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Introduction

Wealth Management (WM) is an investment advisory discipline that incorporates financial planning, investment portfolio management and a number of aggregated financial services. High net worth individuals, small business owners and families who desire the assistance of a credentialed financial advisory specialist call upon wealth managers to coordinate retail banking, estate planning, legal resources, tax professionals and investment management.

Warning:

This report was written based on the legislation as it stands at the time of writing and our understanding of it. It obviously cannot allow for any future changes that the Chancellor may make. This is for discussion purposes only and **this report is not intended as WM advice, investment advice or specific risk strategies or advice.**

Brief Description:

AisaProfessional offers clients a 21st century administration service, with systems and a culture that are client-focused, enabling clients to improve efficiency by reducing the time spent chasing information and correcting errors. We have access to award-winning online solutions offering portfolio construction, online transacting, low-cost switching, consolidated valuations and a range of analysis tools. Our highly respected advisers, who have the minimum of the G10, G20, J01, J02, J06, AF4 qualifications (Taxation and Trusts together with Investment Portfolio Planning), will discuss a report with you.

During Wealth Management, three other matters may become considerations as a result of the findings:

1. A change of strategy - either in terms of long-term expenditure or investment planning,
2. Recommendations for the above strategies including new investments,
3. Inheritance tax planning.

Investment Policy

Every individual or trust must have a written investment policy statement and the following guide should help. A short written statement should explain the objectives of the policy. It will help **AisaProfessional** and the investment manager determine a strategy to generate a sufficient return to fulfill these objectives over the short, medium and long-term.

The statement should cover many items, a list we can separately provide to clients. The investment policy statement should be succinct and might be in the following format:

Objectives - Aim of investment portfolio within context of the individuals/ trust's overall assets.

Constraints - Factors to be considered

Risk Profile and finally, **Asset allocation/strategic range**

It is important that your final decision takes into account how you and your beneficiaries are affected. Below is an example outline report; full reports are written by skilled technicians and provide you with the options and considerations that you require to make a decision. In all our dedicated reports (often 40 pages long), we use our own software, calculations and knowledge for each individual. We do not buy in outside agencies or pre-written reports.

Prepared by **AisaProfessional**
Advanced
Independent
Specialist
Advice

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Example Case Study Answer:

Wealth Management Report

Introduction

Sean and Claire are spending nearly all the money they have, and are extremely optimistic about their future. They have children and have certain ambitions for themselves and their children. However, they have limited savings and have no plans for inheritance tax.

They are making assumptions that are all on the upside. However, should events turn, they are somewhat exposed. They state that their priorities are:

- To purchase a larger house in three years time
- To build savings that enable their children to attend private senior school, half of which Sean's grandparents have offered to pay as long as Sean and Claire can match this.

Their joint net income is £2,318 and £600.10, totaling, £2,918.1 and they are spending £2,666.67, leaving them spare income of £251.43 per month. However, although it is not possible to estimate exactly what their fixed costs are, with mortgage payments of £87.50 per month and no other debt, it does seem that most of their expenditure is on luxuries.

In this example, we have to try and dampen their expectations, put in place realistic goals and plans, and then build a strategy they can work to.

Attitude to Risk

In everything that we do, our attitude to the risks that we take in our lives is paramount. It would therefore be important to assess their overall attitude to risk and their attitude to risk for individual investments. It is these assessments, along with a discussion about their attitude to risk and the consequences of achieving and not achieving their goals that we would use to determine the asset allocation in the investment portfolios.

It would also affect other decisions they make about their overall approach to financial planning and any protection policies that they may wish to consider.

Overview

Having done this, the first thing that we can see is that they spend more than Sean's net income each month. Even allowing for his bonus there is still a £300 per month shortfall and his bonus cannot be relied upon. Thus, it seems clear that I need to provide assistance with creating more discipline with their finances and not only help them invest their money, but also create a long term strategy that enables them to have more spare income and more options in the future. Without this discipline, they are dangerously exposed.

One way in which this can be seen is their obvious reliance on house prices increasing. For the first time in 16 years, house prices are falling and depending on exactly where you stand, they have either fallen as far as they are going to and will now stagnate or, and which seems the more plausible, they will continue to fall further as unemployment rises and public spending is cut and taxes are raised after the next election.

Thus, one priority is to agree with Sean and Claire a way in which they can repay their mortgage. A flexible mortgage on a tracker is one way of attaining this goal, while still giving them access to the capital. This has the disadvantage that they would have access to the capital and would also require a remortgage. Remortgages at this time are expensive however. Most mortgages will allow up to 10% of the mortgage to be repaid per annum. At this time therefore, I would look to discuss with Sean and Claire using at least some of the money that they are saving on the lower mortgage rates to reduce the level of their mortgage.

