ROTHESAY BENNETT

FINANCIAL PLANNING

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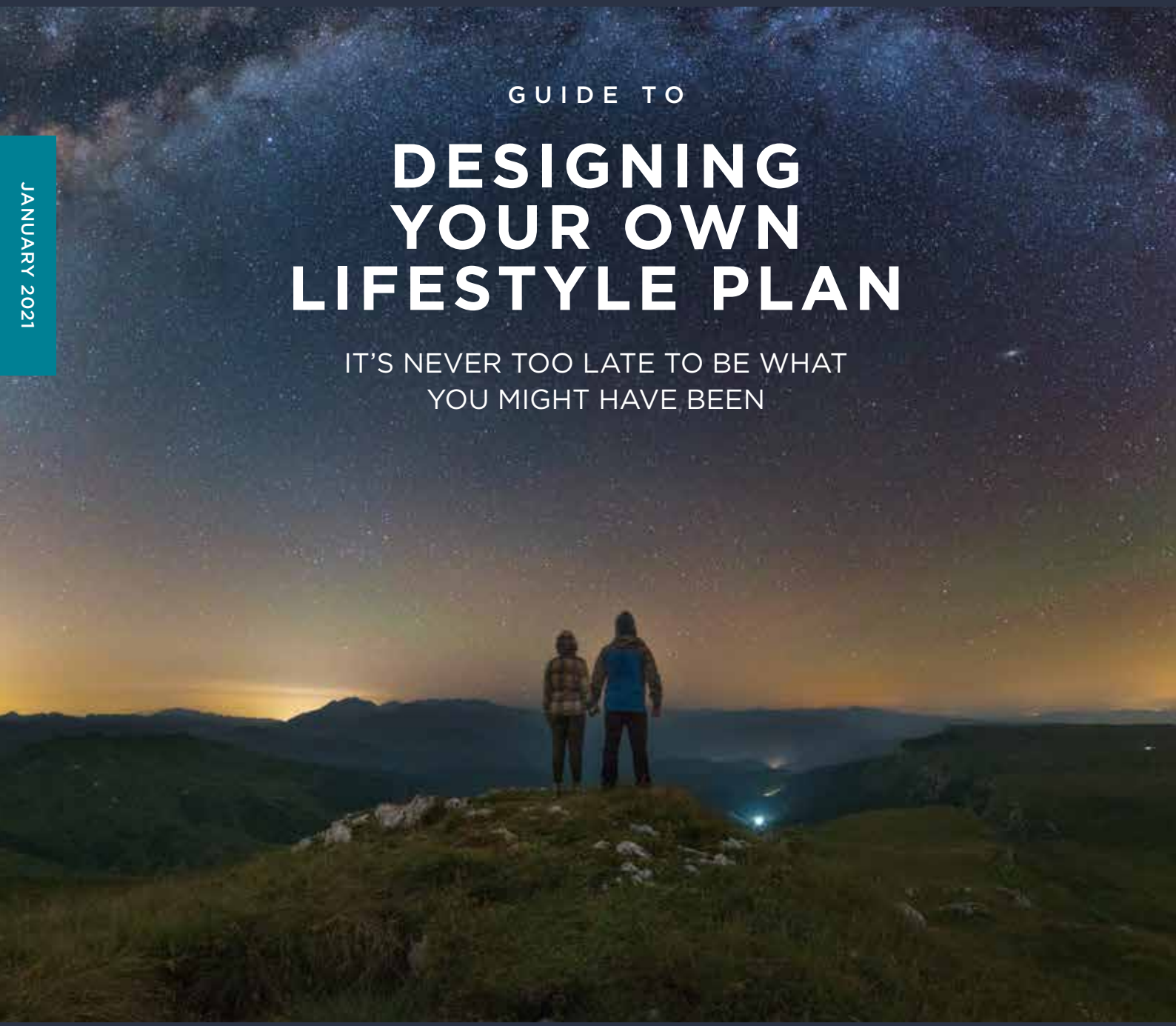
GUIDE TO

# DESIGNING YOUR OWN LIFESTYLE PLAN

IT'S NEVER TOO LATE TO BE WHAT YOU MIGHT HAVE BEEN



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GUIDE TO

# DESIGNING YOUR OWN LIFESTYLE PLAN

*It's never too late to be what you might have been*

## WELCOME

Welcome to our *Guide to Designing Your Own Lifestyle Plan*. It happens to most of us at the start of a new year, and especially this year, after the financial and emotional devastation caused by last year's coronavirus (COVID-19) pandemic outbreak.

We may be reflecting more on the way we've been living our lives and want to make some positive changes going forward. But, ultimately, it's important to remember that we are in charge of our own destiny and it's better to start late than never to start at all.

As we've seen, the COVID-19 pandemic has affected us all in markedly different ways and the pandemic will continue to affect our finances for years to come. What is essential is that we don't let fear get in the way just because we're not sure what exactly change will bring. We must also not be complacent because we're comfortable with our life, even though we know we can do better.

So, ask yourself: How do I ensure the plans I make are going to get me to where I want to be financially? How do I go after the life I want? It all starts by taking into account your financial needs and wants, from wealth creation to investing to protection. For most of us, it's our financial goals that are likely to be the biggest, most life-changing goals of all. But due to the hectic lives we live, they can all too often be put on the back burner.

Identifying and setting our short-term, mid-term and long-term financial goals are important parts of the process towards becoming financially secure and independent. If you're not working towards something specific, you're likely to spend more than you should and you could come up short when you need money for unexpected bills, not to mention when you want to retire.

To ensure that you have prepared for your journey ahead, it is essential to create your own financial lifestyle plan. Whatever stage of life you're at, having a clear plan in place will ensure you can take advantage of the opportunities as they present themselves and prepare for any challenges that you, your family or business may face.

In our *Guide* we consider the questions you may need to ask to shape your new future and some action required to make it happen. As we all know and have probably experienced, there will be bumps along the road to prepare for as part of this new journey.

### PLANNING FOR EVERY POSSIBILITY

Successful lifestyle planning should prepare you for every possibility. Once you understand your dreams, ambitions and needs, you can take action to make sure these become a reality. Life doesn't stand still, so your financial plans shouldn't either.

**To find out more or to discuss how we can support your lifestyle plan, please contact us.**

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# WHAT DO YOU WANT FROM LIFE?

*Asking questions that will shape your future*

Just about everybody wants to become financially secure and independent – so why do so few people get there? One thing is for certain: it very rarely 'just happens'.

It starts with a vision and then a detailed plan, and a willingness to commit to that plan. Your total life plan is a financial roadmap that will provide you with clarity about your future journey. It should detail every aspect of your vision – your hopes, fears, dreams and goals.

It should also describe exactly how your future will look and help you to understand exactly where you are headed and when you are likely to arrive. Writing out your life plan is one of the best investments you'll ever make.

**Take some time and ask yourself these questions:**

Q: Can I sleep comfortably knowing I'll have enough money for my future?
Q: Do I have the security of knowing where I'm heading financially?
Q: Am I ready for life beyond work?
Q: Am I going to be able to maintain my current lifestyle once I stop working?
Q: Do I feel empowered financially to live the life I want today and tomorrow?
Q: Have I made sufficient financial plans to live the life I want and not run out of money?
Q: Do I have a complete understanding of my financial position?
Q: What is 'my number' to make my current and future lifestyle secure?
Q: What will my children's future hold?
Q: How can I pass on my wealth to the next generation?
Q: Is now the right time to sell my business?

## Creating your financial life plan

Part of this process is to understand your 'number' – in other words, the amount of money you'll ultimately need to ensure complete peace of mind in knowing your future lifestyle is secure and making sure you don't run out of money before you run out of life.

By getting to know you and what you want to achieve, we'll be able to provide you with a detailed action plan that is focused on you. By creating a total wealth solution for you we can get a clear understanding of your current lifestyle, your future and the life you want to live.

Initially, creating a financial life plan will help you to make the right financial choices and achieve the right balance between current responsibilities and future aspirations. All of this should enable you to achieve your desired lifestyle goals and objectives over time.

## Liquidity needs

This is important to fund expenditures and meet liabilities for the next two to five years. Investments should be held in stable assets with low volatility, such as cash and/or a high quality bond ladder. Failure to plan adequately for your liquidity needs could mean you have to sell assets at discount prices.

Assessing your cash flow needs over the next two to five years, and setting aside funds to meet them, creates a buffer between cash needs and market returns, thus reducing the risk of being forced to sell assets with high return potential at the wrong time. This strategy generally involves low-volatility assets such as short-term fixed income and cash, as well as borrowing facilities.

