The real scam is the risk of taking advice

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Do you own a lot of cheap jewellery and health products? Does your post consist entirely of junk mail? Are you reluctant to discuss your finances with your family? Of course not - you're an FT reader. But you should find this state of affairs reassuring for more than just sartorial, social and financial reasons. According to the Office of Fair Trading and Consumer Direct, these are the tell-tale characteristics of people with a propensity to fall for "mass-market scams".

Last year, apparently, an estimated 3m people in the UK fell victim to financial scams sent by post, e-mail, text, phone or internet, losing an average of £850 each. So issuing this "profile" is supposed to help us recognise if friends and relatives are at risk, and forms part of "Scams Awareness Month", which launched this week. Fronted by that well-known scourge of the criminal underworld, Angela Rippon, the campaign aims to defeat fraudsters by raising awareness of the dangers lurking in every envelope and electronic mailbox.

Now, this is not meant to disparage the well- intentioned efforts of Ms Rippon and her government sponsors, but their explanation of why people lose money begs a question about priorities: "Scammers use psychological techniques to gain vulnerable people's trust. They exploit fear and insecurity to steal as much money as they can from those who can least afford it. Scams can have a devastating effect on people's lives with many repeat victims losing their life savings."

Try substituting "scammers" with "financial advisers", and "scams" with "personal pensions" or "with-profits endowments" - or any other high- commission, high-charging, low-return products. Many of these have left savers a lot more than £850 worse off. Wouldn't government agencies achieve far more by raising awareness of the dangers lurking in every policy document in every investor's boxfile?

This year, all we have had is an announcement from the Financial Services Authority that it has selected "partners" for a Money Guidance "pathfinder" scheme to deliver impartial financial advice to people in the north west "from this spring". Anyone wanting advice on investments without the pernicious influence of commission will have to wait until the Retail Distribution Review is implemented in 2012. Until then, investors have to assess the dangers themselves.

Before my own mailbox fills up with complaints from irate intermediaries, let me acknowledge that there are many reputable fee-based advisers who do serve their clients' best interests and select far better investments. However, that's not the point. If millions of people are too trusting, or vulnerable, to discern the honest broker from the "Honest Johns", they need help in avoiding the psychological traps.

Thankfully, some advisers and investment managers are starting to provide this.

Bestinvest, the entirely fee-based advisory group, this week issued tips on overcoming the "cognitive illusions and biases" that affect our investment decisions and "can hit us where it hurts, in our pockets".

It warns against an overconfidence in company literature that stresses positive messaging through the repetition of words such as "grow", "good", "better" or "improvement". It also cautions against the bias towards optimism that most investors still have, which leads them to underestimate risks. And it discourages the acceptance of expert hindsight - widely used by the industry to rationalise outcomes after the event, and convince clients that investment performance is acceptable, even when it is not. Martin Currie, the fund manager, is helping here, banning misleading terms such as "drawdown" - meaning a "loss" or "fall" - from all its client reports.

Bestinvest suggests investors "recalibrate" themselves to avoid these biases - and even provides a simple exercise. Pick a high and a low for the FTSE 100 that you feel 99 per cent sure will not be breached in a month's time. This is your "subjective confidence interval". If the index stays within your parameters, you are well calibrated.

But wouldn't it be better if advisers calibrated risk and reward for you, based on your needs? Bloomsbury Financial Planning thinks so, and has become the first UK advice firm to trial new software that can read investor psychology, called Financial DNA. It has been developed from academic research into human behaviour in relation to financial issues, and how individuals react naturally in times of financial stress.

So, in stressful times such as these - when consumers most need reliable financial advice but the government remains preoccupied with scams - it may offer some genuine protection against the dangers of buying the wrong investment. Can it be foolproof? I'll let you know in a future column - as it's going to be tested on me!