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Stockbrokers MONTHLY

MEMBERSHIP • iLEARNING • EVENTS • EDUCATION • POLICY & REGULATORY ISSUES

'Beating the market' debate and investor irrationality

plus...

ASIC reviews marketing practices in IPOs

Stockbrokers Association of Australia

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Stockbrokers
Association of Australia

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Update on ASX CHESS Replacement

During the last few weeks, we have had constructive engagement with the ASX about the design for the CHESS replacement.

Just to recap, we have retained Danielle Henderson to Chair our CHESS Replacement Working Group. Danielle used to work at the ASX and is familiar with the capability of the current CHESS operating system and where it can be improved.

Under her stewardship, the CHESS Working Group, whose members include ABN AMRO, ANZ Share Investing, BNP Paribas, CommSec, Morgan Stanley, Instinet, Patersons, Phillip Capital, Pershing, Taylor Collison and UBS have had in-house discussions and meetings, as well as formal meetings with the ASX.

We have also been provided with a demonstration of the Distributed Ledger Technology (DLT) that the ASX is considering as the technology platform to replace CHESS.

We are impressed with the capability of the new technology and by working closely with the ASX, we are hopeful that if the ASX commits to DLT, it will benefit both the ASX and Members by providing

1. reduced risk
2. increased efficiency
3. reduced cost.

Board Nomination

I am pleased to advise that we have received a nomination from ITG Australia Limited for Ms Kiri Pettigrew MSAA to join the board as an Institutional representative. Kiri is Regional Head of Legal & Compliance, Asia Pacific, for ITG, and has worked with ITG for 10 years. Her nomination will be considered by members at the AGM on 24th November.

The SAA board comprises representatives from both Retail and Institutional firms.

Our Charter is to represent the views of both Institutional and Retail firms.

In this regard, it is interesting to reflect on the words of Andrew Farran, Credit Suisse's Chief Operating Officer for its Australian Equities business, who sadly has just resigned from our board because he has been posted to Hong Kong.

I've enjoyed my time and involvement with the association and have found great value in the contribution you, the team and the organisation have made to the industry. In particular, I have found gaining an understanding of the complexities faced by some of our smaller peers has been invaluable in framing the context ASIC brings when demanding some of our regulatory change.

Andrew Farran has made a significant contribution to the Association and the industry. On behalf of the board and members, I record our sincere thanks to Andrew for his service, and wish him well as he and his family settle into life in Hong Kong.

Andrew Green

L-R, Dr Rob Wixted & Dr Walid Bakry from Western Sydney University.

Theoretical and practical explanation of portfolio diversification to reduce portfolio risk

Dr Walid Bakry & Dr Rob Wixted – a Masterclass in portfolio construction

What a treat and privilege to listen to Dr Walid Bakry and Dr Rob Wixted deliver classes to students participating in our Portfolio Construction Program this month. Walid and Rob, irrepressible enthusiasts, are lecturers in the School of Finance at Western Sydney University. According to Western Sydney University's Heath Spong, *they are our most popular and experienced finance teachers*.

Walid's passion is the theory underlying Portfolio Diversification. When citing the latest academic research on investment risk, Walid gleefully contrasts that with a seminal work published in 1902, demonstrating an amazing comprehension of the theory underlying investment risk for the last 100 years.

Walid would be an extremely hard act to follow for anyone – anyone except Rob Wixted.

Rob used to work in the pit at the Chicago Board of Trade in the open outcry era. Open outcry involves shouting (or lip reading) and the use of hand signals to transfer information about buy and sell orders. Rob's lecture commences with a demonstration of the hand signals that were used to trade commodities and an explanation of how a trade was originated and executed. ☺

Professional, Ethical and Educational Standards for Retail Financial Advisers

ON 28TH OCTOBER, the SAA attended an Industry Round Table with Treasury to discuss the final draft of the Professional Standards legislation.

We expect the reforms to provide a workable platform for raising professional and ethical standards across the financial services industry.

The reforms will include:

- Compulsory education requirements for both new and existing financial advisers
- Supervision requirements for new advisers
- A code of ethics for the industry
- An exam that will represent a common benchmark across the industry and
- An ongoing professional development component.

As announced on 28 April 2016, the new professional standards regime will commence on 1 January 2019. Existing advisers will have until 1 January 2021 to pass the new exam and until 1 January 2024 to reach degree-equivalent status.

The professional standards legislation will also establish an independent standards body, as a Commonwealth company, to govern the professional standing of the financial advice industry.

The independent standards body's Chairman and directors will be appointed by the Minister.

The cost of establishing the body will be met exclusively by the large banks and AMP.

Once the standards body is operational, the Government will take steps to develop an ongoing industry funding model for the body. The Government will work with stakeholders to ensure the ongoing funding model is developed and implemented as soon as practicable.

The body will be responsible for developing and setting the industry exam, developing the code of ethics, and determining the education and development requirements for both new and existing advisers.

