



**rosan helmsley**  
WEALTH MANAGEMENT



KEY GUIDE | OCTOBER 2019

# The financial planning journey

# Introduction

## WHAT CAN FINANCIAL PLANNING DO FOR YOU?

Financial planning isn't just reserved for the especially wealthy. Whether we're aware of it or not, all of us are on a financial planning journey and nearly all of us will want to make the most of our money where we can. Whether it's a change in our circumstances, for example on marriage or divorce or on starting a family, starting to save for or to take retirement or investing to provide for our children's education, financial planning can help everyone across all stages of their lives.

It's hard to be objective as our financial decisions are often driven by emotion. We might worry that we're not making the right choices for our family or feel nervous about making choices we're not confident about. You can search for products online, but how do you know which ones will provide the best solution for you?

A good financial adviser will get to know you, your circumstances and what you'd like to achieve in terms of your financial goals. Over time, they'll be there for you as a trusted partner whose expertise and objectivity you can rely on.

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Financial advisers follow a simple process, that gives you control over your plans



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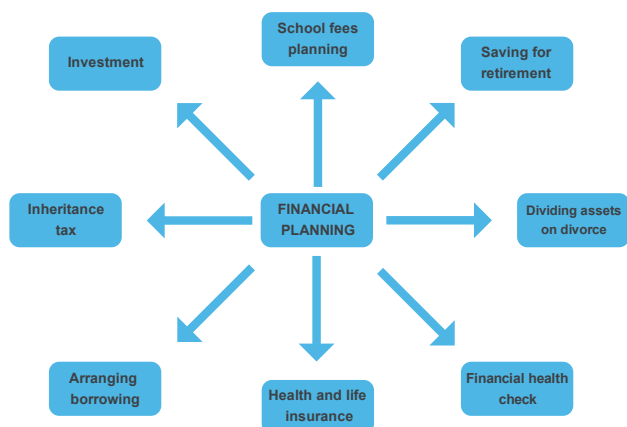
If you have the expertise and time to take planning on yourself, here's what you should consider

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# What does a financial adviser do?

This guide will explain our process in general terms and tell you what financial planning can achieve. The political turmoil in recent times has had an impact on both the strength of the pound and the UK economy. There's a great deal of uncertainty regarding how we should act as regards to our pensions and investments, making the need for financial planning even more crucial.

A financial adviser can help you with a broad range of issues that you might encounter on your financial planning journey, some of which are shown in the figure below:



While everyone's journey is different, there are a number of key moments in a person's life when the need for financial planning is more acute. For example, on becoming a parent, on taking out a mortgage or on reaching the age at which you want to retire. Each person's circumstances and attitudes are unique. Whatever your reasons for needing financial advice, it is very important for your adviser to have a thorough

understanding of the aims, dreams and issues affecting you and your family.

It is generally best to look at your financial affairs across the board, not just around your initial objective. Your personal circumstances now and in the short and longer term may well be affected by these decisions. For example, saving to buy a property could have an effect on your broader financial position, potentially affecting your income and expenditure, and the size of your deposit could impact on your ability to borrow.

The purchase of the property could also restrict your disposable income available in the future to meet other objectives, such as supporting your child at university. Or, if money can be found to pay their living costs in the short to medium term, there may be a longer-term impact in other areas. Maybe you will reduce pension investment in the short term, which means you have to invest heavily later to keep your retirement plans on track.

The truth is, it can be hard to deal with one issue in isolation, because most areas of financial planning are interconnected. Focused or relatively limited advice, say on a pension or inheritance tax (IHT) liability, is possible, but a thorough financial review can help you chart your path to your goals.

## Planning point

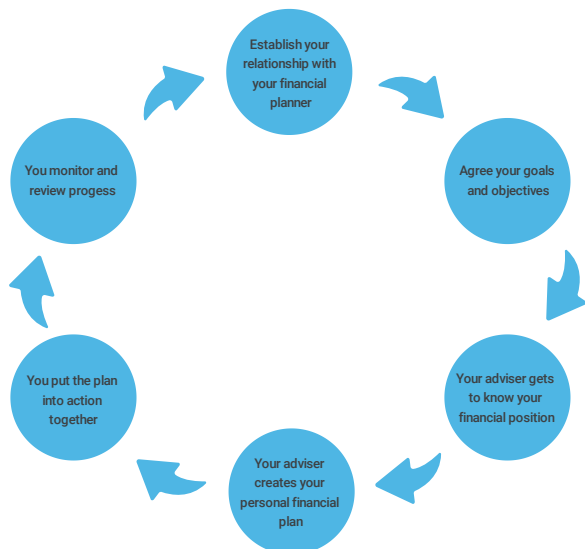
You should expect your financial adviser to ask questions about all your finances, even if you only want to look at one issue. Any financial decision will have consequences that should be planned for and understood.



