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The Client File

By James Dickson, Managing Director, Oceanic Consulting Group

Something that should be relatively unambiguous is often the source of plenty of debate when licensees are looking at historical matters and responding to requests for "Client Files". This topic can come about when considering (for example):

- Responding to a complaint, particularly where a third party (e.g. the client's lawyer) may be involved and is requesting a file
- Preparing for the resolution of a systemic failure or a remediation program
- A request for a file from a regulator
- Responding to an AFCA matter
- A request from another licensee for a client's advice if they have transferred to a new adviser.

Unless you are a risk, compliance or remediation professional (and even if you are), you could be forgiven for feeling a little confused when faced with the compounding definitional and guidance changes from a decade of regulation, largely grounded in changes initially passed in the Rudd-era administration, which has seen (at least) FOFA; RG175; RG256; RG 271; RG277; changes to the Industry Ombudsman and AFCA; findings from the Royal Commission; and recommendations and commentary from the Levy review ... all of which have impacted, directly or indirectly, intentionally or unintentionally, what expectations parties have about "The Client File".

As a licensee, you will have policies, procedures, systems and tools to make sure you comply with the obligations to provide advice, at the time of that advice. These are relatively entrenched and, regardless of your opinions on the volume, structure or effectiveness of these documents, should be clear on what needs to be provided and when. The real questions start to emerge when you look back at

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All too often, particularly in the retail advice space, we see that advisers had the right intentions when providing advice, especially tailored and complex advice, but have failed to document key discussions, logic or considerations for that advice.

a matter (particularly when advisers or advice support staff have changed) ... and need to be able to stand behind advice provided historically.

Oceanic Consulting Group has worked across many licensees, to support the review of hundreds of thousands of pieces of advice, covering multiple regulatory regimes and time horizons. We all know that yes, there were a few bad apples that needed to be dealt with; however, the observation of anyone who has worked on most major remediation programs is that the overwhelming majority of issues seen by remediators or those handling client complaints or litigation comes down to poor documentation, either at the time of advice or in the subsequent retention of documentation.

When we get down to brass tacks, any third-party assessment of your advice is going to be based on facts and evidence. This will be true, regardless of whether the client is retail or wholesale. This may sound obvious, but in practice, it means there can be no ambiguity in the documents that were provided to the client, if you want to rely on them at a future date. They need to stand on their own and not rely on further elaboration to understand why advice was provided as it was.

All too often, particularly in the retail advice space, we see that advisers had the right intentions when providing advice, especially tailored and complex advice, but have failed to document key discussions, logic or considerations for that advice. This is particularly true where there has been a variation of the strategy or risk profile, which ultimately ends up driving compensation payments to clients.

So what needs to be on the (retail) Client File when I go back into my records?

Generally, a licensee will be requested to provide three to four documents that form a Client File:

- a contemporaneous client fact find and risk profile
- the advice documentation (Statement of Advice or Record of Advice)
- relevant file notes to provide context and workings
- if relevant (and/or separate), an Ongoing Service Agreement (or similar document).

A contemporaneous client fact find and risk profile:

- It is important that advice can be traced back to a documentation that clearly outlines to the customer's risk profile, goals, objectives and relevant personal circumstances (RPCs) that need to be considered.
- It needs to be up to date and close enough to the advice to be relevant.
- Goals and objectives should be the client's, preferably in the client's own words and licensees should check on overly specific or product-based goals.
- In the absence of a contemporaneous set of documents in this respect, which ever third party is reviewing the file for whatever reason, will need to make assumptions as to what would have been in the document. These assumptions will need to be client-centric and often relatively general, which will ultimately expose licensees to risk for specific and complex advice.

The signed advice document (SOA/ROA).

- *Your advice documentation will of course need to comply with all the relevant compliance requirements at the point of publication, including the relevant provisions for Best Interest Duty.*
- When relying on advice documentation as a reference point, particularly for matters where the advice is being challenged, the documents should seek to stand on their own and not have to rely on internal file notes when read cold by a third party.
- Importantly, advice documentation should clearly highlight:
  - The results from the client fact find work and their risk profile (or in the case of an ROA, be clear which relevant SOA this is documented in).
  - Any scoping of the advice, ensuring you keep records about what advice the client was initially seeking (explicitly and implicitly), and how you decided which advice topics would be included or excluded from the scope of advice.
  - What RPCs have been considered in providing the advice, particularly highlighting those that necessitate scoping, a deviation from a standard strategic asset allocation strategy, or house view on a stock for the client.
  - The advice, clearly articulating why specific advice is right for the client, links clearly to the RPCs and the client goals and objectives and is able to

be easily understood, without ambiguous language.