Critically, a single, uniform code of ethics will set the ethical principles that advisers will operate under. Professional associations and other independent third party monitoring bodies will develop compliance schemes to monitor and enforce advisers' adherence to the Code. These compliance schemes must be approved by ASIC. The reforms ensure that financial advisers will be held to a high standard of ethics, with non-compliant advisers subject to disciplinary action and sanction by the monitoring bodies.

"This independent standards body will raise minimum standards in the financial advice industry and improve public confidence in the sector," Minister O'Dwyer said.

The Government will introduce its legislation on the reform package into Parliament this year. ■

AUSTRAC – Consultation Commences on Implementation Plan for Recommendations from Review of AML/CTF Regime

ON 25 OCTOBER 2016, AUSTRAC released for public comment a Draft Project Plan for implementing the recommendations arising from the review of Australia's AML/CTF regime.

The Project Plan relates to the 84 recommendations that arose from the review of the AML/CTF, the findings of which were released earlier this year.

The Association will be reviewing the Draft Project Plan with a view to making any submissions to AUSTRAC by the due date of 11 November 2016.

Feedback from members on the Project Plan and on the recommendations is welcomed. ■

AUSTRAC Exemption Raises threshold for ShareGift donations to $10,000

The Stockbrokers Association is pleased to advise that AUSTRAC announced on 14 September 2016 that it had signed an exemption instrument raising the upper limit for charitable donations of parcels of shares, able to be transacted by a broker on behalf of the charity without the need for customer identification, to $10,000.

Members may recall that the Stockbrokers Association had been working in conjunction with ShareGift Australia to request AUSTRAC to increase the existing threshold for the exemption, which for some time had been set at $500, to a higher amount.

ShareGift is a registered charity which facilitates the donation of parcels of shares by the public. ShareGift arranges for the shares to be sold by stockbroking firms free of brokerage to the donor. The proceeds are then given to various charities, guided by any nomination made by the donor.

Many member firms of the Stockbrokers Association are supporters of ShareGift's work and execute sales for them.

The SAA sought the increased threshold in recognition of the work done by ShareGift, and by member firms who support it. The low threshold clearly limited the scope of charitable donations under the scheme, and there was experience that many larger donations were being discouraged due to the expense and difficulty of the client ID process.

For more details about the revised exemption, see *Anti-Money Laundering and Counter-Terrorism Financing Rules Amendment Instrument 2016 (No. 1)*. ■

ASIC Releases Report 494 – Marketing Practices in Initial Public Offerings of Securities

Further to the recent release by ASIC of Report REP 486 *Sell-side research and corporate advisory: Confidential information and conflicts*, ASIC has followed up in September 2016 with REP 494 *Marketing Practices in Initial Public Offerings of Securities*.

The Report sets out ASIC's findings from a review of a sample group of IPOs, including an initial sample of 23 IPOs, followed by a further review into a group of seven IPOs drawn from that group.

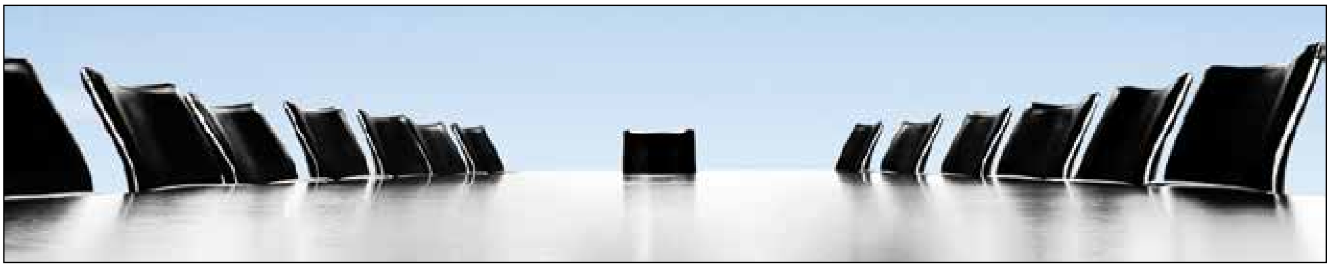
ASIC's review focused on the methods used by firms to market IPOs, ranging from telephone calls to emails, roadshows and more innovative avenues such as social media.

