fmifa Review

Issue 4
Winter 2020
www.fmifa.com

Produced by members of the fm team

INSIDE THIS ISSUE

25 YEARS

A team of independent financial planners, working from offices in Penn, Buckinghamshire, providing high quality, financial solutions to both individuals and businesses.

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Travelling along the roadmap to retirement

Philip Harper
Financial Planner

In Australia, youngsters are encouraged to look forward to their "Golden Years". In the UK we refer to this period of our lives as retirement, but for some reason this doesn't seem to have quite the same ring to it. Golden years is when we plan to have time to do the things we've dreamt of, when work stress is behind us, filling our days with sightseeing and pastimes rather than commuting and meetings.

Of course, those golden years don't just appear, they do require quite a bit of planning and financial preparation is the foundation to this goal.

At FM, we wholeheartedly agree with this more positive outlook and we recently produced a publication called Roadmap to Retirement, which we hope will help our clients adopt this golden years' culture.

Roadmap to Retirement isn't just a brochure, it's a financial target. We have tried to identify where clients should be and what they should be considering at various stages along the journey. We fully accept there will be many detours as this journey progresses; perhaps house purchase, starting a family, changing jobs and further down the road, maybe helping children onto the property ladder. However, our Wealth Management program will help you get back on the road, with a tank full of fuel ready for the next stretch.

All this journey stuff might sound a bit fanciful, but the analogy is actually pretty good. Any long journey requires some detailed planning and also contingencies when things don't quite go to plan. Our cashflow planning technology is the backbone to how we map out the route, agree with our clients what they are trying to achieve and analyse whether the plan is viable. Once we have a framework in place, that's when clients can start to work towards their goals and put in place the financial strategies we have identified for them. Along the road, we will stop now and then to check where we are and decide whether we need to pick up the pace or have a bit more in the tank than expected.

The introduction of Pension Freedoms in 2015 has been a major factor in making these plans more attainable. Being able to access our pensions in a more flexible way means we can tailor our retirement to our specific needs. Most of us accept that our activity levels will fall away as we get older and this might be reflected in our spending patterns. So, having access to more funds in the early stages of retirement will probably work for most of us and Pension Freedoms helps delivers this option.

