DAWSON & PARTNERS
FINANCIAL SERVICES

MONEY
DUE REWARDS:

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Who CAN You Trust?

The investment and financial markets are certainly very complex and hard to understand, and I guess that this is why the financial planning profession has sprung up in the last few decades. If you are one of those increasing number of people who now have a financial advisor, it is very important to be able to trust that person who is advising you. After all, it is often one's own life's savings and future retirement which is at stake.

So who CAN you trust in this ever-changing world of finance and investments? For some people, the answer is "nobody", and these people will typically invest in direct properties, term deposits and maybe even some well-known shares – assets where the investor can scrape through without expert advice. In my experience, this seems to work for some people, however others don't fare so well, and clearly miss out on some excellent opportunities as a result of their refusal to take counsel.

In the financial planning industry, there has been quite a bit of controversy concerning the efforts which some advisors, practices and dealer groups have made in order to make themselves appear more trustworthy.

One such skirmish involves the use of the word "independent", which at one stage was bandied around by planners who, on any objective criteria, were not the slightest bit independent. This resulted in a move by ASIC to limit the use of the word only to advisors which met strictly defined criteria.

The ASIC definitions are certainly not the final word on the subject, however, as a recent survey by research house Roy Morgan has shown. The report found that most clients of large institutionally owned planning firms thought that their advisor was "independently" owned. Clearly, there is a fair bit of confusion amongst consumers about the issue.

Does it matter? Another recent Roy Morgan survey would seem to indicate that it may, with findings that the financial planning groups owned by three of the "big four" banks – NAB, CBA and Westpac – have all increased the proportion of funds allocated to their own "in-house" funds in 2006/07, as compared with the previous financial year. This would seem to indicate that there is some sort of reason for advisors to favour their own internal products over those outside the organisation.

Representatives of these groups are quick to respond by giving examples of other potential "conflicts of interest" which may apply, even to advisors which meet the technical definition as "independent".

In my mind, the key word is not so much "independence", but old fashioned "honesty and integrity", and these are really attributes of the advisors themselves, rather than the organisations they are licensed with. These are qualities which can't be legislated, and can't be bought or sold either. Unfortunately, they are also not taught in schools or universities, and as a result, I predict a future shortage.