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WHO IS PROTECTING YOUR INVESTMENTS?

One of the most challenging aspects of my job is meeting new clients who have lost money in a variety of investments, whether that's fixed interest schemes with much higher levels of risk than they ever imagined, or property developments on the Gold Coast now worth significantly less than their purchase price. These investors frequently experience strongly mixed feelings: on the one hand they recognise the importance of investing to create long term wealth. On the other, having had their financial fingers burned, they are understandably sceptical about who to trust with their money.

The questions such investors ask are highly relevant – in fact, they are the very same questions all investors would do well to ask before entrusting their hard-earned cash to any institution. Apart from the track record of the investment vehicle, they typically ask questions like: what safeguards do you have in your investment process? How protected will I be as an investor? In short: why should I trust you?

Investment management processes should be designed specifically to provide built-in safeguards for investors. In the 'Wild West' culture that has pervaded so much of New Zealand's financial services industry, where the motivation for setting up investment vehicles has so often been to make the founders rich, not their investors, this idea may seem hopelessly idealistic. Not so in much of the developed world where tighter regulatory regimes apply. Examples of investor safeguards include arrangements such as the company to which you, as an investor, transfers your money being different from the one which employs your adviser. This arms length approach separates advisers from their clients money – an obvious safeguard, once pointed out, but not one that many people consider. In a similar way, the individuals who make decisions on where money is to be invested should also have no part, and certainly no financial benefit, in the implementation of their decision. Instead, a third party should be mandated to administer the investment.

The regulatory environment in Australia is a more stringent one than New Zealand's, and for that reason investors may well consider whether an investment company subject to Australian regulations may better serve their interests. While neither the Australian Securities and Investments Commission (ASIC) nor the Australian Prudential Regulation Authority (APRA) can guarantee a positive investment outcome, investors should look very carefully at investment companies whose activities do not fall under ASIC or APRA regulation.

Probably the ultimate guarantee of trustworthiness is certification by CEFEX, the Centre for Fiduciary Excellence based in Toronto. CEFEX is a global fiduciary standards and certification agency which runs regular and rigorous auditing processes to ensure that correct investment stewardship processes are being followed by any company it certifies. When a company is CEFEX certified, not only must it demonstrate the fiduciary processes described earlier, it must also allow auditors from CEFEX to visit the company to carry out random checks on client files to ensure that correct procedures are being followed. A CEFEX inspection is detailed and broad ranging although its purpose is simple: to check if the company concerned is worthy of being trusted with investors' money.

In summary, trustworthiness is not about being friendly, clever or even well-intentioned. For investment advisers to be worthy of trust, they must demonstrate that they have put in place the correct fiduciary processes to safeguard your money. As a client, never be afraid to ask: 'What fiduciary procedures, or safeguards, do you use to protect my investment?'

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