- For example: *"You have instructed us that you do not want to sell your holding in BHP due to xyz. We have considered this when constructing your portfolio; however, due to the size of the holding, this means your portfolio is and remains overweight to growth assets and in particular Australian equities."*
- File notes can be used to support these positions with internal notes and workings; however, as a rule of thumb you should ensure the advice documentation can stand on its own and does not need to be read by a third party in concert with those file notes.

— Where there are amendments to the advice, either prior to, or at the time of implementation, clear documentation should be kept, ensuring you can evidence the agreement of the changes with the client and a clear link back to the RPCs.

— As a rule of thumb, a signed document is going to hold more weight than a draft under scrutiny.

File Notes

- File notes are important for providing context when reviewing files historically and form an important part of your record keeping as a licensee.
  — File notes should be detailed and comprehensive and should support the licensee with context and give workings for advice provided to the client.
- Licensees may be requested or choose to provide file notes as part of the Client File, to support third parties to understand why the advice was provided.
- It is important to contemplate, however, that file notes may or may not be considered, partially or fully, depending on the precise nature of the matter by another party in reviewing a matter. It is therefore vital for licensees to consider, that unless advice documentation is comprehensive, a file note may not end up being as useful as you first think.

Ultimately, depending on the exact nature of a matter, other documentation may also be useful, or even requested, to ultimately form part of a Client File (e.g. emails with the client), and may give context to a specific matter. However, when it comes to the crunch, a good Client File is going to rise or fall on:

- a good quality, up-to-date fact find with clearly identified goals, objectives and relevant personal circumstances.
- an easy-to-understand, signed advice document, that clearly links back to client goals and clearly documents where RPCs have been considered and have scoped or directed advice.
- clear file notes, to help give context to the matter and answer any questions.

We wouldn't be a good risk advisory firm if we didn't call out that, the general nature of this article does mean you should seek your own compliance or legal advice in relation to a specific matter at hand, and not rely on this article as the sole source of information. In a short article, we cannot cover eventuality. We do however hope it is helpful in providing some context and a basis for consideration.

CPD EVENTS

Stay on top of your CPD with these SIAA-accredited CPD events. Webinars are FREE for Practitioner and Affiliate members and employees of Principal Members.

Have you considered the ROI of pursuing an MBA? webinar

Tuesday 5 September
4.00pm to 4.30pm AET

Discover exclusive MBA scholarships available to SIAA members, providing significant financial benefits. This concise 30-minute webinar delves into the ROI of pursuing your MBA and helps determine if it's a wise financial decision for both members and your clients. Scholarships valued at over $17,000 are available.

Cost: FREE

MAT JACOBSON
President & Founder,
Ducere Education

Embracing megatrends and advisers'essential tools webinar

Wednesday 13 September
1.00pm to 2.00pm AET

Moomoo's Jessica Amir and CEO Toby Wong will discuss investment opportunities amid the current market chaos and delve into issues affecting investments: the impact of AI; automation and digitisation of industries; the growing importance of green investments and the effect of changing customer preferences.

Professional standards CPD:
1.0 Technical competence

ASIC RG146:
1.0 Generic Knowledge

Cost:
Member FREE | Non-member $75

JESSICA AMIR
Market Strategist,
moomoo

TOBY WONG
CEO & CIO,
moomoo

Estate planning webinar

Wednesday 27 September
1.00pm to 2.00pm AET

Whilst it is tempting to simply refer a client to a lawyer for the preparation of a will, the structuring for succession is more involved. Kym Bailey will identify the components of succession planning and discuss the various transfer mechanisms along with the associated tax implications.

Professional standards CPD:
0.5 Tax (financial) advice
0.5 Technical competence

ASIC RG146:
1.0 Generic Knowledge

Cost:
Member FREE | Non-member $75

KYM BAILEY
Technical Services Manager,
JBWere

Introduction to stockbroking workshop

Tuesday 10 October
11.00am to 1.15pm AET

This workshop provides an overview of the critical role that stockbrokers play both in retail and institutional markets. A high-level view of stockbroking and financial advisory operations including order taking, transaction and settlement will provide insight into the different systems involved and allow for a discussion of the different business models in stockbroking today.