## THE FINANCIAL PLANNING PROCESS

Financial planners follow a simple process. A good planner will use this system to help you achieve your goals.

Briefly, the six key steps are:



That is the whole process in a nutshell. In some cases, one or more steps might be omitted. For instance, you might simply want a one-off consultation where the adviser does not monitor your position in the future. You can then return to the adviser for another consultation if you need it, months or even years later. However, an annual review of your position is generally advised. This is especially true in more turbulent times.

As a potential client, you should be asking yourself: do I trust this person and can I work with them? Your adviser will be acting for you, on your behalf, in your best interests. It is important to build a long term, professional relationship where you are comfortable discussing what can be difficult subjects, so that you are happy to put you and your family's future well-being in their hands.

It is worth looking at each of the six steps in more detail, before we consider a particular aspect of planning – the investment process.

### Planning point

It is essential for you to be confident and comfortable when dealing with your financial adviser. The rapport between you and your adviser needs to be right.

### 1. Defining the relationship

The first step is for you to get to know the adviser well enough to decide if you want to take the relationship further. Either in the initial meeting or soon after, this will involve agreeing the broad content and scope of the service you need, and crucially how much it will all cost.

The rapport between you and your adviser needs to be right. Many find the process of giving personal information to an adviser a little daunting and may feel rather exposed. You may even worry an adviser will pass judgement or make you feel uncomfortable about the previous life and financial decisions that you have made.

It is important to talk to your adviser and satisfy yourself that you can trust them with this information. They are there to offer a professional service, not to pass judgement.

It is also important to settle the practicalities: you need to be happy that you have found the right expertise to provide what you are looking for.

The arrangements all have to be set out formally in the firm's initial disclosure documentation. The form of these documents will vary from firm to firm, but will describe key details such as the service to be provided, the frequency of contact with you and how long the agreement will last.



The cost of the service and how it is charged varies between firms and circumstances. There are generally four ways in which you could pay for the services you need:

- An hourly rate
- A set fee for a particular piece of work
- A monthly fee – typically a flat fee or percentage of the investment value to be managed depending on complexity and size
- An ongoing fee – depending on the ongoing level of service required

If your arrangements are complex, agreeing a fixed fee once your requirements have been agreed will ensure costs don't spiral out of control. In any event, you will be given a clear view of the charging structure to discuss.

## 2. Gathering the data

You may be surprised at the amount of information you need to provide to your new adviser. Think about your own financial history. You could have savings, investments, property, mortgages and other loans, wills and other documents, pensions, life and health insurances, income and expenditure, tax and much more.

This may be time-consuming to pull together, but it is the essential start of your relationship. Your adviser's job is to find out what you want to achieve with your money now and in the future. That means gaining a thorough understanding of your views and history on issues such as borrowing, investing, spending (now and in the future), retirement and estate planning.

You may not have thought about these issues very much and you might well be encountering some of them for the first time. Many people do not think about their long-term future – at least not in a structured way and not from a financial perspective.

There will be specific questions about the level of risk you are prepared and able to take on with your investments. These questions will lead to discussions about how various asset classes have behaved in the past and what they might do in the future. The aim is to build a portfolio of investments that you will be comfortable with, and that will provide the returns you want and need. This step can take some time and we cover the subject in greater detail below.

It is important not to rush when answering these questions, but to think about how you might feel in certain situations. Of course, it is fine to contact your adviser for guidance or to ask them questions at this point.

### Planning point

Your adviser may ask for a surprising amount of paperwork and information, but it is important to make sure they have everything they need before they begin to analyse your situation and formulate a plan.

