BloomsburyWealth®

The Bloomsbury Wealth GUIDE TO FINANCIAL PLANNING

This guide and the associated resources have been produced to provide you with an insight into what financial planning is and how it can help you to dramatically improve your relationship with money.

INTRODUCTION

Financial planning: the world's best kept secret?

Occasionally a well-kept secret can be a pleasant surprise. Sometimes it is not even a secret but simply something that is easy to miss when you are looking for something else or, even worse, when you are not really sure what it is that you are seeking. Those who have discovered the value of proper lifelong financial planning are among the lucky few. The problem is that a large number of people don't know what 'financial planning' is, or understand how valuable it could be to them. Money means different things to different people. Whether you are at the beginning of your career or nearing the end, you will be faced with a number of choices about how to manage your wealth. To a large number of people planning their finances can appear daunting. The sheer choice of options available often makes for greater complexity and many individuals, whether they are professionals at the top of their career or just starting out on their career path, often lack the time, inclination or knowledge to manage effectively the wealth that they are creating.

Almost everyone worries about money to some degree; most people worry when they don't have it but even when they do, they worry about how best to look after it; either way, there is a huge personal responsibility surrounding money.

Such worries often centre on what the future may hold and the decisions and choices that may be required, yet few realise that financial planning is the key to resolving them. In the bad old days, people went to a financial 'adviser' for help and in all likelihood were sold a bag of commission-laden products under the pretext of 'advice'. Fortunately, in recent years a small but growing group of high quality financial planning firms has emerged around the UK, providing truly great financial planning. That said, whilst it is fair to say that everybody needs a financial plan, not everyone needs a financial planner. There is a wealth of information freely available online and in books which mean that anyone, with a bit of guidance, can create their own financial plan. We hope that from this guide you are going to learn some very simple steps which, if followed, will help you to make better and more informed decisions, without having to become a financial expert. There is nothing really complicated about making sound financial decisions if you have a sound framework and well thought through guiding principles.

As Benjamin Franklin said, "Nothing in life is certain except death and taxes".

The key to financial success is to understand what you can change, understand what you cannot change and have the wisdom to know the difference.

With warm regards,

The Bloomsbury Wealth Team

A good financial plan helps people to feel confident that they have the financial flexibility to survive whatever life and the markets may throw at them.

What is financial planning?

In essence, financial planning is simple, but it's not easy. You do have to be prepared to devote some of your free time to it – especially at the outset when you are building your initial plan, and as with any plan you then have to a) implement it and b) review it on a regular basis to ensure that it remains relevant and fit for purpose.

Rather than trying to define what financial planning is, it may be useful to think about it in terms of some common concerns.

- What does the future hold?
- Will we be able to maintain our current standard of living when we retire/now that we are retired?
- When will I be able to choose whether to stop paid work?
- Will we need to downsize our home to survive?
- How much is enough?
- How much risk do I need to take, how much can I afford to take and can I sleep well with the risk which I end up taking?
- Will we run out of money?
- Can we manage financially if one or both of us needs long term care?
- What happens to my partner if I die (or to me if they die)?
- How would the family finances be affected if one of us were to be unable to work for a prolonged period?
- What happens if the markets deliver really poor returns over the period when I am invested?
- How can we help out the children and grandchildren without compromising our own future?

A good financial plan helps to resolve these kinds of questions. It helps people to feel confident that they have the financial flexibility to survive whatever life and the markets may throw at them.

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#1 BUILDING THE PLAN

Sorting out the mess and building the plan

Many people find themselves with a collection of financial products that they have accumulated over the years, with no real thought as to the purpose of having them or what they were trying to achieve when they originally purchased them. If you are in this position don't despair! You are not alone. It is not uncommon to have concerns about what the future holds and have a strong desire to put your finances in order but to feel that you lack a clear vision of what you want your future to look like or the confidence that your existing collection of financial products will get you there. That's a stressful place to be.

