"Why Use a Financial Planner or Adviser?"

By

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“Why Use a Unity Wealth Management Financial Planner or Adviser?”

1st Edition

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Introduction

Thank you for your interest in our services and requesting this Free Guide:

Why Use a Unity Wealth Management Financial Planner or Adviser?

There are so many reasons that our clients decide to engage us as their Independent Financial Planner. This guide aims to outline where we feel we add value and clients feel they get good value for money from taking this step.

When clients first come to us they are often purely focused on achieving the best rate of return possible. I believe that value is not just tied to investment performance, but is spread across an array of long-term benefits accrued from a strong adviser-client relationship.

Our aim has always been to try and add more "value" than we charge you in fees otherwise why would you use us! This guide will demonstrate where we feel this "Value" can be added and outline some of the ways we go about achieving this for our clients.

The guide has been kept brief on purpose as we're aware that you are probably busy and may not be able to set aside a lot of time to read it. It should take you no longer than 10 minutes to read. We would encourage you to take the time though, and not put it off until later.

Please contact us on 01329 888494 of you have any questions or if you'd like more information about how we can help you with your financial planning.

We hope you enjoy reading this as much as we did putting it together!

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Asset Allocation

Getting your asset allocation right is a crucial step on the way to investing success. It's a bit like a bus journey: once you've decided where you want to go, you need to buy the right ticket to get you there. Without an adviser's help, many investors fail to set the right asset allocation to meet their objectives at an acceptable level of risk. Effectively, they buy the wrong ticket.

Perhaps they "collect" funds based on the most recent performance tables (how often have I seen this over the years), fund launches or advertising campaigns. Maybe they don't fully appreciate the relationship between risk and return, and end up being too cautious or exposing their capital to too much risk.

We can help you to avoid these mistakes. It takes time and diligence, but gaining a full understanding of your goals and your attitude to risk, and explaining how to marry one to the other, will have two important benefits.

Firstly it will allow you to set a suitable asset allocation that gives you the best chance of investing success. The good news here is that asset allocation doesn't need to be as complicated as some might think. For example, our data shows that, over the long term, a 60% equity/40% bond portfolio has produced performance comparable with – and in many cases better than – complex institutional portfolios featuring alternative asset classes1.

Secondly, by taking the time to set out a plan, you will be creating a beacon that you can refer back to throughout the ongoing adviser/client relationship. For example, if your you start to lose confidence in times of market stress, or become too confident when markets are rallying, we will be able to use the plan to remind you of the need to stay on track.

That touches on behavioural finance, one of the other components of the Unity Wealth Management approach that I will cover in a subsequent section of this guide.

Asset allocation in it's simpliest form means the choice of assets, or financial markets, in which we invest. For example, should we invest in shares of companies or would we be better off with bonds, which pay interest? Should we invest in the UK or China?

Our experience has shown us that the great majority of investment returns comes from the big decisions, shares or bonds, China or the UK. Making the right choice is critical and this is where we can make the biggest difference to investment returns and creating the right portfolio to match you long term goals. Just picking the latest en-vogue fund does not in our experience achieve this.

A curious characteristic of financial markets is that they tend to be noisy and unpredictable day to day. There is a lot of news and prices jump around. It is a confusing place. Over the long term, by contrast, market behaviour is surprisingly consistent.

Good asset allocation does not seek to maximise returns. The art of asset allocation is to create a portfolio likely to fulfil an investor's life goals, using the known long-term behaviour of financial markets.

The portfolio should reflect an investor's willingness to take more or less risk to achieve the returns needed to meet their goals.

1 Source: Vanguard and NACUBO-Commonfund Study of Endowments, 2014. For more information, see the Vanguard white paper Putting a value on your value: Quantifying Vanguard Adviser's Alpha in the UK, Westaway, Schlanger, Kinniry, Jaconetti and DiJoseph, 2014

Rebalancing keeps a portfolio aligned to goals

In essence, rebalancing is a fairly simple exercise, but that doesn't mean it is obvious or intuitive. Moreover, failure to rebalance can have a profound impact on a portfolio's returns. Our research shows that rebalancing can add up to 0.43% a year, a significant difference compounded over time.

A good portfolio is a diversified portfolio. This reflects the fact that none of us knows which assets will outperform and which will underperform over a given period.

Diversification helps us to achieve the required level of return at an acceptable level of risk. But if the portfolio is not regularly rebalanced, say once a year, it will lose its shape, rather like a woollen jumper in the wash. Because equities tend to outperform over time, the portfolio will typically become increasingly higher risk and the long-term benefits of diversity will be lost. Above all, the portfolio will cease to reflect your agreed goals.

