Are you a responsible investor?

During the past few weeks we have addressed the need of educating yourself on the stock market prior to investing. An equally important factor is to manage your relationship with the stockbroker firm/investment advisor and refrain from unwanted disputes that could have an adverse impact on one's portfolio. The relationship you build up plays a pivotal role when selecting suitable stocks, managing the portfolio and determining the return to investment.

Whenever people work jointly towards a common goal, which is in this instance maximizing profits in the market, there is a possibility of facing conflicting situations as a result of the conduct of either parties or even both. It is a two-way process as stated below.

- Issues emanating from the conduct of investment advisors/stockbroker firms.
- Issues emanating from the conduct of investors.

An in-depth analysis on these disputes reveals that in most cases it is the negligence of both or either parties that causes disputes. It is true that necessary measures could be taken. Yet, you open your portfolio to undue risk. Thus, today's article will identify these conflicting situations you might face and stipulate the remedies to rectify the issues with the aim of avoiding such situation. As the famous English proverb states, "Prevention is better than cure".

Issues emanating from conduct of investment advisors/stockbroker firms

- **Investment advisors purchase and sell shares without the consent of the client.**

At times investors complain about their investment advisors purchasing/selling shares without informing them. An investment advisor's role is to advise the investor and the final investment decision is made by the investor (client). In such an instance, purchasing or selling shares without the consent of the investor is inappropriate. However, it will be slightly different if the client has signed a discretionary account as it allows his investment advisor to trade without his consent.

- **Investment advisors purchase/sell shares at a price different to what was instructed.**

Purchasing and selling shares at a price different to what was instructed could have an adverse effect on the portfolio and return to investment. Yet, it is important to bear in mind that it is not always possible to execute transactions at the stipulated price. There can be slight deviations. Investors should look sharp only if there is persistent deviation in the transactions executed.

- **The quantity of shares purchased or sold by the advisor might differ from the instructions given by the client.**

There can be slight changes in the quantity purchased/sold based on the prevailing market conditions. Further on, there can be human errors at the point of entering the data. If an advisor intends to enter 100 shares of company X, he might by mistake add another zero that would increase the quantity to 1000. In such a situation, an investment advisor is expected to inform the client at his earliest and rectify the error trade. If these errors continue, stringent measures should be taken by the investor.

- **Purchasing shares of a company that is different to what is instructed by the client.**

  The possibility of an error trade pertaining to the company is less compared to the instances discussed above. Hence, such behaviour should be addressed in a timely manner.

- **Purchasing shares on credit without informing the client.**

At times certain investment advisors might execute transactions on credit without informing the client. Issues would arise if such stocks don't go in line with the investor's financial goals.

- **The stockbroker firm fails to settle the money for executed transactions.**

Usually the proceeds of your transaction will be remitted to the account three days after the sale of shares. Failure to do so might give out signals on the financial credibility of the stockbroker firm or simply negligence of the company.

- **Investment recommendations given by investment advisors lack solid reasoning.**

Investment advisors might employ fundamental analysis or technical analysis to give out recommendations. It is important to base these recommendations on solid reasoning and research based on the method used. At times they might give out recommendations that lack solid reasoning. There is a higher possibility of such stocks not performing as expected and thereby exposing the portfolio to unwanted risk.

- **Certain advisors trade far above the limit the client could shoulder.**

Credit involves interest payment. Thus, it is vital that advisors bear in mind the client's financial credibility prior to purchasing on credit. Unfortunately, certain advisors fail to draw a balance and end up trading excessively on credit.

There can be situations that are not addressed above that could cause disputes. However, it is important to bear in mind that these incidents are not frequent. Investment advisors and the firms they represent usually act with utmost integrity and responsibility. Hence, unwanted pessimism is not required.

Issues arising as a result of the conduct of the investor

Investors deny the instructions given to investment advisors
There can be discrepancy in the instructions given in relation to the company, quantity and the price. For an example, an investor might state that he gave instructions for 100 shares to be purchased even though his advisor has purchased 1000 shares. In most cases, instructions are conveyed to advisors through the telephone. Hence, it is not easy to recapture the instructions given. Thus causes discontentment between the investor and the investment advisor. It is advisable to give instructions in writing.

