

Why it pays to get advice

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Remember pension mis-selling? Of course you do. How about bond washing and boiler room scams? Or PPI and Libor fixing? The sad fact is that the list of recent financial and investment scandals is damning. So you'd think the chances of more coming to light would be slim. But you'd be wrong.

Two key financial watchdogs, the Pensions Regulator and the Financial Conduct Authority have revealed that savers have been tricked into transferring large sums of money from their pensions into 'exotic or fraudulent' investment schemes. These scams are estimated to have cost around £1bn since 2015.

There are many golden rules of investing but for us at Tacit Investment Management there are only three gold nuggets:

1. If an opportunity looks too good to be true it probably is.
2. If you don't understand it don't invest in it.
3. Avoid the 'permanent impairment of capital.'

The first and second are simple rules of common sense. If you place your pension in a 'get rich quick' scheme it just "ain't gonna happen."

Our third nugget though involves study, know-how and patience.

Investing is an appraisal of intrinsic and future value. Finding high quality ventures with sources of growing, repeatable revenue streams and backed by long-term, low cost secure financing, doesn't happen overnight. It takes time.

The future is always uncertain, so we ask questions before committing your funds to an investment. Such as "what is your margin of safety?" How senior is your investment in the capital structure? Can you realise your capital? If so under what terms and at what cost? We'll also question where your money is kept? Who the custodian is and does the investment fall under the protection of the financial compensation scheme. It's a little known fact that not all of them do.

If you fancy Bitcoin for example do be aware that HMRC will only accept sterling to pay your taxes. There's no backing, and no margin of safety available open to you.

Oddly in a world that obsesses in innovation and change our financial world should be a rock of conservatism.

American Paul Volcker, the former Chairman of Governors of the Federal Reserve Board said that the one worthwhile financial innovation in his lifetime was the ATM cash machine. Whilst Warren Buffett described derivatives as 'weapons of financial destruction.' And the radical Canadian economist John Galbraith commented that the only magic in finance was the 'compounding' of repeatable cashflows.

Many of those scammed failed to take advice even though investment isn't an activity that easily lends itself to, how can we say, inexperienced hands.

Perhaps the best recommendation we can give you at Tacit is that in the world of finance and investment there are no shortcuts and it will always pay you to get advice.

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