

## **Investment advisers under the spotlight**

Investment advisers have been in the news recently with the Securities Commission saying it wants the power to ban rogues from the industry.

The problem, as the Commission points out, is people holding themselves out as bona fide advisers when they are anything but.

Under current securities law, the Commission can ban dubious investment schemes but it can't ban the people promoting them – even when it's the same people pushing one scam after another. The Commission isn't advocating introducing a full-blown licensing scheme where it controls who can call themselves investment advisers, it just wants to be able to throw out people who aren't fit to be in the industry.

While industry self-regulation has a role, it's not the whole answer as it is estimated around 40% of advisers don't belong to a recognised industry association.

Investor caution also has a big role to play. One reason bogus advisers get away with stealing people's money or putting it into scams is that people often don't challenge these "advisers" or the "advice" they give.

The law obliges all investment advisers to give prospective clients a written disclosure statement explaining their client money-handling procedures and whether or not they have been bankrupted or convicted for dishonesty within the last five years.

In addition, if requested, they must also disclose things such as which companies' products they sell, what their qualifications and experience are, what ties they have to any product producers, how they are paid for giving advice and selling investments, and how they choose the products they recommend.

The mechanisms are there to expose bogus advisers but, as the Commission points out, not enough investors know their rights or exercise them. Plus, some advisers ignore the law anyway.

Any adviser who can't supply you with these disclosure statements as soon as they're asked isn't worth doing business with. You wouldn't think much of a carpenter without a hammer or a butcher without scales, so why consider doing business with an adviser without a disclosure statement?

And don't take any excuses such as they've just run out or will get some printed soon. The law is there to protect you, so any adviser who doesn't comply with it can't claim to have your best interests at heart. And if they really have run out and can't print another one on the spot, what does that say about how well they run their business? If someone holding themselves out as a professional can't manage their own affairs properly, don't trust them with yours.

Any decent adviser should welcome the chance to show you how good they are and what gives them an edge over their competitors. It also gives the investor and adviser the chance to work out whether or not they are compatible and can work together over the long term.

Finally, look at what companies' products an adviser sells. If they don't sell recognised companies' investments, you should ask why not. In some cases it may be that those companies won't do business with them.

It's your money, so make sure you get the best investment advice from someone you've made sure you can trust.

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