## Lifetime balance

This will enable you to meet your financial goals for the balance of your lifetime, and is characteristically well-diversified across asset classes with a growth orientation. The exact composition depends on your situation, goals, financial personality and values.

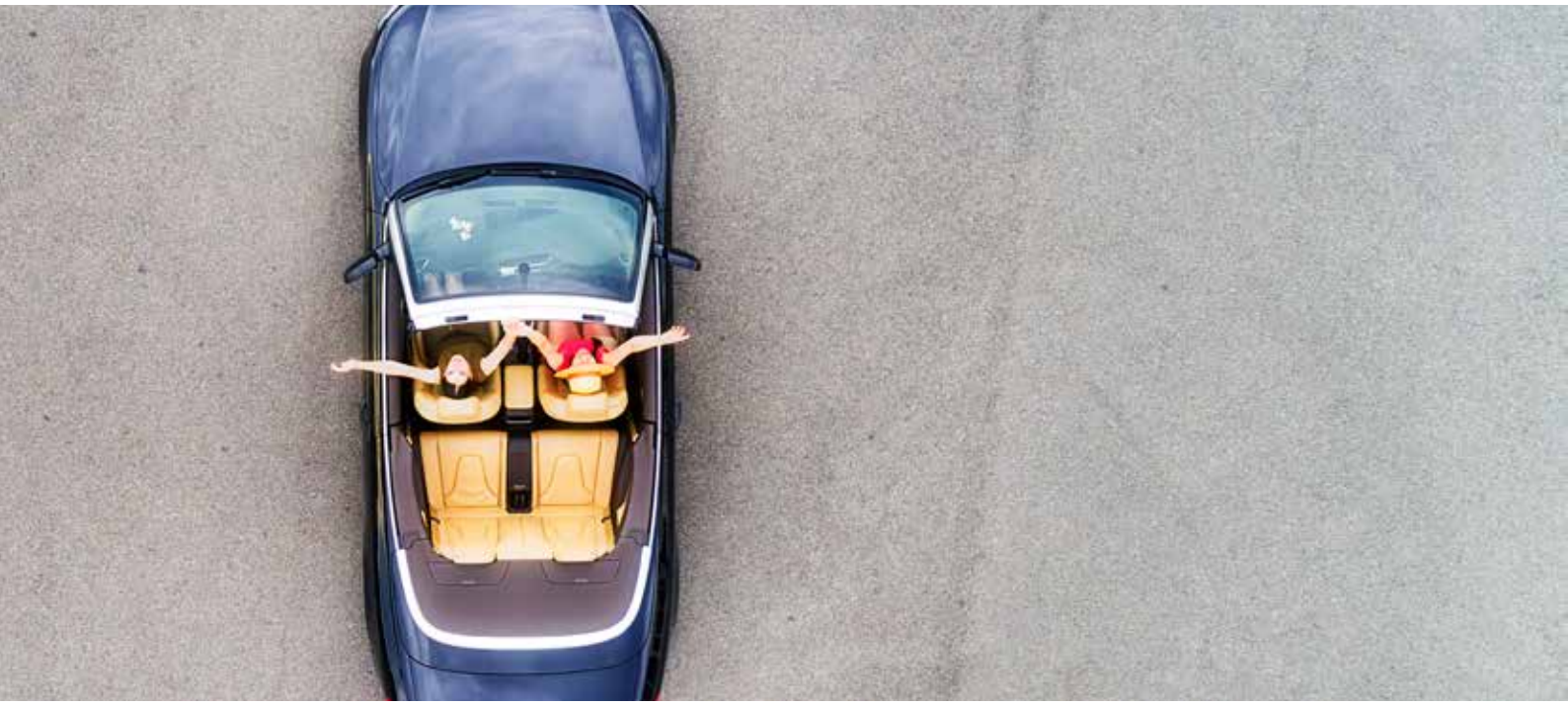
These assets are designed to satisfy lifetime needs. With short-term cash needs met by your liquidity strategy, these assets can be focused on long-term growth, with an asset allocation tailored to your risk appetite and the family's aspirations.

## Future generations

These are assets in excess of what you need to meet your lifetime objectives. Your approach to your legacy strategy investment portfolio could be more aggressive and less liquid than those investments in your liquidity or longevity strategies, given the time horizon is much longer term.

This strategy is assigned to improve the lives of others, both within your family and in society. In many cases, this will include cash flows lasting beyond your lifetime, including philanthropic goals and assets earmarked for future generations.

Given the opportunity to focus over a very long investment time horizon, this strategy has the capacity to invest in asset classes that offer an illiquidity premium, such as private equity, or investment themes that seek to profit from long-term trends in society or technology.



# CREATING A TOTAL WEALTH SOLUTION

*Don't forget, unwritten goals are just wishes*

If you do not know where you are going on your life journey, how will you know when you arrive? This is very true about the importance of having financial goals. You need to set financial goals to help you make wise financial decisions, and also as a reward for your efforts. Goals should be clear, concise, detailed and written down. Remember, an unwritten goal is just a wish.

Establishing your financial and lifestyle goals is a fundamental part of your total wealth solution process. Your goals should be Specific, Measurable, Attainable, Relevant, Time-bound (SMART).

## Specific

Your financial and lifestyle goals need to be as specific as possible, because otherwise they won't give you enough direction to follow through. Look at your goals like a lamp lighting the way – the brighter the light, the clearer the journey ahead. If you don't have clearly defined goals, it can be easy to procrastinate. Think about your life and what you want to achieve, and what action you need to take to achieve the outcomes you want.

## Measurable

Measurable goals are essential for evaluating the progress of your journey. It's important to give yourself realistic deadlines, to make them action-oriented, but ensure they are realistic with an appropriate timeline. Adding specific dates and values will make your progress quantifiable, enabling you to complete your goals and visualise your destination.

## Attainable

Be honest with yourself and set realistic financial and lifestyle goals. Decide what you want to accomplish. So, start with the highest on your priority list. We know it's easy to be overwhelmed by everything that needs to be done, so we'll help out with the process. By reviewing your financial and lifestyle goals annually with us, it gives you an opportunity to formally review them, update them and review your progress since last year.

## Relevant

It's essential to align your financial and lifestyle goals with the direction you want to take. Balancing the alignment will give you the focus you'll need. If you think about it, a goal is defined as 'a desired result'. And a resolution is 'a firm decision to do something'. So they are really very similar. When setting any financial and lifestyle goals, ask yourself what each goal means to you.

## Time-bound

Having a destination point will mean you'll get to celebrate when you accomplish your goal. Having set deadlines gives you a sense of urgency that is lacking when goals are open-ended. In other words your financial and lifestyle goals should be time-based, time-bound, timely, tangible and trackable.

## Making additional investments

Do you have the means to make additional investments necessary to accumulate the required assets to achieve your goals? Don't neglect to consider the effects of taxes on your savings and investments. After considering the foregoing, you might determine that you can achieve some goals in less time. Or you might find that it could take longer. The time horizon is important to setting realistic goals.

# VISUALISE YOUR FUTURE

*Reaching a state of complete financial wellbeing*

Financial wellbeing ultimately comes from achieving financial security and independence. When you've reached a state of financial wellbeing, you've got to a point where you have a sufficient level of income for your lifestyle needs, enough capital to give you peace of mind and the knowledge that whatever happens you, your family and business are fully protected.

Most people have lifestyle goals that are directly related to their finances. So why is it then that some people have the ability to live the life of dreams and pass on their wealth successfully to the next generation, but others face the prospect of selling their home or worry about health and care fee costs, and leave behind a tax bill for their loved ones to deal with?

## Tangible and realistic goals

Regardless of what life stage you are at, you are likely to have some short, medium and long-term financial and lifestyle goals. Setting tangible and realistic goals, following them, tracking and reviewing your progress is the key to success in achieving them.

If you are married, it makes sense for you and your spouse to both share the same financial and lifestyle goals. Otherwise, achieving them will be almost impossible. It's important to develop your financial and lifestyle plans together, and review your progress together to make sure both of you are contributing to the same outcomes.

## How much money will I need?

Determining what your short-term, mid-term and long-term financial and lifestyle goals are is the first step. This may include planning for that dream holiday, buying a new property, university savings for your children or grandchildren, and retirement savings. Once you've both agreed your financial and lifestyle goals, the next step is to determine a good estimate for how much money you'll need for each of them.

Determining an accurate amount will involve clearly identifying each of them. So for example, do you want to pay for your children or grandchildren to have a private education? If you are saving to pay towards your children's or grandchildren's university fees, what percentage do you want to pay? Your retirement savings needs will depend greatly on the lifestyle you plan to lead once you are retired, as well as when you plan to retire.