ASIC has made recommendations on a number of areas, including:

- Applying tighter controls on the marketing and selling of IPO's by telephone, including use of standardised scripts, routine review of recorded phone calls, better documentation of calls, and better compliance monitoring.
- Better controls on social media posts, including training of staff on the use of social media and prior review of media posts
- Ensuring that marketing is based on the IPO itself and not inconsistent with disclosure in the prospectus. Marketing should not be based primarily on comparisons with other successful previous IPOs or securing investors to meet spread requirements
- Any forecasts should be prudently used and assumptions and risks adequately disclosed in the marketing material
- Particular arrangements should be in place in respect of investors from a non-English speaking background
- Tighter controls to limit access to institutional roadshows to AFS Licensees and their representatives. Controls should also be tightened to limit access to restricted material, such as pathfinder prospectuses, to sophisticated or professional investors, including through the use of passwords. ■

SUBMISSIONS | Members can view submissions at www.stockbrokers.org.au

POLICY ENQUIRIES | Peter Stepek MESAA, Policy Executive, pstepek@stockbrokers.org.au



Committee News

Recent and upcoming meetings of Stockbrokers Association Committees, Working Groups and Advisory Panels, and major issues discussed:

CHESS Replacement Working Group Meeting, 5, 7, 11, 14 & 20 October 2016

Chair: Danielle Henderson, SAA Consultant

Management Committee Meeting, Thursday 13 October 2016

Chair: Andrew Green, Stockbrokers Association

Cybercrime Working Group Meeting, Tuesday 18 October 2016

Chair: Melissa Nolan MSAA, Baillieu Holst

Audit Committee Meeting, Wednesday 19 October 2016

Chair: Brian Sheahan MSAA, Morgans Financial

Nominations Committee Meeting, Thursday 20 October 2016

Chair: Karl Morris MSAA, Ord Minnett

Young Members Working Group Meeting, Wednesday 26 October 2016

Chair: Jacques Rousset AFSAA, GCP Capital

Women in Stockbroking Working Group Meeting, Wednesday 9 November 2016

Chair: Morana Hunter

New Organisation Affiliate Member – SYDNEY STOCK EXCHANGE

SAA End of Year Drinks

Please join the Stockbrokers Association, our members, committees and working groups to celebrate another year of achievements.

Thursday 24 November, 5:30pm – 7:30pm

Sydney Stock Exchange
Suncorp Place, Level 41, 259 George Street, Sydney

Drinks generously donated by Sydney Stock Exchange

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Stockbrokers Association of Australia®

SYDNEY STOCK EXCHANGE

ASIC reviews marketing practices in IPOs

ASIC

Australian Securities & Investments Commission

ASIC recently reviewed the methods used by firms and issuers when marketing initial public offerings (IPOs) to retail and high net worth investors. In particular we wanted to assess whether, and how, firms and issuers were using more innovative methods (e.g. social media) to market IPOs to investors. We also assessed whether firms were targeting certain investor groups for specific types of IPOs (e.g. higher-risk IPOs, including for emerging market issuers).

THE FINDINGS from our review have been published in Report 494 *Marketing practices in initial public offerings of securities*. Overall, we found most firms and issuers adopted good marketing practices, although we did identify some areas of concern where improvements could be made.

We observed that all firms used some form of 'traditional' marketing methods (e.g. telephone calls, emails, roadshow presentations, websites and advertising) to market IPOs. Some small to medium-sized firms have started to use more innovative techniques to market IPOs, including social media (e.g. Twitter, Facebook, LinkedIn, WeChat and YouTube), On-Market BookBuilds, crowd-sourced funding sites, and other connecting platforms which link issuers directly with investors.

The report discusses the following areas of concern identified during our review, and provides recommendations on how these can be addressed to firms and issuers:

– **Oversight weaknesses:** There were some inadequacies in the monitoring of marketing through telephone calls and social media, and in ensuring that marketing material is kept up to date.
– **Misleading communication:** There were instances of:
  • undue prominence being given to forecasts in marketing messages, and
  • misstated information (including of ASIC's regulatory role) in the marketing of emerging market issuers.
– **Inadequate control on access to information**: Access to institutional roadshows was not always limited to AFS licensees, access to pathfinder prospectuses was not limited to sophisticated or professional investors, and key information about the IPO was sometimes disseminated to the public before a prospectus was lodged with ASIC.

Social media

Our review found that social media was not heavily used to market IPOs. Firms that used social media tended to be small to medium-sized, and typically it was in connection with IPOs of emerging market issuers or technology companies targeting retail investors. In some instances, social media posts contained misstatements about the IPO as well as ASIC's role. We also found some instances where compliance staff at firms may not have been aware of the social media posts being made by their employees.

We recommend that firms apply controls to social media posts similar to those in place for other marketing. For example, by:

– educating employees on using social media for marketing IPOs in compliance with the Corporations Act 2001, and
– ensuring social media posts are reviewed before being posted.

Emerging market issuers

Our review found that the marketing of IPOs of emerging market issuers (EMIs) generally targeted retail and high net worth investors with a connection to the country of the EMI. Much of the marketing material was prepared in the language of the relevant emerging market, which raised additional challenges for firms and issuers when ensuring consistency with the prospectus. We observed some instances where marketing material for EMIs misstated ASIC's role, including that we had granted listing approval and approved prospectuses.

