Worried sick by growing losses

...tter of their financial adviser

Your guide to peace of mind

BEFORE you accept investment advice, be sure of the following:

● How independent are your advisers? Are they tied to certain companies or can they search the whole market?

● How will the advice be explained? Get it in writing. Then read the document and, if you don't understand anything, ask for it to be redone until everything is clear.

● If you understood the gains mentioned to be guaranteed, check this has been confirmed in writing. A guarantee is unlikely, so the absence of this in documentation will make you really understand what to expect.

● Get the adviser to set down clearly how they will earn their money and look after you and your savings.

● Ask how much commission they get in pounds, not percentages.

● Find out when and how often they will take their earnings.

● Ask for a separate service contract in writing.

● "The investor always has to pay in some way," says Nicola Downs. "If your adviser tells you that you won't, never believe it."

For all the best deals see Your Money in the Daily Express on Wednesday

Pensioner's investment bond is falling by £1,000 a month, reports **Maisha Frost**

The problem

RETIRED Lynne Carson is "worried sick" after seeing the value of an investment taken out last year plummet by £1,000 a month.

On the advice of a financial adviser she had consulted before with no problem, the 61-year-old and husband John, 69, put £70,000 into a Skandia bond containing two funds, CF Midas Balanced Growth and CF Midas Balanced Income.

From the outset, Lynne, who lives in Staffordshire, had a very clear idea of what she wanted the £70,000 to achieve. It represented about a third of the savings she and John had built up.

"I receive a small state pension of £242 a month and was relying on this £70,000 to improve my income and provide some growth for later on," she says.

Lynne is appalled and perplexed by how this particular investment, now worth £62,000, has done so badly, especially as she says she wanted low risk, as with her other investments.

"I know the market has been bad but our other savings haven't lost like this one," she says. "But what do we do now?

"Do we cut our losses and run? What safe home do you suggest?"

The solution

THE way Lynne tells it just doesn't add up, says independent savings and pensions expert Nicola Downs.

"There are big question marks hanging over this whole investment," she warns. "There has to be paperwork of some kind showing how this advice was arrived at — it is the law," says Downs.

Lynne says she was assured the investment would make a guaranteed return of 15 per cent but she has nothing in writing to substantiate this and Downs queries Lynne's understanding of this "guaranteed" 15 per cent.

"This is an investment, not a fixed-interest deposit account," she points out. "There are no guarantees, only predictions."

The Carsons also say they never wanted anything risky. "But was this discussed when they were recommended the Midas funds?" asks Downs.

She favours a hard figures approach to help savers really understand what they are getting. "People always like to concentrate on how much they will gain, so I don't use percentages when I ask people to look at their strategy.

"I take it from the other perspective and ask how much they can afford to lose — £1,000? £3,000? — and over how long — a year? This soon focuses minds and they realise what level of risk they can really tolerate." But Downs was sceptical about the losses Lynne has sustained because she says they seem exceptionally high. The total loss during eight months has been 11.4 per cent — the equivalent of 17.1 over a year.

Downs and Your Money then probed deeper.

The Midas Balanced Growth has a risk assessment of six on a scale of one (low) to 10 (highest). Performance in the six months to January this year was down 8.30 per cent, but over 12 months the decrease was 2.96 per cent.

Midas Balanced Income scores a risk rating of five. Performance to January was down 6.64 per cent; over a year the fall was 3.39 per cent.

To give Lynne an idea of how she would have fared in a less adventurous portfolio, Downs selected Skandia Cautious Life, which registers a mere three on the scale. However, it transpired that hadn't done well, either. Over half a year, it was down 4.58 and over 12 months it had dropped 3.47 per cent.

"It would seem that, in Lynne and John's circumstances, risk is not advisable and the Midas portfolio is therefore probably a bit too chancy for their cautious approach," says Downs.

"But in the timescale concerned, that has not made a lot of difference, given the general investment type they were in."

This leads to her main conclusion. She totally disagrees that it is the performance of the Midas investments that is the real cause of the Carsons' problem. "They lost ground, but not badly, about 4 per cent," Downs says.

"No, the main reason Lynne and John are so out of pocket is because their adviser has imposed commission charges — more than 7 per cent. This is very much at the high end of the scale of what he can choose to take. He has creamed off his cut up front and that is why they are losing £1,000 a month.

"Forget explanations of market volatility — that is where the problem lies."

While Lynne may see matters improving in future, now she has filled her adviser's pockets, dire implications remain, according to Downs.

"Where is the motivation to make sure Lynne's money grows? Hard to see really. After all, he has got his payment."

While she has some sympathy for Lynne, Downs stresses that savers have to make sure they don't just hand everything on a plate to their advisers.

"They have to take some responsibility for what is happening to their money. At the very least, that means asking the right questions," she advises. (See box below left.)

She urges Lynne to confront her adviser with the evidence and ask for a better deal. "Hopefully, because he manages their other affairs, he may be shamed into recompensing them in some way," she says.

However, the Carsons need a fallback plan in case their man proves very thick-skinned.

What Lynne must not do is pull out completely, possibly incurring early encashment penalties and squandering the set-up charges she has paid.

"It does not have to be all downhill for her," says Downs. "She can switch cost-effectively within Skandia to investments that suit her situation and cautious approach.

"And I am sure the next time she will make very certain she knows exactly what the charges are and who is footing the bill."

● *Nicola Downs: 01306 881999, www.trenthaminvest.co.uk*

'The reason they are out of pocket is mainly due to commission charges'

If you have a problem, write to Maisha Frost, Sunday Express, The Northern & Shell Building, 10 Lower Thames Street, London EC3R 6EN or email maisha.frost@express.co.uk. Please include your phone number.