ON CHINA

activity has also been spurred by efforts to loosen monetary policy and encourage credit.

As early as last August, it became clear that Chinese exports were under threat from a turbulent global economy. The People's Bank of China responded by slashing interest rates and compelling banks to increase lending. Bank loans began to be extended to projects controlled by Chinese state-owned enterprises.

One year on, in an antithesis to the credit crunch, bank lending is booming, and expanded at a rate of 34 per cent in June alone. But this has raised concerns that banks have adopted lax lending policies and doubts have arisen as to just where this money is ending up.

"Where has all of this money gone?" National Australia Bank head of international economics Tom Taylor asks.

"It's not all being channelled into productive investment. Some of it is finding its way into shares and real estate."

The expanse of credit is at risk of creating asset price bubbles. The danger is, as more borrowed money finds its way into real estate and the Shanghai and Shenzen stock exchanges, resulting price bubbles could suddenly deflate if monetary policy is suddenly reversed.

This is a real possibility. In July, officials promised greater scrutiny of bank loans, and instructed banks to purchase bonds from the central bank in an effort to curb the rate of credit growth.

But most of the money pouring into sharemarkets is not borrowed. The Chinese are prodigious savers, and sit atop a collective mountain of cash that must be invested domestically.

"As optimism returns, a big pool of money that sits in cash moves into the sharemarket," AMP Capital Investors chief economist Shane Oliver says. "There's no doubt there is a risk there that with optimism returning, the sharemarket becomes a bubble. Price-earnings ratios have gone up, and are now in line with a longer-term average of about 30 times earnings."

given year. It can't withdraw any funds, so the units must be traded on an exchange or the fund would shrink every time an investor sold down a holding.

Buying into an exchange-traded fund exposes the investor to the ups and downs of the ASX as well as the volatility associated with Chinese markets. While easy to jump in and out of, fund performance can be dragged down by a range of factors well outside the control of the fund manager.

In a bull market, this is not such a bad thing. AMP Capital's fund has delivered a 30.8 per cent return in the year to 30 June, thanks in part to the rebound in the ASX since March.

Barclays Global Investors has a China-only fund in its range of exchange-traded funds known as iShares. It follows an index of the 25 largest Hong Kong-listed Chinese companies known as FTSE/Xinhua China 25.

Fund manager Tim Bradbury says more and more investors are enquiring about investing in China. "People are making allocations to emerging markets like China more in the past six months than in the past year," he says. "There has been a lot more activity in the emerging markets portfolios than in developed market indices such as the S&P 500."

The China iShares fund fared well in the three months to June following the ASX rebound, returning 35.34 per cent. But its minus 11.57 per cent one-year return to 30 June bears the scars of the crisis.

In the past six to 12 months, almost all of the pure China plays

Russell Investments strategist Andrew Pease sees a move to new frontiers.

have outperformed funds with a broader mandate to invest anywhere within Asia. But an international equity play needn't depend solely on a single country.

Will this bounce in China's economic data actually translate into lasting recovery? Or is China's recovery now old hat? Some asset consultants have labelled China as "so yesterday".

Russell Investments investment strategist Andrew Pease says fund managers are now seeking out "new frontiers" including countries in Western Saharan Africa and Eastern Europe, regions which are offering exceptionally good value in light of the financial crisis.

Also, other Asian countries including Hong Kong and Singapore held up reasonably well during the financial crisis and countries like Vietnam are tipped to return to strong growth.

Australian Independent Financial Advisers principal Daniel Brammall. **Photo** Glen McCurtayne

What's in a name? – not independence

When it comes to financial advisers, some are more independent than others, writes **Mark Lawson.**

A lot can turn on the use or abuse of a single word, particularly if you are looking for financial advice and the word is "independent".

The use of the word is so strictly defined under the Corporations Act that only a handful of advisers in Australia can use the term without risking prosecution, yet there are others who consider themselves independent – in the lay sense of the word – without being able to describe themselves as such.

But consumers of financial advice can be confident those advisers are high quality if they know enough to ask the right questions. Hard selling of products where the adviser has been motivated more by sales incentives than by clients' needs has been blamed for a string of investment disasters, making a choice of planner critical.

What questions should consumers ask to establish that their advisers put their clients' interests ahead of their own, even though they don't meet the legal criteria of independence? Kate McCallum, a principal of Multiforte Financial Services, says that the key question to ask the adviser is "How are you remunerated?" – and clients should keep on asking that until they have worked out all the ways their advisers get their money.

The answer should include not just the fees paid by the investors, or any sales commissions, but also any other incentives such as cash rebates from fund managers, cheap loans from fund managers or share options.

She says advisers are supposed to disclose the remuneration they receive but by the time the clients receive that disclosure, "it's basically too late" – the client has already agreed to the sale.

McCallum is sure that her clients think of her as free of conflicts of interest, although Multiforte operates on the Axa Group licence (through the Axa-owned Charter Financial Planning). It is not obliged to sell Axa products and does not operate on commission nor take a percentage of funds under management. Instead it takes fees for service.

She also notes that the advisory company will look at the Axa's research on funds and investment strategies, although it does so with an open mind.

Nonetheless, under section 923A of the Corporations Act, any adviser who charges fees which vary with the volume of the fund invested or have links to product providers cannot call themselves independent. But they can call themselves independently owned.

The key question to ask your adviser is, 'How are you remunerated?'

Peter Johnston, executive director of the Association of Independently Owned Financial Planners, estimates that 80 per cent of planners and advisers are aligned with institutions, notably the major banks, with perhaps the remaining 20 per cent independently owned. Of that 20 per cent, perhaps 30 per cent operate strictly on fee for service.

He also points to material compiled by the AIOFP and released in May which proposes a new designation, the certified financial strategist (CFS) to be backed by a filtered research committee.

The material notes that "a product manufacturer directly paying advisers to select their products for a client's portfolio is a fundamental conflict". Instead, a CFS would operate on a fee for service basis, heed the recommendations of the filtered research committee, and have the right qualifications and experience.

He says a lot of the problems of recent years stem from research that was poor or slanted by the need to earn commissions, and clients need to ask their planners where they get their research.

The CFS certification may help, but a major problem, as shown by the AIOFP research, is that those who consult professionals, be they doctors, lawyers or advisers, just assume they are qualified. "We did a survey of our members who act for 20,000 investors and not one of them was asked if they were a CFP [certified financial planner]," he says.

Financial Planners Association chief executive officer Jo-Anne Bloch says the existing CFP designation – the highest one used by FPA members – has international standing, backed by a code of ethical and professional conduct, as well as educational requirements.

However, the FPA also does not pretend that "everyone is perfect" and it has recommended its members move away from taking remuneration by commission to avoid the community perception of a conflict of interest.

Bloch also notes that the name of the CFS educational program is too close to that of the CFP and may cause confusion.

Daniel Brammall, a principal of Australian Independent Financial Advisers in Canberra, says one penalty for being independent is that the clients have to pay for the advice, which may cost $3500 for a plan. But those who consult his firm are looking for advice on many hundreds of thousands of dollars worth of assets, he says.

Bill Raffle, a principal of Bennelong Private Wealth in Sydney, says that just because advisers decline commissions does not mean they are independent.

"They may still be tied to product providers through approved product lists and receive incentives for selling particular products. Banning commissions will not make financial planning advice independent."

The phrase "fee for service" can also be misleading as this can be used to mean a fee, such as 1 per cent, for assets under management. Consumers looking for advice should look for the word "independent" in the adviser's financial services guide or marketing material. It is a breach of the Corporations Act to use that term if the adviser has any links to product providers, charges commissions or charges fees based on assets under advice.