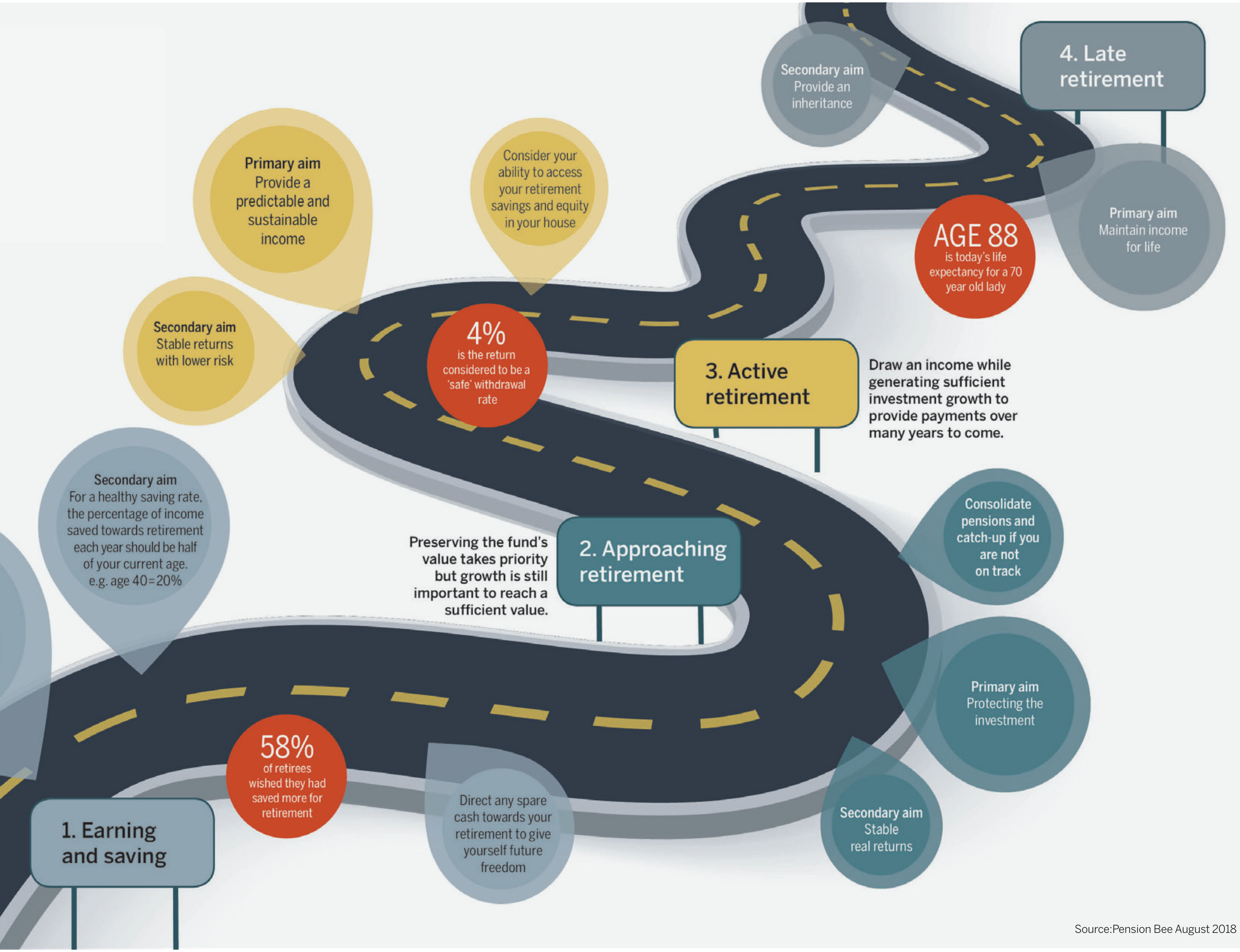
> "Being able to access our pensions in a more flexible way means we can tailor our retirement to our specific needs"

Also, away from pensions, ISA allowances have now increased to more significant levels. Being able to invest £20,000 per annum, per person means a couple could build up a significant investment pot even over a ten-year period and such a portfolio could deliver some terrific tax-free income to supplement private and state pension benefits.

Roadmap to Retirement is the project we have developed to help clients create a real plan for the future, using our wealth management service to bring it altogether. We don't pretend the journey will be easy, but the value of financial advice is having it mapped out and reviewed along the way.

We often wonder whether deep down David Bowie wanted to be a financial adviser when he wrote 'Golden Years' back in 1975!

Find a copy of our Roadmap to retirement at: www.fmifa/publications



And Action...

In October we took a big step into the unknown when we commissioned a local media company to shoot a few films about our firm. Kaptcha, spent the day at our offices recording us going about our day to day activities and even captured a few clients (and a four-legged friend) popping into our offices. Although none of us felt particularly comfortable in front of lights and a rolling camera, we are delighted with the results which you can view on our website if you have a few spare moments!

Kaptcha Films that work

A home perfectly suited to your lifestyle

How best to secure a self-build mortgage

Paul Wakefield
Mortgage Adviser

11,000 self-build homes are built each year. On average, build costs will be somewhere between £1,300 and £2,500/m3.

With the number of new builds increasing across the UK and TV programmes such as Grand Designs, it has inspired many people to look at building their own home. I was lucky to have had the opportunity to do this. You can potentially save up to 30% on the market value, although, the main motivation for us was the ability to make our home fit our exact needs. This included adding the latest home technology and sustainability measures at the design stage.

You may be lucky enough to already own the plot of land if it forms part of your current property. If so, you will need to appoint a solicitor to separate the title from the existing property. If you have a mortgage on your current home, you will need to gain agreement from your lender to release the land from their security. If you are purchasing a plot of land to build on and you plan to finance this via a mortgage, you will generally need planning permission on the land.

