

Savvy investors want transparency

Nowadays, investors want to know upfront how much they will be paying, what they are paying for, and how they will be earning their returns. They want less complex products with transparent structures that allow them to see exactly what they are getting.

In the UK, a special unit, the Transparency Task Force, has been setup in response to calls for institutions be more transparent, which recently concluded research into fee structures.

The findings uncovered more than 100 types of costs and charges being routinely applied to pensions and investments, many of which are being hidden from the consumer. Pension funds, in particular, were exposed to fees including bank set-up costs, tax advice fees, transaction charges and fund administration, legal, compliance and governance fees.



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Investment made more assessible

Asset managers in the local unit trust industry were the first to make investing more accessible by addressing these issues. Products with clear mandates, lower fees than endowments or individual stock portfolios, and high liquidity have attracted huge amounts of investor money over the last two decades.

More recently, there has also been a growing interest in passive investing. The costs are low, and investor take comfort in knowing that they will always earn the return of the index, with a level of principal protection some cases.

They also appreciate that there are high levels of transparency in these products. They can examine the way that the index is constructed and know that these pre-determined rules won't change. This means that they can accurately judge whether the exposure they will be getting is appropriate and suits their risk profile.

Knowing the rules upfront

Gareth Stobie, managing director at Coreshares, a local firm that specialises in index tracking investment solutions, says, "When you look at the running costs for unit trusts and for exchange traded funds, they are

very much alike and so are the reporting requirements. The same total expense ratio convention applies to both.”

“However, from an expectations-management, governance and a transparency perspective, the rules based nature of index funds means that the products can be sold to clients and the clients know what they are investing in because they can scrutinise the rules upfront.”

The rise of the internet and proliferation of information over the past decade has undoubtedly had an impact. Investors are able to access deep research, read the small print and watch the undulation of their investments (in most cases), all on their phone.

Extended to structured products

These developments have also been of great benefit to financial advisers. They can more accurately describe to investors what they will be paying, and what the risk-return pay-off will look like. This both improves the quality and appropriateness of the advice that they give.

This move towards greater transparency has also extended to structured products. These were traditionally opaque investments, and the fee structures could be both very high and extremely complex.

The last six years has seen a surge in the number being issued and clarity on pricing is one of the main factors for their increased popularity. While some structured products do still suffer from these issues, there is also now a set of offerings that are some of the most transparent investments available.

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