



MONEY DUE REWARDS:

DAWSON & PARTNERS
FINANCIAL SERVICES

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Caught in the Financial Storm

The “global financial crisis”, as it has come to be termed, has claimed many victims. This month, a Townsville based financial advice group has become one of them. The group’s advice model, reputedly based on the extensive use of borrowings to fund investments, seems to have become seriously unstuck in the 2008 bear market. As a result, the company was placed into voluntary administration on 15th January 2009.

The company’s strategy saw many previously un-gear’d portfolios being enlarged through the use of borrowings, and then switched into in-house index products for a fee of approximately 7.5% of the portfolio. The strategy also involved a certain amount of “pampering” of clients, including free coffee and food being offered, together with fancy offices and “education seminars”. Of course there is no harm in taking good care of your clients, providing they are receiving thoroughly professional advice.

The failure of one financial services company is probably not going to cause too many tears among the general public, however the real damage is to the firm’s clients, and appears to have been substantial. Plaintiff lawyers have been contacted by some 260 of the firm’s 14,000 clients, about investment losses. The legal wranglings will no doubt continue for a long time, and there will be no winners.

So who, or what is to blame for all this? The answer, I think, could be either everybody or nobody. You see, on one view, none of the main players is entirely without fault in this. As the bible says, “All have sinned, and come short of the glory of God” (Romans 3:23). The advisors charged high fees, and adopted a very risky business model in order to build their own personal wealth. The bankers freely financed the same business model in order to increase their fees and commissions. Even the customers allowed their own greed to seduce them with the same faulty story. Now of course, each group is blaming the other and the lawyers will be the only winners.

But of course, none of these people expected the global financial crisis, and if the crisis had not happened then everybody would probably still be happy. On another view, therefore, they are all helpless victims of a calamity which nobody could possibly have predicted.

From a legal perspective, the main arguments will centre over whether the advice which was given to clients was in fact tailored and professional, or whether it was negligent, false or misleading. Questions will be asked about whether the clients were fully informed about the possible risks and rewards of their strategies, and the advice fees which they were charged.

Regardless of the legal outcome, it seems likely that the regulators will see fit to place a lot more restrictions around the practice of investment borrowing in the future. If so, this will affect everybody involved – including investors, lenders and advisors.

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