## What savings goals should I set?

It's important to prioritise each of your financial and lifestyle goals in order of importance, and then determine how long you have to save or invest for each of them. Retirement could be many years away, but your short-term goals could be in a year or two. Next, estimate how much interest or capital gains you'll expect to see from saving and investing your money. While capital gains, or growth, are never guaranteed, an estimated average can be used for these purposes.

When you set your financial and lifestyle goals, don't just pick an ambiguous number. Look at how much you're earning, what your expenses are, and determine how much you could realistically save or invest each month. You should have both a monthly and a yearly savings and investment goal, and ideally they should align based on your overall total wealth solution.

## Do I have a sufficient emergency fund in place?

It's no surprise that when life presents an emergency, it threatens your financial wellbeing and can cause tremendous stress. Are you currently living without a financial safety net? How would you hope to get by financially without running into a short-term crisis? If you don't already have a rainy day fund in place, this should be the first savings goal on your list. Your emergency fund should be sufficient to cover at least six months of your outgoings. This should include all of your living expenses, and the expenses of any dependents you have.

Where should you keep your emergency savings? If you already have an emergency fund, how does it fit in with your goals? Being prepared with an emergency fund gives you confidence that you can tackle any of life's unexpected events without adding money worries to your list.

## Do I know where my money is going?

Are you tracking your expenses? If you don't know how much you spend in a month, that will seriously hinder your ability to budget. That's why tracking your expenses is so crucial. Make a budget plan you can stick to. But making a budget plan and making a budget plan you can follow are two entirely different things. This is why tracking your expenses is important and it can inform your budgeting choices.

Ask yourself: How would I cope with unexpected car problems or medical bills? Do I know where my money is going? Am I in control of my spending? Have I prepared a budget plan? Provided you stick to it, a budget plan will help you keep on top of your spending and make sure you can identify wasteful expenditure.

## Is my family protected if the unexpected were to happen to me?

We can't predict the future. However, we can help our loved ones by planning for it. It's not just you that your financial planning has an impact on. We all intend that our plans will come good. But, making sure that your family – or your business – can cope if you fall ill or were to die unexpectedly is something we can too easily put to one side.

Would my family or business find themselves unable to pay the bills if something were to happen to me? This is why it's essential that your financial and lifestyle goals are fully protected to ensure that an outstanding mortgage and any liabilities would be paid off, and your family would continue to receive an ongoing income if the worst were to happen. Should an unforeseen event occur today, am I adequately protected? If not, take action now.

## What do I need to invest for? What do I want to invest in?

When it comes to building an investment portfolio, you should have specific aims that reflect your risk tolerance, time horizon or asset class preferences based on your financial and lifestyle goals. Do you have plans to buy another property, or to invest in a new project or business venture? Knowing how much of a role you want to play in selecting and managing your investments can help you choose the approach that aligns with your investment goals.

Your investing preference can also impact the investment products and offerings you might choose. If you feel you don't have the

**WHATEVER THE ORIGINS OF YOUR WEALTH, IT NOW PROVIDES FOR EVEN GREATER GROWTH OPPORTUNITIES. AN EFFECTIVE TOTAL WEALTH SOLUTION FOCUSES ON LONG-TERM GOALS WHILE MANAGING RISK ALONG THE WAY.**

time or experience to monitor your portfolio balances so they stay true to your original target goal allocations, you should look to choosing fund types that take on some of that work. Ask yourself these questions. How experienced am I with investing? How much assistance do I need? How much control do I want over my investments? Do I prefer to be in charge, or do I want my investments managed for me?

### How can I further grow my wealth?

Whatever the origins of your wealth, it now provides for even greater growth opportunities. An effective total wealth solution focuses on long-term goals while managing risk along the way. The old adage 'Don't put all your eggs in one basket' applies when you are looking to further grow your wealth. An appropriate diversified asset mix is key to investing wisely.

To further grow your wealth by investing, this involves buying financial assets such as shares, Government and corporate bonds, and property. The main reason for investing and taking on additional risk you wouldn't have if you kept your money in cash is the hope of making higher returns. The aim of investing for growth is that the investments you put your money into will increase in value over time. Am I prepared to accept a higher level of investment risk? Have I set my investment goals based on my financial and lifestyle goals?

### What will my children's future hold?

What action do I need to take to provide my children with an independent education? The thought of paying school fees for five, ten or even fifteen years can look like an insurmountable mountain to climb. Which schools should I apply to for my children? Do I want my children to board or not?

Also, no matter how harmonious you may want your family life to be, some disruptions and disturbances are inevitable. When they occur, they may not only be stressful, they can also lead to financial worries and difficulties. How would my family cope financially if I were no longer around? Have I made provision for every possibility? If your family could end up becoming financially vulnerable, you need to make provision sooner rather than later.

### How can I support my children and parents?

With longer life expectancies and people starting families later than ever, many of us can expect to become part of the 'sandwich generation' at some point. Will I be faced with the task of caring for my elderly parents alongside my dependent children? Finding yourself squeezed between – and often by – these two generations can be very stressful. As well as facing time pressures, chances are your finances will become very stretched, too.

Do I expect to have to financially support my parents in later life? Do I have plans in place if I need to care for my parents while also trying to make financial provision for my children as they enter adulthood? Balancing the demands of raising and supporting your children and worrying about your parents' independence and wellbeing without planning is difficult. The trouble with being stuck in the middle is that you run the risk of neglecting your own self-care while attempting to help everyone else. It's essential to have a plan of action in place to care not only for your ageing parents and children, but for yourself too.

### How do I talk to my grown children about how to handle the money they will inherit? How can I ensure the wealth will last for them and beyond?

You may have accumulated wealth after many years in a successful career, from the sale of a business or by receiving a substantial inheritance. But when children inherit wealth it can pose plenty of questions, particularly around how they should best invest, manage and preserve these assets. There is also a common concern that children from a wealthy background lose their motivation if they are aware of the scope of their family's wealth and a likely inheritance.

While access to and knowledge of this wealth can be a positive thing, there's always the risk that the security provided by the money might lead to complacency and entitlement. Do I have concerns about how best to prepare my children for their inheritance? Are my children prepared to receive such wealth? Have I had an honest conversation about money with them before they inherit these assets?

### Do I have the right plans in place to retire when I want?

What should I be saving for retirement to live the life I want? Do I know my exact number? The reality is that there are countless factors that will impact on how much you will need in retirement. Therefore, determining your target goal for retirement savings can be more challenging than it may seem. So what is the solution? Instead of thinking of your retirement savings goal as one big number, look at breaking this number down in relation to your life goals.

For instance, if you have any idea about where you might want to live in the future, or in what type of property, that can go a long way towards long-term retirement planning. Setting a retirement goal doesn't necessarily mean sticking to one large monetary goal; instead, aim to incorporate retirement savings into your goals for today. How much money will I need to save in advance to deliver the income I want in retirement? How will I spend my time in retirement? How much will my leisure and travel pursuits in retirement cost me?

### Time to get motivated to reach your personal and financial goals?

Setting personal and financial goals makes it more likely that you'll save and invest for – and achieve – every financial and lifestyle goal. You'll be more motivated to reach each of them since you can gauge their progress. And you can consider the time horizon and risk level separately for each goal, and invest accordingly to ensure they form part of your overall total wealth solution.

**YOUR FINANCIAL PLAN SHOULD START WITH YOU – YOUR HOPES, FEARS, DREAMS, GOALS AND VISION FOR THE FUTURE, INCORPORATING BOTH YOUR CURRENT AND FUTURE DESIRED FINANCIAL AND LIFESTYLE PLANS.**

# DON'T PUT YOUR FUTURE PLANS AT RISK

*Plan for bumps in the road on your journey*

Anything is possible when you manage your money the right way. But it's important to have realistic expectations of what your financial resources can achieve to enable you to reach your financial and lifestyle goals, without putting your future plans at risk. Key to this is understanding how each financial decision can affect other areas of your financial and lifestyle plans.

You also need to visualise that if there are any future bumps in the road on your journey, you've considered different 'what if' scenarios and have taken the right approach to protecting yourself and your family against the consequences.

Regular annual reviews of your personal plans and financial circumstances will also help you to adapt to your life changes and make you feel more financially secure and independent.

## Lifestyle

Your financial plan should start with you – your hopes, fears, dreams, goals and vision for the future, incorporating both your current and future desired financial and lifestyle plans.