Professional Standards CPD:
1.0 Regulatory compliance and consumer protection
0.5 Technical competence
0.5 Professionalism and ethics

ASIC RG146:
2.0 Generic Knowledge

Cost:
Practitioner member $100
Organisation member $150
Student Affiliate member $50
Non-member $200

RUSSELL MCKIMM

*For workshops register four or more before one week prior and receive a **$50pp discount** (organisation and non-members).*

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CPD EVENTS *cont...*

Stay on top of your CPD with these SIAA-accredited CPD events. Webinars are FREE for Practitioner and Affiliate members and employees of Principal Members.

Fraud horizon and detection webinar

Wednesday 11 October
1.00pm to 2.00pm AET

Bryce Watson, a former senior detective, will focus on fraud awareness and trends. Bryce will outline various types of scams, accompanied by statistics on scam data. He will delve into recognising red flags and provide practical prevention tips to safeguard against fraudulent activities. In this ever-increasing environment of cyber-crime, this topic is most timely.

Professional standards CPD:
0.5 Client care and practice
0.5 Regulatory compliance and consumer protection

ASIC RG146:
1.0 Generic Knowledge

Cost:
Member FREE |
Non-member $75

BRYCE WATSON
Regional Head of Financial Crime, Computershare

For workshops register four or more before one week prior and receive a $50pp discount (organisation and non-members).

Market manipulation and other prohibited conduct workshop

Tuesday 17 October
10.00am to 12.15pm AET

This workshop focuses on the prohibition on creating or maintaining an artificial price for trading in various financial products, including shares and futures, and will benefit all who wish to gain an understanding of markets and the consequences of breaching obligations. Designed to suit the needs of financial market professionals from the front and back office, this is a great opportunity to brush up on your obligations, learn how to protect yourself and understand the difference between manipulation and ordinary market forces.

Professional Standards CPD:
1.0 Regulatory compliance and consumer protection
1.0 Professionalism & ethics

ASIC RG146:
2.0 Generic Knowledge

Cost:
Practitioner member $100
Organisation member $150
Student Affiliate member $50
Non-member $200

PROFESSOR MICHAEL ADAMS

A day in the life of a trade workshop

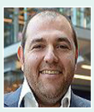
Wednesday 18 October
11.00am to 1.15pm AET

An excellent refresher for experienced staff and perfect for those in auxiliary roles (eg legal, IT, HR and other supporting roles associated with stockbroking), this workshop delves deep into the day of a life of a trade. You will walk away with a solid understanding of client onboarding processes, the process of share and derivative trades from order placement through to execution to settlement, sponsorship/HINS, CHESS messaging, registries and more.

Professional Standards CPD:
1.0 Regulatory compliance and consumer protection
1.0 Technical competence

ASIC Knowledge Area:
2.0 Generic knowledge

Cost:
Practitioner member $100
Organisation member $150
Student Affiliate member $50
Non-member $200



ROB TALEVSKI
CEO,
Webull Securities

Ethical scenarios for PY candidates webinar

MEMBER ONLY

Wednesday 25 October
1.00pm to 2.00pm AET

Designed for PY candidates, their supervisors, compliance and HR teams, this interactive webinar will provide PY candidates the opportunity to discuss a case study with their peers. To be moderated by three experts this webinar will also count as meeting one of the ethical dilemmas that needs to be satisfactorily identified and resolved in each quarter.

Professional Standards CPD:
1.0 Professionalsim and ethics

ASIC Knowledge Area:
1.0 Generic knowledge

Cost:
Member only FREE

SALLY BRIDGLAND
Client Experience & Professional Development Manager, JBWere

HAMISH DEE
Director – Market Operations, Morgans Financial Ltd

MELISSA NOLAN
Senior Compliance Manager, Ord Minnett Limited

Bridging the intergenerational advice divide webinar

Wednesday 15 November
1.00pm to 2.00pm AET

Recent HSBC research shows that the vast majority (96%) of advisers feel taking an intergenerational approach is important. However, only just over a third (35%) have met the client's children and only 30% have discussed the financial plans with them. moneyGPS is an Australian FinTech that has created digitally enabled, fully client-led personal advice capability.

