DRN-4797924

The complaint

Mr O complains that Scottish Widows Schroder Personal Wealth Limited, trading as Schroders Personal Wealth ("Schroders") gave him unsuitable investment advice.

What happened

Mr O had around £220,000 in a cash ISA account and a bank savings account. He had three rental properties and said he planned to buy two more, but his bank introduced him to Schroders. Schroders advised him to invest in a medium risk portfolio and he said he was told the investment would grow by at least 6% each year. He said Schroders told him he could withdraw £1,000 each month and his investment would still grow.

In March 2022 he invested £180,000 and paid an initial fee of £3,000. He planned to invest a further £40,000 a few months later but, after a month, his initial investment was valued at £160,000. He expressed his disappointment and decided not to invest the additional money.

He says Schroders reassured him the investment would grow over the long term, but he said he'd never agreed to a long-term investment, and he'd always wanted to take £1,000 out each month. In March 2023, he encashed the investment making a loss of around £8,000.

He wants Schroders to reimburse him for the loss. After he cashed in the investment, he bought two rental properties, but these cost him around £15,000 more than they would have done if he'd bought them in March 2022. He also lost out on rental income of £1,150 each month. He feels the Schroders' advisor was only interested in earning commission. He wants Schroders to provide better training and to be fined for offering misleading advice.

Schroders said Mr O was assessed as having a medium attitude to risk, was prepared to invest for at least five years, but possibly as long as twenty, and that there was no evidence to support that he'd been told he would receive a minimum return of 6%. Schroders also said it had provided Mr O with clear information about its fees and about the tax position of the investment.

Our investigator didn't recommend that the complaint should be upheld. He didn't conclude the advice given by Schroders was misleading or unsuitable.

Mr O didn't agree. He said, in summary, that:

- He was persuaded to invest based on promised growth figures of 6% per year. He was told his investment would be worth £178,000 after 15 years, taking into account he would start taking £1,000 out each month from January 2023.

- He never planned to leave the investment for years; he planned to take £1,000 out each month and made this requirement clear from the outset. Long term was only mentioned because he told Schroders the money would last him 15 years if he kept it in a bank account.

- Schroders told him it was a good time to invest because of the war in Ukraine.

- His attitude to risk was discussed and he made it clear he didn't like risk, which was why he'd always invested in property.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Firstly, I'm aware that I've summarised this complaint in far less detail than the parties and in my own words. There is a considerable amount of information here but I'm not going to respond to every single point made. No discourtesy is intended by this. Instead, I've focussed on what I think are the key issues here. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts. If there's something I've not mentioned, it isn't because I've ignored it. I haven't. I'm satisfied I don't need to comment on every individual argument to be able to reach what I think is the right outcome.

Secondly, Mr O has mentioned wanting Schroders to put additional training in place and to be fined. But the ombudsman service isn't the industry regulator. We don't set rules for businesses or police the industry to make sure those rules are followed. And we don't have the power to fine or punish businesses. These are all issues dealt with by the industry regulator, the Financial Conduct Authority. My role is instead to consider individual disputes and reach an outcome I think is fair and reasonable in each of the particular circumstances.

Having considered everything carefully, I find I have come to the same conclusion as the investigator for the following reasons:

Investment in the stock market

Mr O didn't have any investment experience. He explained that he liked to be in control of his investments and that's one reason why he'd always chosen property, rather than stock market, investment in the past. But he had money in a cash ISA and a savings account (and had just received an inheritance). And, whilst he'd considered additional property investment, he told Schroders he didn't want any more properties. I don't think it was unsuitable for Mr O to invest a proportion of his money in stock market investments to try to achieve a better capital return on his savings, and as an alternative to further property investment.

Investment term

Mr O told us that he'd never intended to invest for the long term. I've looked at the paperwork which was completed at the time. The fact find records that Mr O had an income surplus each month and didn't need any income from his investment. And that he had enough cash (after the investment) to cover any emergencies or other unforeseen spending. He told Schroders that the money he planned to invest wouldn't be needed for some time. The suitability letter recommended that Mr O should only go ahead with the investment if he intended to hold it for at least five years, which he confirmed was the case. And, during the discussion about the suitability letter, Mr O indicated he wouldn't touch the investment for "*five years, or even 10 years*". Overall, I don't find it was unreasonable for Schroders to conclude that Mr O was prepared to invest for a minimum of five years, and possibly longer.