Securing finance for a self-build home may not be as daunting as it sounds. As with a regular mortgage, the amount you will be able to borrow will be determined by assessing your income and commitments, but it will also consider the costs of the project and the value of the completed home. There are more details required but the process is relatively simple, especially if you are using a mortgage adviser to search the market for the best mortgage. There are fewer lenders who will lend for self-build and they tend to be more cautious.

It's worthwhile having your finances in order, when making an offer for a plot or renovation property. To help you with the building costs funding can be released in set stages as you build your home and the mortgage is often interest-only through the project, converting to a standard residential product on completion.

The beauty of self-builds is, if managed correctly, they offer a cost-effective way of owning your dream home based on your personal choice.

STATS

11,000 self-build homes are built each year.
On average, build costs will be somewhere between £1,300 and £2,500/m3.

PAUL'S HOUSEBUILDING TIPS

Make a wish list - ensure the drawings, detail and specifications are correct and complete in every sense (include switches, taps etc.) before submitting for pricing.

Spend time planning and getting the right team. Hire professionals with a good local knowledge and experience of self-builds.

- Mortgage Adviser
- Local architect
- Local builder

Do not underestimate the cost of professional fees.

Be decisive – question your decisions, make changes early and visit the site every few days.

> "Finance your build and stick to a budget, so you can enjoy living in your dream home."

Saving the planet with our savings

Investing with an eye on our wider environment is becoming mainstream. It's driven by individuals who embrace the idea that their investment objectives and personal values aren't mutually exclusive.

Andy Robinson
Financial Planner

Investing for long-term returns is one of the foundations of Financial Planning, but can these investment decisions also respect our wider values? Could our investments even lead society to change for the better?

A more sustainable approach to investing is now starting to gain momentum moving from a niche, bespoke area to a more mainstream investment movement. It's called ESG investing - the Environmental, Social and Governance factors that some Managers now consider when building a more sustainable investment philosophy within a portfolio. Public consciousness has shifted on a broad range of issues and these ESG factors are a growing attempt to help address areas becoming increasingly important to some savers.

This sustainable investment approach aims for strong, long-term returns with a desire to improve corporate practices thus benefiting society and the environment. This sounds very laudable of course, but versions of this have been around for some time receiving a somewhat lukewarm response due to a perception of higher costs and a trade-off in performance. Is this still the case though?

To understand this trend further, I met up with Ryan Murphy, Head of Decision Science at Morningstar during a trip to the UK from his office in Chicago. Morningstar are one of the world's leading global investment research houses and Ryan was very clear in his thinking - he told me, "the old associated perceptions are no longer reality. Today, there is good value and strong returns to be gained from taking 'ESG' into account when selecting investments, although these factors shouldn't be used in isolation." He was also interested in the attitude of the end saver – investing for returns and a better world has great ethics behind it but do savers care when it comes to making the most of their hard-earned savings?

> For investors in the United States, there are more than 350 funds available that consider environmental and sustainability factors representing $89 billion in assets under management.
>
> Source: Morningstar Direct. Data as of Dec 31, 2018

Ryan talked me through his research of 948 private US investors; the results were informative in that 72% were likely to consider sustainably-minded solutions. Of course, we had a debate on how this outcome would be focused on the younger generation and interestingly, his evidence showed this was not the case at all - the 72% was spread across a broad-based community of savers who are now starting to express a strong interest in 'impact' investing as it is also referred to statside.

Despite the growing popularity of the sector it is not always easy to choose ethical and sustainable investments. This is where the investment managers and their research teams can provide really valuable insight. A manager in this space will use a positive or negative screening process to help establish the ESG credentials of the companies they choose to invest in.

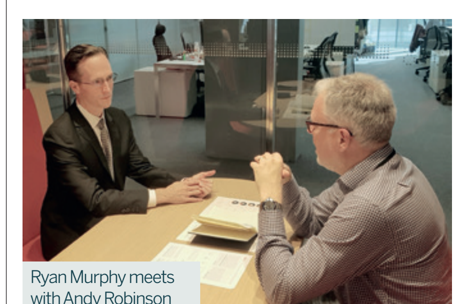
Negative screening is where they screen out the shares of companies that do not operate in line with the values of a socially conscious investor. These businesses operate in sectors such as tobacco, fossil fuels, gambling, mining and weapons manufacture. Poor treatment of workforces, or lawsuits where corruption has been exposed, are also factors used to screen out companies as an investment opportunity.

