S U B M I S S I O N

TO

THE INQUIRY INTO FINANCIAL PRODUCTS AND SERVICES IN AUSTRALIA

(OUR SUBMISSION RELATES SPECIFICALLY TO STORM FINANCIAL/COLONIAL GEARED INVESTMENTS)

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1. **THE ROLE OF FINANCIAL ADVISERS**

Just as the name suggests, we relied on someone to advise us on our investments, i.e. a Financial Adviser.

In our case we invested with someone we considered to be a reputable company approved by the regulatory body, i.e. ASIC, and was a member of the Financial Planning Association.

Our accountant, Peter Cabassi, who was then a senior partner in what was then known as Hungerfords recommended Storm Financial or Cassimatis Securities as it was known when we originally invested with them.

We relied on them for what we considered to be expert advice. We invested our superannuation, the sale of our business and real estate, an Inheritance as well as the mortgage of our home. All up we invested approximately $1.3million dollars. We have now lost the lot and have a debt of $584000 with the Bank of Queensland who now has the mortgage on our home. Our two boys are trying to obtain a loan to buy our home so we can stay there, which will be difficult for them, as they both have young families and have mortgages of their own to worry about .

Storm's strategy as explained to us had checks and balances in place should we reach a certain trigger point, i.e. if we received a margin call. We were actually expecting this to happen as we had been following the market closely and in September 2008 we asked David McCulloch, a then senior adviser at Storm's Townsville office if Colonial was starting to bring in margin calls. His reply to us was "no they're not, but Macquarie is". This goes contrary to what Colonial told us, i.e. that they kept Storm informed on a daily basis regarding margin calls. David McCulloch has since told us that the first they heard from Colonial regarding margin calls was in December 2008. We signed an authority to sell up to 100% of our shares on 10th October 2008

As far as checking on our position via Colonial's website as has been suggested we should have done, their information was 2-3 days out of date.

2. THE GENERAL REGULATORY ENVIRONMENT FOR THESE PRODUCTS AND SERVICES

We don't know if ASIC was asleep but they approved Storm's Model for years. We now know that they did receive complaints but they didn't act upon them. If we had been aware of that fact we would have been asking questions of Storm and maybe we wouldn't be in the terrible situation we and many others find ourselves in today. The Financial Planners Association didn't seem to have a problem with Storm's model and would have been aware of what they were spruking, so why should we have ?

3. THE ROLE PLAYED BY COMMISSION ARRANGEMENTS RELATING TO PRODUCT SALES AND ADVICE

Fees based on commission gives the Financial Adviser a conflict of interest, and Storm's model portrayed this not only in sales, but with the trailing commissions. In a bear market they may be inclined to leave people in the market longer than they should. This could have been the reason for the banks agreeing to Storm changing our Margin Call LVR from 70% to 80% which also allowed Storm to sell more of the bank's margin loans. We are not too sure when the change of LVR occurred. We do know our LVR was 70% around 2001 when we also received a margin call. On that occasion Storm's strategy of getting us out of the market at that point was put into place.

We feel commissions and fees should be transparent and upfront to investors.

4. THE ROLE PLAYED BY MARKETING AND ADVERTISING CAMPAIGNS

We weren't greatly influenced by any television advertising we saw on Storm, but the use of sporting identities such as John Buchanan certainly put your mind at ease that you were doing the right thing. After all if someone of his calibre promoted Storm it must be O.K. That's what we thought at the time , especially when they invested in Storm themselves

5. THE ADEQUACY OF LICENSING ARRANGEMENTS FOR THOSE WHO SOLD THE PRODUCTS AND SERVICES

Colonial Geared Investments were the ones who sold us our margin loans. "Margin Lender of the Year 2008" on the stationery they forwarded to us. To our way of thinking Storm was an agent for them and advised us on the investment of those loans. And yet they claim no responsibility in this catastrophe. They failed to get us out of the market at a certain trigger point. They shut the fund down in their words "because of the large volume of withdrawals they had received and it was done in the best interests of investors so we would be all be treated equitably". What was so equitable about getting some people out at the correct time and leaving 450 go into negative equity where we lost everything. In our case they got us out at 100%+ and others we know at 133%. They must have realised the repercussions of what they were doing. Such a ruthless act and they seem answerable to no-one.

It appeared to us that Colonial's system failed and they couldn't handle the volume of clients when the stockmarket was moving so fast. They couldn't even keep our details up to date on their website. Yet they told us we should have been monitoring our own portfolios.