We recommend that firms and issuers targeting investors from a non-English speaking background should:

– ensure communications are clear and accurate (including any statements about the regulatory framework in Australia and about ASIC's role), and
– if marketing material is to be produced in a language other than English, ensure these materials are understood by the firm or issuer, including getting translations before publication (if necessary).

Further work

ASIC anticipates doing further work over the 2016–17 financial year looking at investor behaviour, what influences investor decision making, and applying the insights of behavioural economics. ■

Stockbrokers Association of Australia

Getting your review and remediation right

You may ask "What is review and remediation"?

The two key parts of review and remediation are to:

- ***review*** personal advice where a systemic issue in relation to the advice has been identified, and
- ***remediate*** clients who have suffered loss as a result.

The aim of review and remediation is to place the affected client in the position they would have been in had misconduct not occurred.

BUT as we all are well aware, the failings of financial advisers employed by various financial institutions have come to light with disappointing regularity over the past few years.

In some cases, systemic issues have been identified, and review and remediation programs have been set up to identify and compensate clients who have suffered as a result of the shortcomings in the advice they received.

These programs are sometimes put in place voluntarily by a licensee, and sometimes required by ASIC as part of an enforceable undertaking (EU).

This workshop is well regarded by ASIC. "It's in your interests to get a properly structured review program in place on your own, before it becomes necessary for ASIC to make you do it as part of an EU'".

This workshop also ties in with the new Regulatory Guide the regulator has just published.

This is an important area - to be ready and prepared to address complaints and issues that can arise from potential misconduct or deficient advice.

Audience

The workshop will be of interest to all AFS licensees, no matter the size of the licensee.

It will have value not just to those who have a current need to put a remediation/review program in place, it will also cover how the licensee assesses whether a program is required.

This workshop can also be run in house for organisations.

DATE:
Thursday 17 November

VENUE:
SAA Offices
Level 6, 56 Pitt Street
Sydney

TIME:
12:30pm – 2:00pm

PRESENTER:
Richard Montgomery

DURATION:
1.5 hours

CPD:
1.5 hours Compliance

COST:
Individual Member
$105.00

Organisation Members
$120.00

Non Members
$150.00

For further information or to Register
call 02 8080 3200 or
visit www.stockbrokers.org.au

Chi-X brings top American stocks to Australian Investors with TraCRs launch on 7 February 2017

Chi-X Australia is moving ahead for an early February launch next year of its TraCR product, delivering the long sought after ability for Australian investors to invest in the top US listed company stocks by trading on an Australian exchange, regulated in Australia and in Australian dollars.

Chi-X hopes the ability to invest in the top American stocks by trading on an Australian platform will provide a shot in the arm for Australian brokers and financial advisers, and their SMSF clients and other private investors, delivering diversification, offshore linkage and access to the new economy and global growth stories. Stockbrokers will be able to offer their clients a significantly broadened investment universe.

What are TraCRs and how do they work?

TraCRs [pronounced tray-sirs] are Transferable Custody Receipts. They are depositary receipts based on an underlying asset that is a member of the primary index of a specified offshore market, in this case the main United States exchanges NYSE and NASDAQ.

The beauty of TraCRs is that they provide an ability to invest in well-known offshore companies while trading in an Australian investment product. You can buy and sell in Australian dollars (instant FX conversion), dividends (unfranked naturally) are payable in Australian currency and taxation of gains will be essentially the same as applies to other Australian investment products. The 10 a.m to 4:12p.m trading hours will be the same and settlement and clearing will be through an Australian system. TraCRS are also fungible – clients can convert their holdings to a US based ownership registry if they wish. TraCR holders will also have broadly similar voting rights being entitled to the economic and non-economic benefits of owning the U.S. shares.

TraCRs will be available exclusively through brokers who are qualified Chi-X registered market participants on the Chi-X investment products marketplace.

Similar to the startup and rollout of Chi-X's Australian equities marketplace in 2011, TraCRS will commence with a handful of the top US names on the launch week, and then progressively expand over the following months to encompass most of the top 100 stocks and other popular and well-known names.

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Chi-X will promote TraCRs over the coming months through client engagement, digital content, education and a new retail focused website launching early next year. An information website will be available from January; further details will be circulated to Chi-X participants closer to launch.

Last month ASIC gave notice of its intention to modify Chi-X's market integrity rules to include oversight of TraCRs, giving confirmation that the new products will be regulated by ASIC. ASIC is also progressing the necessary variation of Chi-X's market licence and amending Chi-X's operating rules before trading of TraCRs can commence.

The TraCRs Opportunity

Chi-X is confident that TraCRs and the Chi-X investment products marketplace will be a boom for brokers and the local market.

Many brokers already offer their clients access to direct share ownership in overseas markets. Chi-X believes that the TraCRs product may complement existing broker services by simplifying, improving and broadening the services and products brokers can offer their clients. Certainly the ease and immediacy of trading and administration is a positive.

