DRN-4013385

The complaint

Mr G complains about investment advice Hargreaves Lansdown Advisory Services Limited (HL) gave him in 2018. In particular, he complains that the Woodford Equity Income Fund (WEIF) was recommended to him and he has now lost a considerable sum of money.

What happened

Mr G was an existing client of HL. In May 2018 he met with an adviser and agreed to receive 'limited advice, restricted to a review of the collective funds' which he held in his HL accounts. Mr G answered questions as part of a fact find. This revealed that:

- He had recently retired and was receiving income from savings and investments of around £40,000.
- He had around £392,400 in cash deposits, £190,000 in National Savings (NS&I), over £407,000 in stocks and shares ISAs as well as another £28,772 in other equity investments. He held around £1,800,000 in Unit Trusts, Investments Trusts or OEICs, and another £70,000 in investment or with profit bonds. His pension was worth around £1,088,579 and he was drawing down income from it.
- His objectives were to invest for income and growth.
- He had the knowledge, experience and time to actively monitor his investments, but wanted a professional review of his accounts from time to time. He was therefore looking for HL to review the collective funds he held in his account and remove those funds which weren't performing and recommend funds that were approved by HL.

In order to provide Mr G with a suitable recommendation, HL also needed to identify how much risk he was willing to take. Mr G explained that he didn't hold any professional investment qualifications, but he was a chartered accountant. He explained that he followed investment markets and read HL's publications as well as its email alerts and other research provided by it. Mr G regarded his knowledge of investment matters as 'above average' and given his background in investing over a number of years, he regarded himself as an 'experienced investor'.

Based on his discussions with the adviser, Mr G's desired portfolio mix saw him invested in equities primarily, with around a third in cash or fixed interest. In discussing Mr G's approach to volatility and drops in value, Mr G explained that he wouldn't panic in the event of his portfolio losing 38%.

He explained that he intended to remain invested throughout his retirement, and was intending on retaining a significant sum on deposit. This would allow him to absorb any losses more easily as he would not need to access his portfolio when markets were low. On discussing the various options available, Mr G agreed that his and his adviser's approach to investment risk for his portfolio was the right strategy and he was comfortable with the risks involved.

As a result, Mr G and his adviser agreed to restructure his portfolio by 'fine tuning' non-performing funds and otherwise adding HL approved funds. To that end, the adviser recommended:

- Mr G sell four collective investments primarily invested in equities. The suitability report gave individual rationales for each disposal.

- Reinvest the proceeds in:

    - WEIF – around £215,114; a fund focused on blending larger high-yielding companies with higher-risk smaller, more innovative businesses. The smaller businesses, which include those not yet listed on the stock market (unquoted companies) are included to provide long term growth potential, while the larger companies provide the majority of the fund's income. HL said that there were no guarantees and it viewed this as a higher-risk UK equity income fund.

    - Columbia Threadneedle Investments UK Equity Income - £186,664; this investment focused on 'high quality, larger companies' that demonstrated an ability to pay consistent dividends and 'from the backbone of the portfolio'. The fund's strategy was supplemented by out of favour businesses with higher yields, or those capable of strong growth and rising dividends.

    - Invesco Perpetual Corporate Bond - £50,815; this was an investment grade corporate bond fund, which provided higher risk fixed interest securities to Mr G's portfolio.

    - Newton Real Return - £16,342.

    - Odey Opus - £3,569; an adventurous fund with a long-term investment horizon.

- The effect of the recommendations above also reduced the ongoing annual costs Mr G was paying on these investments, from 0.9% to 0.77%.

Mr G accepted these recommendations, but shortly afterwards suggested some amendments. In particular, Mr G opted to reduce his investment in the WEIF to £140,000, and this was in part due to the fact that he instructed HL not to sell some of the investments it had recommended he sell because of significant capital gains tax liabilities.

Shortly after the suspension of the WEIF in June 2019, Mr G complained about the advice he had received. HL looked into his concerns but thought it had recommended suitable investments and didn't uphold his complaint. Mr G remained unhappy and referred his complaint to this service.

One of our investigators looked into his complaint but didn't think HL had done anything wrong. In summary, the investigator reviewed the adviser's recommendations, reasons for investing and Mr G's overall circumstances.

He concluded that it was fair and reasonable for HL to have recommended the investments that it did, and they were in line with Mr G's objectives and attitude to risk. The investigator also explained that it wouldn't be fair to look at the WEIF in isolation just because of the fact that it had been suspended and lost the most money. He said the WEIF was recommended as part of a broader strategy that included Mr G's existing portfolio, and the investigator thought that the WEIF was in line with that.