## Return

Once you have a better understanding of your financial and lifestyle goals and what you want to achieve, together we can determine the required investment return in order to achieve your lifestyle goals.

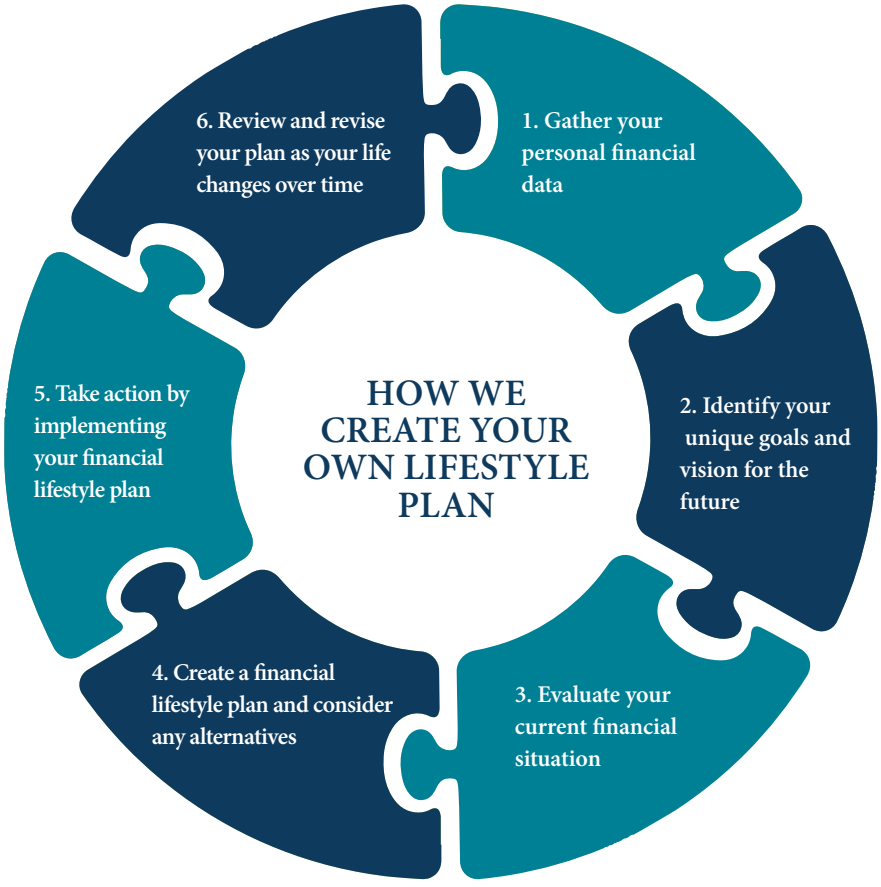
## Asset allocation

Your required investment return will determine the asset allocation of your investment strategy, taking the associated investment risks into account.

## Risk

It's important to look at risk in the context of what you are trying to achieve, including how realistic your financial and lifestyle goals are based on your financial circumstances and what it is that you are trying to achieve.

We'll spend time understanding your risk profile in detail – this is not limited to investment risk, but also includes inflation risk and behavioural risk.



# ESTABLISH FINANCIAL AND LIFESTYLE GOALS

*Gathering information and developing your strategy*

Evaluating your financial and lifestyle goals in greater depth is essential if you want to get a picture of your future responsibilities and aspirations.

With a full understanding of your circumstances and priorities, our role is to provide you with custom-tailored professional advice, to effectively create your financial life plan to success, to enable you to achieve your financial and lifestyle goals, and together develop a strategy to make these become a reality.

## Create a picture of your finances

In order to create your financial life plan, you need clarity over your financial and lifestyle goals, your objectives and your motivations. An integral part of this process includes cash flow modelling. This illustrates what might happen to your finances in the future and enables you to plan to ensure that you make the most of your money to enable you to achieve your financial and lifestyle goals.

Cash flow modelling shows your current position relative to your preferred position and your goals by assessing your current and forecasted wealth, along with income inflows and expenditure outflows to create a picture of your finances, now and in the future.

This detailed picture of your assets should include your investments, liabilities, income and expenditure, which are projected forward, year-by-year, using calculated rates of growth, income, inflation, wage rises and interest rates.

In order to implement a detailed plan that outlines how to deliver your financial future, communication is vital. To ensure that, over time, you achieve your desired lifestyle goals, it is important for us regularly to review your financial plan, at least annually, and make any necessary amendments should your personal circumstances change.

## Asset allocation mix

Cash flow modelling can determine what recommendations and best course of action are appropriate for your particular situation and the right asset allocation mix. The growth rate you require is calculated to meet your investment objectives. This rate is then cross-referenced with your attitude towards risk to ensure your expectations are realistic and compatible with the asset allocation needed to achieve the necessary growth rate.

Where cash flow modelling becomes particularly useful is for the analysis of different scenarios based on decisions you may make – this could be lifestyle choices or perhaps investment decisions.

By matching your present and expected future liabilities with your income and capital, we can make recommendations to ensure that you don't run out of money throughout your life.

## How much to save, spend and invest

A snapshot in time is taken of your finances. The calculated rates of growth, income, tax and so on that are used to form the basis of any cash flow modelling exercise will always be assumptions. This is why regular annual reviews and reassessments are required to ensure you remain on track.

Nearly all decisions are based on what is contained within the cash flow, from how much to save and spend, to how funds should be invested to achieve the required return, so there is a lot that needs to be managed.

**A lifetime cash flow plan will enable you to:**

- produce a clear and detailed summary of your financial arrangements
- define your family's version of the 'good life' and begin working towards it
- work towards achieving and maintaining financial security and independence
- ensure adequate provision is made for the financial consequences of the death or disablement of you or your partner
- plan to minimise your tax liabilities
- produce an analysis of your personal expenditure planning assumptions, balancing your cash inflows and your desired cash outflows
- estimate future cash flow on realistic assumptions
- develop an investment strategy for your capital and surplus income in accordance with your attitude to investment risk, flexibility and accessibility with which you are comfortable
- become aware of the tax issues that are likely to arise on your own death and that of your partner

## Run through the numbers

With every financial corner you turn, it is important to run through the numbers, which will help you make the right financial decisions. It is important to be specific. For example, it is not enough to say, 'I want to have enough to retire comfortably.' You need to think realistically about how much you will need – the more specific you are, the easier it will be to come up with a plan to achieve your financial and lifestyle goals.

If your needs are not accurately established, then the cash flow will not be seen as personal, and therefore you are unlikely to perceive value in it. Some years, there may not be any change, or just small corrections. However, in other years, there may be something significant. Either way, you will need to ensure things are up-to-date for your own peace of mind, knowing your plans are still on track.

# REVIEW YOUR NEEDS AND GOALS

*Take the time to think about what you really want from your investments*

You need to consider what you really want from your investments. Knowing yourself, your needs and financial and lifestyle goals, and your appetite for risk is a good start.

## Consider your reasons for investing

It's important to know why you're investing.

**The first step is to consider your financial situation and your reasons for investing. For example, you might be:**

- looking for a way to achieve higher returns than on your cash savings
- putting money aside to help pay for a specific goal, such as your children's or grandchildren's education or their future wedding
- planning for your retirement

Determining your reasons for investing now will help you work out your investment objectives and influence how your investments are managed in future.

## Decide on how long to invest

If you're investing with a specific financial and lifestyle goal in mind, you've probably got a date in mind too. If you've got a few goals, some may be further away in time than others, so you'll need to have different strategies for your different investments. Investments rise and fall in value, so it's sensible to use cash savings for your short-term goals and invest for your longer-term goals.

### Short-term

Most investments need at least a five-year commitment, but there are other options if you don't want to invest for this long, such as cash savings.

### Medium-term

Committing your money for at least five years opens up a selection of investments that might suit you. Your investments make up your 'portfolio' and if appropriate should contain a mix of funds investing in shares, bonds and other assets, or a mixture of these, which are carefully selected and monitored for performance.

### Long-term

Let's say you start investing for your retirement when you're fairly young. You might have 25 or 35 years before you need to start drawing money from your investments. With time on your side, you might consider riskier funds that can offer the chance of bigger returns in exchange for an increased risk of losing your money.

As you approach retirement, you might sell off some of these riskier investments and move to safer options with the aim of protecting your investments and their returns.

