

Institute of Financial Advisers tells investors “Good advice is money well spent”

In these difficult times for investors, the Institute of Financial Advisers (IFA) strongly recommends that investors seek good advice from a properly qualified professional. The President of IFA, Simon Hassan says:

“Good advice is money well spent. With volatile financial markets and failure of finance companies, the need for good advice is even more important than ever. But to ensure you get good value for money when you want advice on investments, there are some simple rules to follow. There are also some basic questions you should ask your adviser.”

According to Simon, one of the simplest rules is the popular saying: *Don't put all your eggs in one basket*. This means spreading your money around – using a range of different types of investment, and of investments themselves.

“Depending whether you need an income from the investment, and how much risk you want to and should take, this could mean putting some of your money into a range of cash and fixed interest investments, and some into a range of property and shares or property and share funds. It could also mean investing some in New Zealand and some overseas,” he said.

“Sensible investing also has a lot to do with how long your money is likely to stay invested. If you are investing \$10,000 you will need for a new car in six months time, a term deposit with a major bank might be the best option.

“If you have \$100,000 you want to use as a house deposit in a year's time, you should probably spread the money over several banks and lower-risk finance companies.

“And if you are investing an inheritance you won't need for 20 years or more you might be best to use a range of well chosen ‘higher risk’ but higher return investments – ie, growth investments in things like property and shares,” he said. “While these kinds of investments can be unpredictable over a short time period such as a several days, months or years, they tend to do much better than bank deposits over the long term (say 10 years or more). And provided the mix is well chosen, you are protected to an extent against future unknowns.”

“Another often quoted truism is that *if it sounds too good to be true, it probably is*,” says Simon. “And yet I never cease to be amazed at the number of times people seem to ignore this simple common sense.”

Putting all your money into a single investment is nearly always a bad idea, unless that investment is relatively short-term and placed with a major bank or the government. You certainly can't afford to rely simply on a newspaper ad, or a famous personality in a TV ad. Unless you have the time and skill to do careful research of your own you should seek professional financial advice.

Simon agrees that it can be hard to know who is a truly professional adviser. Consider talking to more than one adviser before engaging one. You need someone you are comfortable with, but you also need to know they will give you good advice. Here are some key details that should help you choose wisely. You should ask for this information in writing:

- The adviser's qualifications, experience and membership of professional associations.
- The areas in which the adviser is competent to give you advice (eg, if you want advice on a finance company, do they have expertise in this area?)
- The process they use when preparing advice. Is this what you want?
- What business links or conflicts of interest could influence the advice.
- How the adviser and or their firm is paid, and by whom. And details of any bonus or 'above market' aspect to this.
- What kinds of research the adviser uses when selecting particular investments to recommend.

A professional adviser should usually give their advice in writing. At the least, this should include:

- A summary of what you are trying to achieve, and where relevant, details of your situation (including financial position and budgets) and needs (including likely time frame and income needs for any investment).
- A careful assessment of your investment risk profile (covering both your willingness and your capacity to accept investment volatility and/or losses).
- A discussion of alternative approaches to meeting your agreed goals/needs.
- Full details of any recommendations (including specific fees, commissions, or other rewards that may apply).
- Copies of current investment statements and or other offer documents.
- An explanation of why any products recommended have been chosen, and why they are likely to meet your requirements.
- A plain English explanation of the risks associated with the recommended investments and or portfolio of investments; eg:
 - (For a managed fund) "This investment is likely to produce a return (after fees, tax and inflation) of X% over any Y years, and is likely to achieve between A% and B% in C out of D E-year periods", or
 - (For a fixed interest investment with a credit rating), "This investment has a BB credit rating from Moody's. As shown in the table below, between 1970 and 2001 1.21 out of every 100 investments rated BB by Moody's defaulted within a year of being rated."

	Moody's Rating	Average Default Rate*
INVESTMENT GRADE		
Highest quality	AAA	0.00%
High quality (very strong)	AA	0.02%
Upper medium grade (strong)	A	0.01%
Medium grade	BBB	0.15%

	Moody's Rating	Average Default Rate*
NOT INVESTMENT GRADE		
Lower medium grade (somewhat speculative)	BB	1.21%
Low grade (speculative)	B	6.53%
Poor quality (may default)	CCC	24.73%
Most speculative	CC	
No interest being paid or bankruptcy petition filed	C	
In default	D	na

* Actual defaults within one year of rating (1970-2001)

- (And if a fixed interest investment does not yet have a credit rating your adviser should explain in even more careful detail why it has been recommended and how it should meet your needs.)
- Full details about how much it is likely to cost to implement the advice and (if required) to monitor your investments and provide ongoing advice.

People tend to be more interested in returns than risks until things go wrong. A good adviser will be able to help the customer understand the balance between risk and return.

Investors need to understand that even professional advisers are not always right - they can't be as no one knows the future.

IFA is committed to helping create an environment in which Kiwis can have confidence about the financial advice and products they use. It supports the need for more public education in managing financial affairs. The Retirement Commissioner's Sorted web site (<http://www.sorted.org.nz/>) is a good start, but in our view much more needs to be done to boost the basic financial literacy of many New Zealanders.

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About IFA

The Institute of Financial Advisers has around 1,450 members but they advise over 600,000 people.

Members of IFA provide advice to their clients covering some or all of financial management, debt, insurance, investments, work-based savings, retirement planning, estate and tax planning.

IFA members commit to a code of ethics, practice standards and agree to keep up-to-date through continuing professional development. IFA also has independently-chaired complaints and discipline processes for members who do not follow good practice.

IFA codes require:

- Members to act in the best interests of clients
- Clients to be given a formal disclosure document
- Remuneration to be fair and disclosed

Consumers can go to www.ifa.org.nz or ring 0800-404 422 to find an IFA member.