There are also other benefits – for instance, Australian based ownership may remove the imposition of U.S. death duties. And being able to trade during the Australian day and having consolidated reporting alongside domestic investments will make trading and investing in TraCRs easy and valuable to clients. Of course in other situations particularly with existing structured portfolios and portfolios that utilise offshore structures, direct share ownership will remain preferable.

Many commentators are of the view that the broad case for offshore diversification remains strong with the local bourse still dominated by financials and resources giants, and Australia's other main asset class, direct property, looking fully valued. Commentators note that with many people's savings and wealth concentrated into Australian equities and local real estate, there is a strong need for diversity, broader access to the global digital economy, global growth stories and new investment themes and classes.

The initial TraCRs quoted on Chi-X are likely to focus on digital and social media leaders and new technology innovators, and also encompass other technology and fintech leaders. Another aim for Chi-X with TraCRs is to bring Australian success stories home to investors.

Chi-X's investment product platform, which will exclusively quote and trade TraCRS, was launched in late 2015 and has seen increasing acceptance and use in recent months. Late October saw the quotation of 200 new warrants by Citi taking the total number of Chi-X quoted warrants to over 600. Trading in Exchange Traded Funds (ETFs) tripled in the September quarter with Chi-X now regularly exceeding 25% market share in trading in ASX-listed ETFs, with more announcements expected in the coming months.

Chi-X will release more details on TraCRs, including a highly competitive pricing structure for trading fees, the startup trading names, and details on market structure. ■

SAA members are encouraged to email au.investment.products@chi-x.com or call Bryan Richmond or Ross Pullen at Chi-X on 02 8078 1700 for more information.

‘Beating the market’ debate and investor irrationality

A glance from behavioural finance literature

By Dr Walid Bakry*

In recent years there has been considerable debate among both professionals and academics as to whether active fund managers can outperform passive managers and ultimately beat the market.

ACTIVE MANAGMENT is one in which the portfolio components or their proportions are dynamic and change over time. By contrast, passive management, such as buy-and hold or indexing, is one in which there is no substantial change in the portfolio composition once it is created.

In its 2015 review of Australian equities, research house and ratings company Lonsec reported that the 137 actively managed funds rated by it have outperformed indexed funds on an after fees basis over multiple time frames (2, 3 and 7 years).

Bennett et al (2016) conducted an analysis of the skills of Australian active equity fund managers using monthly portfolio holdings over the period 1994-2009 and uncovered solid evidence that skill exists amongst active Australian managers. Furthermore, growth-oriented fund managers possess superior trading skills relative to managers in other style groups.

On the other hand, the costs of active managed funds are substantially higher than those of tracker funds. French (2008) found that, over the period 1980 to 2006, investors spent on average more than 0.67% of the total value of the American equity market each year looking for mispriced assets to achieve superior returns (see Fig 1 & 2).

These and many other similar findings lead us to ask the following questions:

i) Does active portfolio management really work?
ii) Is there an opportunity to outperform the market on average using active trading?

The answers to these questions depend on fund managers’ belief regarding the efficiency of the financial market.

Market efficiency can be classified into two types: Operational efficiency which measures how well things function regarding the speed of

> "If the EMH is correct, it is a fundamental error to ascribe known irrationalities of human behaviour to share market behaviour. It is more logical to ask how our perceptions of share market behaviour may be distorted as a result of what we know of human behaviour."
>
> *(Bowman and Buchanan, 1995)*

execution and accuracy, and informational efficiency which measures the speed and accuracy by which market price adjusts to new information.

The latter type of efficiency has received considerable attention in academic research. Eugene Fama, Nobel laureate in Economics, is a leading advocate of the Efficient Market Hypothesis (EMH) which claims that in an informationally efficient market, it is impossible to beat the market since information is fully and accurately incorporated in the share price. That implies that using available information to make abnormal or superior returns is unlikely to happen.

Market efficiency is one of the most contested and extensively researched concepts in modern portfolio theory, particularly after the 2007-2009 Global Financial Crises (GFC) which made many academics and market participants question the validity of the market efficiency model.

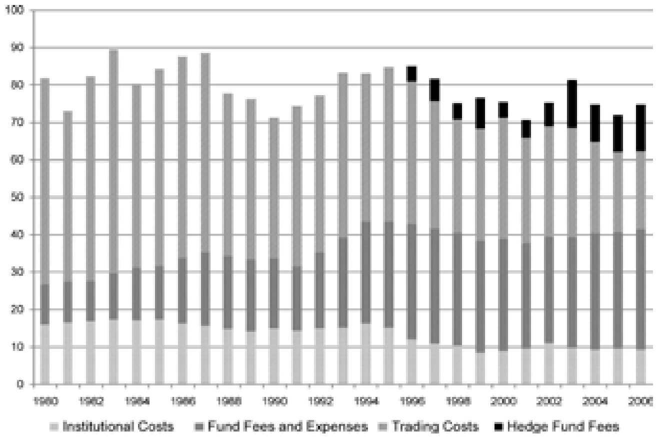
Bowman and Buchanan (1995) argued that there are two forces that operate as impediments to the acceptance of efficient markets; market structure and behavioural forces of individuals. The latter are of much concern to this article. The notion of market efficiency assumes that investors behave in a rational manner. That is, investors will not purchase a dominated security (a security with the same risk but a lower return) and will prefer more to less (less to more) of a 'gain' ('loss') in any investment decision. Behavioural finance attempts to explain how emotions influence investors' decision making and therefore provide evidence against the EMH rationality assumption. The following are some of the famous theories discussed in the behavioural finance literature.