Monthly withdrawals

Mr O told us that he wanted to withdraw £1,000 a month from his investment starting in January 2023. I accept there was mention of £1,000 monthly withdrawals, but I don't think this formed part of Mr O's objectives in 2022 when the investment recommendation was made. I say that because:

- Mr O gave Schroders details of his income and expenditure, and this showed that he had a surplus monthly income of £1,000. So he didn't need any income from the investment to supplement his existing income. As already noted, if there were unforeseen expenditure needs, Mr O had access to an emergency fund. So I don't think he had a need to withdraw money from his investment.

- During his conversation with Schroders, Schroders said that "*You may want to take some money out at some point in the future and that's absolutely fine but we haven't set an income, if you like, from it. We'll let it grow for at least 12 months and see where we go from there*." Mr O didn't disagree with that statement.

- During the same conversation, Mr O referred to "*making*" £1,000 a month, rather than withdrawing it. He told Schroders "*I just want you to beat what I can do"* and I think the £1,000 was what he thought he would earn in rent if he'd invested in property.

- There's nothing in the suitability letter to suggest that a regular withdrawal would be set up, either from the outset or in the future.

Risk

Mr O completed a risk questionnaire. The overall assessment of his answers was that he had a medium attitude to risk. He was new to stock market investments, but that doesn't mean that taking some risk was inappropriate for him. I think Mr O made it clear that, whilst he wanted his capital to grow in value, he didn't need the money and was prepared to invest it for the medium to long term. I'm satisfied, considering Mr O's overall financial circumstances, that he could afford to take some risk with this investment and that he could withstand the risk – because he could replenish any losses from his income if needed.

Whilst Mr O was assessed overall as having a medium attitude to risk, he'd given typically "low risk" answers to three of the ten questions. I'm satisfied that further discussion took place about his answers to these three questions. And, for the reasons I've already explained, I don't find a medium risk attitude was inappropriate for Mr O in his circumstances.

Was the "Discovery" portfolio suitable?

The Discovery portfolio invested in assets including shares, bonds and property. Around half of the portfolio was invested in cash or bonds – investments with no or low risk. And around half was invested in property, shares, commodities and other investments which all carried some risk. I'm satisfied that the overall spread of investments was suitable for Mr O, given his agreed medium risk profile and his investment objective – to achieve a better capital return on his savings.

Promised projections

Mr O says the advisor promised him a minimum annual return on the investment of 6%. I don't find Schroders gave Mr O any guarantees that his investment would provide a minimum return. Schroders provided Mr O with some projections, but I think it was made clear that these were based on past performance of the portfolio. And I'm satisfied from the discussion that took place after Schroders sent Mr O its suitability report that Mr O understood there were no guarantees that his investment would increase in value.

Timing of the investment

When Mr O raised concerns about the performance of his investment in May 2022, Schroders told him that "*the war in Ukraine has impacted significantly on investment performance*". But he says Schroders told in February/March 2022 that it was a good time to invest because of the war.

Whilst apparently contradictory, I don't think either statement was unreasonable at the time. The war had caused a fall in stock markets which meant Mr O would be investing when markets appeared to be relatively low, thus maximising the chances of his investment growing in value.

But the investment was intended to be for the long-term. It was always likely to suffer short-term volatility, particularly as the war didn't conclude swiftly as some analysts may have predicted.

Overall, I don't find Schroders' comments to be unreasonable or misleading at the time. And historically the investment had performed well over the medium to longer term and it was equally possible that it would have performed well had Mr O decided to stay invested.

Tax and fees

As part of his complaint, Mr O said that the fees and tax implications hadn't been made clear to him.

I find the fees were set out in the suitability report and in a separate example cost and charges document. These were also highlighted and explained by the advisor during the discussion about the suitability report.

The majority of the initial investment was to be in an ISA and around £70,000 was to be invested in a general investment account ("GIA"). Schroders explained that the investment in the GIA would be subject to income tax and capital gains tax. But the aim was to move the GIA investments to the ISA by utilising Mr O's ISA allowance each year. I'm satisfied that Mr O was made aware of the tax implications of the investment, and that it was appropriate to maximise the investment in the ISA wrapper, on an on-going basis, to minimise tax.

Conclusion

Mr O was persuaded by the Schroders' advisor to go ahead with the investment, but I don't find he was given any unclear or misleading information. I'm satisfied Mr O was given enough time and information to make an informed choice about whether to go ahead – there was an initial meeting, followed by a written suitability report, and a further lengthy discussion about that report. So there was plenty of opportunity for Mr O to ask any questions if he was unsure about anything. That said, it was Schroders' responsibility to ensure its recommendation was suitable for Mr O. For the reasons I've explained, I'm satisfied that the advice provided by Schroders wasn't unsuitable for Mr O given his circumstances and that Schroders treated him fairly.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr O to accept or reject my decision before 25 February 2025.

Elizabeth Dawes
Ombudsman