The importance of advice comes to life when we understand that rebalancing is often counter-intuitive. If the news flow is positive and equities are flying, why give up on a good thing? Or equally, if the stock market is struggling, why sell the safety of bonds to buy riskier equities?

These are questions I hope to cover in more detail when we discuss behavioural coaching, but we all know that pursuing what is good and avoiding what is bad are reactions that are deeply ingrained into the human psyche. Most of the time these responses serve us well. But in investing we often need to do the opposite, buying when others are selling and selling when others are buying.

We need to stress that rebalancing is not about maximising returns. To do that, we would simply raise the portfolio's risk levels. Rebalancing is about controlling risk and keeping a portfolio's risk/return profile in line with your defined investment goals.

How do we come to 0.43% added value? If we take a portfolio of 60% equities and 40% bonds and let it drift, the equity portion could be expected to increase. Taking figures from 1960 to 2014, a 60/40 portfolio that was never rebalanced had the same average volatility (or risk) as a portfolio consistently rebalanced at 70% equities and 30% bonds. But the added risk in the drifting portfolio did not bring added reward. The rebalanced 70/30 portfolio outperformed the drifting portfolio by an average of 0.43% a year.

How do we come to the 0.43% added value? If we take a portfolio of 60% equities and 40% bonds and let it drift, it would have a similar volatility (or risk level) as a portfolio maintained at 70% equities and 30% bonds. But the added risk in the drifting portfolio would not bring added reward. The latter portfolio, regularly rebalanced at 70/30, can be expected to return 0.43% more than the former.

Rebalancing fits well with an annual portfolio review. It helps you sleep at night, reassured that your investment risk is set at the right level. It further helps to ensure that you are compensated for the risk you take. It is a proven value-add and one which can be regularly shared with our clients.

Lower costs can improve investment outcomes

We know the magic of compounding, that it adds significantly to investment returns over time. What we don't always see is that the same power also applies to costs.

Many of us know the '80/20 rule'. The idea is that no one is right all the time, but things will generally work out if we make good decisions around 80% of the time.

But we also know that, in investment, normal rules do not always apply. In making good investment decisions, we sometimes need to learn to accept principles that at first seem counter-intuitive. I sometimes wonder if costs fall into this category.

Let's say we're eager to take friends and family to see a live performance by a musician we love, and we're told that for £100 worth of tickets there's a 'booking fee' of £1.50. If you're like me, you'd think this was a bit of a sting, but in the scale of things, relative to the enjoyment of a great night out, it is not going to make us cancel our plans. We smile wryly and pay.

The temptation, then, when we see an annual charge on an investment fund set at 1.5% is to pursue the same logic, logic which in other areas of life serves us well. What's a £1.50 charge if a fund manager is going to invest the rest of a £100 allocation? Should we cancel our plan for such a sum, and lose the opportunity to achieve the long-run returns needed to fund such significant life goals as retirement or children's education?

Of course, the difference between the two examples lies in one word: compounding. The booking fee is a one-off. It starts and finishes at 1.5%. The annual charge, as the name suggests, is annual. By year three, on a static investment of £100, you have paid 4.43% and by year five 7.28%. And on it goes. By year ten compounded costs will have reached 14.03% and by year 15 you have paid 20.28%.

It goes without saying that the higher the charge the more aggressive the erosion of returns. At 2% a year, the investor will have paid 9.61% in fees in five years, 18.19% in ten years. If we turn that around, an investor paying 2% annual fees retains only 80% of a static investment after ten years.

You probably wouldn't disappoint your friends' or your family's anticipation of a night out for a £1.50 booking fee on £100 of tickets. But if you were asked to pay £20 you might well feel justified in making other plans.

Another principle of investment that can sometimes be confusing is that higher costs do not mean better results. Looking at a wide range of asset types over the ten years to the end of 2013, in almost every case it was the lower cost funds that outperformed.

The good news is that, unlike many other attributes of investment, costs are something we can control. We don’t need to pay 2% or even 1.5%. By comparison, an investor choosing a fund charging 0.2% annual fees retains over 98% of a static £100 investment over ten years.

What is good for you tends to be good for advisers. If a client needs a 5% annual return to meet their goals, the adviser will need to deliver 7% gross of fees. That is a different challenge to 5.2%.

I hope these numbers help to highlight the importance of costs in making good investment decisions. Guiding you into cost-effective implementation is among our most valuable contributions.