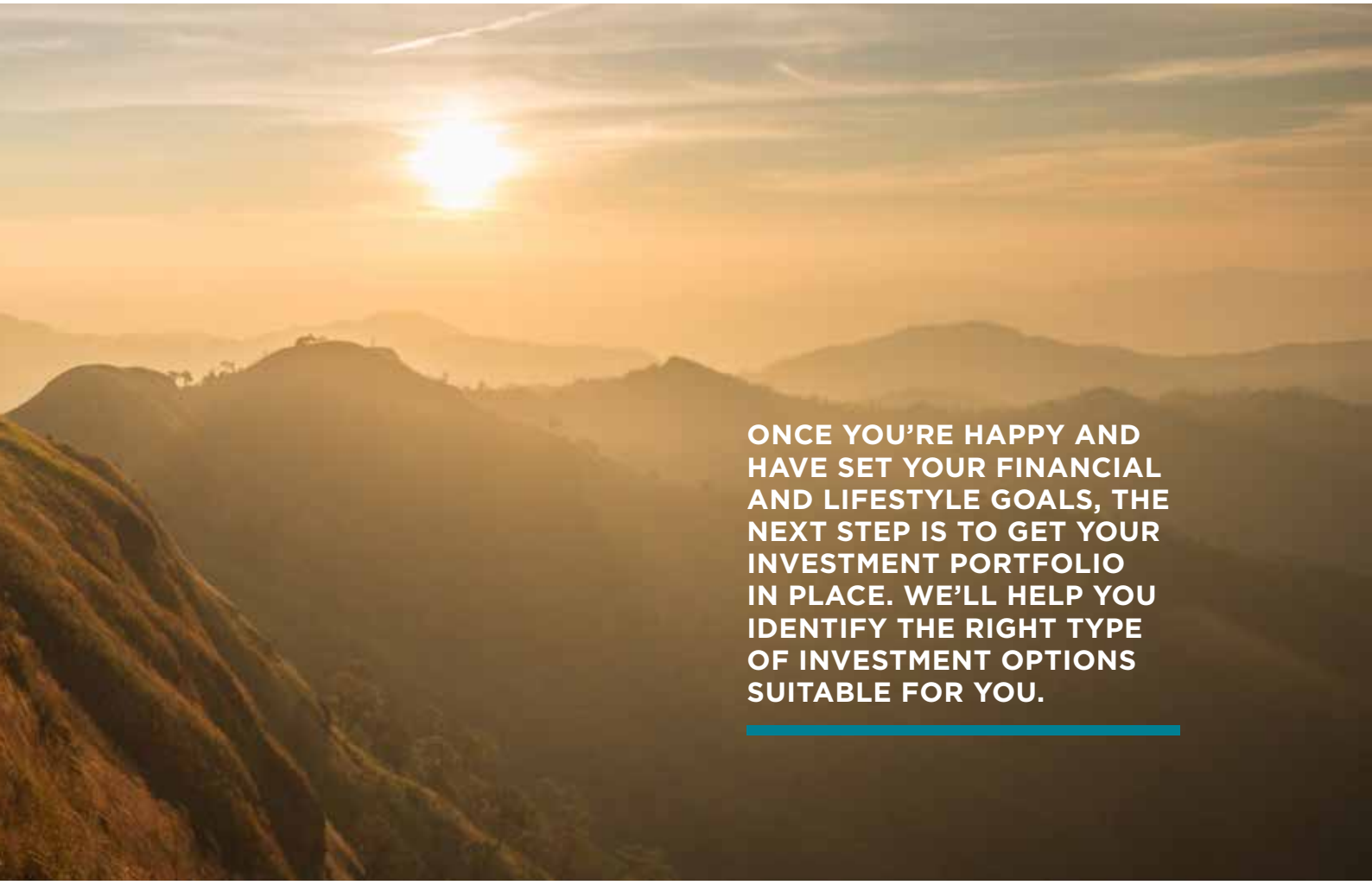
How much time you have will make a big impact on creating your investment portfolio. As a general rule, the longer you hold investments, the better the chance they'll outperform cash – but there can never be a guarantee of this.

## Establish an investment plan

Once you're happy and have set your financial and lifestyle goals, the next step is to get your investment portfolio in place. We'll help you identify the right type of investment options suitable for you.

## Build a diversified portfolio

Holding a balanced, diversified portfolio with a mix of investments will help protect it from the ups and downs of the markets. Different




types of investments perform well under different economic conditions. By diversifying your portfolio, you can aim to make these differences in performance work for you.

**Diversifying your portfolio in a few different ways through funds that invest across:**

- different types of investments
- different countries and markets
- different types of industries and companies

A diversified portfolio is likely to include a wide mix of investment types, markets and industries. How much you invest in each is called your 'asset allocation'.

## Make the most of tax allowances

As well as deciding what to invest in, think about how you'll hold your investments. Some types of tax-efficient accounts normally allow you to keep more of the returns you make. It's always worth thinking about whether you're making the most of your tax allowances too.

You also need to bear in mind that these tax rules can change at any time, and the value of any particular tax treatment to you will depend on your individual circumstances.

## Review your portfolio periodically

Periodically checking to see if your portfolio aligns with your goals is an important aspect of investing.

**These are some aspects of your portfolio you may want to check up on annually:**

## Changes to your financial goals

Has something happened in your life that calls for a fundamental change to your financial life plan? Maybe a change in circumstances has changed your time horizon or the amount of risk you're willing to handle. If so, it's important to take a hard look at your portfolio to determine whether it aligns with your revised financial goals.

## Asset allocation

An important part of investment planning is setting an asset allocation that you feel comfortable with. Although your portfolio may have been in line with your desired asset allocation at the beginning of the year, depending on the performance of your portfolio, your asset allocation may have changed over the period in question. If your actual allocations are outside of your targets, then perhaps it's time to readjust your portfolio to get it back in line with your original targets.

## Diversification

Along with a portfolio with a proper asset class balance, you will want to ensure that you're properly diversified inside each asset class.

## Performance

Look at whether there are certain aspects of your portfolio that need rebalancing. You may also want to consider selling to help offset capital gains you might take throughout the year.

# PROTECTING WEALTH

*Identifying your investment objectives is a lifelong process*

## INVESTING IS A LIFELONG PROCESS, AND THE SOONER YOU START, THE BETTER OFF YOU MAY BE IN THE LONG RUN.

A total wealth solution has no value unless it is properly implemented through an appropriate investment strategy. If you've got a sufficient amount of money in your cash savings account – enough to cover you for at least six months – and you want to see your money grow over the long term, then you should consider investing some of it.

Investing is a lifelong process, and the sooner you start, the better off you may be in the long run. Regardless of the financial stage of life you are in, you will need to consider what your investment objectives are, how long you have to pursue each objective, and how comfortable you are with risk.

### Current finances and future goals

The right savings or investments for you will depend on how happy you are taking risks and on your current finances and future goals. Investing is different to simply saving money, as both your potential returns and losses are greater.

If you're retiring in the next one to two years, for example, it might not be the right time to put all of your savings into a high-risk investment. You may be better off choosing something like a cash account or bonds that will protect the bulk of your money, while putting just a small sum into a more growth-focused option such as shares.

### Choosing your savings and investments

You may be a few months away from putting down a deposit on your first property purchase. In this case, you might be considering cash or term deposits. You might also choose a more conservative investment that keeps your savings safe in the short term.

On the other hand, if you have just recently started working and saving, you may be happy to invest a larger sum of your money into a higher-risk investment with higher potential returns, knowing you won't need to access it in the immediate future.

### Different types of investment options

If appropriate, you should consider a range of different investment options. A diverse portfolio can help protect your wealth from market corrections. There are four main types of investments, also called 'asset classes', each with their own benefits and risks.

**These are:**

- Shares – investors buy a stake in a company
- Cash – savings put in a bank or building society account
- Property – investors invest in a physical building, whether commercial or residential
- Fixed interest securities (also called 'bonds') – investors loan their money to a company or government

### Defensive investments

Defensive investments focus on generating regular income as opposed to growing in value over time. The two most common types of defensive investments are cash and fixed interest.

### Cash investments include:

### High interest savings accounts

The main benefit of a cash investment is that it provides stable, regular income through interest payments. Although it is the least risky type of investment, it is possible the value of your cash could decrease over time, even though its pound figure remains the same. This may happen if the cost of goods and services rises too quickly (also known as 'inflation'), meaning your money buys less than it used to.

### Fixed interest investments include:

### Term deposits, government bonds, corporate bonds

A term deposit lets you earn interest on your savings at a similar, or slightly higher, rate than a cash account (depending on the amount and term you invest for), but it also locks up your money for the duration of the 'term' so you can't be tempted to spend it.

Bonds, on the other hand, basically function as loans to governments or companies, who sell them to investors for a fixed period of time and pay them a regular rate of interest. At the end of that period, the price of the bond is repaid to the investor.

