Looking out

Who’s watching your investment adviser?

Finance

By Don Freeman

IN THE world of providing financial planning and investment advisory services, just about everyone claims to be, or tries to pass themself off as, an expert looking out for your best interest. But just who is an investment adviser really serving and more importantly, who is watching over him or her? For expatriates, asking such questions is important because once you leave your home country, the world of investment advice becomes rather murky and trustworthy counsel can be hard to come by.

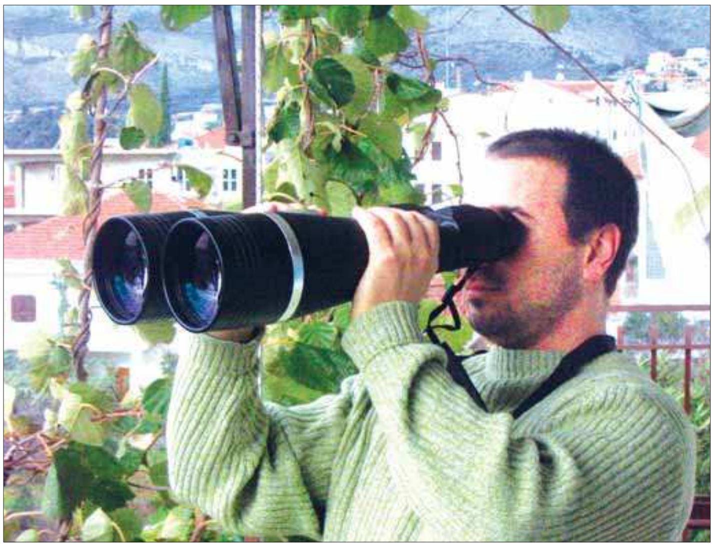
Understanding fiduciary verses suitability standards

When I relocated to Thailand from the United States, I would receive phone calls about offshore investment products – just like you have probably received. The difference between the calls I would receive and the calls many of you have probably answered was that the callers wanted me to sell their offshore investment products targeted towards expatriates in exchange for commissions of as much as five per cent.

However, I cannot accept such commissions because I operate under the fiduciary standard rather than the suitability standard. Under the fiduciary standard, I am required to put my own interests below those of my clients, and I am required to provide information that is as accurate or complete as possible while avoiding conflicts of interest. And rather than earn commissions paid by investment firms for selling their financial products, I earn my income by charging a small annual fee that is the percentage of the amount of assets you have me managing – meaning I have an incentive to grow your investment account while avoiding both risky investments and excessive trading to generate myself commissions.

In contrast, most other investment advisers, especially those targeting expatriates, operate under the suitability standard where they are not required to give you the best and most objective advice possible and are largely being compensated by commission. These investment advisers are encouraged to trade you in and out of investments (in order to generate themselves commissions) and they are most likely receiving a commission when they sell you certain types of financial products – especially offshore investment products that come with high fees.

However, and no matter what standard investment advisers operates under, truly professional advisers should be willing to disclose to you any relationships, compensation, other incentives or potential conflicts of interests that could impact their ability to provide you with objective advice. In that way, you can evaluate whether their advice is truly independent and in your best interest or not.



It is often possible to search out licensed investment advisers or their firms. Photo: Ante Perkovic

Who’s watching your offshore investment adviser?

If you are wondering who regulates or licenses most offshore investment advisers who provide investment advice to expatriates, the answer is probably going to be nobody.

Of course, there will be some accountability for offshore investment advisers who are somehow affiliated with a large international insurance or brokerage firm or other financial institution, as who they are affiliated with will have an interest in protecting their reputation. However, unscrupulous expatriate investment advisers or firms targeting expatriates rather than locals can easily operate above and beyond any laws or regulations in Southeast Asian countries – meaning it’s the wild west and buyer beware for expatriates.

Given that’s the case, you need to ask potential investment advisers, or whoever cold calls you to sell you an offshore investment product, what licenses they hold and what jurisdictions they are accountable to. Moreover, don’t just take their word for it as the regulatory authorities in most countries should have websites where you can search for the names of individual licensed investment advisers or their firms.

In my case, I am licensed by the US Securities and Exchange Commission (SEC) who hold me accountable to stateside fiduciary standards and other regulations. I am also a Registered Investment Adviser (RIA) and I have passed the Series 65 Investment Adviser Law Exam.

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SET shifts from foreign to local investors

THE change in government on May 22 seems to have occasioned a very different response from inside Thailand as compared with that of the world outside.

The coup may have delivered the coup de grâce to the political turmoil, which not only paralyzed public policy but also saw international investors accelerating their already significant sell-off of Thai assets. Foreign SET sales since January 2012 wiped out the balance of overall foreign purchases made in the previous six years. This year alone, foreign investors have sold nearly 33 billion baht of equities on the SET more than they have purchased.

The SET has rallied strongly in the aftermath of May 22 as the foreign loss of confidence in Thailand has been offset by the return of local investors. In a recent note, UBS stated that it believed “pent up demand, combined with improved exports and an effective government will allow a recovery in growth into the second half of 2014.”

The note did exercise caution, however: it questioned where growth would come from and how the government would help this. It said that it expected a policy rate cut by the Bank of Thailand and that, with elections not likely for another year, the long run depends on the military government’s actions. The boost to growth was likely to come from private and state enterprises in the short term.

One of the Thai economy’s recent weaknesses has been a low level of demand, not helped by the termination of government-funded projects such as the first-buyer car scheme. The UBS report suggested that, because people didn’t spend in Q1 2014, a certain amount of demand is “pent up”. With that and its analysis on exports and the potential effect of government policy, UBS baseline scenario is that around 60 per cent of domestic demand could be reversed in the next two quarters. It envisages that this would translate into a real GDP growth rate of between five and six per cent in 2015.

Experts seem to agree that a lot depends on how helpful the military government is to the economy. As Adrian Dunn of The Brooker Group said at the inaugural BCCT-MBMG Insights event on June 10, the new government – officially the National Council for Peace and Order (NCPO) – seems to have learned from the mistakes of the military’s ponderous approach in 2006.

During his talk, Mr Dunn analyzed the economic measures taken by the new government so far – less than a month after having taken over. Decisions already made included fixing selected prices, reviewing fiscal spending and removing recently-imposed administrative impediments.

The latter of these measures is evidence that the government is attempting to speed up approval of infrastructure projects and foreign investment; therefore making doing business in Thailand easier, and in some cases cheaper.

Mr Dunn suggested that this is feasible as the government debt to GDP ratio is low, especially compared with G7 countries. He added that Thailand’s economy has avoided catastrophe thanks to the coup and that if the suggested policies are indeed implemented, the country will be in a great position to further capitalize on

UBS Thailand predicts that boost to growth is likely to come from private and state enterprise in the short term. Photo: DaveMWeber

the modernization programs underway in the neighboring countries Laos, Myanmar, Vietnam and Cambodia.

At the same event, MBMG co-founder Paul Gambles mentioned that Thailand now faced three main challenges: addressing the political division; tackling the increasing private debt burden; and the slowing of global trade. The latter is of course outside Thailand’s hands and it is particularly precarious given its heavy dependence on the export market. Over the past 20 years, Thailand’s GDP growth pattern has been almost identical to that of its export volume.

With this in mind, Mr Gambles suggested that stock valuations on the SET are not unreasonable and fundamentals, such as the baht, are reasonable. That said, he felt that the country is not out of the political woods yet; there remains the debt legacy of the previous government’s stimulus policy and that global trade could weaken or even collapse in the not-too-distant future.

– MBMG Group