Advice – Value or Price?

by J. G. P. Bonello, F.I.I.A., Managing Director
Financial Planning Services Limited
Financial Adviser since 1987

In the March 2006 Moneywise column in TheSynapse, I penned an article under the title “What price advice?” The article included a bar chart (reproduced below) headed “Malta fior del mondo? – or ‘fuor del mondo’?” This highlighted the percentage change, from their all-time high to the 28th February 2006, in seven of the world’s major stock indices (Dow Jones, Nasdaq, FTSE 100, CAC 40, DAX, Nikkei and the Hang Seng), and the Malta Stock Exchange (MSE) index.

Every single foreign index was then below its own respective all-time high. The Dow Jones was the closest, just 6.2% short, whilst the Nikkei was by far the most distant – a substantial, mirage-like, 58.4% away. By comparison, the MSE index was not simply ahead of its previous all-time high, reached on 24th January 2000, but – to boot – a colossal 51.7% higher!

The same graph compared the percentage increase of these markets in the forty months from their bear market low, to the 28th February 2006. In that period, the Maltese index had a stratospheric 264% increase. This was nine times as much as the Dow Jones, with the smallest recovery of 30.5%. (These percentages do not include dividends paid by the companies which make up the index components.)

I had then commented: “The conclusion vis-à-vis which markets have the better potential is obvious”.

Well, how accurate was that foresight saga? The answer lies in the bar graph below, headed “The Value of Advice – One Year On”. It gives the percentage changes in the 12-month period between the 28th February of last year and the 20th February of this. It crystallises the “obvious better potential” referred to in the previous paragraph, and taken from last year’s “What price advice?”

The MSE index has in fact turned out to be the worst performer with a 16.4% decline. Readers of the Moneywise column a year ago who acted on the advice – even if lacking the inclination to switch into foreign markets – would not only have 16.4% more money in their pockets, but would also have earned interest on the money deposited. Minimal interest, no doubt, but still far better off than the 16.4% capital loss. Readers who did switch into foreign equity markets would have seen a near 30% gain from Hong Kong’s Hang Seng.

The six other indices all enjoyed double digit gains, with Germany’s DAX at just over 20%, the Dow Jones 16%, and 14% on the CAC 40. The “bottom” three all achieved a gain of 10%, or slightly above.

The article had then put the question: “But how do you distinguish between market highs and market hype?” I need not repeat the closing two paragraphs.

Many have found out that all the hype and publicity generated by share splits and bonus issues, is similar to that surrounding the launch of new financial products. Both attract a lemming-like rush into something that, had proper pre-investment advice been sought, might have been found out to be either unsuitable or untimely.

Therein lies the value of seeking proper advice – without scrimping about price. It has been said that “free” advice is worth exactly what you pay for it! Anyone can get it wrong – as experience has taught me. But there is a growing awareness of the need to have instant access to a (truly) independent, experienced, wealth management consultant.

Where does one find such a consultant and adviser? For one thing, they do not advertise “free” financial planning reviews. Neither are they likely to be employed by product manufacturers, each with a 50-outlet network, and 1500 employees, whose income and career promotions are directly linked to performance-related bonuses.

The same graph compared the percentage increase of these markets in the forty months from their bear market low, to the 28th February 2006. In that period, the Maltese index had a stratospheric 264% increase. This was nine times as much as the Dow Jones, with the smallest recovery of 30.5%. (These percentages do not include dividends paid by the companies which make up the index components.)

I had then commented: “The conclusion vis-à-vis which markets have the better potential is obvious”.

Well, how accurate was that foresight saga? The answer lies in the bar graph below, headed “The Value of Advice – One Year On”. It gives the percentage changes in the 12-month period between the 28th February of last year and the 20th February of this. It crystallises the “obvious better potential” referred to in the previous paragraph, and taken from last year’s “What price advice?”

The MSE index has in fact turned out to be the worst performer with a 16.4% decline. Readers of the Moneywise column a year ago who acted on the advice – even if lacking the inclination to switch into foreign markets – would not only have 16.4% more money in their pockets, but would also have earned interest on the money deposited. Minimal interest, no doubt, but still far better off than the 16.4% capital loss. Readers who did switch into foreign equity markets would have seen a near 30% gain from Hong Kong’s Hang Seng.

The six other indices all enjoyed double digit gains, with Germany’s DAX at just over 20%, the Dow Jones 16%, and 14% on the CAC 40. The “bottom” three all achieved a gain of 10%, or slightly above.

