Case Study: Investments

UNSUITABLE INVESTMENT

Themes: Unsuitable investment advice; FSP recorded incorrect risk profile; FSP included inappropriate investment product; complaint upheld but no compensation as no loss incurred overall

The complaint relates to an investment portfolio that Mr G felt was being mismanaged, resulting in a financial loss.

Mr G agreed to a non-discretionary investment contract with an investment manager, meaning Mr G, not the investment manager, would make decisions relating to that investment portfolio. The investment manager applied a medium risk rating to Mr G's portfolio.

Six years later, Mr G complained that decisions were being made without his authority. The investment manager advised that he should change his contract to a discretionary one, meaning the investment manager would make changes going forward without Mr G's consent. Mr G was reluctant, but agreed and completed a questionnaire to identify his knowledge of financial investment products, reduce his risk rating to low risk and to confirm which products he felt comfortable investing in. Mr G confirmed that he did not have a clear knowledge of structured products and that he did not want to invest in them.

Two years later the investment manager invested in a structured product which was appropriate for Mr G's risk rating of medium, as the risk rating for Mr G had not been altered when Mr G had changed contracts. The investment manager also overlooked Mr G's stated desire to avoid investment in structured products. Mr G said he was unaware of the investment in the structured product. Two years later the structured product suffered a substantial loss, but Mr G's overall portfolio had made a healthy return. Mr G complained to the investment manager that, when his contract changed, his reluctance to invest in structured products was not noted. The investment manager stated this was not a clear instruction and reiterated that Mr G's portfolio had made a positive return. However, the investment manager did offer Mr G £5,000 in compensation. Mr G rejected this offer and subsequently complained to CIFO requesting compensation for the full value of the structured product's loss, a total of £30,529.

CIFO investigated and concluded that the investment manager should have taken into consideration at the time the discretionary management was established Mr G's stated desire to avoid any investment in structured products and Mr G's desired reduction to a lower risk rating. CIFO concluded that the structured product, according to the investment manager's own risk assessment of the product, was not an appropriate investment for a low risk profile customer.

However, given the investment strategy had clearly taken a portfolio approach, CIFO felt it fair and reasonable to look at the performance of the portfolio as a whole in determining if there had been a loss and not look only at the performance of the structured product isolation. CIFO calculated that the portfolio as a whole, benchmarked against a suitable low risk portfolio, produced a return roughly double what a suitable low risk portfolio would have returned. Therefore, the investment manager was not required to compensate Mr G. CIFO upheld the complaint but awarded no compensation.