



30 July 2004

CFL Taskforce Secretariat  
SCGSD  
Department of the Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Mr Clitheroe

## **ASA Submission on Australian Consumers and Money Discussion Paper**

We understand that you are seeking submissions from interested parties on the Discussion Paper titled Australian Consumers and Money by Saturday 31 July. We attach our contribution.

The ASA sees its own mission as including education opportunities to achieve the overarching goal of protecting and advancing the interests of retail investors by enabling them to help themselves. Our long-term goal is to develop a suite of topics that can be delivered to members and non-members, and will be introduced when resources allow.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stuart Wilson', with a long horizontal flourish extending to the right.

Stuart Wilson  
Executive Officer



## AUSTRALIAN SHAREHOLDERS' ASSOCIATION SUBMISSION

### Australian Consumers and Money

### Discussion Paper by The Consumer and Financial Literacy Taskforce

#### The Problem

The Australian Shareholders' Association (ASA) encourages consumers to accept increasing responsibility for financial outcomes of their investments. We agree that consumers need to manage their way around complex financial markets whilst avoiding scams and pitfalls. We would like to highlight that some financial decisions are regularly repeated while others are in the nature of 'set and forget'. Consumers need to be cognisant as to which are which and also learn to revisit decisions on a timely basis.

#### Consumer Behaviour

##### Qn 2.3

##### **Attitudes and behaviour are as important as information asymmetry**

P9 Consumer behaviour model: The ASA emphasises the role of the external environment and coincident life stages in generating 'good and bad experiences' and consequent learning experiences. Further the point of the cycle and alterations to the external environment and coincident life stages of particular experiences may mean a lesson learned is no longer applicable when a similar decision arises in later years. If there is no awareness of personality traits, position of economic cycle and/or life stage, lessons may be applied inappropriately or recommended to others by the consumer. That combined with the information in the discussion paper (p47) that consumers rely heavily on personal experience and friends and family suggests education should heavily emphasise the context of decisions.

Drawing from decision-making literature, a large proportion of consumers appear to use 'satisficing' to make their financial decisions. That is they select a choice that is good enough, one that satisfies a limited number of criteria. Satisficing (as opposed to optimising) is often employed with complex choices where increased research generates more points of difference between choices, rather than revealing the absolute best choice. Further, the characteristics vary over time, so that the best choice today will differ next week making it difficult to optimise. If the rules set for satisficing are appropriate this method of decision making can generate a satisfactory trade-off between cost of further research and returns due to that research.

Presuming this behavioural premise is correct, the ASA suggests the development of 'rules of thumb' may improve the decisions that are made by consumers.



Examples:

- Never sign a document without reading it
- If you don't understand a document don't sign it - seek help
- Check that the prospectus has been registered with ASIC
- Only accept financial choices that meet pre-determined needs
- Compare returns to the current 10-year bond rate
- Check return assumptions are reasonable in your eyes
- Insufficient risk appetite can be as harmful to wealth generation as the alternative
- Check the tax implications before committing
- Define the exit costs
- Maintain records for tax and security purposes (ie ability to locate and retrieve money in future)

## Qn 2.7

### What information sources do investors trust?

The increased ability of promoters to individually target investors, the advent of cheaper professional publishing, the increased plausibility of scam documents and enhanced complexity and flexibility of products able to be offered to investors have increased consumer desire for an independent source or verification. While many consumers refer to the media, ASA members (as well as non-members) phone the ASA National Office. We are able to direct the callers to information sources, provide definitions of terms and generally support the callers' efforts to educate themselves in regard to making their choice. Our efforts are valued as we are not financial advisers - our only interest is encouraging the consumers to take responsibility for their own decisions.

There are a large number of shareholders that have entered the share market via demutualisation or employee shareholders schemes. These investors tend to be less informed about their rights and responsibilities than those who chose to invest in shares proactively. The ASA National Office will receive calls from these investors after they have been referred by ASX and ASIC. (They don't have a problem that those organisations can deal with.) Often callers only need to confirm their understanding of investments or to be referred to an appropriate information source.

## The Information Provider

### Qn 3.1

#### The extent to which Australians' needs are met by currently available financial education programs.

- The overall objective of the ASA is the protection and advancement of the interests of retail investors. We are a membership based, not for profit organisation funded by member subscription with limited resources, which we direct to the benefit of members with positive benefits for retail investors in general.