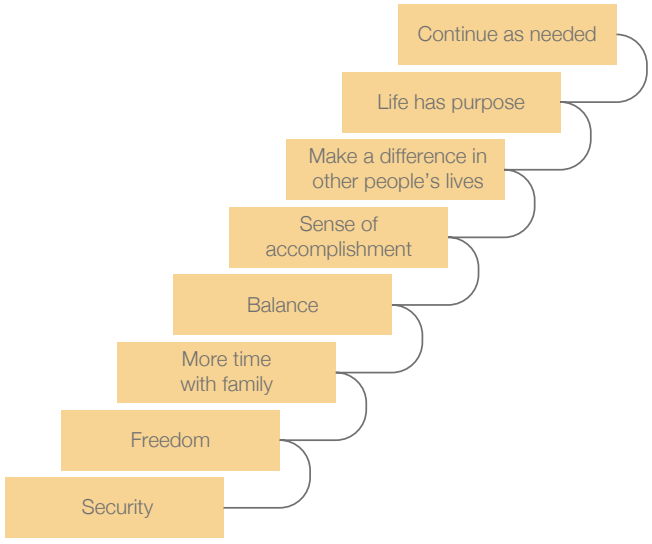
Determine your values

The first and most vital step is to set out your vision for the future, both in terms of your lifestyle goals and the money needed to fund them. Understanding how important it is that each of them is achieved is critical. This means spending some time determining your life values.

To do this, it can be very helpful to ask yourself the question, "What's important about money to me?" Money means many different things to different people and thinking about this question will help you to build your 'values staircase'.

Once you have determined your values you can then move on to setting your goals.

What's important about money to you?



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Setting your goals

Setting goals is a task that many people find difficult, so the simple grid below may help. It comes from an American financial planner called George Kinder and first appeared in his book 'The Seven Stages of Money Maturity'. You mark out a grid on the largest piece of paper you can find and then complete each box with the items that follow from the horizontal and vertical labels, so 'Got to have', 'Got to do' etc.. 'Got to' is imperatives, 'Should' is obligations and 'Like to' is things you would enjoy. Note that 'have' is not always material things, although it can be.

This exercise often throws up things that people didn't realise about themselves and obviously it can be revised over time as your attitudes change or certain goals are accomplished.

	Got to	Should	Like to
Have			
Do			
Be			

It is not uncommon to have concerns about what the future holds and have a strong desire to put your finances in order but to feel that you lack a clear vision of what you want your future to look like or the confidence that your existing collection of financial products will get you there.

Getting what you really want – the importance of setting clear goals

Values are the intangible reasons (emotional payoffs) to create and follow a financial plan; goals are the tangible results. The first step in setting goals is a quick brainstorming session. This is more fun to do with a partner but you can certainly do it by yourself if you prefer.

What goals/tangible things or events do you want to achieve to help you experience your values? Are there milestones in your life by which you measure your success that have a financial component?

For example, do you want to:

- be financially independent
- retire
- send children or grandchildren to private school / university
- send yourself back to university
- buy a second or third home
- take a special trip
- fund a scholarship or establish a charitable foundation
- take a year or two off to live in another country
- create a travel fund so your children or friends can see the world with you.

Your goals should be quantified and qualified, i.e. – What? By when? For example:

> 'I want to achieve financial independence – when work becomes optional rather than compulsory – at age 60, supporting a lifestyle cost of £30,000 per annum'.

> 'I want to educate my three children privately from the ages of 11 to 18 at an annual cost of £30,000, per child'.

#2 ORGANISE RESOURCES

Organise your paperwork and determine your existing resources

Goals set, you are ready to move to the next step of organising what resources you have available to help you to achieve them. If you are one of the few individuals who can quickly and easily put your hands on all of your financial information, consider yourself well organised, but if you can't, now is a good time to get this in order. It will be worth it. Start by simply gathering each document and putting copies of the relevant pages in a binder or accordion file (or scanning them and setting up a simple filing system on your PC).

You are looking for statements that include the current value of each item. Some items don't have a monetary value but they are included because of their importance to your overall financial picture.

This list is not exhaustive and if you think that something is relevant then include it on your checklist.

Financial documents checklist

Income	Last year's tax return
Retirement	Most recent pension statement/s
Savings	Most recent statements
Investments	Recent statements detailing holdings
Insurance	Schedules of any cover
Property	Details including values and related loans
Collectibles	Current market value of art etc.
Inheritances	Details of any expected legacies
Estate plan	Copy of your will(s) and trusts

Your purpose in gathering your documents is to help you ascertain whether you:

- have enough money set aside for an emergency;
- are accumulating enough wealth to achieve your goals or to maintain your quality of life/ standard of living;
- have amassed too much debt, which is counter to your goals and
- have sufficient insurance to protect your plan against unplanned contingencies.

Think of the four segments below as a 'big picture' tool to help you with this.

