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Fees vs Commission: *you* decide

Chris Budd of Ovation sheds some light on what to look for in an independent financial advisor to ensure you receive a truly 'independent' service.

It is fair to say that financial advisors do not have the best reputation. Whether deserved or undeserved, based on fact or misunderstanding, the cause of this reputation is, in my humble opinion, down to one word – commission.

There are a great number of professional and highly competent financial advisors operating on a commission basis. However, the fact that their remuneration ultimately derives from the sale of a product means that there can always be the perception or suspicion of an ulterior motive in giving advice.

From 1st June 2005, a truly independent financial advisor (IFA) must, in order to use the term 'independent', offer a fee option.

However, along with the number of firms offering truly fee based and impartial advice, many others offer an option of a fee which is remarkably similar to the commission.

I truly believe that providing financial advice means providing a service, and not selling products - not very different to the services you would expect from your accountant or solicitor. A fee based advisor should be accountable for his time, should be able to demonstrate and justify any fees levied, and should provide a long term service, including reviews and proactive advice.

A reputable financial services company should have some clients for whom their services involve no 'products' whatsoever. Instead they should provide a financial planning service to individuals or businesses, be it retirement planning, such as Drawdown, SIPP's (Self Invested Personal Pensions), life assurance, inheritance tax planning, pensions or investments and the work they do on behalf of clients should not necessarily lead to the purchasing of a product.

Under the new regulations, any solicitor or accountant who refers a financial advisor to their client is only allowed to refer an IFA. Many companies are linked to one or several providers and these firms cannot be recommended by such professionals – the Law Society

tell their members that they can only refer to an independent financial adviser i.e. one that charges on a fee basis.

So what should you look for when selecting a financial advisor? Firstly, have a firm idea of the nature of the advice that you require. Decide a few basic objectives before you meet, even if this is something as general as 'planning for retirement'. Whether you require advice on inheritance tax, investment management, pensions and such like, each of these areas requires different technical knowledge and skills, and you should therefore make sure the prospective advisor is able to cover each of these areas.

Qualifications are also important. Any authorised individual must have at least a Financial Planning Certificate (FPC). Certain other qualifications are a requirement only in specific areas, for example the qualification known as G60 is required to provide certain types of pensions advice.

Experience is probably a greater indicator than qualifications. As you will be working closely with your advisor, you need to be able to trust them. Avoid anyone who tells you they know about a 'sure fire investment'….after many years of experiencing the ups and downs of investment markets, I can tell you for certain, they don't exist. Remember the adage – if it seems too good to be true, it probably is.

Whatever you do, my advice would be to talk to an independent source and make sure you understand what's on offer. Ovation has a refreshingly open and straightforward approach to financial planning. By stripping out the jargon we help you make sense of the available options and, being fee based, we can provide a completely unbiased appraisal of your situation.

Call us and benefit from a free initial consultation, on 0117 942 4333.

This article is for general information only. Remember past performance is not a guide to future performance and investments can go up as well as down. If you have any doubts in respect of your own personal circumstances you should a full review with an independent financial adviser to get their help and remember, don't leave it to the last minute next year!

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