

What's in a Name?

It's a Saturday sports day and you're on the field running at full speed when it happens. Your left knee gives way and you go down like a sack of spuds with an ACL tear. Once the initial agony subsides you come to the realisation that you're going to need to visit a professional to have an assessment done. Most people automatically know that such an injury would require you to visit a doctor instead of the nurse.

So what about when it comes to your financial health? The problem is that in the financial world most people can't tell the difference between a doctor and a nurse, let alone the product prescribed to them. If I was to ask you whether you would rather see a Registered Financial Adviser (RFA) or an Authorised Financial Adviser (AFA) which would you choose? Understandably most people wouldn't know and would probably choose the Registered Financial Adviser perhaps because their builder is registered.

While RFAs need to be on a register and have a dispute resolution scheme, there are not many further requirements. AFAs however have to pass exams in finance, complete continuing professional development and abide by a Code of Professional Conduct. Although an RFA isn't allowed to mislead you similar to your butcher can't sell you mince and call it steak, an AFA is legally required to consider your overall situation, provide you with the most suitable financial product and put your interests before their own. They would have to work out what cut of meat was the best for you, how much you can afford and how you are going to ration it.

Switching back to the ACL sports injury analogy, what if I asked you what type of doctor you would rather see, a General Practitioner or a Specialist? A lot of Kiwis rely on investment advice from accountants and family or friends who work in financial institutions to make their decisions. With investing you need specialists who understand portfolio construction, asset allocation and credit ratings to help you make the best decisions.

Thankfully the government is currently reviewing the legislation and it's looking likely that all advisers will have meet some sort of minimum educational and ethical standards. Distinction is also likely to be made between financial salespeople and true advisers. In the meantime a lot can be discovered by asking your adviser three simple questions: what do those letters next to your name mean, how many different company's products do you provide and how you are compensated?

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