Professional Standards CPD:
1.0 Technical competence

ASIC Knowledge Area:
1.0 Generic knowledge

Cost:
Member FREE |
Non-member $75

GEORGE HARAMIS
CEO & Co-Founder, accountantsGPS & moneyGPS

AARON WILLIAMSON
Head of Digital, moneyGPA

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A COMPREHENSIVE GUIDE to identity management in the Australian financial industry

By Mark Belfanti, Head of Cybersecurity, ThunderLabs

Cyber-attacks cost Australian businesses $29 billion each year, making cybercrime a significant threat to individuals and businesses, and this includes the financial sector.

Stockbrokers and investment advisers play a pivotal role in managing financial assets and sensitive customer information. To safeguard their organisations and clients from cyber threats, these professionals need to prioritise effective identity management. A walled city approach to security is no longer enough to protect an organisation. A better approach is to centre security around people and their digital identity.

In this article, we'll discuss the importance of identity management in the Australian financial industry, the risks associated with poor practices, how it aids in meeting compliance requirements with regulators, and best monitoring practices.

The significance of identity management

Most (if not all) cybersecurity breaches or incidents start with compromised identities, providing malicious attackers with a foothold in targeted organisations. That's why managing and monitoring the use and behaviour of identities within an organisation and external to it (third parties), needs to be the top priority of any cybersecurity strategy and operation.

Identity management involves controlling and securing access to critical systems, applications, and data within an organisation. Understanding the personas, roles, and permissions that users and other services need, to access these systems, applications and data is fundamental to securing these core operating assets.

In the Australian financial industry, where vast amounts of sensitive information are handled daily, effective identity management is paramount. It ensures that only authorised personnel can access the systems and resources necessary to perform their job functions, reducing the risk of unauthorised access, data breaches, and fraud.

It's crucial to note that breaches or hacks due to a weakness in identity access are a huge financial and reputational risk. Executives are now being directly held responsible if such an unfortunate event occurs.

Implementing robust identity management practices offers several key benefits:

1. **Protecting confidential information:** Proper identity management safeguards sensitive customer data, trade secrets, and proprietary information. By restricting access to authorised personnel only, the risk of data leakage or theft is significantly reduced.
2. **Mitigating insider threats:** Identity management helps ensure that employees are granted appropriate access rights based on their roles and responsibilities. By implementing segregation of duties and least privilege principles, the potential for internal fraud or misuse of information is minimised.

"

In the Australian financial industry, where vast amounts of sensitive information are handled daily, effective identity management is paramount. It ensures that only authorised personnel can access the systems and resources necessary to perform their job functions, reducing the risk of unauthorised access, data breaches, and fraud.

3. **Enhancing customer trust:** Strong identity management instils customer confidence in customers who rely on stockbrokers and investment advisers to handle their financial matters securely. By safeguarding client data and preventing unauthorised access, businesses can build and maintain trust, keeping existing customers and attracting new ones.

Meeting compliance requirements

The Australian financial industry faces stringent regulations and compliance requirements to protect customers and maintain market integrity. Effective identity management assists stockbrokers and investment advisers in meeting these obligations.

Consider these aspects to secure the identities of clients and staff:

1. **APRA (Australian Prudential Regulation Authority) CPS 234:** APRA's Prudential Standard CPS 234 on Information Security mandates specific identity management measures such as strong authentication controls, least privilege access, regular access reviews, and multi-factor authentication. Compliance with CPS 234 ensures that identity management practices are aligned with APRA's expectations.
2. **ACSC (Australian Cyber Security Centre) Essential Eight:** ACSC's Essential Eight is a set of mitigation strategies designed to prevent cyber threats. Three of the essential controls relate to identity management: application whitelisting, "restrict admin privileges" and "multi-factor authentication."
3. **ASIC specific requirements:** The Australian Securities and Investments Commission expects organisations to implement controls to protect customer information and ensure data privacy, including strong access controls, regular user access reviews.
4. **Notifiable Data Breaches (NDB) Scheme:** The NDB scheme, introduced under the Privacy Act 1988, requires organisations to notify affected individuals and the Office of the Australian Information Commissioner (OAIC) when a data breach occurs.
5. **ISO/IEC 27001:** Implementing this internationally recognised framework for information security management allows financial organisations to assess and mitigate risks identity-related risks.
6. **Privacy Act 1988:** This governs how personal information is handled by organisations. Implementing strong identity management practices is crucial for protecting customer information and complying with the Australian Privacy Principles (APPs) outlined in the Act. There's also an expected update to the privacy act to bring it more in line with the European GDPR requirements, which are much stricter than current regulation.
7. **Payment Card Industry Data Security Standard (PCI DSS):** If the financial services, stockbrokers, or

financial advisers handle payment card information, compliance with the PCI DSS is necessary. This standard includes requirements for secure identity authentication and access controls to protect cardholder data.