Cash Reserves

Growth

Debt

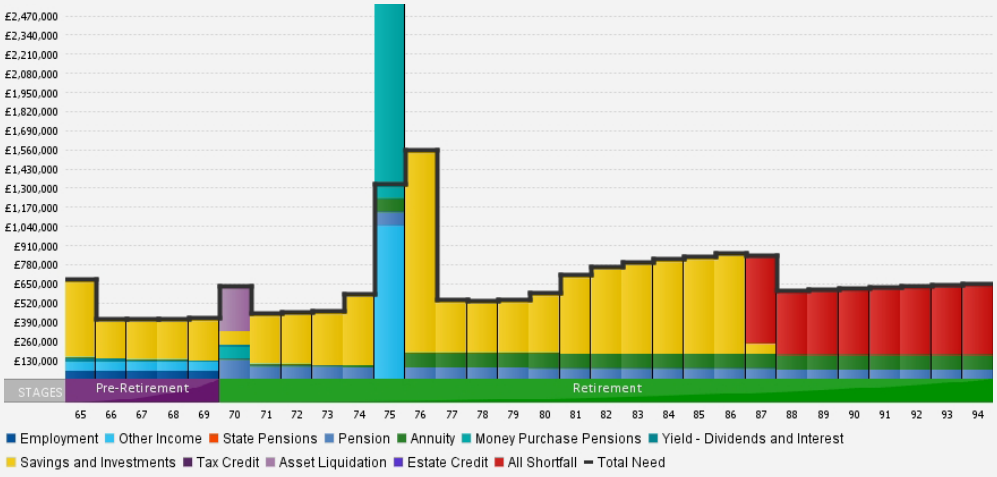
Risk Management

#3 CRUNCH THE NUMBERS

Next comes the analytical work, which may involve using cashflow modelling tools. If you know your way around a spreadsheet you may be able to create your own simple cashflow tool; otherwise various software providers offer these. Alternatively, you can request access to the cashflow modelling tool we use at Bloomsbury here.

The purpose of the analysis is to gauge the magnitude of the gap (if any) between your vision and the financial reality (or to plan a range of possible scenarios). In some cases, the two may be close. In others the gap may be wide. For some this may mean tough choices: saving more, retiring later, downsizing the house or leaving less for the children. For others, it might mean the chance of actually spending more, gifting money early or pursuing philanthropic interests. Being empowered to make sensible choices is the objective of the planning process.

Example of Voyant cashflow ouput



Data source: Bloomsbury Wealth

#4
IMPLEMENT THE PLAN

Once your affairs are properly structured, you are then back in control of your future and your finances.

No plan will succeed if, once created, it is just stuck in a drawer and forgotten. The plan which you have created becomes the roadmap which will help to guide you in making financial decisions throughout the rest of your life. The overall strategy can be decided and your affairs repositioned as needed, potentially across a broad range of areas including asset location, investments, tax, wills and contingency planning.

If you have surplus income and/or capital to invest then you will need to decide on the investment philosophy you are going to follow and the level of risk with which you will be comfortable. Our Guide to Investing can help to point you in the right direction.

Once your affairs are properly structured, you are then back in control of your future and your finances.

#5 PLAN PROGRESS

Plan progress and progressing the plan

Financial planning is not a 'set and forget' process; far from it, in fact. Regular reviews will be required to check how things are going compared to the plan and these provide an opportunity for you to consider any new issues that have arisen since you last reviewed the plan, act as an early warning system if things are going off track and help you to determine whether there are any decisions that need to be made or actions taken. Reviewing past progress is important but looking forward is more so.

Thinking about what the future holds and how the plan needs to progress is vital to the success of your plan and the achievement of your goals. Some issues faced and consequent decisions may relate to events in your life, or may be more technical issues with which you may need to seek help. The latter may relate to things such as new investment products, refinements to your long term portfolio strategy (remember that the true value when it comes to investing lies not just in the initial structuring of a robust portfolio but also your ability to avoid the truly dangerous combination of investor emotions and bad, yet often tempting, investment ideas) or changes in pension or tax rules. On some occasions however, there will be little for you to do other than to update the numbers.