Although bonds are considered a low-risk investment, certain types can decrease in value over time, so you could potentially get back less money than you initially paid.

### Growth investments

Growth investments aim to increase in value over time, as well as potentially paying out income. Because their prices can rise and fall significantly, growth investments may deliver higher returns than defensive investments. However, you also have a stronger chance of losing money.

The two most common types of growth investments are shares and property.

### Shares

At its simplest, a single share represents a single unit of ownership in a company. Shares are generally bought and sold on a stock exchange.

Shares are considered growth investments because their value can rise. You may be able to make money by selling shares for a higher price than you initially pay for them.

If you own shares, you may also receive income from dividends, which are effectively a portion of a company's profit paid out to its shareholders.

The value of shares may also fall below the price you pay for them. Prices can be volatile from day to day, and shares are generally best suited to long-term investors, who are comfortable withstanding these ups and downs.

Although they have historically delivered better returns than other assets, shares are considered one of the riskiest types of investment.

### Returns

Returns are the profit you earn from your investments.

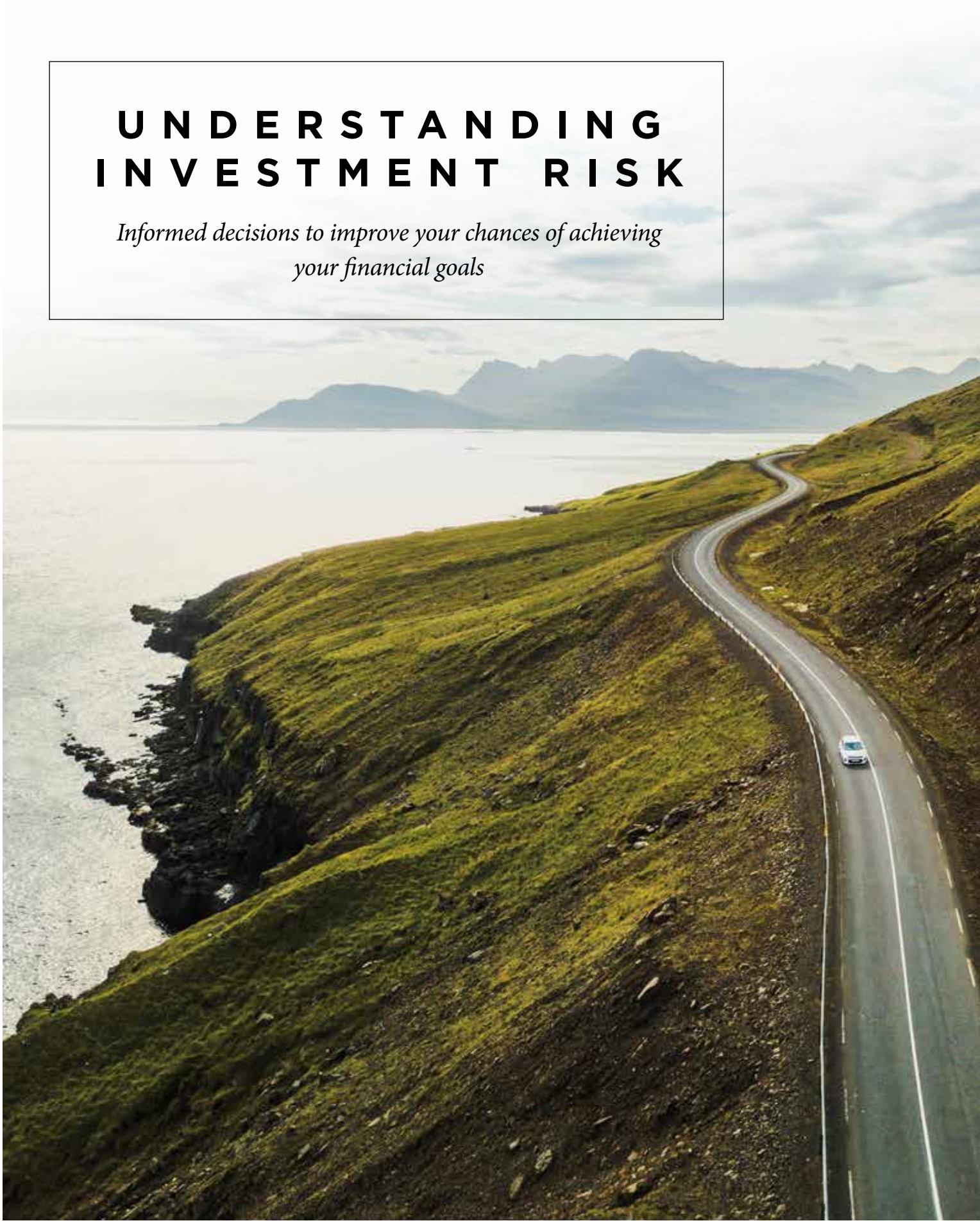
**Depending on where you put your money, it could be paid in a number of different ways:**

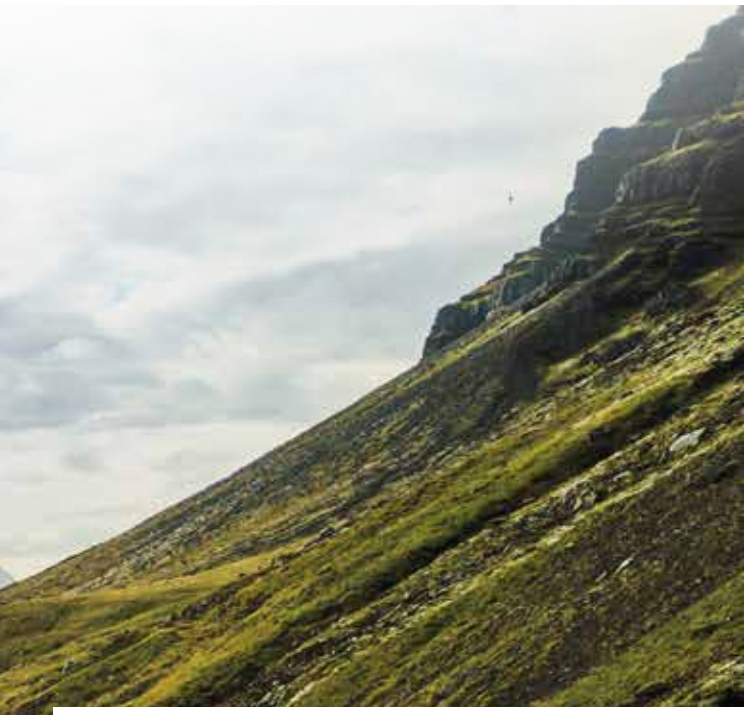
- Dividends (from shares)
- Rent (from properties)
- Interest (from cash deposits and fixed interest securities)

The difference between the price you pay and the price you sell for makes up your capital gains or losses.

# UNDERSTANDING INVESTMENT RISK

*Informed decisions to improve your chances of achieving your financial goals*





**RISK MEANS DIFFERENT THINGS TO DIFFERENT PEOPLE. HOW YOU FEEL ABOUT IT DEPENDS ON YOUR INDIVIDUAL CIRCUMSTANCES AND EVEN YOUR PERSONALITY.**

If you want to plan for your financial future, it helps to understand risk. If you understand the risks associated with investing and you know how much risk you are comfortable taking, you can make informed decisions and improve your chances of achieving your goals.

Risk is the possibility of losing some or all of your original investment. Often, higher-risk investments offer the chance of greater returns, but there's also more chance of losing money. Risk means different things to different people. How you feel about it depends on your individual circumstances and even your personality. Your investment goals and timescales will also influence how much risk you're willing to take. What you come out with is your 'risk profile'.

## Different types of investment

None of us like to take risks with our savings, but the reality is there's no such thing as a 'no-risk' investment. You're always taking on some risk when you invest, but the amount varies between different types of investment.

As a general rule, the more risk you're prepared to take, the greater returns or losses you could stand to make. Risk varies between the different types of investments. For example, funds that hold bonds tend to be less risky than those that hold shares, but there are always exceptions.

## Losing value in real terms

Money you place in secure deposits such as savings accounts risks losing value in real terms (buying power) over time. This is because the interest rate paid won't always keep up with rising prices (inflation).

On the other hand, index-linked investments that follow the rate of inflation don't always follow market interest rates. This means that if inflation falls, you could earn less in interest than you expected.

## Inflation and interest rates over time

Stock market investments might beat inflation and interest rates over time, but you run the risk that prices might be low at the time you need to sell. This could result in a poor return or, if prices are lower than when you bought, losing money.