8. **AUSTRAC – AML (Anti-money Laundering), CTF (Counter-Terrorism Financing), KYC (Know Your Customer) regulations:** These also impact on the identities of your customers and the information you are required to keep and discard. Your obligations include reporting certain business activities and transactions to AUSTRAC, record-keeping and having an AML/CTF program.

Other best practice items to consider

Apart from compliance requirements, financial organisations should consider the following best practices:

- **Biometric Information Privacy Act (BIPA):** In some Australian states, specific regulations may apply to the collection and use of biometric data, such as fingerprints or facial recognition. Organisations using biometric authentication should comply with relevant state-level regulations.
- **Regular security training and awareness:** Ensuring that all staff members undergo regular security training and awareness programs can help prevent identity-related risks, such as social engineering attacks or phishing attempts.
- **Vendor management:** Financial organisations should apply identity management practices to third-party vendors and suppliers who handle sensitive data on their behalf. Regularly assessing vendor security controls and contractually obligating them to maintain strong identity management practices is vital.
- **Secure password management:** Enforcing password complexity and implementing secure password management tools can further strengthen identity protection.
- **Penetration testing and vulnerability assessments:** Regularly conducting penetration testing and vulnerability assessments can help identify weaknesses in identity management systems and address potential security gaps proactively.

Monitoring identities in the organisation

To maintain a strong security posture, stockbrokers and investment advisers in Australia should establish effective identity monitoring practices within their organisations.

Here are some key considerations:

1. **User activity monitoring:** Implementing user activity monitoring tools enables organisations to track and analyse user behaviour, detecting any suspicious or abnormal activities that may show potential threats or unauthorised access attempts.
2. **Access reviews and auditing:** Regular access reviews should be conducted to ensure that employees' access privileges are aligned with their current job roles. Auditing access controls and permissions help find any discrepancies or unauthorised access attempts promptly. Implementing Role-Based Access Control (RBAC) systems and procedures is the best way to cover this.
3. **Multi-factor authentication (MFA):** For financial services, it's no longer considered good enough protection to only have a username/password. Implementing MFA strengthens the authentication process by requiring additional verification steps beyond passwords. This mitigates the risk of unauthorised access even if login credentials are compromised. This can be simply implemented on a person's mobile device or with specialised security devices such as Yubi keys.
4. **Incident response and reporting:** Organisations should establish incident response procedures to handle security incidents effectively. This includes promptly reporting any data breaches or unauthorised access incidents to the relevant Australian regulatory bodies and affected customers, as per the requirements of the Office of the Australian Information Commissioner (OAIC). These procedures are best defined in playbooks and would involve everyone from the business owner or board members to the incident analyst. Practice them regularly, including who fronts the media, government and law enforcement agencies who may need to be involved.

Conclusion

In the Australian financial industry, stockbrokers and investment advisers face significant risks in managing sensitive customer data and maintaining regulatory compliance.

Effective identity management reduces the likelihood of unauthorised access, data breaches and fraud, thereby fostering customer trust and meeting compliance requirements with Australian regulators such as APRA, ACSC, and ASIC.

By implementing proactive monitoring measures, such as user activity monitoring, access reviews, privileged access management and multi-factor authentication, organisations can enhance their cybersecurity posture and respond swiftly to any incidents that may arise. Regular security training, vendor management, secure password management, and cybersecurity assessments are critical components of a comprehensive identity management strategy.

By incorporating these measures, organisations can better protect their clients' and staff identities, mitigate cyber risks, and maintain compliance with industry-specific and broader cybersecurity standards in the Australian financial sector.

In this era of increasing cyber threats, a comprehensive and proactive approach to identity management is an essential part of a robust cybersecurity strategy for the Australian financial industry.