Annual charges of a few percentage points may look like detail, but they mount up and over time they start to bite hard if not closely reviewed and monitored.

Maintaining discipline is crucial to success

Our life experience tells us to be cautious in difficult times and to take advantage of good times, 'make hay while the sun shines' is a common saying that I often hear from our prospective clients. However, when dealing with financial markets, this sound wisdom does not always apply.

Our experience shows that most investors travel in the wrong direction, selling when they should be buying and buying when they should be selling. In almost every type of market, investors lose money when they try to respond to news, or to anticipate events. I have thought long and hard about this approach and I can only describe it as being like financial suicide!

It's interesting to compare when investors shift their money, and the performance of the funds in which they invest. The data reveals that annual gains are rarely more than 0.2% over ten years, but that losses over ten years often run to 1—2% a year.

The best course of action is almost always the simplest: stick to the plan (don't get caught out making knee jerk decisions based on market sentiment at that time), review your life time financial plan and see how this looks before you go and chase investment returns you might not necessarily require, rebalance the portfolio regularly, try and keep costs as low as you can within reason.

Tax efficiency adds value

Ensuring the tax efficiency of an investment portfolio is a core competence for us in helping you to meet your goals and achieve your financial plans. Using the right vehicles for different assets is one of a number of ways to add value and increase the potential investment returns.

As with costs, tax is a charge that will compound over time (please see reducing cost section). Tax efficiency is critical to support good investment outcomes and ensures we maximise the compounding rate of return which is vital in achieving decent investment returns.

We are very fortunate that the UK offers a number of tax-efficient investment vehicles, including Individual Savings Accounts (ISAs) and Self-Invested Personal Pensions (SIPPs), Enterprise Investment Schemes (EIS), Venture Capital Trusts (VCT) where we can use these tax wrappers effectively to reduce or eliminate any tax payable.

This has been further enhanced with the recent budget changes in 2014 which have come into effect in 2015. For us as your financial planner this has created more opportunities to be able to use these allowances and ensure that we structure your investments and pension in the most tax efficient way. It really has made a massive difference and I am still excited about the opportunities it brings to clients and their families both now and in the future.

There is further potential to take advantage of differences between equities and bonds. Dividends, paid on equity investments, are deemed as already taxed prior to receipt. Interest payments, paid on bonds, are paid out pre-tax. Both investments, though, are liable to capital gains.

It is likely to make a difference, for example, to prioritise bond investments in a tax-efficient vehicle such as an ISA, since interest payments as paid on bonds are normally taxable (unlike dividends paid on equity).

Retirees need good spending strategies

Withdrawing money in a tax-efficient manner is important. Tax-efficient accounts will grow faster than those attracting full rates of tax, and should be kept in reserve for as long as possible.

An example of this could be a retired client who has £150,000 in a pension, £100,000 in an ISA and £150,000 in an Unwrapped Investment Account.

We would always try and maximise a client's ISA investments by taking £15,240 from the Unwrapped Investment Account and transferring this to the ISA account. They may well required an income from the overall portfolio and our advice maybe to take this income and deplete the Unwrapped Investment Account first as it does not hold the tax efficiency of the ISA or SIPP.

Our experience suggests that a well-managed spending strategy can make a significant difference to an investment portfolio over time if this is taken from the right tax wrapper.

Sustaining income with lower risk

With yields at historic lows, I feel we can add significant value through good advice addressing the challenge of income. A key issue is to provide you with an income without unduly increasing the risk level of the portfolio.

In a world of low interest rates, you essentially have three options.

1. You can spend less, which is unlikely to be attractive in our experience.
2. You can move into higher yielding investments, which increases risk. This is something most retired clients are not keen to do. You have worked hard to accumulate your money and the thought of taking too much risk for most clients makes them feel very uncomfortable.
3. Or you can spend from ‘total return’, which includes both capital and income.

A total return approach supports robust risk control as it avoids the need to seek income in higher risk assets. This supports you in maintaining a broad and appropriate portfolio of investments. It allows you greater flexibility and tax-efficiency.

Vanguard research shows that significant value can be added to an investment portfolio through a tax-efficient and total return strategy.

About The Authors

Greg was born in Kenya and grew up in South Africa. He returned to the UK when he was 10 and attended Henry Cort School in Fareham.

After school he continued his studies, completing a degree in Marketing and graduated with honours in 1996 from Southampton University.

Greg's first job was working for a General Insurance Broker as Assistant Manager. "I remember falling into the job really, but soon realised I was good at dealing with the public and really enjoyed this aspect of the work. This was where I found my niche and where my career in Financial Services started."

