complaint

Mr and Mrs A complain that Money Wise Independent Financial Advisers Limited mis-managed their portfolios. They consider it included unsuitable investments in their portfolios and held too much cash in their ISAs for a period of time. They are concerned their portfolios underperformed Money Wise's balanced risk benchmark.

background

From February 2009, Money Wise managed Mr and Mrs A's portfolios on a discretionary basis. It has confirmed that the portfolio held within an investment bond was managed independently of the rest of the portfolio.

Around 30% of bond portfolio was exposed to unregulated collective investment schemes ("UCIS")

Late in 2009 Mr and Mrs A questioned the management of their portfolios, as they considered they had underperformed. Money Wise said it had not fully invested the ISA portfolios and this had caused a loss of investment performance. It offered to waive its fees on the ISAs and general investment accounts for the remainder of 2010 in compensation for this. Mr and Mrs A accepted this offer.

The UCIS holdings were reduced in 2010. In 2012 Mr and Mrs A made further complaints. Money Wise rejected these and Mr and Mrs A came to us.

I issued my provisional decision in February 2014 setting out the conclusions I was minded to reach. In summary:

- When it made its original offer, Money Wise should have told Mr and Mrs A they could come to the ombudsman service if they remained dissatisfied as required by the complaint handling rules. It did not do this, so it is reasonable for me now to reconsider Mr and Mrs A's complaints and the fairness of the offer.

- Mr and Mrs A's circumstances and attitude to risk suggested the portfolios should have been managed in line with a *balanced return* and *balanced risk* objective.

- Considering the non-bond portfolio as a whole, exposure to high risk investments was not excessive and the portfolio was suitable for the balanced risk objective.

- However, statements until November 2009 for Mrs A's ISA and September 2010 for Mr A's ISA, showed significantly more cash held than the 13% Money Wise said it would hold. The ISAs had contained too much cash for too long.

- Money Wise's offer to waive charges was not the way to redress the investment performance loss caused by the mistake it had identified. It should instead have assessed the loss and paid money to the portfolio to redress it.

- So if the ISA accounts were worth less when they were transferred away from Money Wise than they would have been if the correct asset allocation been in place, Money Wise should compensate Mr and Mrs A for this.

- The UCIS investments held in the bond could reasonably be considered higher risk. They were specialist and their management was not regulated.

- The bond portfolio was therefore over-exposed to higher risk investments from the outset.
- However, the exposure to higher risk investments was later reduced, and the sale of one of the UCIS investments in July 2010 reduced the holdings of higher risk investments to a suitable level.
- So, in summary, the portfolios were suitable except:
- Mrs A's ISA held too much cash until November 2009 and Mrs A's held too much cash until September 2010 (the times at which the respective ISA's cash levels were reduced to the benchmark 13%).
- The bond portfolio had too much exposure to higher risk investments from when Money Wise's discretionary management began until the UCIS sale in July 2010.
- In addition Money Wise should have dealt with Mr and Mrs A's concerns promptly and in line with the complaint handling rules. It did not do this and caused Mr and Mrs A distress and inconvenience as a result.

Mr and Mrs A accepted my provisional findings, but added that they remained disappointed with the timing and quality of the ISA investments Money Wise had made.

Money Wise only made one comment, which was that compensation for the underinvestment of the ISA funds should be calculated by reference to its model portfolio, rather than the WMA Balanced Total Return Index.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. Having done so, I have reached the same conclusions as I reached in my provisional decision, for the same reasons.

Neither party has made significant new submissions in response to my provisional findings. Money Wise has commented on the proposed compensation, which I will reconsider in the section below. Mr and Mrs A have said, in summary, that they remain of the view that their ISAs were not suitably invested, on account of the poor performance they showed.

I understand that Mr and Mrs A remain disappointed with the investment of their ISA accounts, but I have not seen sufficient evidence to conclude they were unsuitably invested, with the exception of too much being held in cash. I appreciate that the information Mr and Mrs A have provided shows that the performance of the ISA was poor, but that in itself does not mean that it was unsuitably invested. I remain satisfied that the investments selected for the ISAs by Money Wise were consistent with Mr and Mrs A's objectives.

So, to confirm, my final conclusions are:

- The bond was unsuitable from when Money Wise began managing it until the level of UCIS held was reduced in July 2010, as it had too much exposure to high risk.
- Too much of the ISA was held in cash until the date of November 2009 statement for Mrs A's and the date of the September 2010 statement for Mr A's ISA.