If you would like to discuss your organisation's security, please reach out to Mark Belfanti at ThunderLabs. We are leaders in Customer Identity Management and Workplace Identity Management. We are the sidekick for visionaries who need heroic outcomes from their tech.

Options can give you options

By Te Okeroa, Head of Sales, Trading and Customer Relationships, AUSIEX

Given the increased uncertainty in global markets, it is little surprise that wholesale trading platform, AUSIEX, has noticed an increase in the use of options in the local market.

ASX traded options have been around for decades and some brokers, advisers and investors make good use of them. Others are less aware of the wide range of uses for these tools.

For example, with global equities continuing to be the largest asset allocation of many investors, more options are being made available to protect holdings.

International shares are the largest single asset allocation for AustralianSuper in its balanced portfolio, accounting for 28.5% and similarly for the Future Fund, accounting for an allocation of 22.9%. The recent tech stock revival has also seen other investors boost their allocations to US stocks.

Some of these investors and their advisers are recognising global equities can also be a volatile asset class and are seeking ways to better protect these investments.

To this end, the ASX has recently added options over international exchange traded funds (ETFs) which invest in sectors not heavily represented by local indices, such as technology.

There are now three global ETFs with options available on them:

- ishares S&P500 ETF;
- Betashares Nasdaq 100 index ETF;
- Vanguard MSCI International Shares ETF.

International growth stocks, in particular US technology stocks, are known for their price volatility. This was evident in the significant pull back in January to February 2022 and the significant downside price movements experienced by some of the technology 'household names' such as Amazon, Netflix and Tesla.

The new instruments allow investors to combine the diversification benefits of ETFs with the use of options to potentially reduce volatility. They can be used not only to potentially protect investment portfolios, but they can also amplify bets as well as generate additional income. If you expect a stock or index to rise, you can potentially amplify returns through lower cost options rather than buying the whole index.

New domestic share options now also available

The ASX has also just listed a range of options on local stocks, such as Caresales.com (ASX:CAR), Corporate Travel Management (ASX:CTD), Fisher & Paykel (ASX:FPH), JB Hi-Fi (ASX: JBH), Reece (ASX: REH), Sandfire Resources (ASX: SFR) and Soul Pattinson (ASX:SOL) on a trial basis.

There are also weekly options, which provide clients with more precise timing for their investment strategies.

The versatility of options trading provides advisers with new ways to engage clients across the spectrum of requirements and start the deeper, more strategic conversations which can add real value to their relationships.

Options for income investors

Savvy advisers and brokers are also tapping the local ASX options market for a supplementary source of income to share dividends and fixed income.

For example, writing covered call options can potentially provide income from the premiums received from writing these contracts.

This type of strategy consists of buying a stock or basket of stocks and selling a call option on those same securities. The sale of the option contract provides the writer with a premium, which helps to lower the breakeven point on the underlying investment.

As market volatility rises, the premium received upon writing a contract typically increases as well.

This adds to the benefit of helping investors diversify their portfolios, as well as potentially enhancing their total returns while reducing risks.

Advisers need to have a Level 1 accreditation for options trading. This accreditation is via the ASX in association with the Stockbrokers and Investment Advisers Association (SIAA).

As for risks, removing some of the upside potential can reduce gains if the stock rallies well above the option strike price.

Collaring risk

Most investors have got stocks in their portfolio that would be rated as a buy with significant upside potential, though there may be some external factors in the not-too-distant future that could change that positive outlook, or which may not eventuate at all.

If investors are concerned about the future performance of a stock, they can hedge their exposure by buying a security with inversely correlated returns. So, if the value of your stock goes down, all other things being equal, your hedge potentially will go up.

Investors can potentially achieve this by using futures or warrants with the objective of directly offsetting a loss on a stock.

Alternatively, investors can buy a put option to lock in a future price for the sale of the stock. Buying a put has the added benefit of being at the buyer's discretion, so if the stock remains above the agreed (strike) price, the put will expire worthless with the stock holding potentially unimpacted.

Each of these strategies, however, has its own pitfall. Futures or warrants will typically provide a like-for-like hedge entirely offsetting any upside, so while you're hedged to the downside, you're also not going to see any upside should the stock unexpectedly rally.

With a bought put, while you keep the upside, the cost of buying the put can be significant over time. This is dependent on the volatility of the stock and is potentially cost-prohibitive in practice.