Prospect Theory

Tversky and Kahneman (1992) used a survey-based methodology to model individual choices and found investors to be twice as concerned about losses as they were about gains. Odean (1998) studied 10,000 trading accounts at a large discount broker and found that investors incurred substantial losses because they held poor investments too long and sold good ones too soon. This suggests that investors tend to behave as loss-averse individuals.

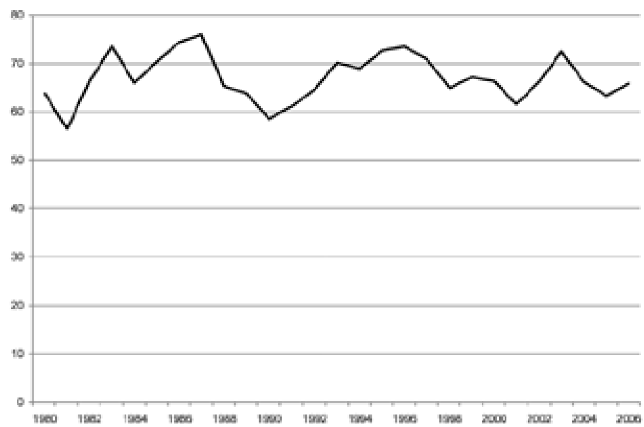
Prospect theory provides an explanation to this observed behavior

FIG 1: Fees, expenses, and trading costs relative to aggregate U.S. market cap, in basis points, 1980-2006.



Source: French (2008)

FIG 2: Cost of active investors searching for superior returns in basis points, 1980-2006..



Source: French (2008)

> "We are prone to attribute success to our own dispositions and failure to external forces."
>
> *(Hastorf, Schneider and Polifka, 1970)*

stating that loss-averse investors tend to act as risk takers when they are faced with losses, and risk averse when they are faced with gains. This means that rather than cutting their losses by immediately selling losing investments, they would prefer to take the risk of holding on to these assets if they believe that there is a chance of recovery in the future. However, they will act as risk averse investors when they are faced with profitable investments where they would sell the assets quickly to realise a certain gain rather than take the risk of holding these assets for longer (see Fig 3).

Illusion of Knowledge or Overconfidence

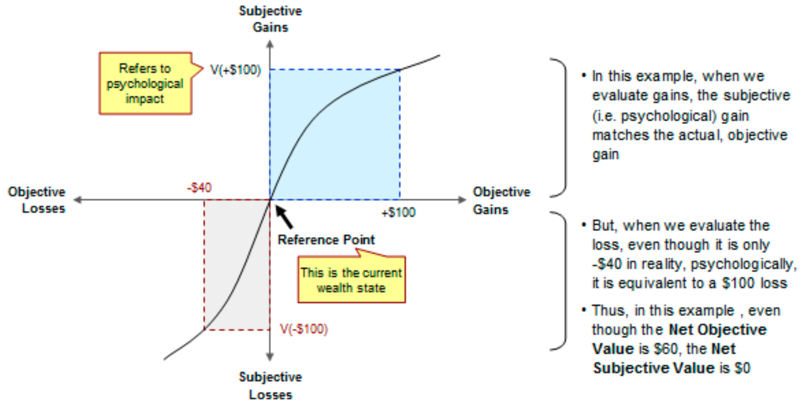
Pride comes before the fall

People in general tend to believe that they know more than what they actually do. In other words, they are overconfident. There is strong evidence that investors do experience an overconfident behaviour which tends to generate share return momentum especially for those shares where their valuation requires investors to interpret ambiguous information. In these situations, they tend to act on their hunches or gut feeling (Daniel and Titman, 1999).

Odean (1998, 1999) found that overconfident investors tend to trade more compared to rational investors and they suffer reduced returns as a result. Also, overconfident investors may trade even when their expected gains through trading are not enough to offset trading costs. In another study, it was found that those who have been trading for a short period of time tend to experience high levels of overconfidence, while more mature and experienced traders tend to progressively develop a better assessment of their ability (Gervais and Odean, 2001).

In terms of gender, male investors are found to be more overconfident and tend to trade more excessively than female investors. Using account data for over 35,000 households from a large discount brokerage and analysing equity investments of men and women over the period 1991 to 1997, Barber and Odean (2001) found that men trade 45 per cent more than women which tend to reduce men's annual return by 2.65 per cent as opposed to 1.72 per cent for women.

