

PERSONAL FINANCE

UNRAVELLING THE INVESTMENT CONFUSION

Navigating the differences between services can be difficult, even for savvy investors, says **Adam French**

WHEN investing, there are several paths you can take. You can do it yourself, go down a guidance route, or get someone to make decisions on your behalf.

With each option comes differing levels of personal responsibility and protection, which affect the redress you might have access to if your investment turns out to be unsuitable for your needs.

But navigating these differences can be confusing, even for savvy investors. So he's some things to consider to help you make the right choice.

GOING IT ALONE

Doing it yourself means that you choose the provider, how much risk to take, the amount of money to allocate, and which specific investments to go for – essentially all the suitability decisions are up to you.

Your money may be safeguarded to a certain extent from fraud or the failure of the provider through the Financial Service Compensation Scheme (FSCS), which protects investments up to a limit of £50,000.

But if your chosen investments aren't suitable for your needs, you have no claim for redress.

THE GUIDED TOUR

Guidance offers a little more support. For example, there may be tools on a platform that direct you towards an investment or range of investments.

Your provider must confirm that you have the necessary knowledge and

experience to understand the risks involved, but the provider does not need to ensure that your investment objectives are met. The investment decisions are still yours.

This also means you won't have access to the Financial Ombudsman Service (FOS), which resolves complaints between financial businesses and their customers.

But similarly to the DIY option, you may be able to claim compensation via the FSCS if you're affected by fraud or the insolvency of the provider.

THE LIST WITH LIMITS

Restricted advice means that a firm can only provide financial advice on a restricted set of products, or from a limited number of providers (perhaps even just a single provider).

The adviser is responsible for ensuring that the recommended investment is suitable and meets your objectives, and you have access to FOS and the FSCS.

However, due to the restricted nature of the advice, the recommendation may not be the best possible investment solution.

For example, if you were to walk into a Mercedes Benz garage, you're likely to be recommended one of their cars, instead of a car made by a competitor – which might be better suited to your needs.

With this type of advice, changes can't be made to your portfolio without your consent, so you will need to be involved with the continued monitoring of the investment.

NO STRINGS ATTACHED

Unlike their restricted peers, independent advisers are able to recommend products across the whole of the market. This means there is no bias when it comes to decision-making, and they really are looking for the best solution for you.

You will also have access to both the FOS and FSCS.

However, in the same way that restricted advisers can't make changes to your portfolio, an independent adviser will also only be able to make recommendations. It's down to the client to make the final decisions and monitor their own investments.

LEAVING IT TO THE EXPERTS

If you want to have no input in the investment decisions, this is where discretionary managers come in.

These investment managers take full responsibility for choosing and managing your investments over time. They identify a risk profile based on your investment objective, tolerance to risk, financial knowledge and personal financial situation. From there they choose a portfolio which is the most likely to achieve your goal.

Whenever they make changes to your portfolio, they need to ensure it remains suitable.

Previously, this type of service was only available to the super wealthy, but modern technology means it's now available to a far broader group of investors. Bear in mind that digital discretionary managers are often referred to as "robo-advisers".

As with full financial advice, regulated discretionary managers have a legal responsibility to make sure that your portfolio is suitable for you.

This includes checking that you are able to bear the investment risks associated with meeting your objective and that you have the necessary knowledge and experience to understand them.

If they believe their service is not suitable for you, they are not allowed to take you on as a client.

With a discretionary service, your manager takes all the ongoing investment decisions on your behalf.

This lets them quickly make changes to maximise returns and control risk as markets change, while still ensuring the portfolio remains suitable for you and meets your investment objectives.

DON'T GO IN BLIND

With the range of investment services available today, it's likely there is one out there to meet your needs, no matter how simple or complex they may be. But even if you are financially savvy, the surrounding jargon can make it difficult to understand the varying levels of responsibility.

While the Financial Conduct Authority is looking to make it easier for investors to understand the differences between investment services, it's crucial to know how you are protected in case something goes wrong.

Adam French is chief executive of Scalable Capital.

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