As with any option position, there's always a trade-off. In this case, the trade-off comes from funding the purchase of the put by selling an out of the money call, effectively foregoing any upside beyond the strike price.

When employing options strategies over a portfolio, it's essential to understand the risk and trade-offs involved and ensure you are comfortable with them.

When employing a "cost-less" protective collar, for example, it's important you consider how much of the shares value you are looking to hedge, versus what you're willing to deliver the stock for if it performs strongly.

If you are looking to keep outlay to a minimum, the higher you set the strike for your puts, the more expensive they will be to purchase. This means your calls will need to have a lower strike to offset the more costly put hedge. The lower your call strike price the more upside you potentially forgo should the stock outperform.

Options are often misunderstood, though are simply a tool that, when understood, can allow you to better trade in line with your view as an investor.

AUSIEX can help those wanting to find out more about options trading with AUSIEX and the support available, please get in contact.

Artificial Intelligence has become a global sensation, capturing the imagination of people worldwide

By Clay Carter, Head of Research, HALO Technologies

Artificial Intelligence (AI) has taken the world by storm this year with the introduction and widespread adoption of ChatGPT. This groundbreaking technology has opened the eyes of many investors, showcasing the immense potential of this rapidly expanding industry.

During the recent spring GTC developer conference, Jensen Huang, the co-founder and CEO of NVIDIA (NASDAQ: NVDA), emphasized the significance of ChatGPT and marked it as the "iPhone Moment" for Artificial Intelligence.

The excitement surrounding AI is palpable, and the future projections are impossible to overlook. With the current global AI market valued at over USD $137 billion, experts estimate that it will skyrocket to an astonishing USD $1.81 trillion by 2030[1].

Furthermore, by 2025, it is predicted that a staggering 97 million individuals will be working in the AI industry[2]. In a recent MITSloan survey, an overwhelming 87% of respondents believed that AI would provide them with a competitive advantage over their rivals[3].

Recognising the incredible potential of AI as an investment opportunity, HALO Technologies launched its Artificial Intelligence Portfolio as early as April 2018. Since its inception, the portfolio has consistently delivered an impressive annual return of 21.02%[4].

The future of AI is promising, and at HALO Technologies, we are at the forefront of this revolution, ready to seize the countless opportunities it brings.

Outperforming the market, our portfolio has achieved an impressive return of 45.41% over the last 12 months (Period: 27 August 2022 to 27 August 2023). Among the standout performers are some major tech names that have shown remarkable growth:

NVIDIA	+180.41%
Palantir	+88.29
Palo Alto	+31.24%

What is fuelling this exceptional performance?

In the past few years, the artificial intelligence industry has experienced phenomenal growth, showcasing the remarkable potential of this groundbreaking technology. A combination of key factors has been instrumental in driving this impressive progress.

The advancements in computing power, the ever-increasing sophistication of learning algorithms, and of course, the game-changing "cloud" technology have revolutionised the field. By providing data scientists with access to vast aggregated datasets and affordable computing power, computers are now capable of executing tasks that were once exclusively reserved for the human mind.

These self-learning systems have had a profound impact across various industry sectors, ranging from manufacturing to financial services, reshaping business models and rendering outdated models obsolete. Virtually every major technology player incorporates machine learning-driven intelligence in one form or another.

In recent times, conversational AI, exemplified by OpenAI's GPT models, has opened the doors of AI to mainstream consumers. This has ignited a fresh wave of excitement within the industry, further propelling its growth and potential.

Is AI still a smart investment choice?

The future of investing in AI looks incredibly promising. Groundbreaking models like GPT have already revolutionised customer service and are capable of handling complex customer interactions. But it doesn't stop there – AI has made its way into various sectors, including healthcare, finance, and transportation, showcasing its incredible versatility.

As we look ahead to the coming years, it's clear that AI will become an integral part of countless technology applications, making it one of the most disruptive and rapidly growing sectors in the tech industry. Just like any other technology, AI models will continue to evolve, becoming more sophisticated and seamlessly integrated into our daily lives. Furthermore, the unstoppable momentum of "digital transformation" will continue to drive the demand for AI across all industries. As AI becomes increasingly vital to our societies and economies, it remains an enticing prospect for forward-thinking investors.