## 3. Understanding your situation

The next step is for the adviser to make sense of all this information, then come up with preliminary conclusions and initial ideas for your financial plan. Your adviser will complete exercises such as drawing up a balance sheet of your assets and liabilities, making a breakdown of your current income and expenditure, and calculating your tax liabilities on income, potential capital gains tax (CGT) and IHT.

An important aim of the analysis is to identify potential financial gaps or shortfalls in your future. These could be gaps between your income and expenditure now and in the future, shortfalls in your pension or insurance provision, or other areas where you need to take some action now to bridge the gap between your goals and your current outcomes.

### The importance of cash flow

One of the most powerful tools they will use is long-term **cash flow modelling**. This planning technique is designed to project





your future income and expenditure throughout the whole of your lifetime. Obviously, it includes guesses about your future circumstances, but it should be based on reasonable assumptions about things such as your income, and how your pension and other investments may perform. By its nature it cannot be a precise forecast, but it can clearly demonstrate financial gaps, especially whether – and when – you are likely to run out of money in retirement.

Cash flow modelling might reveal things you will need to change about your lifestyle. You might need to revise your goals and aspirations, or you might also need to adjust some of your current patterns of behaviour, such as spending and saving. It is very important to be clear about your priorities – what might have seemed to be a high priority at the start of the process might have to be replaced by another need as the analysis continues.

Once your needs and wants have been identified, analysed and quantified, it is time for the adviser to do some specific product research into funds, tax-wrappers (such as ISAs) and insurance products.

#### Planning point

You should be prepared to make decisions about what is most important to you. A thorough analysis of your finances may reveal you can't afford all of your goals, and that you have to prioritise which ones are most important.

#### 4. Receiving your financial plan

After all this preparation, we get to the formulation of the detailed plan itself. This will contain both the broad strategy and the specific solutions your adviser recommends.

The **suitability report** is a key document setting out your objectives, financial gaps, the recommended strategies and specific solutions. The report should be as easy to read as possible, but there may be a lot to cover and some of it will inevitably have technical or unfamiliar elements.

It is a good idea to meet your adviser face-to-face and spend time going over the report to make sure you understand everything and that it meets your agreed needs and aims. You should also be happy that the recommendations are suitable for you.

Your adviser can make adjustments to the report in the light of these in-depth discussions, so the plan is not a fixed document. The most important outcome at this stage is to decide which recommendations you would like to go ahead with.

#### 5. Putting the plan into action

Now you have a clear plan and set of actions, you can start working on implementing it. It is vital that you understand



what is needed on your part and that of the adviser, to ensure your objectives can be met.

If you are at all unclear or uncertain, it is important to ask. Clients who are not clear about why a certain action is recommended tend not to take that action, and then the overall plan fails to meet their needs. If in doubt, be sure to ask your adviser.

Financial advisers can generally execute any purchases and sales required under a plan on your behalf, as well as recommending a suitable portfolio of investments. Advisers do also sometimes work with other professionals such as lawyers and accountants, who can provide specialist legal and tax advice and help with the implementation of certain aspects of your plan.

Carrying out the agreed recommendations is usually the most straightforward aspect of the planning process, but it can be time-consuming. Pensions need setting up, funds selling and buying, insurances arranging and trusts settling.

#### Planning point

It is up to you whether you put your plan into action or if you ask your adviser, or another professional, to act on your behalf.

#### 6. Monitoring and reviewing

You will probably want your adviser to keep an eye on your investments and other financial arrangements. You and your adviser will agree the extent of monitoring and review.

For example, you could receive valuations on a quarterly basis, or perhaps more frequently, or you could attend meetings or have phone calls on a regular basis or on a more ad hoc basis. In any event, ideally you should have some form of meeting with your adviser once or twice a year; perhaps more if you're concerned about current events and their impact on your financial well-being.

Your review offers you a chance to catch up with what has changed – either in your own circumstances or in the financial world generally – and discuss things with your adviser.

Much of the groundwork has already been done, so the review is likely to be shorter and easier to carry out than the initial advice. However, this might not be the case if there have been significant changes in your circumstances, like a marriage, divorce or a substantial inheritance.

## FOCUSING ON INVESTMENT PLANNING

The process for choosing investments is a key part of financial planning and it has its own specific requirements.