The article had then put the question: “But how do you distinguish between market highs and market hype?” I need not repeat the closing two paragraphs.

Many have found out that all the hype and publicity generated by share splits and bonus issues, is similar to that surrounding the launch of new financial products. Both attract a lemming-like rush into something that, had proper pre-investment advice been sought, might have been found out to be either unsuitable or untimely.

Therein lies the value of seeking proper advice – without scrimping about price. It has been said that “free” advice is worth exactly what you pay for it! Anyone can get it wrong – as experience has taught me. But there is a growing awareness of the need to have instant access to a (truly) independent, experienced, wealth management consultant.

Where does one find such a consultant and adviser? For one thing, they do not advertise “free” financial planning reviews. Neither are they likely to be employed by product manufacturers, each with a 50-outlet network, and 1500 employees, whose income and career promotions are directly linked to performance-related bonuses.

The same graph compared the percentage increase of these markets in the forty months from their bear market low, to the 28th February 2006. In that period, the Maltese index had a stratospheric 264% increase. This was nine times as much as the Dow Jones, with the smallest recovery of 30.5%. (These percentages do not include dividends paid by the companies which make up the index components.)

I had then commented: “The conclusion vis-à-vis which markets have the better potential is obvious”.

Well, how accurate was that foresight saga? The answer lies in the bar graph below, headed “The Value of Advice – One Year On”. It gives the percentage changes in the 12-month period between the 28th February of last year and the 20th February of this. It crystallises the “obvious better potential” referred to in the previous paragraph, and taken from last year’s “What price advice?”

The MSE index has in fact turned out to be the worst performer with a 16.4% decline. Readers of the Moneywise column a year ago who acted on the advice – even if lacking the inclination to switch into foreign markets – would not only have 16.4% more money in their pockets, but would also have earned interest on the money deposited. Minimal interest, no doubt, but still far better off than the 16.4% capital loss. Readers who did switch into foreign equity markets would have seen a near 30% gain from Hong Kong’s Hang Seng.

The six other indices all enjoyed double digit gains, with Germany’s DAX at just over 20%, the Dow Jones 16%, and 14% on the CAC 40. The “bottom” three all achieved a gain of 10%, or slightly above.

The article had then put the question: “But how do you distinguish between market highs and market hype?” I need not repeat the closing two paragraphs.

Many have found out that all the hype and publicity generated by share splits and bonus issues, is similar to that surrounding the launch of new financial products. Both attract a lemming-like rush into something that, had proper pre-investment advice been sought, might have been found out to be either unsuitable or untimely.

Therein lies the value of seeking proper advice – without scrimping about price. It has been said that “free” advice is worth exactly what you pay for it! Anyone can get it wrong – as experience has taught me. But there is a growing awareness of the need to have instant access to a (truly) independent, experienced, wealth management consultant.

Where does one find such a consultant and adviser? For one thing, they do not advertise “free” financial planning reviews. Neither are they likely to be employed by product manufacturers, each with a 50-outlet network, and 1500 employees, whose income and career promotions are directly linked to performance-related bonuses.

continues on page 28
When you add a bottomless pit of shareholders’ funds, effectively utilised to promote their own products and enhance their employees’ efforts, you will understand why they now even pester you with telephone calls at home.

At least, Malta’s two major fast food outlets do not indulge in the latter high-pressure, highly-orchestrated procedures, as Malta’s new army of McAdvisers now do, incessantly egged on by their burger meisters.

No. The analogy for the growingly sophisticated investor would be much more in line with slow food traditional restaurants like Rules, or The Ivy, in London, or Taillevent in Paris. Shrewd Maltese Investors, aligning their wealth management tastes in parallel with the development of their palate, today tend to read A.A. Gill in the London Sunday Times. They know that the likes of Gordon Ramsay and Marco Pierre White did not earn their Michelin stars by chucking chicken McNuggets onto a plate.

P.S. Since submitting the first draft of this article, international markets have seen a substantial sell-off, triggered by worries about the U.S. sub-prime mortgage market. The MSE index – though obviously totally unrelated – has fallen further and, as at the close of trading on March 14th, is now 20.7% lower than the 28th February 2006 close. The other seven foreign markets, notwithstanding the slide since 27th February this year, are all still in healthy, positive territory.

So, extremely recent and current events highlight the point made earlier about the need for instant access to a truly independent, experienced, wealth management consultant. Someone whose function it is to first prevent nightmares – not to sell you dreams.