We ran a business for over 30 years and I can tell you if our computer system was overloaded and we shut it down and put the blame on our customers there would have been hell to play.

The CEO of the Commonwealth Bank, Ralph Norris has been careless with the truth before this incident. Terry McCrann, A well respected journalist wrote several articles in the Courier Mail in December one which read "Which Bank is the Main Offender in the appalling fiasco referring to the CBA/Merrill Lynch affair and another headed "CBA heads must roll over appalling bungle" which was an article on Ralph Norris "misleading" shareholders.

Then there was the amazing coincidence where the CBA posted A $2billion profit above forecast which was just after they sold Storm clients up. How can you be expected to trust a corporation when they have such a reputation.

We realised the power of the CBA after 60 Minutes hosted a barbecue here in Townsville for Storm victims. Ellen Fanning, The journalist covering the story riled the crowd, getting them To yell "CBA" when she asked "which bank?" Everyone left feeling pleased that finally someone was going to bring the banks into the equation. What went to air was completely the opposite. It was a one sided story attacking only Storm Financial. If one cared to go to the Sixty Minute website and read the transcript of the story you would see where the CBA "didn't think it appropriate they appear on the programme but they had helped with the preparation of the story". Right beside those comments was an advertisement for a CBA loan!!!

Banks who sell margin loans to financial planning companies need to be monitored by the regulators as well. This is supposed to be the case, but in our opinion on this occasion it just didn't happen. They were too busy chasing Storm to worry about the banks. We think public opinion and the publicity generated by SICAG may have helped change this, and finally they are investigating the role the banks played in all of this debacle, we certainly hope so.

6. **THE APPROPRIATENESS OF INFORMATION AND ADVICE PROVIDED TO CONSUMERS CONSIDERING INVESTING IN THOSE PRODUCTS AND SERVICES AND HOW THE INTERESTS OF CONSUMERS CAN BEST BE SERVED**

We felt confident with the Storm Model as presented to us. It now appears we are going to be proved wrong. We went to workshops where they showed us graphs and models and took us through such events such as September 11 and the Iraq war to show us we would survive. We were assured that If we reached a certain trigger point they would extract us from the market and our shares would be converted into cash until such time the market recovered. This did not happen on this occasion and we lay the blame squarely at the feet of Colonial Geared Investments. They failed to advise Storm of our position when they should have, and the first we heard from Colonial was by phone on 9/12/08 advising us of what they claimed we owed them. They couldn't even get that right. Every time we contacted them they told us a different amount.

We survived a margin call around 2001 but on that occasion the strategy in Storm's model was put into place and we didn't suffer greatly. We naturally assumed the same thing would happen this time.

At that time our buffet was 70% but after that it was changed to 80% and that made a big difference in our circumstances, but we still feel if we had got out of the market at the 80% trigger, we would have lost a lot like everyone else, but we wouldn't have lost everything and have a $584000 debt to worry about.

7. CONSUMER EDUCATION AND UNDERSTANDING OF THESE FINANCIAL PRODUCTS AND SERVICES

We attended workshops at Storm where they explained their Model to us. We thought we understood it fairly well and we thought it was a fairly safe strategy, or they made it appear that way to us. We thought we'd done our homework and invested with a Financial Planning Company who appeared to be well respected by its peers. Storm was a member of the FPA and we assumed they approved of their Model. ASIC also monitored Storm for years and found nothing wrong. We now hear that they did receive complaints but didn't act on them.

Educating investors can only go so far. Investors pay a lot of money in fees so they receive what they think is expert advice. The only homework they should have to do is to check the credentials of the Financial Adviser they are investing with and that those credentials actually mean something.

8. THE ADEQUACY OF PROFESSIONAL INDEMNITY INSURANCE ARRANGEMENTS FOR THOSE WHO SOLD THE PRODUCT AND SERVICES AND THE IMPACT ON CONSUMERS

It seem ludicrous that insurance is not required on investments such as ours. We always were of the opinion Storm had insurance in place. Apparently they have but it's not enough to cover everyone's losses. Emmanuel Cassimatis said a number of times over the years "you can always sue us".

The banks should also have a part to play in this. If they're selling large loans to financial planning companies, they should ensure insurance is put in place to cover such loans

9. THE NEED FOR ANY LEGISLATIVE OR REGULATORY CHANGE

The government needs to step in and put legislation in place making banks more accountable and to ensure that regulators are doing their job scrutinising financial advisers and the banks.