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WHO IS PROTECTING YOUR INVESTMENTS?

A recent Reader's Digest survey, rated financial advisers among the least trustworthy of professions. With 48 finance and investment companies having gone out of business in the past three years, and thousands of New Zealanders losing millions of dollars worth of investments, it would have been very surprising had the survey results been any different.

The findings also beg the more personal question: what about your own investments? How well protected are they? What safeguards are in place to ensure that your long term investment experience is a positive one?

It's our view that investors should benefit from several layers of protection to ensure that their funds are managed according to the very best internationally accepted fiduciary practices.

Structured for Safety

To begin with, investment management processes should be specifically designed to provide built-in safeguards for investors. In the case of a provider that we recommend for example, at no time is a client ever asked to invest money with directly with them, moreover, investments are handled by their Trustee company, a separate company which is bound by ASIC and APRA regulations – of which more below.

This arms-length approach is a critical part of the investment structure in a number of other important ways. Investment decisions within this Trustee company are made by an investment committee which mandates several third parties to implement investment decisions. As an additional built-in safeguard, custodial, accounting and other specialist service providers are responsible for administering transactions.

ASIC regulation

Australian-based companies, including those listed on the ASX, are required to abide by company and financial services laws designed to protect consumers, investors and creditors. The Australian Securities and Investments Commission (ASIC) have more rigorous requirements than their New Zealand counterpart which financial advisers must meet in order to operate. A New Zealand-based advisory business following the fiduciary processes established by an Australian company, is therefore more likely to offer enhanced protection.

APRA regulation

Similarly, licensing by the Australian Prudential Regulation Authority (APRA), to be a trustee and operate superannuation funds, offers investors an additional safeguard.

APRA is the prudential regulator of the Australian financial services industry supervising institutions on behalf of depositors, policyholders and fund members.

CEFEX certification

Given that the investment provider we use meets all Australian regulatory requirements, several years ago this company decided to apply for certification by CEFEX , the Centre for Fiduciary Excellence - a Toronto-based global fiduciary standards and certification agency. CEFEX sends auditors to check on the fiduciary processes of investment managers and ensure that best-practice procedures are being followed. Its auditing process is a rigorous one, to ensure that correct investment stewardship processes are being followed.

In 2007, this provider was pleased to become the first CEFEX-certified company in Australia and New Zealand. Certification is recognition that the company's interests are aligned with those of its clients and investors. The company has been re-certified every year since then.

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

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