They have the purchase of purchasing a larger home in three years time as a priority. This may be an unrealistic aim however as we look at their other priorities. Their daughters, Sophia and Imogen have six and seven years before they need to go to senior school. As Sean's grandparents have offered to pay half of the school fees, Sean and Claire need to save the remainder.

Example Case Study Answer:

Wealth Management Report

Should Targets be met from Lump Sum Investments			Investment Available		
Type	Lump Sum Utilised? Yes / No	Funds required Years	Amount Future Value	Investment Required	Shortfall
House move / purchase		3	£0	£0	0.00
School Fees	Yes	7	£6,850	£6,850	0.00
School Fees	Yes	8	£14,330	£14,330	955.26
School Fees	Yes	9	£14,989	£14,989	14989.43
School Fees	Yes	10	£15,679	£15,679	15678.95
School Fees	Yes	11	£16,400	£16,400	16400.18
School Fees	Yes	12	£8,577	£8,577	8577.29

Bank Account

The bank account is earning a minimal 0.5% interest. Moreover, as this is owned jointly, half of the interest is attracting 40% income tax. It is a useful emergency fund however. I recommend that they retain £6,000 of their cash as an emergency fund. This should be in cash ISA's to gain the income tax advantages and in such accounts as the xxxxxx ISA, can obtain 2.65% gross interest.

I would look to discuss placing £3,600 in to a cash ISA for Sean and £2,400 for Claire. The money could be placed in to a vehicle such as National Savings Certificates but this ties the money up for the term and does not serve as an emergency fund therefore.

Single Company Shares

Single company shares are high risk and would be expected to have greater volatility than a portfolio of shares in a vehicle such as a unit trust or OEIC. It would therefore be sensible to place these in to a stocks and shares investment for Sean and Claire to spread the risk and reduce the volatility in the returns.

Given the relatively small amount of money in these shares, a far greater spread of shares can be achieved by investing in a vehicle such as an OEIC. The approach to the investment would be in accordance with the way they answer the risk profiler, their assessment of having around 55% of the investment in shares and a discussion.

It would be important to point out that a balanced fund can have up to 85% in equities and they often have this maximum.

School Fees Planning

The remainder of their cash and their RBS, BT and BP shares should be invested in to a portfolio of funds to help attain reach the £10,000 per annum at today's value that they need to build.

Investing their remaining capital of £9,309 and using the capital from this as from year 7 when Sophia is 11 years of age, assuming inflation to be 3% per annum on average, their outstanding inflation adjusted capital requirements are:

Example Case Study Answer:

Wealth Management Report

Year	Capital Shortfall	Monthly Investment Required
7	£5,726	£59.75
8	£12,688	£113.73
9	£13,048	£102.51
10	£13,439	£93.98
11	£6,921	£43.61
Total	£51,822	£353.83

Assuming an average growth rate of 6% per annum before charges, the amounts that Sean and Claire would need to invest are shown in the table above. Thus, as Sean and Claire have £434.54 that they are not spending each month, they are able to start investing this each month immediately.

I would advise them to save this in a stocks and shares ISA's between them. I would advise them to do this via a platform that would enable them to invest in a range of the best unit trusts and OEIC's in Claire's name. The portfolio would be based on a discussion following an assessment of the risk profiler that they completed for an investment and would include their opinion that they are happy with a 55% equity content.

The existing capital they have that is to be invested would be invested in the same way. This would comprise £3,600 each in to a stocks and shares ISA for Sean and £5,709 for Claire. After this commitment, Sean and Claire would have spare income of £81 per month.

An analysis of their mortgage repayments using an interest rate of 5% over their remaining 22 year term indicates that the monthly repayment would be £1107.90 per month. Even on an interest only basis, it would be 729.16 per month. Sean and Claire have no method of repaying their mortgage and are spending the approximate saving of £641.66 per month from the lower interest rates.

Taking an assessment of their necessary spending as £1,200 per month, I would discuss with them the options of:

- Saving say £600 per month in to a deposit account in Claire's name to enable them to build up capital to repay their mortgage
- Converting their mortgage to a repayment mortgage
- Establishing a savings plan based on the same as for their school fees planning to repay their mortgage in 22 years

From an analysis of their income and expenditure and their capital requirements, I would advise them that to enable them to achieve the aim of funding their daughters' private schooling, it is unlikely that they will be able to fund the purchase of a larger house in three years time.

Example Case Study Answer:

Wealth Management Report

Future Plan

By setting up the strategic plan laid out above then it may be possible to increase the amount of investments available to be utilised. This excludes of course any future increase in earnings that may also be available. Critically, it does not rely on this though, or the income bonus which cannot be guaranteed.