Positive screening is when companies are selected because they make a positive contribution to society or the environment. They might not make their profits in a way that's purely helping the planet, but they have a strong ESG score all the same.

Whilst these approaches may address the concerns of savers today, there is a strong argument that the corporate winners of tomorrow will be the leaders in delivering solutions to some of the environmental challenges we face. These businesses could be the next generation of investment opportunity. Electric battery development is for example a key focus for many of the traditional fuel suppliers, and the winners in this race could provide great investment returns. Related to this the consistent income generated by wind farms can also represent a strong diversifier within a wider portfolio.

Interestingly the performance already of some of the specialist funds in this area is very impressive. Risk rated solutions from managers are also making this approach accessible to those looking for true diversification of risk, and more solutions are coming to market. In fact, Morningstar research shows that amounts invested into ESG funds have increased by 53% over the past year which has resulted inevitably in 23 new funds coming to market

As always, we all need to feel comfortable with the risks involved and the returns these solutions can deliver to the patient investor. It is however an exciting development where investing money in line with our own, financial plan also creates a greater-good outcome.



Ryan Murphy meets with Andy Robinson

Companies Excluded by a Socially Responsible Investment Manager

(Based on Vanguard, March 2019)

Environment & Anti-Corruption
Misled government agencies and consumers over vehicle emissions

HSBC

Anti-Corruption
Fined by US authorities for money laundering failings

Human Rights
Allegations such as the use of solitary confinement in its prisons in South Africa

BOEING

Nuclear Weapons
Involvement with production of Trident nuclear missiles

BRIDGESTONE

Labour Standards
Repeated employment violations, including child labour

Three frequently asked questions...

Unsurprisingly, we at fm find the same questions crop up over and over again. Here Philip Harper answers three..

1 How can I boost my state pension?

The new 'flat-rate' state pension was ushered in on 6 April 2016, affecting everyone reaching state pension age on or after this date.

If you've got spare savings to use, it's possible to replace some missing NI qualifying years. In a nutshell, you pay a one-off lump sum to buy a higher state pension sum. Assuming you live long enough, the extra cash you earn from a bigger weekly state pension could be worth £1,000s in retirement

The key that defines whether it's worth topping up is how many NI years you already have (remember that under the new state pension you need 35 qualifying years for a full rate pay-out). You can check using www.gov.uk/check-state-pension.

If you're eligible, and you could benefit by buying extra years, this involves paying what are called voluntary class 3 NI contributions. Those retiring after 6 April 2016 can buy up to 10 years' contributions. The rate is £15 per missing week of NI contributions – £780 for a full year. Is it worth it? Buying a full extra year for £780 will boost your pension by £4.80 a week, equivalent to about £250 a year. So, if you buy one extra year, you'll earn back what you paid in just over three years, which is an investment return very hard to find elsewhere!

2 My parents are considering Equity Release – what are the pitfalls?

Thanks to significant changes to the law and the safeguarding brought about by the Equity Release Council, there are far fewer disadvantages, or things to be wary of with Equity Release than used to be the case less than a decade ago.

The main potential pitfall is the Early Repayment Charge. This charge is within all Lifetime Mortgages contracts, but only becomes payable if someone chooses to pay off their equity release loan any time other than downsizing, death or moving into long term care.

It goes without saying that the main outcome of releasing equity is a reduced estate for a person's beneficiaries. We always try to involve beneficiaries in the advice process and this reduction in the estate value is acceptable to the vast majority of those that we talk to and frequently it is very actively encouraged!