You can't escape risk completely, but you can manage it by investing for the long term in a range of different things, which is called 'diversification'. You can also look at paying money into your investments regularly, rather than all in one go. This can help smooth out the highs and lows and cut the risk of making big losses.

## Capital risk

Your investments can go down in value, and you may not get back what you invested. Investing in the stock market is normally through shares (equities), either directly or via a fund. The stock market will fluctuate in value every day, sometimes by large amounts. You could lose some or all of your money depending on the company or companies you have bought. Other assets such as property and bonds can also fall in value.

## Inflation risk

The purchasing power of your savings declines. Even if your investment increases in value, you may not be making money in 'real' terms if the things that you want to buy with the money have increased in price faster than your investment. Cash deposits with low returns may expose you to inflation risk.

## Credit risk

Credit risk is the risk of not achieving a financial reward due to a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

## Liquidity risk

You are unable to access your money when you want to. Liquidity can be a real risk if you hold assets such as property directly, and also in the 'bond' market, where the pool of people who want to buy and sell bonds can 'dry up'.

## Currency risk

You lose money due to fluctuating exchange rates.

## Interest rate risk

Changes to interest rates affect your returns on savings and investments. Even with a fixed rate, the interest rates in the market may fall below or rise above the fixed rate, affecting your returns relative to rates available elsewhere. Interest rate risk is a particular risk for bondholders.

# MAINTAINING A DIVERSIFIED PORTFOLIO

*Spreading risk among different kinds of investments*

When you start investing, or even if you are a sophisticated investor, one of the most important tools available is diversification. Whether the market is bullish or bearish, maintaining a diversified portfolio is essential to any long-term investment strategy.

Diversification allows an investor to spread risk among different kinds of investments, called 'asset classes', to potentially improve investment returns. This helps reduce the risk of the overall investments in your portfolio underperforming or losing money.

With some careful investment planning and an understanding of how various asset classes work together, a properly diversified portfolio provides investors with an effective tool for reducing risk and volatility without necessarily giving up returns.

If you have a lot of cash – more than six months' worth of living expenses – you might consider putting some of that excess into investments like shares and fixed interest securities, especially if you're looking to invest your money for at least five years and are unlikely to require access to your capital during that time.

If you're heavily invested in a single company's shares – perhaps your employer – start looking for ways to add diversification.

## Diversifying within an asset class

There are many opportunities for diversification, even within a single kind of investment.

**For example, with shares, you could spread your investments between:**

- Large and small companies
- The UK and overseas markets
- Different sectors (industrial, financial, oil, etc.)

## Different sectors of the economy

Diversification within each asset class is the key to a successful, balanced portfolio. You need to find assets that work well with each other. True diversification means having your money in as many different sectors of the economy as possible.

With shares, for example, you don't want to invest exclusively in big established companies or small start-ups. You want a little bit of both (and something in between, too). Mostly, you don't want to restrict your investments to related or correlated industries. An example might be car manufacturing and steel. The problem is that if one industry goes down, so will the other.

With bonds, you also don't want to buy too much of the same thing. Instead, you'll want to buy bonds with different maturity dates, interest rates and credit ratings.

# INVESTING IN A FUND

*Making the decisions about when to buy and sell assets*

There are many reasons to invest through a fund, rather than buying assets on your own. At a basic level, investing in a fund means having a professional fund manager make investment decisions on behalf of the investor.

You receive reports on the fund's performance but have no influence on the investment choices short of removing your money from the fund and placing it elsewhere. Spreading risk is one of the main reasons for investing through a fund.

Even if you have a small amount to invest, you can have a lot of different types of assets you're investing in – you're diversified. You can spread risk across asset classes (such as cash, bonds, shares and property), countries and stock market sectors (such as financials, industrials or retailers).

Reduced dealing costs achieved by pooling your money can help you make savings because you're sharing the costs. There is also less work for you, as the fund manager handles the buying, selling and collecting of dividends and income for you. But of course, there are charges for this. The fund manager also makes the decisions about when to buy and sell assets.

**EVEN IF YOU HAVE A SMALL AMOUNT TO INVEST, YOU CAN HAVE A LOT OF DIFFERENT TYPES OF ASSETS YOU'RE INVESTING IN – YOU'RE DIVERSIFIED.**

**THERE IS A DIVERSE RANGE OF FUNDS THAT INVEST IN DIFFERENT THINGS, WITH DIFFERENT STRATEGIES – HIGH INCOME, CAPITAL GROWTH, INCOME AND GROWTH, AND SO ON.**

# POOLED INVESTMENT FUNDS

*Investing in different things, with different strategies*

Pooled investment funds – also known as 'collective investment schemes' – are a way of combining sums of money from many people into a large fund spread across many investments and managed by a professional fund manager.

There are a diverse range of funds that invest in different things, with different strategies – high income, capital growth, income and growth, and so on.

## Popular types of pooled investment fund

### Unit trusts and Open-Ended Investment Companies

Unit trusts and Open-Ended Investment Companies (OEICs) are professionally managed collective investment funds. Managers pool money from many investors and buy shares, bonds, property or cash assets, and other investments.

### Underlying assets

You buy shares (in an OEIC) or units (in a unit trust). The fund manager combines your money together with money from other investors and uses it to invest in the fund's underlying assets.

Every fund invests in a different mix of investments. Some only buy shares in British companies, while others invest in bonds or in shares of foreign companies, or other types of investments.

### Buy or sell

You own a share of the overall unit trust or OEIC – if the value of the underlying assets in the fund rises, the value of your units or shares will rise. Similarly, if the value of the underlying assets of the fund falls, the value of your units or shares falls. The overall fund size will grow and shrink as investors buy or sell.

Some funds give you the choice between 'income units' or 'income shares' that make regular payouts of any dividends or interest the fund earns, or 'accumulation units' or 'accumulation shares' which are automatically reinvested in the fund.

### Higher returns

The value of your investments can go down as well as up, and you might get back less than you invested. Some assets are riskier than others, but higher risk also gives you the potential to earn higher returns.

Before investing, make sure you understand what kind of assets the fund invests in and whether that's a good fit for your investment goals, financial situation and attitude to risk.

### Spreading risk

Unit trusts and OEICs help you to spread your risk across lots of investments without having to spend a lot of money.

Most unit trusts and OEICs allow you to sell your shares or units at any time – although some funds will only deal on a monthly, quarterly or twice-yearly basis. This might be the case if they invest in assets such as property, which can take a longer time to sell.

### Investment length

However, bear in mind that the length of time you should invest for depends on your financial goals and what your fund invests in. If it invests in shares, bonds or property, you should plan to invest for five years or more. Money market funds can be suitable for shorter time frames.

If you own shares, you might get income in the form of dividends. Dividends are a portion of the profits made by the company that issued the shares you've invested in.

### Taxed dividends

If you have an investment fund that is invested in shares, then you might get distributions that are taxed in the same way as dividends.

For the tax year 2020/21 the tax-free Dividend Allowance is £2,000 a year.

**Dividends above this level are taxed at:**

- 7.5% (for basic rate taxpayers)
- 32.5% (for higher rate taxpayers)
- 38.1% (for additional rate taxpayers)

Any dividends received within a pension or ISA are unaffected and remain tax-free.

Basic rate payers who receive dividends of more than £2,000 need to complete a self-assessment return.

# WITH-PROFITS FUNDS

*Fewer ups and downs than investing directly in shares*

If you save regularly or invest a lump sum using a life insurance policy, you might choose to invest in a with-profits fund. These aim to give you a return linked to the stock market but with fewer ups and downs than investing directly in shares. However, they are complex and are not as popular a form of investing as they used to be.

The money you invest is pooled together with money from other people and invested in the insurance company's with-profits fund. The fund is managed by a professional investment manager, who puts the fund's money into different types of investment, such as shares, property, bonds and cash.

## Annual bonuses

The costs of running the insurance company's business are deducted from the fund, and what is left over (the profit) is available to be paid to the with-profits investors. You receive your share of profits in the form of annual bonuses added to your policy.

The company usually tries to avoid big changes in the size of the bonuses from one year to the next. It does this by holding back some of the profits from good years to boost the profits in bad years – this process is called 'smoothing'.

## Terminal bonus

You might also receive a 'terminal bonus' when your policy matures. You can ask the insurance company to give you details about its bonus policy before you buy. With most policies, the amount of profit you earn depends mainly on the performance of the investments in the with-profits fund. Usually, once added, bonuses can't be taken away.