- Mr and Mrs A have been caused distress and inconvenience by Money Wise's actions – it should have dealt with matters more quickly and in accordance with the complaints handling rules.

fair compensation

ISAs

Money Wise has suggested the use of its model portfolio rather than the FTSE WMA Balanced Total Return Index to measure whether Mr and Mrs A were disadvantaged by too much cash being held in their ISAs But I am satisfied that the FTSE WMA Balanced Total Return Index benchmark has the qualities of an investment that would have been suitable for Mr and Mrs A's objectives, and therefore remain of the view that it is a fair measure for the impact of the underinvestment of the ISA funds. So, to confirm:

- Money Wise must compare the performance of that part of the sum held in cash that exceeded 13% of the total ISA value when Money Wise's discretionary management began, with what this would have achieved if it had performed instead in line with the FTSE WMA Balanced Total Return Index

- The comparison period starts when Money Wise's discretionary management began (14 February 2009 as I understand it) and ends for Mrs A's ISA on the date of the November 2009 statement and for Mr A's ISA on the date of the September 2010 statement (when the cash held had fallen to a level reasonably close to the target).

- I have chosen the FTSE WMA Balanced Total Return Index as this was the benchmark for the ISA portfolios.

- If the index performance was better, Money Wise should pay the difference to the consumer after first adjusting it by the rate of growth achieved by the ISA from the comparison end date above to the date the ISA was transferred away from Moneywise – and pay the consumer simple interest on this sum at the rate of 8% per year from the date the ISA was transferred until the date of settlement.

For example, if Mrs A's ISA was worth £100,000 when Money Wise began managing it and £50,000 was held as cash, which grew by 2% until the November 2009 statement date and the WMA Balanced Index grew by 12% over the same period, the index would have performed better by £3,700 (10% of £37,000, which was the excess amount of cash held). If Mrs A's ISA suffered a 20% fall in value between November 2009 and the date of transfer, Mrs A would be due a payment of £2930 (£3,700 minus £740) plus 8% interest on that sum from the transfer date until the date of settlement.

investment bond

To compensate Mr and Mrs A fairly, Money Wise should put them as close to the position they would probably now be in if they had not been given unsuitable advice. I think Mr and Mrs A would have invested differently. It is not possible to say *precisely* what they would have done differently. But I am satisfied that what I set out below is fair and reasonable given their circumstances and objectives when they invested.

To compensate Mr and Mrs A fairly, Money Wise must compare:

- the performance of Mr and Mrs A's bond from when Money Wise's discretionary management began until the date of the UCIS sale in July 2010

with

- the return illustrated by the FTSE WMA Balanced Total Return Index ('WMA index') over the same period of time.

If there is a loss, Money Wise must pay this to Mr and Mrs A and pay interest on this loss from the date of the July 2010 UCIS sale until to the date of settlement.

I have chosen this method of compensation because, as with the ISA portfolios, the WMA Balanced Total Return Index was the benchmark and I am satisfied that this was suitable for Mr and Mrs A, and that they understood and accepted the risk associated with that asset allocation. Although the comparison may not be an exact one, I consider that it is sufficiently close to assist me in putting Mr and Mrs A into the position they would have been in had they not received the inappropriate advice.

The compensation payable to Mr and Mrs A is the difference between the fair value and the actual value of the investment. If the actual value is greater than the fair value, no compensation is payable.

The actual value is the value of the bond at the date of the July 2010 UCIS sale. To arrive at the fair value, Money Wise must work out what the bond investment would have been worth, if it had performed in line with the WMA income index from the date Money Wise's discretionary management began to the date of the July 2010 UCIS sale.

Any additional sum that was paid into the bond should be added to the fair value calculation from the point it was actually paid in. Any withdrawal or income payment that Mr and Mrs A received from the bond should be deducted from the fair value calculation at the point it was actually paid so it ceases to accrue any return in the calculation from that point on. If there are a large number of regular payments, to keep calculations simpler, I will accept if Money Wise totals all such payments and deducts that figure at the end instead of periodically deducting them.

If there is compensation to pay, simple interest must be added to the compensation amount at 8% each year from the date of the July 2010 UCIS sale to the date of settlement. Income tax may be payable on this interest.

For distress and inconvenience:

Money Wise must pay Mr and Mrs A £500 to compensate them for the distress and inconvenience they have suffered as a result of its faults. I consider this sum fair and reasonable compensation for this in the light of the circumstances outlined above.

my final decision

I uphold the complaint. Money Wise Independent Financial Advisers Limited should calculate pay compensation as described above.

John Pattinson
ombudsman