FIG 3: Tversky and Kahneman's Prospect Theory – Value Function



Source: flevy.com/blog

Illusion of Control

In 1975, Dr Ellen Langer, a professor of psychology at Harvard University, gave evidence of a phenomenon she called the illusion of control. People tend to believe that with a particular skill they will have control over events or outcomes when in reality they cannot. For instance, people believe they have more control over a lottery outcome if they choose their numbers rather than having them randomly selected by a machine. Gamblers tend to throw the dice harder to get a higher number and softer to get a lower one. Others also believe that being in the driver's seat is less likely to involve them in a car accident than being in a passenger seat.

A study found that traders who are found to have a higher level of illusion of control had significantly worse performance in financial analysis, risk management and trading profits. It seemed that these types of traders would rather exercise control over their environment and be proven right than to maximise profits (Zimmermann, n.d).

Attribution Theory

This theory looks at how individuals understand and explain their successes and failures. The theory states that individuals have a tendency to attribute their successes to skill and to attribute their failures to chance, external forces, or system failures rather than to a lack of skills or ability. Gervais and Odean (2001) found that when a trader is successful, he tends to take much of the credit for his success. Moreover, this success drives the trader to become overconfident and trade actively.

The various theories discussed earlier along with a number of other behavioural theories (e.g. the Regret Theory, Price Anchoring, Over and Under Reaction Bias, Lunar Cycle and Sunspots Effect … etc.) imply that there are some forms of investors' irrational behaviour, which are contrary to the EMH assumption of rationality. Although studies on market efficiency are inconclusive, nevertheless the studies presented here imply that investors' irrationality might present an opportunity for active traders to exploit these irrationalities by searching for mispriced securities and making superior returns and ultimately beat the market.

Practitioners often claim that academics misguidedly believe in market efficiency where the truth may be that practitioners are the ones who misguidedly believe in the inefficiency of the market. Advocates of market efficiency believe that the existence of those investors who believe in investors' irrationality, and hence market inefficiency, do themselves keep the market efficient. Seeking and trading on mispriced assets (or perceived inefficiencies) does in fact correct the market prices and eliminate these inefficiencies. If true, it is somewhat ironic that active traders competing to exploit market inefficiency through their own actions ensure the elimination of those inefficiencies and maintain efficient market prices.

In summary, evidence seems to suggest that active trading is superior to passive trading due to the possession of superior skills that can exploit market inefficiencies. However, some might argue against such claims. In general, there is a vested interest in the market to maintain the view of market inefficiency. After all, if everyone suddenly believed that financial markets all over the world are efficient then fund managers will be content to follow a passive (buy and hold or indexing) strategy. This means that the billions of dollars fund managers generate each year from trading and selling financial products will vanish and be a thing of the past. ■

* **DR WALID BAKRY** is a lecturer in Finance at Western Sydney University

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Get switching right

By Peter Grace

Ever since the Financial Services Reform Act (2001) (now the Corporations Act), legislation has required advisers to take particular care when recommending a switch of product. The same requirements exist for all financial products including life insurance and investment products but ASIC has come down particularly hard on recommendations to switch superannuation funds.

ADVISERS MUST make a clear comparison of the benefits the member will gain from the 'new' product and those that will be lost from the 'old' product. The best interest duty requires that the member will be in a better position if they accept the advice.

The comparison must be set out in a Statement of Advice and demonstrate there is a reasonable basis for the advice. The SOA must disclose the costs of the switch, any loss of benefits and other significant consequences of making the switch.

For example consider switching from an APRA regulated fund to a SMSF. The advantages of the switch could be:

- greater control over investments and management
- access to investment assets not currently available to the member
- potentially lower fees
- ability to tailor the fund to better meet the needs of the members.

On the other hand, the member could:

- lose the expertise of fund trustees in investments, administration and compliance (and will need to personally take on this responsibility)
- incur exit fees, capital gains tax and be 'out of the market' for a period
- lose life insurance cover
- lose access to the SCT and the Superannuation Compensation Scheme.

ASIC surveys have shown that advisers generally do a poor job of researching the 'from' fund. Often the benefits of the new fund are described in broad terms rather than showing how the supposed benefits can benefit the member. For example will a member be better able to achieve their objectives with the 'greater control' and the ability to 'tailor' the fund to their needs? ■

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ACCREDITATION & TRAINING November & December