But the insurance company can claw back some or all of the bonuses paid by making a Market Value Reduction (MVR) – or Market Value Adjustment (MVA) – to your policy if you surrender early. This is most likely in times of adverse investment conditions like a stock market crash.

## Types of with-profits fund

### Conventional with-profits fund

An initial sum assured (guaranteed minimum sum) is increased by the addition of annual bonuses and a terminal bonus. The size of bonuses depends on fund performance, the

costs of the insurance business, and the need to smooth bonuses between good and poor years.

The trend has been for bonus rates to fall as the result of difficult market conditions. Although market value reductions can be applied, this would not normally be the case. Instead, surrender penalties would usually apply if the policy was terminated early with no reductions applied on maturity.

## Unitised with-profits fund

A unitised fund is split into units – when you pay into it, you buy a certain number of units at the current price. Unit prices increase in line with bonuses declared and do not fall. Or, if additional units have been added, these are not taken away (but market value reductions can be applied).

There might be surrender penalties if you decide to take your cash early. Bonuses are handled differently depending on the type of unitised with-profit fund you have.

A fixed price unit never changes, so bonuses are paid as extra units to your policy as opposed to a variable price where bonuses are given as an increase in the unit price, so each unit you hold is worth more.

## Bonuses

**There are two kinds of bonus:**

- Annual bonus, also called 'regular' or 'revisionary' bonus
- Final bonus, also called 'terminal' bonus

## Policy terms

Once the bonus has been added, an annual bonus can't be taken away – even if the fund performs poorly in future – as long as you continue to meet the terms of your policy. A final bonus might be added at the end of your policy. Whether you receive one and how big it is depends on how well the fund does. In good years, the fund manager can choose to keep some of the profits to help cover losses in bad years. This is called 'smoothing'. This means that if there are long stretches without a profit, you might get low annual and final bonuses – or even no bonuses at all.

## Market Value Reduction

The insurance company can make a Market Value Reduction to your policy if you surrender early, or in times of adverse investment conditions like a stock market correction. If you leave a policy early, this reduction might claw back a large part – or even all – of any bonuses that have previously been added.

## Inherited estate

A fund needs to keep enough money on hand to meet its expenses, run the business and pay what it owes to policyholders. But over time, some funds build up far more than they need – usually through profits that were held back to cover losses that never happened. This extra value is called the 'inherited estate'. The insurance company can use the extra money in one of two ways: for a distribution or a re-attribution.

**THE PRICE OF SHARES IN AN INVESTMENT TRUST CAN BE LOWER OR HIGHER THAN THE VALUE OF THE ASSETS ATTRIBUTABLE TO EACH SHARE – THIS IS KNOWN AS TRADING 'AT A DISCOUNT' OR 'AT A PREMIUM'.**

# INVESTMENT TRUSTS

*Making money by investing in other companies*

An investment trust is a public company that raises money by selling shares to investors, and then pools that money to buy and sell a wide range of shares and assets. Different investment trusts will have different aims and different mixes of investments.

Investment trusts, unlike unit trusts, can borrow money to buy shares (known as 'gearing'). This extra buying potential can produce gains in rising markets but also accentuate losses in falling markets. Investment trusts generally have more freedom to borrow than unit trusts that can be sold to the general public.

## Buying shares

Unlike with a unit trust, if an investor wants to sell their shares in an investment trust, they must find someone else to buy their shares – this is usually done by selling on the stock market. The investment trust manager is not obliged to buy back shares before the trust's winding up date.

The price of shares in an investment trust can be lower or higher than the value of the assets attributable to each share – this is known as trading 'at a discount' or 'at a premium'.

## Split capital investment trusts

These run for a specified time, usually five to ten years, although you are not tied in. This type of investment trust issues different types of shares. When they reach the end of their term, payouts are made in order of share type.

You can choose a share type to suit you. Typically, the further along the order of payment the share is, the greater the risk, but the higher the potential return. You also need to bear in mind the price of shares in an investment trust can go up or down so you could get back less than you invested.

## Asset type

The level of risk and return will depend on the investment trust you choose. It's important to know what type of assets the trust will invest in, as some are riskier than others. In addition, look at the difference between the investment trust's share price and the value of its assets, as this gap may affect your return. If a discount widens, this can depress returns.

## Borrowing money

You need to find out if the investment trust borrows money to buy shares. If so, returns might be better but your losses greater. With a split capital investment trust, the risk and return will depend on the type of shares you buy.

For the tax year 2020/21, the tax-free Dividend Allowance is £2,000 a year. Dividends above this level are taxed at 7.5% (for basic rate taxpayers), 32.5% (for higher rate taxpayers) and 38.1% (for additional rate taxpayers). Dividends received by pension funds or received on shares within an Individual Savings Account (ISA) will remain tax-efficient and won't impact your dividend allowance.

## Tax-efficient

Many unit trusts can be held in an ISA. In this case, your income and capital gains will be tax-efficient. Any profit you make from selling shares outside an ISA may be subject to Capital Gains Tax.

# STOCKS & SHARES ISAS

*Investing in a wide range of different tax-efficient investments*

Individual Savings Accounts (ISAs) can be used to hold stocks and shares or cash, or any combination of these, up to the current annual limit. An ISA is a tax-efficient 'wrapper' that can be used to help save you tax.

A Stocks & Shares ISA and an Innovative Finance ISA are wrappers that can be put around a wide range of different investment products to help save you tax.

**A number of different types of investment can be held in an ISA, including:**

- Unit trusts
- OEICs (Open-Ended Investment Companies)
- Investment trusts
- Exchange traded funds
- Corporate and government bonds
- Individual stocks and shares

## Whole allowance

You can contribute a total of £20,000 a year into an ISA in the current 2020/21 tax year. The whole allowance of £20,000 can be paid into a Stocks & Shares ISA, Innovative Finance ISA or Cash ISA, or a combination of these.

Your annual ISA allowance expires at the end of each tax year on 5 April and any unused allowance will be lost. It can't be rolled over to the following year. You can choose between making a lump sum investment and/or making regular or ad hoc contributions throughout the tax year.

## Investment value

Any increase in the value of the investments in your Stocks & Shares ISA or Innovative Finance ISA is free of Capital Gains Tax, and most income is tax-efficient.

You can only pay into one Stocks & Shares ISA or Innovative Finance ISA in each tax year, but you can open a new ISA with a different provider each year if you want to. You don't have to use the same provider for your Cash ISA if you have one.

## ISA rules on deceased spouse ISA transfers

ISA rules introduced in April 2015 now permit the surviving partner of a spouse or registered civil partner who died on or after 3 December 2014 to receive an additional ISA allowance equal to the value of the deceased's ISA savings at the time of death.

## Transferring ISAs

Should you wish to switch your current or previous year's ISA to a different provider's ISA while simultaneously keeping future tax benefits intact, you have to arrange for a transfer rather than selling and reinvesting.

All ISA providers have to allow transfers out, but they don't have to allow transfers in. You can transfer money from a Cash ISA to a Stocks & Shares ISA.

If you transfer an ISA that you have paid into during the current tax year to a new provider, you must transfer the whole balance. For ISAs from previous years, you can choose how much to transfer.

For most of the investments you would put into a Stocks & Shares ISA, the value can go down as well as up, and you might get back less than you invested. The level of risk in your Stocks & Shares ISA will depend on the investments you choose to put into it.

# IN SUMMARY

## *Shifting your focus from the goal to the journey*

Your lifestyle plan should shift your focus from the goal to the journey. With a full understanding of your vision, circumstances and priorities, we will provide you with bespoke professional advice to effectively create your successful lifestyle plan, enabling you to achieve your financial and lifestyle goals, and together develop a strategy to make these become a reality.

**5 reasons why you should talk to us about your lifestyle plan:**

1. To help you set goals and plan for your future
2. To help you navigate the world of finance with confidence
3. To identify opportunities
4. To plan for the unexpected
5. To provide peace of mind

In order to create your lifestyle plan, you need clarity over your financial and lifestyle goals, your objectives and your motivations. We explore every aspect of your financial world, taking everything into account to create a plan that works for you.

# WANT TO DISCOVER HOW TO CREATE A LIFE PLAN THAT TAKES YOU BEYOND GOAL-SETTING?

Setting financial goals for your lifestyle plan is a critical component of life planning. But discovering how to create a life plan takes you beyond goal-setting. It adds an emotional element to those goals so everything you do is infused with meaning. With lifestyle planning, you get to the core of who you are, what you want and how to accomplish it.

For more information, or to discuss how we could assist you, please contact us.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2020/21 tax year, unless otherwise stated.

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