Stamping fee exemption submission: Stockspot Pty Ltd

Background

Stockspot is Australia's first online investment adviser (robo advisor). Since 2014 Stockspot has helped thousands of Australians accumulate wealth via an online investment advice and portfolio management platform. Stockspot uses technology and automation to make investing easy and affordable.

Chris Brycki is the CEO and founder of Stockspot. Chris is a consumer champion who has campaigned for better fairness and transparency in the investment industry since 2013 via Stockspot's annual *Fat Cat Funds Report*[1]. He currently sits on two ASIC advisory committees.

Stockspot is only paid by its clients, never product manufacturers. As a business, we strongly believe that fiduciary advisers should not be eligible to receive any form of payment from the products they recommend, as this demonstrably affects the impartiality of the advice they provide. Stockspot recommends ETFs to clients because of their superior structure, costs, performance, tax efficiency and transparency. Recommending index ETFs rather than LICs or other complex products has been a significant driver of the Stockspot portfolios having a 5 year performance track record that is among the top 2% of fund managers[2].

LICs costing investors billions each year

Our research shows that LICs are an inferior product to ETFs. **95% of LICs fail to achieve the returns of the market index**[3]. This is primarily due to their higher fee structure, the zero-sum nature of active management and sub-optimal tax efficiency. In 2019 alone, Australian's who invested in LICs were **$1.6 billion worse off** had they chosen to invest in an index-tracking fund instead[4]. In addition, most LICs/LITs trade at a discount to their Net Tangible Assets (NTA) meaning investors never get what they paid for. For most funds this gap is unlikely to ever close as it reflects the present value of the drag of management fees.

The existence of stamping fees distorts the allocation of investor capital from strong performing, tax efficient, low cost structures like index ETFs into LICs and LITs from poor advice. It funnels consumer savings to investment structures with higher fees for fund managers and distributors, which have been proven to add zero additional value to end investors. *The upfront cost of stamping fees* means investors start with only $97 to $99 invested per $100. Higher *ongoing management fees* means less of the total market return ends up in the pockets of investors, leading to savings deficiencies and increased reliance on social security.

Stockspot has been among the industry voices calling for the removal of the stamping fee exemption that was granted as part of Future of Financial Advice (FOFA) for listed investment entities such as Listed Investment Companies (LICs) and Listed Investment Trusts (LITs). It saddens us to see many Australians are still getting pushed into these poor performing products because of the stamping fees paid to the brokers and advisers who recommend them.

Removing stamping fees would create a more equitable and meritorious environment for investment products, one that is based on the quality of each product and the appropriateness to meet customer needs. We hope that the recommendations that come from this public consultation process lead to much needed changes to adviser incentive structures, which result in better outcomes for Australian investors.

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1 https://blog.stockspot.com.au/fatcat/
2 https://blog.stockspot.com.au/performance-september-2019/
3 https://blog.stockspot.com.au/compare-lic-vs-etf/
4 https://blog.stockspot.com.au/lics-2019-performance/