Finally, an important point of note when considering a Lifetime Mortgage is that, although it is portable to another property if you decide to move, it is not usually possible to move your equity release loan to a 'retirement village' type home. It is our job as advisers here at Financial Management to clearly explain how any pitfalls may be relevant to you and to weigh these up against the many potential benefits of Equity Release. Read more detail at fmequityrelease.co.uk.

3 I am only in my 50's – I assume I don't need to think about appointing a Power of Attorney yet?

Even in your 50s if you don't make a Lasting Power of Attorney (LPA), and later become unable to make certain decisions for yourself, there may be a time when no-one can legally make decisions for you – even your partner. This can make things very difficult, such as accessing savings and paying bills.

If this happens, someone may need to apply to the Court of Protection to become your deputy. This gives them similar powers to that of an attorney. The process of becoming a deputy is a lot more time-consuming and expensive than an LPA. A deputy has duties on an ongoing basis, such as paying an annual fee and submitting an annual report, so it is usually easier for someone to be an attorney rather than a deputy.

We therefore strongly recommend all clients, regardless of age appoint an attorney, perhaps at the same time as making a will. This can be done through your solicitor or even by yourself as its not that difficult, particularly if you use the excellent service provided by the Office of the Public Guardian (OPG).

Savers should plot their escape from zombie funds

Elliot Clark
Financial Planner

Over many years there has been a huge reduction in the number of product providers within the financial services industry, one of the major drivers for this has been the offloading of existing policies by large insurance companies who have decided that these clients no longer suit their business strategy.

These polices are purchased by specialist providers known as 'consolidators' who in turn wish to squeeze the maximum profit from these policies for as long as possible. Tagged as 'zombie funds' they are left on the shelf until policyholders either transfer away, retire or die.

Earlier this year, Phoenix Group announced plans to acquire the insurance business of Standard Life for £2.9bn a move which has caused much surprise and concern in the industry.

Standard Life follow many other household names including AXA, Scottish Amicable, NPI, Sun Alliance, Royal Life and Friends Provident in going down this particular road and will be joined by many of Legal & General's and Old Mutual policy holders, who are being handed over to ReAssure.

WHY SHOULD THIS MATTER

- **Our experience of dealing with consolidators is levels of service seriously deteriorate.**
- **There is no incentive for the consolidator to develop existing products to reflect legislative and market changes.**
- **Investment performance can often be affected by fund manager departures.**

The assessment by Reviewyourwithprofits.co.uk, a specialist website, found billions of pounds languishing in poor performing "with-profits" funds.

If you are affected by any of these changes, we have a variety of options which can help you find a solution.

The human touch

Clients still need what humans do best. Best financial advice blends technology and human touch

Vanessa Carver, Financial Management

Matthew Wright
Financial Planner

It is inescapable that digital innovation is changing our lives in all areas and financial advice is no different. We have seen the emergence of digital financial advice services and artificial intelligence (AI) over the last few years and whilst there is undoubtedly a place for this, at Financial Management we firmly believe our clients benefit from the human intervention we provide supported by technology.

Although it might be tempting to think that investing is just about getting the best possible return on one pot of money, goal-based investing and structuring your investment around your specific financial aims, has become a widely used way of helping people plan their financial futures.

It is our belief that ongoing communication between adviser and client is vital, not just at the outset when the plan is being put in place, but also during regular reviews and updates.

Our experience tells us that it can often be at times of market stress or changes to personal circumstances that it becomes particularly important to have the ability to discuss issues of concern with someone they know, trust and have a long-term relationship with. A new generation of AI can replicate human reasoning and make inferences from data, but it cannot empathise with people.

A FINANCIAL PLANNER WILL

Customise advice to a client's long-term goals

Help with decision making by asking the right questions and ensuring all options are fully understood

Provide support and reassurance during uncertain times

Use a variety of investment strategies suitable to you

Understand the complexity of the UK tax system to be able to guide you accordingly

Ensure your money is working as hard as possible for you

Provide an annual review devoted to discussing where you are and what might have changed over the past 12 months.