The ASA provides the following education initiatives designed to achieve the objective:

- Branch information meetings with speakers. A sample appears below:

## **SA Evening Discussion**

Date: Monday, August 02, 2004 at 7:30 PM

Venue: WEA, 223 Angas Street, Adelaide

## **QLD Regional Meeting - Gold Coast**

Date: Wednesday, August 11, 2004 at 5:30 PM

Speaker: Brian Larkin, ABN Amro Morgans

Topic: General Investing

Venue: Robina Community Centre, Robina

## **NSW Day Meeting**

Date: Thursday, August 19, 2004 at 12:30 PM

Speaker: Mr Monik Kotecha, Senior Portfolio Manager, Investors Mutual Limited

Topic: What I look for in a company - and what I avoid

## **WA Evening Meeting**

Date: Wednesday, September 01, 2004 at 5:30 PM

Speaker: Nicky Cusworth, Chief Economist, Chamber of Commerce & Industry WA

Topic: Economic trends

## **VIC Day Meeting**

Date: Tuesday, September 07, 2004 at 10:00 AM

Speaker: Mr Don Argus, Chairman, BHP Billiton Ltd

## **ACT Evening Meeting**

Date: Wednesday, September 22, 2004 at 6:00 PM

Speaker: Delia Rickard, ASIC ACT Regional Commissioner

Topic: Investors beware! Cold calling spruikers and scams that bite

Venue: Canberra Club - 45 West Row, Civic, Canberra



- Monthly 16 - 24 page journal *EQUITY*.
- Website access to ASA publications and reports
- Enquiry service for members. Members telephone the ASA to obtain further information/clarification about transactions/situations. For example, company monitoring committee volunteers may liaise with company on members' behalf.
- The Educated Investor Bookshop promotes financial learning through their resources. ASA members are eligible for 10% discount.

The ASA has run the following courses:

## **Investor Toolbox**

(Six week, two hour workshop with limited participant numbers to enhance learning. Designed to provide handy tools for investors to pick up and use as necessary.)

Topics include:

- goal setting
- patience, focus and knowledge
- fees, charges and taxes
- inflation, interest rate on money lent
- rates of return, liquidity and risk
- asset classes
- comparison and cyclical variation
- different investment outcomes from different classes
- securities
- economic cycles
- diversification, investment horizon
- informed decision making
- the law
- risk & risk management
- leverage.

## **Annual Report Workshop**

These workshops aim to assist shareholders to interpret the Annual Report of a company in order to assess more confidently the financial health and prospects of that company. Over the past two years each state has hosted a full day workshop designed to encourage shareholders to open the Annual Report and analyse its contents. Lecturers from business faculties of local universities have delivered the workshop with ASA volunteers acting as facilitators so that the participants (ranging from 20 to 80 people) are tutored in groups of 10 to maximise understanding.



**'Most people  
spend more time  
researching  
their footy tips  
than their  
investments'**

## **THE ANNUAL REPORT WORKSHOP**

**Grab this opportunity to chase and tackle the *real stories* that lie within the Annual Report.**

Brisbane Saturday 24 July \$80 for ASA members  
Sydney Saturday 31 July \$175 for non-members  
Perth Saturday 31 July (includes membership)

**CALL 1300 368 448**  
(during business hours)

**Australian Shareholders' Association**

[www.asa.asn.au](http://www.asa.asn.au)



### **Investing Choices Workshop**

This full day workshop covers share portfolios (understanding the basics), valuing investments and choosing investments. It goes back to understanding the basics and looking closely at the information people need to make their investment choices. It looks at the education processes that will help participants understand what the information is telling them and what it is not telling them. It then moves on to the links between the risks individual investors are willing to bear, what returns they can achieve and choices that have to be made.



Historically the ASA provided member discounts on third party courses such as ASX and Huntleys however we have found members prefer the style of education provided by the ASA itself.

With a member charge of \$80 per full day, the ASA initiatives have been well received. Feedback suggests attention to details, such as easy access to all modes of transport, are important. Also an emphasis on an inclusive atmosphere is seen to contribute to all participants getting value from their attendance. The lecturers and the volunteers generate the atmosphere. Participants come from all walks of life and have exposure to shares either through investment, provision for retirement or demutualisation. Both genders and a range of different cultural backgrounds are well represented. We provide participants with evaluation forms and use the feedback to improve future education offerings.

## **An integrated solution**

### **Qn 4.1**

#### **Is a coordinating body necessary?**

The ASA believes a coordinating body is necessary and that it should be funded by both the government and industry. On the one hand the government will benefit from a better-educated consumer. Self-provision of retirement incomes is reduced by ignorance, and will be improved by education. The industry has benefited from the SGC levy and should fund financial literacy and its coordination to reduce the information/knowledge asymmetry. The ASA believes the coordinating body should supervise the identification of appropriate education initiatives and set standards to ensure the education initiatives are appropriate and effective.

The ASA sees its own mission as including education opportunities to achieve the overarching goal of protecting and advancing the interests of retail investors by enabling them to help themselves. Our long-term goal is to develop a suite of topics that can be delivered to members and non-members. This suite would cover general areas of knowledge with stand-alone topics such as Understanding the Annual Report, Understanding A Prospectus, Investing Choices and Investor Toolbox. Some timely pieces (eg during the tech boom a special understanding technology company annual reports workshop) - which may see earlier participants build on knowledge developed in earlier sessions - will be introduced when resources allow.