For more information on HALO's thematic share portfolio's or research reports and insights, email the team at professional@halo-technologies.com

1 Grand View Research: Artificial Intelligence Market Size, Share & Trends Analysis Report By Solution, By Technology (Deep Learning, Machine Learning), By End-use, By Region, And Segment Forecasts, 2023 – 2030

2 MITSloan Management Review: Expanding AI's Impact With Organizational Learning

3 World Economic Forum: The Future of Jobs Report 2020

4 Performance is per annum since inception 10 April 2018

SUPER SNIPPETS

Paper trails and tribulations

By Jason Spits, Senior Journalist, *selfmanagedsuper*

Paper trails are a familiar requirement for all advice practitioners and the days of filing cabinets filled with documents have given way to computer hard drives and software organising and cataloguing information, connecting it to back to clients and their ongoing transactions.

Well-organised advice providers, working under the Corporations Law, should be well aware of their obligations to maintain proper records, but the same cannot be said of clients, particularly those who make their own investments and inform their adviser of their actions after the act.

Once the paper trail moves solely into the hands of clients, issues can arise and the Australian Taxation Office (ATO) is ever alert to what some of these issues might be and has for some time been examining the relationships between parties that transact among themselves or with related-party entities and third parties.

For the self-managed superannuation fund (SMSF) sector, this examination is not new and harks back to 2018 and the development of related-party limited recourse borrowing arrangements, which allowed SMSFs to borrow money from a related party, such as a trustee's business, family members or trust, to fund the purchase of property or assets, such as shares.

The ATO being aware of the potential for sweetheart deals put in place safe harbour provisions that required these loans to be enacted on commercial terms as if offered by a bank or third-party lender, and this system has worked well.

However, SMSFs have also found themselves tackling the issue of non-arm's-length income (NALI), which can be generated when an SMSF trustee uses another party, related or not, to give a discount on services to the fund, thus generating greater income for the fund than it would have without the discount.

The SMSF sector has been concerned about NALI being applied to general expenses, such as accounting, advice and administration fees, which some trustees were able to access at a discount.

In June, the government stated it would only tax income derived from non-arm's-length arrangements at twice the difference between the market rate and the actual charged rate for services at 45 per cent, rather than all the income of the fund at 45 per cent.

This outcome was four years in the making, with the ATO stating it would now start compliance action where it identified breaches of the NALI provisions. Interestingly, since the government's decision, the regulator also did two things highlighting the need for a reliable paper trail.

The first was a warning shot across the bow of those who enter into complex arrangements and the second was having its position tested under law.

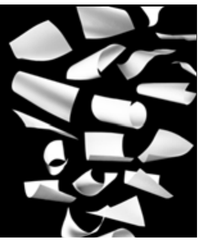
In the first, the ATO warned SMSFs that entered into special purpose vehicles that feature multi-layered arrangements to engage in property development that every transaction must be conducted at arm's length and any advantage at any step would taint the income returned to the superannuation fund and be taxed accordingly. While property arrangements were the focus, the message was meant for all complex investment arrangements.

Around the time this message was going out, the ATO was arguing before the Administrative Appeals Tribunal (AAT) that BPFN, an SMSF run by a Mr J, had engaged in a series of loans to two related-party entities to purchase and develop property with an unrelated third party.

While this was true, its argument was that since Mr J was the 'common mind' behind the fund and entities, the fund's actions were non-arm's length and the loan interest of many millions of dollars was NALI.

The AAT disagreed, and what swung its decision was Mr J kept the receipts. He had documented every relationship, every transaction and called on expert witnesses to testify that while his fund, BFPN, lent money to two entities he also controlled it was all done at arm's length and no advantage was gained or given.

> "... what it has shown is the importance of keeping records, particularly when things are complicated and may attract the attention of the ATO.



While the case is important, it will not set a precedent as the AAT is not a court, but what it has shown is the importance of keeping records, particularly when things are complicated and may attract the attention of the ATO.

This warning is as relevant to stockbrokers as it is to SMSF advisers and accountants. We know many SMSFs engage brokers for stock transactions, some simple to understand and execute, and others as part of more complex arrangements involving borrowings and other parties.

From what we have seen so far, there may be value in asking if those arrangements are being carried out in the correct manner, if further advice might be helpful and checking if a paper trail exists, while ensuring yours is also in place.

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