Give the benefit of experience

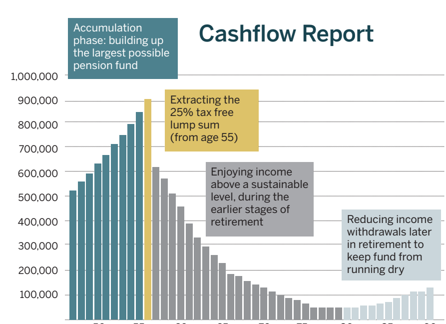
It is important to annually review your financial plan. This is available to all our clients. Call 01494 817151, if you would like to schedule a face to face meeting or telephone review.

Financial advisers will increasingly be performing specialised tasks, machines can't. They will embrace the technology to offer the best option for clients in reaching their long-term financial goals.

Central to our financial planning toolkit is cashflow modelling. This technology uses visuals and numbers to show our clients how their current financial position can be developed in the years to come. A brilliant tool that starts to answer some of the big questions:

- Will my current approach to savings help me meet my life goals?
- When can I retire?
- How far can I go in helping my children financially?
- How much will I need against how much will I have?

We believe it is vital an adviser offers interactive online solutions that strengthen their relationships with clients and is committed to frequently upgrading its technology.



Under the spotlight

FM's 4th Principle of Investing:

Diversify and always consider your investments as a whole

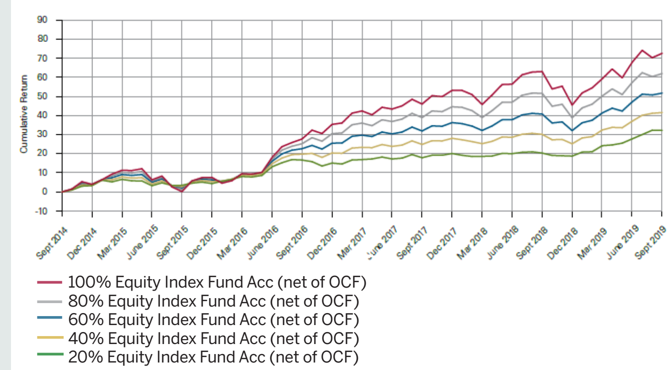
When markets are fluctuating wildly, it's all too easy to worry about the performance of certain investments while forgetting about the bigger picture. One tree with stunted growth doesn't necessarily mean the rest of the wood isn't thriving. Similarly, when one asset class is performing poorly others may be flourishing. A diversified portfolio including a range of different assets can help to iron out the ups and downs and avoid exposing your portfolio to undue risk.

A range risk graded funds will always perform differently. For example, referring to the chart below, the blue line reflects the performance of a higher risk, adventurous portfolio and its progress over the past 5 years demonstrates how even though more volatility to experienced, long-term staying power can pay off for the patient investor.

Fund performance

Cumulative % growth, GBP, 30/09/2014 to 30/09/2019

Source: Vanguard Life Strategy



Research

Andy meets Peter Michaelis, Head of Sustainable Investment and Tim Hooton, Sales Manager

Andy and Elliot meet with Nersen Pillay, Investment Director at Royal London

Clearly, it is important for us to also regularly review the investment managers that look after our client's savings. This takes place on a quarterly basis at either our offices or their headquarters. This quarterly due diligence is also a great opportunity to shine a spotlight on new and interesting investment managers that we may wish to recommend in the future.


Philip Harper
Financial Planner


Vanessa Carver
Equity Release


Matthew Wright
Financial Planner


Andy Robinson
Financial Planner


Elliot Clark
Financial Planner


Paul Wakefield
Mortgage Adviser


Kerry Holmes
Marketing


David Charlton
Paraplanner


Allison Doherty
Client Relationship


Ann Abrahart
Client Relationship


Rod Mold
Client Relationship


Lucy Jones
Client Relationship


Alex Robinson
Client Relationship


Gen Mowbray
Client Support

Meet the team

Our friendly and highly professional team has many years in the financial services sector. Whether it is retirement planning, investment and saving advice, pensions, inheritance tax, estate planning, mortgages, equity release or employee benefits, we have the knowledge and the expertise to help with your particular needs.

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