# Good Adviser, Bad Advice

Would good advisers give bad advice? Impossible. Unlikely. But then, why are there still numerous complaints against financial advisers? Are they not well-qualified and competent to give good advice to clients?

The recent article "Paying the price for bad advice" in The Sunday Times on 24 April highlighted different cases of investment losses experienced by individuals due to bad advice. One investor who lost 60% of his investments lamented "I had bought into the funds based on the consultant's advice and paid a higher bank sales charge, thinking it was for customised advice."

## Role of a Good Adviser

A good adviser should possess the necessary knowledge, experience and skills. Armed with these, the adviser would need to communicate clearly and be understood by the investor.

A good adviser should also display certain personality traits including character, conduct and integrity. If there are no suitable investments available, this should be disclosed, to allow the investor the choice of seeking investments elsewhere.

The investor's interest must be placed first, the adviser or the company's interests second. However, direct earnings from investment sales motivate many advisers, and this may result in bias in the advice given. This is something that advisers must constantly be aware of to remain objective.

## What is Good Advice

Would the above investor complain if his investments were up by 60%? Does good advice equals making profits and bad advice equal losses?

Bad advice generally involves unsuitability of recommendations or misrepresentation of facts. Advice given in the best interest of the investor cannot be termed as bad advice.

Investors must understand that investments involve taking risks, which may result in losses, even from the best advice.

Advice given must be based on the investor's objectives, time horizon and risk profile. When such information is provided, the adviser can then determine the suitability of the investment.

## Being a Knowledgeable Investor

Many investors do not understand what they invest in and why. Many do so just to be in the market to avoid missing out opportunities. Others invest based on rumors.

When market conditions change, many of such investors lose patience and forget their original investment objectives. Some become confused, and jump onto the hottest or most fashionable themes, while others feel regret.

Investors should take ownership of their investments by building up their understanding of basic investment concepts. This includes the regular monitoring of their investments, making an assessment and taking the required action.

## Possible Alternatives

An investor would want the best at the lowest cost. On the other hand, the adviser would only deliver the best at the highest earnings. This "fee for advice" compensation would reduce biasness and over enthusiasm in advisers. At an agreed fee for an agreed amount of work to be done, expectations of both parties can be met.

An alternative compensation to the "fee for advice" is the "fee for management". In the discretionary management of funds, the portfolio managers do not advise but act in the best interests of the investors on their behalf at an agreed upon management fee.