### Investment aims, risk and resources

A key element of financial planning is for your adviser to understand your aims and attitudes. You might be looking for income, growth or a combination of the two. What's more, you might be looking to achieve a specific target level of capital at a future point in time.

Both you and your adviser should be clear how much risk you are prepared and able to take – what is often called your **'risk profile'**. There are three main components to this risk profile:

- **Risk capacity** – how much risk you can objectively afford to take. Some people have substantial wealth, so they can wait for a long time before they need access to their investments or they may not be dependent on their investments. If you are in this position you can normally afford to take more risk than people who have less wealth, need immediate

access to their savings or are highly dependent on income or capital.

- **Risk tolerance** – how much risk you are psychologically willing to take. Some people are comfortable with investments fluctuating, while others find it more difficult. One way to gain insight into your attitude to risk is to use a psychometric questionnaire. Financial advisers can follow up the issues with an in-depth discussion of what your answers tell you.
- **Risk need** – the amount of risk you need to take, based on the assumptions previously agreed, in order to achieve your stated aims. This amount of risk may be more or less than you are comfortable with, but it shows you clearly what risk you would need to take. If you are uncomfortable taking on that amount of risk, amendments can be made. You would need to re-think your objectives and the amount of money you are willing to invest towards them by reducing your expenditure. There are lots of options and your adviser will discuss them all with you before putting any plan into action.

### Asset allocation and fund selection

Asset allocation is by far the biggest factor for a portfolio's risk and return. How you choose to split your investments between the main asset classes – shares, cash, bonds and property – will depend on your risk profile and your aims.

Broadly speaking, the more risk deemed appropriate as set out in your plan, the higher the proportion of the portfolio should be allocated to shares.

It is then a question of choosing the right funds within the asset allocation, which could be undertaken in-house or it could be outsourced to a specialist fund manager. You should also consider if you want to invest in ethical funds and find out more about responsible investment, including how environmental, social and governance (ESG) issues such as climate change and human rights impact investments.



Consideration should also be given to whether the funds should be held in a particular tax wrapper such as a pension, ISA, or life assurance bond.

### Planning point

By diversifying your investments across different asset types, you can generally provide a more stable return. You could achieve better results by focusing on shares and funds, but this is a riskier choice as the value of your investments could drop as well.

## CAN I DO IT MYSELF?

In theory, you can do everything a financial adviser does yourself. Successful do-it-yourself financial planning is feasible, if you have the knowledge, time, patience and self-discipline.

If you decide to take on this area yourself, you will need to think about the following:

1. **How will you quantify and qualify your objectives?** Write down exactly what you are trying to achieve and over what timescale, for example retiring at age 65 on an income of £20,000 a year net of tax.
2. **Have you established how much risk you are prepared to take?** You should assign a percentage of assets you need to keep in cash and short-dated investments (for your rainy day fund and shorter-term objectives), as well as a percentage that you are prepared to put at calculated risk on equity markets.
3. **Have you identified how much you have available to invest towards this goal?** You might have a lump sum of £10,000, or a monthly investment of £100 a month.
4. **How will you assess your existing investments that you intend to use for this objective?** Is there enough money in them? Are they the right types of investments for your objective? Will you be able to access the money when you need it?
5. **Which are the best wrappers for tax efficiency?** Should you invest in pensions, ISAs or something else?
6. **Do you know when you will review your actions taken and results achieved?** You should undertake a review regularly and have the discipline to rebalance your investments back to your original split of cash and equities to ensure the risk you are taking does not increase.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

The value of your investments can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investment in a registered pension fund is subject to many restrictions on access and how the funds can be used.



## HOW WE CAN HELP

There are lots of good reasons why you probably won't want to conduct your own financial planning, even if you feel that you're quite capable of doing so. It is, after all, a time-consuming process.

There is a lot to learn and keep up-to-date with. Tax and pension legislation is complicated and constantly changing, as are investments, investment products and markets. You would have to make clear-sighted, critical decisions on your own, implement and then review them.

It's not easy to make such big decisions alone. Financial advisers are equipped with the knowledge to undertake their own financial planning, but even they use colleagues to help them make sensible, objective decisions.

As we've outlined in this guide, we're here to help you through the different stages of your financial planning journey so that you and your family can make the most of your finances.





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