

A golden rule: if it looks too good to be true, it usually is.

By CARL LAMB

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The Keydata story has reverberated around the financial services industry. It has demonstrated just how vulnerable both advisers and investors can be if those providing the investment at best withhold information - or at worst are fraudsters.

Advisers use the information given by a product provider and performance indicators to assess the suitability of an investment product for a client. Depending on the advisers' level of independence, they will look at products from a limited range or, if they are fully independent, they will look at the whole marketplace.

Investment providers in the UK are regulated by the Financial Services Authority and an adviser will check that a provider is authorised by the FSA before recommending a product. The problem occurs when a structured product is used which has a second layer of risk, often hidden from the adviser.

It is the practice of structured investment product providers to reassure the risk with a third party, known as a counterparty. In the Keydata case, the counterparties used were based outside the UK, which meant that the investments failed to qualify for Financial Services Compensation Scheme protection.

Prior to the Lehman Brothers collapse in 2008, details of the counterparties involved in investments were rarely revealed, leaving advisers and investors in the dark as to where the risk actually fell. Until Lehman, no one had asked the question.

That was then. The picture has since become a little clearer.

Advisers are now able to find out just who is holding the risk on a specific investment product. Lessons have certainly been learned, and any adviser worth his or her salt will make absolutely sure they fully understand any structured product and the counterparties involved before they recommend it to clients.

An authorised adviser will take responsibility for the advice he or she gives you, within the limitations of the information available at the time of giving the advice. There are agencies in place such as the Financial Ombudsman to help if you feel you have been given the wrong advice. But an ad cannot, sadly, protect you from providers (who may be FSA authorised) who are looking to defraud you.

So should you continue to seek advice from a financial adviser? The answer is, of course, yes. Authorised advisers have a breadth of knowledge about the products available and will give advice on what is suitable for you.

If any investor is concerned that an investment package they have taken on might include vulnerable investments, they should seek independent advice. All investments carry a degree of risk, and there are few that offer both low risk and high returns.

My golden rule is if it looks too good to be true, it usually is.