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Advisers may be regulated – but ask questions before you invest

Like any financial adviser who wants to stay in business, we at G3 are Authorised Financial Advisers(AFA). This is in keeping with new regulations the Government has introduced to help 'clean up' the financial services industry.

Although investors and many advisers are relieved that we have started along the vein of professionalism with the introduction of these new regulations, many clients continue to comment on the collapse of over 30 finance companies in the past few years and have said things that suggest the new regulations will prevent similar disasters happening in the future.

Unfortunately, they're dead wrong.

It might be pleasing to think that you could knock on the door of any AFA under the new regime and be certain that your interests are being protected, but the new regulations simply don't go that far.

A cornerstone of the new regulations is that any AFA is required to act in their client's best interests. This is all good and well however, the regulations don't go as far as banning commissions on investment advice – the direction being taken in Australia and other more regulated markets. Many AFAs are still being paid using a remuneration model which does little to align their interests with those of their clients.

If an adviser is paid by an investment company for the advice he/she gives his clients, isn't it kind of obvious that his advice may be construed as being influenced by the people who pay him/her? If an adviser happens to recommend certain investment options, are you really going to do the research required to find out if those options paying higher commissions than others they didn't recommend? The adviser may argue that he is protecting your best interests with his recommendations, and that the higher commissions are a separate matter – but how can you ever be sure?

Wouldn't it make life a lot simpler if ***you*** paid the adviser, not some investment company, an approach adopted by a number of advisers? The new regulations don't address this. AFAs are required to disclose the commissions they're paid and the fees they charge and so it's important you read this investment document very carefully, and where necessary ask for independent advice, to make sure you're not being asked to pay over the odds. Most AFAs will behave honourably. But from the outside, it's always hard to tell.

Another way in which the new regulations fail to protect you is that they fail to regulate the products being sold. And, by golly, are there some stinkers out there! People are still being offered hedge funds by advisers who themselves have little knowledge of how they work, disregarding one of the first rules of investing which is 'never invest in something you don't understand.'

There are also some property-related products being sold which offer tempting sounding returns over an initial investment period. These products prompt questions that are met with answers that are far from reassuring in most cases. Remember the saying "if it looks too good to be true – it probably isn't".

In summary, the new regulations are a move in the right direction and we welcome them wholeheartedly. However, unless your adviser has abandoned commissions on investment products and until products themselves are regulated, you still need to ask the hard questions.

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