Should Targets be met from Lump Sum Investments			Investment Available		
Type	Lump Sum Utilised? Yes / No	Funds required Years	Amount Future Value	Investment Required	Investment Available
House move / purchase		3	£0	£0	£55,547
School Fees	Yes	7	£6,850	£6,850	£52,585
School Fees	Yes	8	£14,330	£14,330	£41,936
School Fees	Yes	9	£14,989	£14,989	£29,882
School Fees	Yes	10	£15,679	£15,679	£16,295
School Fees	Yes	11	£16,400	£16,400	£0
School Fees	Yes	12	£8,577	£8,577	£0

Child Trust Funds

These funds are meant for their children when their children reach 18 years of age. Given the number of years to their children's 18th birthdays and Sean and Claire's willingness to be invested in approximately 55% equities, these funds would be best invested in a portfolio, the asset allocation of which would be based on their answers to the risk profiler, their attitude to having around 55% of the portfolio in equities and a discussion where Sean and Claire agree a portfolio.

A portfolio would include a range of equity, commercial property, fixed interest and possibly cash funds.

Pensions

Sean thinks that Claire should join her company pension and take advantage of her employer's contribution. I agree with Sean's thinking and consider that Claire would be best advised to join her company pension arrangement. With a 5% contribution level from Claire, and matched by her employer, this would equate to £31.25 gross per month.

The funds could be invested in line with the same principles as the school fees and child trust funds. I would also suggest that we review the asset allocation in Sean's pension to ensure that it matches his attitude to risk. Sean's pension is invested 100% in a global growth fund for diversification. It would be important to review the asset allocation within this fund to ensure that it meets his requirements. This type of fund would likely have more than 55% in equities and the geographical allocation may well mainly be in the higher risk areas. It would be important to view this in light of the long term nature of a pension and Sean's age.

Example Case Study Answer:

Wealth Management Report

Protection Issues

As Sean and Claire profess, they do indeed seem to spend much of their income on living well. They also seem to plan ahead on the basis that the economic situation will always be good. I believe that the comment "They believe in living life to the full, or at least they did" highlights this attitude. It also suggests that they are reconsidering this approach.

Thus, a change in approach is required, particularly with the current economic situation. These circumstances suggest that relying on increases in house prices is not sensible. Even with house price increases, having no method of repaying their mortgage will ultimately produce a problem, and it is likely that they will get used to spending the income. Thus, as already highlighted, they need to create a strategy to repay their mortgage.

In addition, as they are spending so much of their income, another way they are exposed is their reliance on Sean's income. Sean would be well advised therefore to look at establishing a 'permanent health insurance' policy to ensure that he receives his net pay if he were unable to work through illness or injury.

If Sean were to die, the mortgage would be repaid but Claire would only be left with £214,000 capital. This is helpful but I would argue, not adequate. I therefore view additional life assurance on Sean, written in to trust as a priority. Claire has only £15,000 life assurance and I would also raise this as a priority. I would also discuss a death or earlier critical illness policy to cover Sean and Claire for the sum and duration of their mortgage.

I would also assess whether they have a flexible mortgage and if not, whether they could apply for a flexible tracker mortgage, as this would allow Sean and Claire to repay their mortgage and use these payments as a safety net. This would have an advantage of reducing their exposure to income tax and of reducing their mortgage faster, thereby possibly building in the possibility of purchasing a larger house at some stage.

Inheritance Tax

As it is now possible to carry over the nil rate band from the first to die to the remaining person, the way their wills are written are satisfactory at this time. Their estate is less than £650,000, the value of two nil rate bands and they currently have no liability to inheritance tax.

Monitoring and review

As many of the recommendations could be actioned quickly, and involve monthly contributions it would take time before the process would be seen to be working. I feel therefore a regular annual review should be set up for the first 3 years. Further consideration to periodic reviews would then be re-assessed.

Summary

Sean and Claire can provide for their children's private schooling by investing in ISA and OEIC type portfolio investments. They need to use the opportunity to change the way they manage their finances though. They need to look at paying down their mortgage and rein in their spending to allow them to enjoy their future as well as now.

I have considered all this above and have put in place an appropriate plan that takes into account inflation over the whole period at 3%, whilst also enforcing a strategy that will hopefully provide some discipline in the future.

Example Case Study Answer:

Wealth Management Report

I have not been able to achieve the hoped for larger house move in 3 years, and of course that may be a decision that Sean and Claire would need to prioritise. For example, all the planning has majored on providing the school fee planning in 7 years from now, which the grandparents are to provide half of the costs for. It may be that the grandparents do not survive thus changing the plan, and freeing up for example the savings for the new house move.

An inheritance should never be planned or hoped for, but it would effectively alter the plan substantially due to the proposed income input in the future.

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