Investors deny signing an agreement to trade on credit
At times investors complain of their investment advisors trading on credit. Past experiences reveal that at times investors have signed agreements to trade on credit without their knowledge. At the point of opening an account, investors are given a set of forms and agreements which include the CDS Account Opening Form, Know Your Customer Form, Discretionary Account, Credit Agreement, etc. Most investors sign these documents without going through the context. However, there could also be situations where the investor has not actually signed such a document while another section might sign the document and state that they haven't signed it.

Lack of knowledge on the market
Certain investors are unaware of the interest charged on money invested on credit, brokerage fee, etc. This could cause disagreement between the two parties with time.

Investors lodge complains after the stipulated time period
This is a result of the inability of the investor to keep track of the transactions. Investors are in receipt of Brought/Sold Notes and CDS statements. Yet, seldom verify the data. It is vital that investors familiarize themselves with these documents and follow up on the transactions. Most investors go through these documents only if issues are surfaced and by that time it is too late to lodge a complaint.

High expectations from the investment advisor
Certain investors fail to understand that their investment advisors act in advisory capacity to other investors as well. Hence, they expect their advisors to continue updating them on the performance of the market in an unreasonable manner.

Investment advisors are expected to give out recommendations based on solid reasoning. Yet, they can't guarantee the return as the market could be influenced by unpredictable factors. If the advisor has given sufficient reasons for his recommendation, investors should not blame the advisor if the price movement was not as expected.

Certain investors trade far above the stipulated credit limit
Internet trading is a popular form of trading among investors. The lack of discipline and focus on investment goals drives investors to tap on all the lucrative stocks via Internet trading. The inability to filter investment opportunities does not only result in investors trading on credit but at times even exceeding the stipulated credit limit.
If investors are unable to pay interest as a result of purchasing stocks above the credit limit they could bear or the value of the stock drastically drops, there might be margin calls. This could also lead to forced selling. Failing to understand that the fault was in their hands investors blame the investment advisor and the stockbroker firm.

Measures that can be taken to resolve disputes

Even though issues that can arise between two parties were addressed, it is important to bear in mind that they are not frequent. However, it is important for investors to be aware of the remedies in case they encounter such situations. The section will touch on these remedies as many investors are not aware of it.

- You could complain to the compliance officer of the stock brokering firm within three months in writing. The officer will deal with the complaint and ensure that it is resolved expeditiously and satisfactorily.
- The Dispute Resolution Committee shall adjudicate upon such complaint and if required, the committee may give a hearing to the stockbroker firm and/or the complainant, as the case may be.
- If the client is not satisfied with the decision taken by the stockbroker firm or the manner in which the complaint was dealt with by the stockbroker firm, the client may refer the complaint to the Colombo Stock Exchange (CSE) in writing.
- The complaint shall be dealt with by the officer/s appointed by the Chief Executive Officer of the CSE to deal with such complaints and the decision of the officer/s shall be conveyed to the client and/or stockbroker firm in dispute, as appropriate. If a party is not satisfied with the decision, such party may appeal, within a period of 21 days from the date of the decision, to the Dispute Resolution Committee for an adjudication of the decision.
- The decision of the Dispute Resolution Committee shall be referred to the Board of Directors of the CSE for ratification. The decision of the board of directors shall be conveyed to the relevant parties in dispute.

Prevention is better than cure

Apart from the aforesaid remedies both parties should take necessary measures to mitigate such conflict. It is of no use to lament on financial losses caused as a result of these disputes that could have been avoided. The following tips will enable you to build a smooth relationship with your advisor/stock broker firm.

- Communicate to the advisor your financial goals and financial credibility.
- Inform the stock broker firm on the changes of your contact details.
- Evaluate your advisor and stock broker firm. In this competitive world you will be lost with choices. Yet your investment advisor should be selected with precision and caution. Make sure you deal with only a licensed investment advisor who is knowledgeable, experienced and acts with client's interest and utmost integrity.
- Investors should read and understand the terms and conditions prior to signing any form of document or agreement. It is best if you fill the relevant details yourself. Don't leave any blanks as it will prevent misuse.
- It is advisable if investors give instructions on the purchase/sale of shares in writing. This could minimize unwanted conflicts between the two parties. Your instructions should be clear as ambiguous instructions are the most common cause of disputes. If you are giving verbal instructions make sure your instructions are recorded by your stock broker firm.
- If you intend to make profit in the market it is vital that you closely monitor your portfolio. Update yourself on the transactions in a timely manner. Verify the details given in the contract notes and monthly statements.

"It is the neglect of timely repair that makes rebuilding necessary"

Richard Whately