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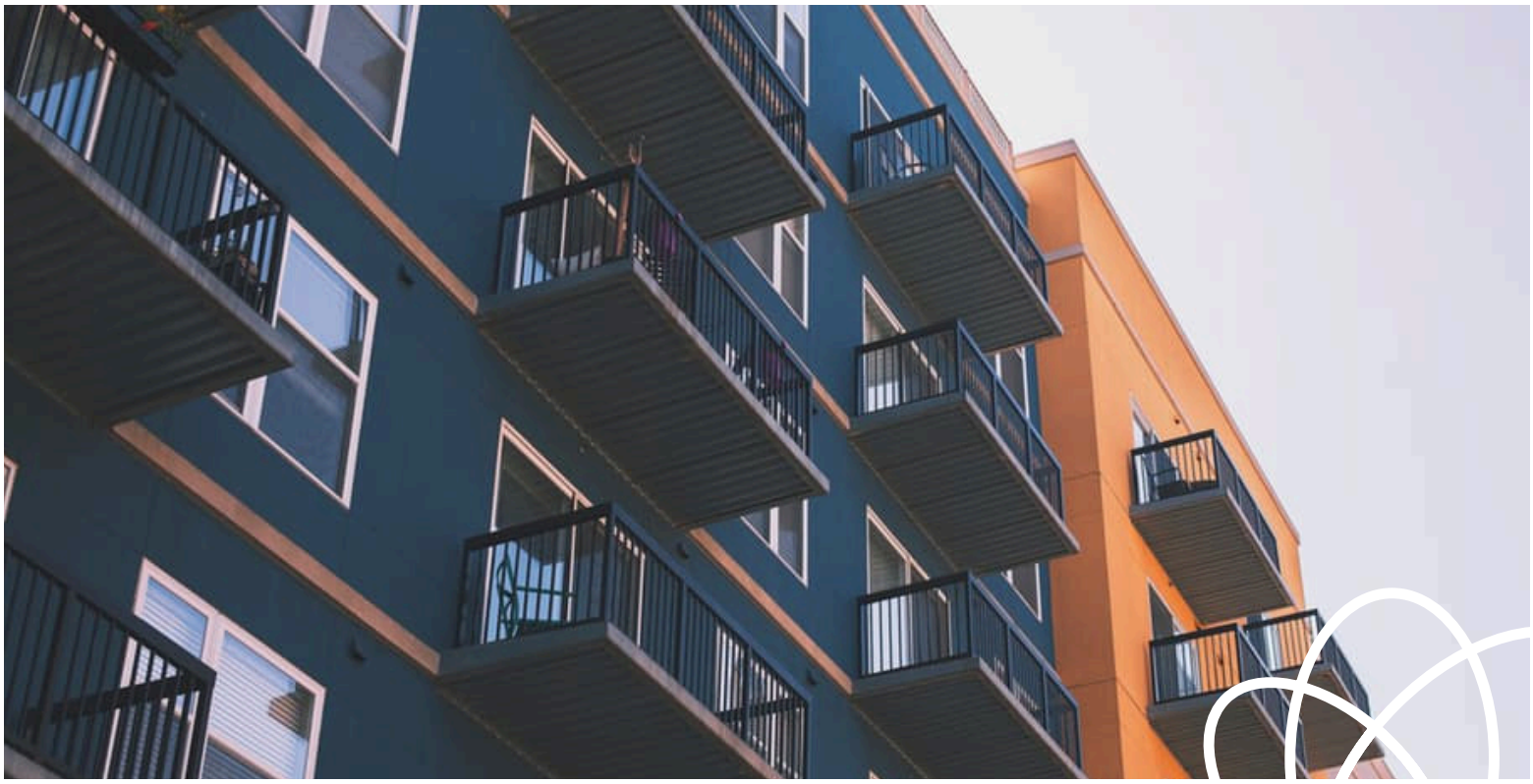

Moving beyond DIY

As mentioned earlier in this guide, whilst we believe that everyone needs a financial plan, not everyone needs a financial planner.

The problem is that we all lead very busy lives and finding the time – or indeed having the inclination – to 'go it alone' is not the right path for everyone. It's all too easy to bury your head in the sand and hope the problem will go away because the thought of trying to deal with it yourself is too exhausting - or terrifying! – to contemplate.

Here at Bloomsbury we see this time and time again when people contact us to enquire about our services. Often what has prompted them to make contact with us is not a positive event such as a large windfall but a frustration with the management (or lack thereof) of their financial situation which has finally reached breaking point.

Whilst we believe that everyone needs a financial plan, not everyone needs a financial planner.

