Case Study: Investments

UNSUITABLE INVESTMENT

Themes: unsuitable investment advice, distinction between concentration and suitability of investments, FSP responsibility for new business, opportunity costs, illiquid investments, uncrystallised losses.

Mr and Mrs A complained that they had lost money as a result of unsuitable investment advice.

In 2009 Mr and Mrs A consulted firm X about the investment of £65,000. They were classified as low/ medium risk investors. They were advised to put all the £65,000 into a single investment fund. Later that year, the employee who advised them moved from firm X to firm Z.

In 2010 Mr and Mrs A's investment came up for annual review. Firm Z did not raise any issues or concerns. In 2011 the investment fund ceased trading. Mr and Mrs A's investment dropped in value and then became illiquid when the fund stopped paying out.

By this time firm X had been liquidated. So Mr and Mrs A complained to firm Z. They said that the investment fund was high risk and therefore unsuitable for them. Firm Z rejected their complaint, and Mr and Mrs A referred it to us.

We did not consider that firm Z was responsible for the original advice given by firm X. But firm Z had taken on the ongoing responsibility to keep the suitability of Mr and Mrs A's investment under review. The first reasonable opportunity that new firm had to identify issues with the investment was the annual review in 2010.

Conclusion

We did not agree with Mr and Mrs A that in 2010 the investment fund was inherently high risk or unsuitable for them. But, after reviewing their total investable assets, we considered that it was unsuitable to concentrate all their £65,000 in a single fund. It should have been diversified in order to spread risk.

In the light of the total value of Mr and Mrs A's investable assets, it was unsuitable to invest more than 25% of these (amounting to £27,337) in the single fund. At the time of the review in 2010, they had £43,095 more than this in the fund. So we required firm Z to pay Mr and Mrs A what the £43,095 would have been worth if it had been suitably reinvested – calculating this using a benchmark, specified by us, for a low/medium risk portfolio.

To avoid the possibility that Mr and Mrs A would recover twice over if the investment fund recovered and paid out, we made it a condition that they transferred the excess holding in the investment fund to firm Z.