In 1999 he was approached by Pearl Assurance to become a Mortgage Consultant looking after Portsmouth, Southampton and the Isle of Wight. "I must have done a fairly good job because within 6 months I was promoted to Area Manager and I begun to look after Pearl Pension and Investment clients. I built some really great relationships with Pearl customers many of which are still clients of ours now."

In 2002 Greg became an Independent Financial Adviser working for a small IFA firm in Fareham. After gaining valuable experience he then decided to set up his own Independent Financial Planning Company, S & S Financial Solutions, which is now Unity Wealth Management Ltd, a firm specialising in providing Financial Planning advice to the Self Employed, Small Business Owners, Corporate Executives and Pre and Post Retirement clients where he has built a loyal client following.

His passion is working with and helping clients who want an unbiased view as
to how they can achieve their desired lifestyle, financial goals and objectives. "Nothing gives me more pleasure than seeing a new client walk out of the office with a clearer picture of their financial future and less worry and concern over how they are going to achieve it.

Greg has continued to pass various financial papers and is on his way to pass the Diploma in Financial Planning accredited by the Chartered Insurance Institute.

He is married with 2 children. Sarah his wife works in the Financial Planning firm taking care of Client Management and ensuring the smooth running of the office.

Greg is a keen golfer and plays off a handicap of 5 although he admits it would be better if he had more time!

Sarah was born in Winchester and grew up in Chandlers Ford. She attended Thornden School, Barton Peverill College and graduated with honours from Chichester University in 1998.

Sarah holds the three Financial Planning Certificates and worked as a Financial Adviser prior to having children. She now takes sole responsibility for the smooth and efficient running of the office and systems.

If you become our client you will find that Greg and Sarah work as a close team to ensure that the service you receive is of the highest standards. It helps to know that Sarah can help with queries when Greg is out of the office.

Sarah has 11 years experience of working in financial services with Pearl Assurance and other financial services organisations.

About Unity Wealth Management Ltd

Unity Wealth Management Ltd was set up by Greg to provide quality financial planning advice to meet the needs of all types of client, whether business or personal.

As well as holistic fee based financial planning, Unity Wealth Management Ltd offers a wide range of financial services:

- Retirement Strategy, to help you manage your affairs when you decide to give up work
- Deposit based savings management to ensure you receive maximum returns from your deposit based savings
- Portfolio Evaluation, so you can align your investment strategy with your attitude to risk
- Estate Planning / inheritance tax mitigation / wills
- Family Protection, to make sure your family have financial security if you die prematurely or suffer a critical illness
- Income Protection, ensuring you have enough income if you can't work due to illness, injury or accident
- Debt Management, understanding how to make debt work for you
- Foundation Planning including product selection (suitable for younger clients)
- Individual Product Research, to help you buy the right financial policies
- Long Term Care, planning for when you can't look after yourself or a family member
- Comprehensive Mortgage Service, residential and buy to let (sourcing the right deal for you and handling many aspects of the administration)

To find out if we can help you with your financial planning call **01329 888494** or **email us** (**greg@unitywealthmanagement.co.uk**) for further information. Initial telephone discussions are free of charge and without obligation.

If you're not receiving our monthly Financial Tips newsletter, simply **visit our specialist website** (**www.unitywealthmanagement.co.uk**) to join. By doing so you'll be able to keep up to date with all the latest pensions and financial news. (Your details are safe with us and we will not sell or pass them to any third parties).

Risk Warnings

All content provided in this special report is only for your own information and use, and is not intended to address your particular personal requirements or to be relied upon in making (or refraining from making) any specific investment or other decision. Such content shall not constitute any form of advice or recommendation by us.

The content relating to the past performance of an investment is not necessarily a guide to its performance in the future. The value of investments or income from them may go down as well as up. The value of investments may rise or fall due to the volatility of world markets, interest rates and capital values or, for investments held in overseas markets, changes in the rate of exchange in the currency in which the investments are denominated. You may not necessarily get back the amount you invested.

Where you are unsure about any specific investment or other decision, you should obtain appropriate expert independent advice.

Levels and bases of, and relief from taxation are subject to change as UK legislation and regulations and the UK tax regime are amended from time to time. Any content referring to such legislation, regulations or tax regime should not be relied upon. The content in this guide refers to the 2012/2013 tax year.

Clients outside the United Kingdom should not use or rely upon any content provided.

Seek advice from an Impartial Independent Financial Adviser whenever considering restructuring your investments. Each investment should be considered on merit and not just for the tax advantages.

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