

Relying on research

In keeping with our research focus, this month we asked FPA members, "To what extent do you think planners should be able to rely on the recommendations of research houses for confidence in the suitability of products for a client – completely or not at all (that is, they should also do independent research)?"

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THERE are both pros and cons when it comes to the question of either relying on the recommendations of research houses or being more proactive on research.

If you use research house information without doing your own research, on the pro side:

- It is simpler, quicker, and easier to blame someone else if it goes wrong.
- You can show the client that you access the 'best' research on their funds, which may give them an added sense of confidence.

However, there are a number of reasons why relying solely on the recommendations of researchers is not a great idea:

- You don't get a very good understanding of the funds.

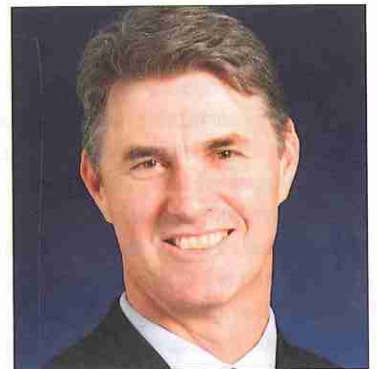
- You still carry the liability even though you rely on someone else – which seems crazy.

- You don't know exactly how the research house has done the assessment – some do it on fairly basic criteria and then come up with a rating system.

- You don't find some of the more interesting information, which in many cases, demonstrates to the client how reliable you are.

- By doing your own research, you are able to make more appropriate selections and therefore are able to justify your selection if required.

The bottom line is that if you ask clients where the value really is, many will say that they feel secure knowing that their planner stays on top of the changing regulations, their portfolio and all the possible alternatives they should consider. In other words, research is and should be part of the basic offer we provide, especially for those so-called 'financial planners' (in reality, investment-only advisers).



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RESEARCH houses play an important role for a financial planner in assessing the suitability of a product for a client. However they only provide part of the process in this assessment. Research houses often only represent a source of consolidated data on a particular investment product or products. As the industry has developed, a higher standard is now required of financial planners to know and understand the actual product they are recommending. Relying on a research house solely for product selection is a very dangerous strategy. These dangers were highlighted during the global financial crisis when many investment products failed totally and this risk was not recognised by either the research house or financial planner.

In my view a financial planner (and their dealer group) needs to go further than simply rely on a report from a research house. In most cases a research or

compliance department within a dealer group should undertake the majority of the additional due diligence in researching an investment product.

Financial planners need to have an understanding of broad issues such as how a product works, how the underlying investments are selected, the asset allocation and risk profile of the investment, objectives of the investment, and the qualitative and quantitative factors relevant to the particular investment. Knowing your product is an essential part of the financial planning process and this role cannot be simply delegated to a third party.

Once an investment product has been selected, the financial planner and dealer group will usually have a continuing obligation to ensure that it remains suitable for the ongoing needs of the client, where they continue to have a service obligation to that client. The 'set and forget' approach to investing that occurred in the past will in my view no longer meet the financial planner's obligations going forward. The world is changing and with this change, both the clients and the law will require a higher duty of care than existed in the past.

