and the cost of living will go down. That is

until about the 75-80 year old mark, where their spending is well below what they actually expect to spend but then it picks up because of aged care and health care related issues.

"These are all gerontology related issues, being able to understand what's going to happen as they age has a very, very profound impact upon their financial retirement plan as well as an impact on our business as well. So it's kind of a domino effect that we go, 'ok well without that part we don't think we can reach this part very well and we talk them through it."

Education standards

Scandal has continued to hit the financial planning industry as regulators and the government flounder on concreting adviser education standards. For Reed there's no question as to the importance of education for financial advisers, but he reiterates that education standards alone will not be enough to deliver the right outcomes for clients.

"I see education as a ticket to the game. And certainly the AFA nominees just blew my mind in terms of their qualifications and what courses they'd done, I hadn't even heard of some of them.

"I think the education framework has a lot of merit that we should lift education standards to have a minimum standard in the quality of advice, the only caveat that I would expand upon though, is that if we're raising the standard and perhaps the complexity of advice, I don't necessarily see a direct correlation that all of a sudden we'll have this overwhelming demand for advice. That's just currently not there in the market place.

"I guess what we're trying to do is have discussions with clients that are more about improving their standard of living, rather than necessarily focusing on improving their portfolio of wealth. I see that as a different discussion that's not getting discussed in the political circles or by the profession enough to say that we can do this to give you these outcomes, by way of our level of advice."

As part of the 2015 AFA Adviser of the year award, Reed attended the South by Southwest Festival in Austin Texas, an experience that reiterated the importance of the client experience and making financial advice about the client rather than the adviser.

"The AFA award allowed me to spend over a week at the South by Southwest Festival and all I saw was where technology is going, the service experience of the NFL, WWE. Their commissioners were there, describing what they do in positioning their service around the

The future of advice as far as I see it is more of a coaching role, rather than an advice role.



The quote

To know the client you really have to understand what their phase of life is all about.

Photograph by Hayden Brotchie

client. Yet I am at the festival reading social media posts from advisers back home and it's all about education and efficiency of business. I'm looking at these massive businesses saying it's all around the client and we're going to make that experience so seamless that it's going to have such a profound effect on their life that it will just be what they do as a habit ongoing.

"I think that's a different paradigm to the discussion we're having about the client experience here in Australia. So whilst I'm all for lifting education standards, I think we have to evolve significantly, changing that discussion to be more about standard of living than portfolio performance."

Client experience and the future

Technology is set to have an impact on all aspects of the financial services industry. However, Reed argues that for advisers, it will play a key role in allowing advisers to understand what their clients want rather than taking their jobs.

"What we're doing today is getting the client to describe in words the future they want. The future I see us having is clients being able to use technology such as virtual reality. They have these things called PufferSpheres where people can point on a kind of crystal ball onto where it is they want to go and what it looks like. In a virtual reality sense they can put on goggles and it just follows the retinas.

"The technology is available today, they can say yes, no, this is what I want my house to look like, this is where I want to travel. All of the six arenas of their retirement or lifestyle, they can give us a crystal clear picture of what that vision is looking like, then we can harness the other tools around money and so forth to make that happen. So I see it realistically as an exciting time."

As for the future of financial advice, Reed sees it moving into more of a coaching role than simply a manager whom you visit every 12 months for an update.

"A coach is more of an enabler, they'll give you the advice but they're accountable, implemented and ongoing and maintaining what you want to do.

"And I thought the best case study of not only what we do but the way we see advice changing, is from a conversation I had with a woman at the South by Southwest Festival last year. I had my name badge on and was waiting to cross the road when a woman came up to me and asked, 'what is a retirement adviser from Sydney doing here?'"

"The woman was an Australian expat, now a CEO of a global non-profit in America but her 84-year-old mother was still in Canberra and not so satisfied with the role her financial adviser was playing. Her mother had several million dollars invested and paid around \$15,000 a year for advice, seeing her adviser maybe once a year for asset allocation.

"But her point to me was that what's important to her mum is no longer growing her portfolio but being able to talk on skype and access new technology, to have someone help her make the right financial decisions when it comes to food and everything that comes with ageing. And what she was talking about wasn't a financial adviser it was a retirement coach."

Rethinking the client experience will also have a profound impact on the future of financial advice, Reed reiterates that advisers must be ready to adopt change.

"Even though you can have a really successful business you can



never think that it's done. The client experience can always improve.

"Robo advice will definitely have a role, it will definitely bring efficiencies – not just to the client but to the advice business – and we just have to think what our role will be.

"There was a futurist speaking at the South by Southwest Festival who spoke about rethinking the client experience. He made the point that if you look at software today at the top left hand side it will have a 3.5 inch floppy disk, that's a save symbol. Most of today's student generation wouldn't have ever seen a floppy disk or know what it is."

In terms of defining a successful 2016, Reed hopes to see technology continue to grow and help better the experience he can provide to his clients.

"In 2016 I want to really rethink and reframe what we're going to do with our business, especially with technology for our client engagement. I'm really excited about the technology, that's already available, that we can engage the client with and I think they will be excited too. Rather than an impression it will make a memory for both the client and the adviser. At the end of 2016 we want to have a crystal clear vision of what tools we're using to do that.

"I'm very confident that in five years time my business will be very different from today and that's great." **FS**