Mr G didn't agree. In short, he said that he couldn't see any consideration of HL's behaviour in relation to the increased risk which the WEIF represented as a result of the level of unquoted stock it held. Mr G said that HL were clearly aware of this issue but still recommended the investment to him, without making this additional risk clear to him. He said that it was clear HL had a number of meetings with Woodford in 2017 and 2018 about his management of the fund, and he said that the advice he received did not set out any of these concerns – in particular about the WEIF's exposure to unquoted investments. Mr G said that the advice he received should've set out these concerns.

As agreement couldn't be reached, the case was passed to me to decide.

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.

In looking at Mr G's complaint, I'd like to thank him for the detail of his submissions. I can understand why he has raised his complaint, and that the suspension of the WEIF and the consequential financial loss have generated significant concerns in relation to the advice he received from HL in 2018.

However, I don't have much to add to the investigator's assessment of his complaint. As the investigator has pointed out, HL gave Mr G advice on a number of issues – including disposal of certain investments, and recommending the purchases of others. It made these recommendations with a view to Mr G's broader financial circumstances and his existing investments – and I'm satisfied that the WEIF wasn't recommended in isolation. It clearly formed part of a broader strategy which HL was advising Mr G on. This means that when looking at HL's recommendation to invest in the WEIF, it wouldn't be fair to assess it purely on the basis of how risky the WEIF was, without an understanding of what else Mr G had in his portfolio. And it certainly wouldn't be fair to be critical of HL's recommendation to invest in the WEIF purely on the basis that it was later suspended and liquidated – neither of those events had anything to do with HL.

In terms of the broader advice which Mr G received, I'm satisfied it was fair and reasonable for HL to have concluded that its recommendations were suitable for him. The contemporaneous evidence shows that Mr G had specifically asked HL to advise him on those funds which had not been performing well, and that is what HL did. It recommended a series of disposals based on the relative performance of those funds, as well as their charges or structure. And it recommended investments which HL considered would cost less and provided better prospects for future performance. As an experience investor, Mr G knew of course that performance could not be guaranteed and that whilst HL was clearly aiming to recommend investments which would perform well, there was a risk (in some cases a high risk) that there might be volatility in the value of Mr G's holdings.

In relation specifically to the WEIF, there was nothing inherently unsuitable with the fund itself, despite the fact that 2018 had clearly been a negative year in terms of performance.

Overall this was a UK equity fund which it told investors would focus on 70% listed companies, with a view to the remainder being in unlisted or overseas equities, as well as derivatives.

The recommendation letter itself told Mr G that this was a fund that would invest in higher-risk smaller and more innovative businesses – including those not yet listed on the stock market (unquoted companies). It also explained HL's view that this was a higher-risk UK equity income fund. In my view it is quite clear from this that the WEIF would invest in unquoted stock, and that it carried a higher risk of capital loss than other UK equity funds in the same sector. So I don't agree that HL didn't set out the risk clearly to Mr G about this particular investment. In my view, Mr G understood that the WEIF was being recommended as a high risk but potentially very profitable investment. Given his background and his many years investing, Mr G understood this meant the potential to lose money.

And in looking at the Mr G's broader circumstances, without the benefit of hindsight, I'm satisfied that even if it had been recommended in isolation, it was fair and reasonable for HL to have considered it a suitable investment for Mr G. It was clearly the type of investment Mr G was after, with an objective for long term capital growth and it was in line with the amount of risk Mr G was willing to take.

I'm aware that Mr G has mentioned meetings that HL had with Woodford before he invested, and evidence it had given to committees about the WEIF. None of that evidence, in my view, changes what I've said about HL's recommendation. There's no dispute that the WEIF had unquoted investments within its holdings, and for the reasons I've given above, I'm satisfied that this was made clear to Mr G at the time of the recommendation. It's clearly the case that in 2018 neither HL nor Mr G anticipated the WEIF being suspended or liquidated in the short term – and it is unfortunately that event which caused Mr G's loss, not HL's decision that this investment was suitable for him.

For all these reasons, I'm satisfied HL treated Mr G fairly and need not do anything to put things right. I appreciate this decision will come as a disappointment to Mr G but I hope he can understand the reasons for reaching it.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 22 August 2023.

Alessandro Pulzone
Ombudsman