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Financial Advisers and Economics: What effect on your investments?

So, how do you choose your investments?

Do you look at the past, the now, the future, or a bit of all 3?

Perhaps you don't look at any of it and instead appoint a financial adviser who understands economics, business and the investment options available.

When selecting an adviser to guide you and look after your money, not only is trust important, but so is their ability to know what they are doing.

A quality investment adviser will not only know the various investment options available, the tax implications and the administrative difficulties potentially involved, but should also have a strong grasp of economics and how businesses operate (and make their money, which after all, is what investment is all about).

The reason why economics matters, is because "macro" and "micro" forces have a direct impact on the marketplace in which an investment or company trades/operates (and therefore the value of its shares and corporate bonds).

A high quality adviser will monitor past, current and likely future economic trends and will be able to help allocate your money to the most appropriate asset classes (i.e. away from those that are anticipated to fall in value as a result of changing economic/political/social circumstances and into those that are expected to rise). A simple example, was in 2007 when the credit crunch first became evident: those that understood economics moved away from investments in banks and other cyclical stocks and bought safer assets, such as government bonds and gold, or simply moved to cash deposits (spread across various institutions to reduce bank default risk).

Not only would this change in allocation have saved a fortune by avoiding assets falling in value, but it would also have had the double effect of gaining through rising values in gold and safe government bonds. When asset values become over sold, or over bought, it is possible to reverse this allocation and make further gains!

It is therefore imperative that asset allocation and frequent reassessment is carried out. With a little luck and plenty of judgement, it is possible to time your changes with some accuracy to reap the rewards.

I am sure it is impossible to get it right every time, and you will never consistently time the exact lows or highs, but if you can be sure your adviser understands the forces at work and the likely effects, and proves this over time with correct judgments, then you will no doubt be in safe hands and get it right more often than not. This should have a significant impact on your future wealth and financial wellbeing.

What is important from our point of view is that you ask your adviser lots of questions to test his/her knowledge and to see if they give economic updates as part of their service (which any firm managing your money should do as a matter of course – if they don't you should look to change adviser, as it may be that they simply do not understand economics and therefore could be putting your money at risk).

If you feel that your adviser has failed in the promises they made, or the knowledge they held out as having, then you may have grounds for claiming compensation for poor advice.

If the wrong investments were selected to reflect your risk tolerances and/or future plans, then you could be due compensation for investment mis-selling (or mis-advising).

Source: www.lower-cost-complaints.co.uk 05.12.09