The Role of Investment Advisors

The supervision purview of the Financial Services Regulatory Authority amongst other non-bank financial services providers include investment advisors. Before delving much into the role of an investment advisor, let's discuss the preceding term investment.

What is an investment?

Investment means the use of money to purchase a financial product or other item of value with the expectation of favourable future returns. The expectation carriers the element of risk that is associated with investing. The investment products through which people can invest into include shares, insurance policies, unit trusts and other financial assets with the view of deriving future income in the form of interests, dividends and the appreciation of the value of their principal or initial capital.

The starting point in investing is usually the process to determine the characteristics of the various investment options and then matching them with the individual investor's needs or preferences. This process is tricky as there are a lot of considerations, assessments and analysis that are made to make an informed decision. This is where the investment advisor comes in.

An investment advisor

According to the Securities Act of 2010, investment adviser means a persons who:
(a) carries on the business of advising others concerning investments;
(b) as part of a regular business, issues or promulgates analyses or reports concerning investments; or,
(c) pursuant to a contract or agreement with a client, undertakes on behalf of the client, whether on a discretionary authority granted by the client or otherwise, the management of investments, including the arranging of purchases, sales or exchange of securities through a licensed dealer;

Investment advisors are expected to adhere to all applicable laws and regulations governing their activities. This include;

- Observing high standards of integrity and fair dealing in managing investments;
- Acting in the best interest of the clients;
- Acting with due skill, care, diligence and good faith;
- Observing high standards of market conduct; and
- Monitoring investments on an ongoing basis.

The Investment Advisor process

There are three steps that would normally be followed by an investment advisor in the investment process. They are the;

1. **Planning step.** An investment advisor needs to assess each clients' risk tolerance, return objectives, time horizon, tax implications, liquidity needs, income needs and any unique circumstances or preferences. Information gathered allows an investment advisor to design an investment policy statement that details the client's investment objectives and to construct a portfolio that will uniquely fit each investor's circumstances.

2. **Execution step.** The investment advisor has to analyse the risk and return characteristics of various asset classes to determine how funds will be allocated. Often, an investment advisor uses different approaches to examine current economic conditions and forecasts of macro-economic variables. Once the asset class allocations are determined, investment managers may identify the most attractive securities within the asset class.

3. **Feedback step.** Overtime, as an investor your circumstances may change, the risk and return characteristics of the asset classes, the actual weights of assets in the portfolio will change with asset prices. The investment advisor therefore have to provide you with a comprehensive report on the investment portfolio at regular intervals.

As an investor it is your role to ensure that you solicit investment advice from registered investment advisors. To verify the authenticity of an investment advisor, you can contact the FSRA on 2 406 8000 or email stakeholder@fsra.co.sz .