

# Choosing an Investment Advisor

## – A Due Diligence Approach

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You may ask the question “**How do I judge a good investment advisor and how do I know whether they are doing a good job?**” Fletcher Law certainly has for some time now.

This report goes a very long way in answering that question. Fletcher Law is implementing the *Prudent Practices for Investment Stewards/Advisors* developed by *Fiduciary360*. The reason for this is that there are no legal standards in New Zealand for investment advisors. The only law safeguarding investors is the “prudent person rule” in the Trustee Act 1956, which only applies to Trusts.

Fletcher Law is not an investment advisor and recognises the need to use “prudent experts” to implement strategies that have been identified and accepted by clients.

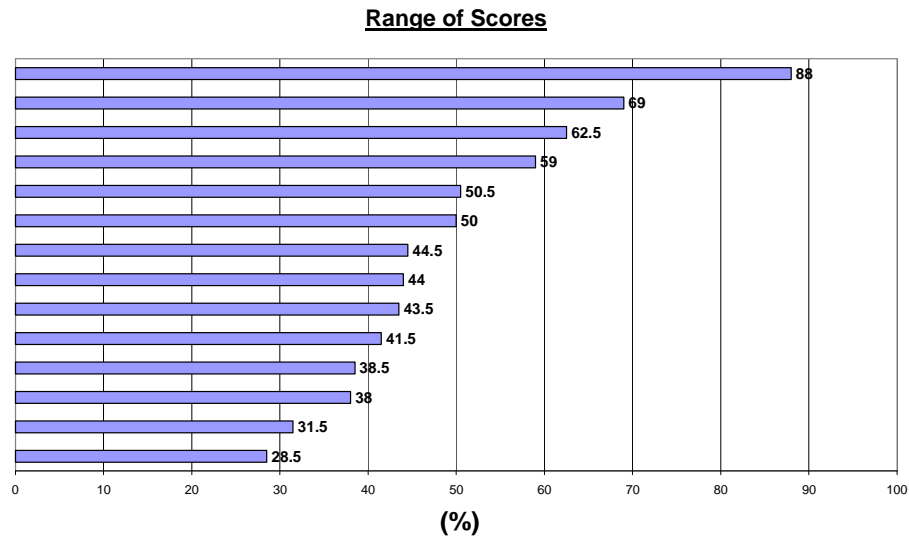
As far as Fletcher Law is aware no due diligence of this nature has been done in New Zealand at the individual client portfolio level. Investment advisors were invited through their professional bodies to take part in this process. No advisor queried the relevance of any questions prepared by Fletcher Law and this demonstrates the process has a measure of robustness and applicability. The key criteria for scoring were;

1. Diversification (risk –return analysis)
2. Policy Formulation (financial plan contents)
3. Solvency Testing (cash flow)
4. Fees
5. Conflicts of interest
6. Portfolio Reporting

16 advisors were interviewed. They included sharebrokers and financial planners. Two withdrew and surprisingly there was no representation from the

major banks or, perhaps, the 3 highest profile advisory firms. However about 47% of the local industry is represented in this survey.

The report was peer reviewed by *fi360 (Australasia) Ltd* who works in New Zealand under license to Fiduciary360. This was done to ensure a) the methodology matched the *Prudent Practices* b) the scoring system was reasonable and c) the correct conclusions were objectively arrived at. The graphic below shows the range of scores.



The key differentials for the leading advisor over the 2<sup>nd</sup> and 3<sup>rd</sup> placed advisors were;

- Clarity in the role of sub asset classes in a portfolio,
- The methodology for calculating long term cash flow requirements,
- Information provided in the Investment Policy Statement,
- Policy on not including any security or product less than 3 years old into a portfolio.

Overall the standard of financial plans were short of key monitoring criteria, extremely poor benchmarking and a willingness to give clients what they wanted and not what (perhaps) they needed.

Get the full report and disclosure statement by emailing [sj@trusts.co.nz](mailto:sj@trusts.co.nz) or calling (07) 838 2900.