



## MONEY DUE REWARDS:



**Greg Southwell**

### **Westpoint – A Matter of Trust**

For those who have been following the Westpoint saga, it just seems to go from bad to worse. As if investors losing their life savings and the talk about high commissions paid to certain financial planners wasn't bad enough! It now appears that at least one of the promoters may have put away funds in a family trust, presumably with the intention that this will be protected from the approaching legal proceedings. It certainly isn't a pretty picture.

So what does the casual onlooker make of all this? The legal proceedings to determine what actually happened could take some time, of course, and the various parties will all have differing views on the rights and wrongs of it all.

The traditional view of the English courts is "let the buyer beware". In other words, if you are buying or investing, it is up to you to properly assess the risks before you commit your money for investment. If this approach is applied strictly, it would mean blaming the investors for not properly assessing the risks they were taking. I personally think that this would be a bit harsh, especially given the extremely complicated nature of the investment markets. In addition there is a high level of reliance on the advice and information provided by the investment professionals, with investors believing that professional advice will minimise the risk exposure. If the courts were to revert to this view, then I am sure that many people would be reluctant to invest in anything other than bank accounts – and this would certainly be to their long term detriment.

Another view, which is often taken up by governments and regulators, is that if a problem arises, some additional regulation would need to be put into force in order to fix the problem. I am not sure, however that this is actually a remedy. My experience has been that even with additional rules and regulations, there are always those that will ignore them and the ethics of the industry. We already have a high level of regulation and this did not prevent Westpoint from happening.

In the end, I think it all boils down to old-fashioned ethics. Promoters and advisers who act ethically will not misrepresent a product, nor promote it unless there is a reasonably based expectation that it will bring a positive result for the investors. Similarly, a dealer group or research house acting ethically will not approve a product unless appropriate investigation has been carried out, and has shown that the investment represents reasonable value. This does not mean that investments cannot go wrong, but at least the investor is given all information possible to make an informed decision.

In terms of advisers, clients without significant savings can undeniably present a potential problem. If a person has never had surplus savings to look after, they will often lack experience in financial matters, and this represents a difficult situation for the advisor. This is because there is a very real possibility of having to take a lot of time to educate and advise them, and the client does not necessarily have the funds to pay a fee for this time. A reputable advisor may spend a little time on a "pro-bono" basis, or have a particular service offering designed for such people. The problem arises when an unscrupulous operator decides to take advantage of investors, and unfortunately it is often the small investors that are targeted. Some such operators have tried to increase their personal gain by recommending a strategy of borrowing to invest into high-commission investments. The operator makes good money out the transaction, but it is the client who suffers damage.

I am not saying that all advisers recommending Westpoint acted unscrupulously, and it remains to be seen whether the promoters, dealers, research houses and advisors involved have done the right thing or whether they haven't. Time will undoubtedly tell.

I think it all boils down to why the various parties are in the business that they are in. If they are out to make as much money as possible, and don't really care how they get there – then everybody who deals with them is a potential victim. The fact is that you need to be able to trust your advisor implicitly, and this is a situation that no amount of legislation will ever change.

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