Responsible Executive (RE) Series Workshops

Workshop	Date
RE REFRESHER – 4 CPD (COMPLIANCE) This workshop provides a refresher on the requirements applicable to REs and reviews some of the main topics in The ASIC Market Integrity Rules (ASX Markets) 2010 and/or The ASX Clear Operating Rules (Clearing & Settlement) Responsible Executive Examination. Intended as a refresher course for existing REs who have already passed the Exam(s), this workshop could also be of interest to potential REs. Topics include RE Management & Supervision Requirements (& ASIC RM comparisons); Capital Adequacy, Records, Trust; Dealing & Client relations rules; Disciplinary Processes; Corporations Act requirements.	SYD: Wed 30 Nov | 9:00am – 1:00pm
RE EXAM PREPARATION COURSE – 10 CPD (COMPLIANCE) This 2 x 3-hour intensive workshop (conducted over 2 days) covers the ASIC/ASX Markets & ASX Clear (Clearing & Settlement) RE exam syllabus in detail, ensuring that candidates are well prepared for the exam(s) and know what to expect on the day, with sample questions and a practice exam.	MELB: Mon 21 & Tues 22 Nov | 9:30am – 12:30pm
RE EXAM PREPARATION 'SHORT COURSE' – 4 CPD (COMPLIANCE) This 4-hour intensive workshop is a condensed version of the Stockbrokers Association 2-day RE Exam Preparation Workshop. It covers The ASIC Market Integrity Rules (ASX Markets) 2010 and/or The ASX Clear Operating Rules (Clearing & Settlement) Responsible Executive exam syllabuses in detail, with 7 subject areas and 2 assessments during class time.	SYD: Thurs 1 Dec | 9:00am – 1:00pm

Professional Development Workshops

Workshop	Date
MARKET MANIPULATION AND OTHER PROHIBITED CONDUCT – 4 CPD (COMPLIANCE) This workshop covers an in-depth examination of what constitutes market manipulation and other prohibited market conduct. Involving a mix of presentation and scenario-based discussion, it is designed to suit market professionals, both front and back office, including: Sales staff/client representatives; Proprietary Traders; DTRs; Investment banking; Settlement staff; and Compliance & Legal.	SYD: Tues 8 Nov | 9:00am – 12:00pm MELB: Wed 30 Nov | 1:30pm – 4:30pm
INSIDER TRADING – 4 CPD (COMPLIANCE) This workshop provides a thorough analysis of Insider Trading. Topics include: elements of insider trading; statutory defences; insider trading and continuous disclosure; front running; dealing with rumours; management of confidential information; how to protect yourself, including Chinese walls, internal processes; and consequences of insider trading breaches. The Workshop is designed for sales staff/client representatives; proprietary traders; research analysts; investment banking; compliance and legal; and regulatory staff.	SYD: Tues 29 Nov | 9:00am – 12:00pm
A DAY IN THE LIFE OF A TRADE – 2 CPD (COMPLIANCE) This 2.5 hour short 'course in operations' focuses on the evolution of share and derivative trades from order placement through to execution to settlement (and later exercise/expiry where relevant) and reporting requirements. Designed for new or unfamiliar starters in the Industry or Markets, this workshop provides a comprehensive overview of the market and operational process. It provides an excellent foundation for retail desk assistants and would suit as a refresher for experienced staff as well as those staff in auxiliary and rotating roles: legal, IT, HR and other supporting roles associated with stockbroking. There is no assumed knowledge for participants of this workshop.	MELB: Wed 9 Nov | 2:00pm – 4:30pm GBST
REVIEW & REMEDIATION – 1.5 CPD (COMPLIANCE) This 1.5 hour workshop will cover the key components of review and remediation. The aim of review and remediation is to place the affected client in the position they would have been in had misconduct not occurred. This workshop is well regarded by ASIC and also ties in with the new Regulatory Guide the regulator has recently published. This is an important area - to be ready and prepared to address complaints and issues that can arise from potential misconduct or deficient advice. The workshop will be of interest to all AFS licensees, no matter the size of the licensee. It will have value not just to those who have a current need to put a remediation/review program in place, it will also cover how the licensee assesses whether a program is required.	SYD: Thurs 17 Nov | 12:30pm – 2:00pm

Introductory Series Workshops		
	UNDERSTANDING DERIVATIVES: OPTIONS AND WARRANTS – 4 CPD Derivatives are an established and essential component of global financial markets. Focusing on options and warrants, this workshop discusses how and why derivatives are used for leverage and/or manage risk. Key concepts are explained through worked examples, under the guidance of an experienced practitioner. This half day workshop is also ideal preparation for **Accredited Derivatives Adviser Level 1 - ADA1 candidates**.	MELB: Wed 7 Dec | 9:00am – 1:30pm

For further information visit **www.stockbrokers.org.au**

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DURATION

Held over a lunch time session, the 2016 Leaders Forum in Sydney will commence at 12.30pm sharp (registration from 12.00pm) and concludes at 2.00pm.

FORUM TOPICS

- Insider Trading
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- ETF global trends and the future state of ETF thinking - the next generation of ETFs
- Latest update of Professional Standards Legislation

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DATE

Wednesday 16 November 2016

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PRESENTERS PANEL

Andrew Carter, Ashurst
Nathan Zahm CFA, Vanguard Investments
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