In some cases people have been 'putting up with' a lack of structured planning and clarity for years, often because they feel that the process of getting organised is going to be too complicated or painful (although the good news is that our clients tell us that the process they go through with us to create and implement their financial plan is neither of these), and it is only when a change in circumstances - such as approaching the point at which they plan to stop work – occurs that they finally bite the bullet.

Increasingly what we see are cases where people have previously been managing their own planning and investments but have reached the point where they realise that the amount of time they are spending doing so does not align with their core values about how they spend their non-working time.

Time is, of course, a finite resource and once spent cannot be refunded. Our clients are successful in their chosen careers and as a result of that success they tend to lead pretty stressful lives with a whole host of demands on their time. Prioritising how they value and therefore spend that time is a crucial element in how they determine their discretionary spending. More and more they are coming to the conclusion that allocating some of that discretionary spending to the engagement of a financial planner to work with them provides huge value in that it enables them to spend their free time doing other things – things that they actually enjoy.

If you are thinking of engaging with a financial planner, the following checklist may help you to find the right firm:

The top financial planners build trust not by telling their own stories but by listening to their clients. The flip side is that, as a potential client, you should expect to do most of the talking. The planner should be much more interested in hearing about you – your values, your goals, and your financial situation – than giving you a spiel about their experience, superior products or awards.

Finding the right financial planner checklist

1) If you heard of the planner by referral, did they receive a strong recommendation?

Perhaps the best indicator, the recommendation of a friend or family member who has worked with them before will tell you about the confidence level that the planner inspires in his or her clients. Ideally, you will be meeting with someone who was given a rave review by someone you respect.

2) Does this planner seem thorough and detail-orientated?

Is there a process for efficiently gathering your financial information? If their entire 'process' amounts to jotting notes on a pad, you might want to think twice about appointing them.

3) Is the response to your financial information non-judgemental and supportive?

A classic sales approach is to use people's financial weaknesses to push them into purchasing financial products. A true professional will simply make notes of the facts and then give recommendations later without recriminations or dramatic flourish. The best planners will not make judgements when reviewing your situation.

4) Does the planner take care in reviewing and calculating financial figures?

Although you have been working on gathering your data and will have all of your financial documents organised and ready for review, a competent financial planner will do their own calculations.

5) Does this person ask lots of relevant questions and do they listen well?

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6) Does there seem to be a 'fit' between the planner, the type of client with whom the planner works, the type of planner you are seeking and you?

The client-planner fit is a lot like romantic chemistry: are you the planner's ideal client? Is the planner someone whom you feel you can trust? Does there seem to be a natural inclination to do business together?

7) Does their administrative support seem sufficient?

A good planner may be great at the interview and the technical work, but who handles the details and follow-up? If a planner is trying to do everything – from correspondence to client contact to answering the phones – this is not a good sign. Your planner will have a life outside the office, take holidays, and will not be available twenty-four hours a day, seven days a week. Who can provide you with information and assistance when your planner is not there?

8) What do the written proposals and reports look like and tell you?

Do they focus on the performance of specific products (not a good sign) or on your progress toward your overall objectives (excellent)? Do they cover only what the planner themselves has arranged for you (again, not a good sign) or everything in your financial life (excellent)?

Most people would like to feel that they will, in some way, leave behind a lasting legacy. For some, that can mean spending time and money supporting their philanthropic interests and for others it may mean passing on wealth from one generation to the next.

Added value

There are also some more subtle areas of value in a long-term relationship with a financial planner you trust. For many people, living longer is a double-edged sword. On the upside, we can all now expect to live materially longer than our grandparents' generation. In fact it has been estimated by the Office for National Statistics that 8% of men and 14% of women aged 65 today will live to be 100. On the downside, we also know that with longevity come attendant health problems, not least the rising incidence of dementia. It can be very distressing and worrying for everyone when someone falls ill and many life and financial decisions often need to be made at this difficult time.

A financial planner who is very familiar with the family and their financial circumstances is well placed to provide advice and support and to facilitate the financial consequences of the new change in circumstances in such stressful times.

Often one member of a couple takes more interest in the finances than the other, leading to worries about what will happen to their partner on their death. Having a trusted financial planner and an up-to-date plan allows them to be confident that, in the event of their death, their partner will be well cared for financially and that their affairs are in order. Obtaining probate is also a far easier process when everything is organised.

Most people would like to feel that they will, in some way, leave behind a lasting legacy. For some, that can mean spending time and money supporting their philanthropic interests and for others it may mean passing on wealth from one generation to the next. Elements of the changes to pension legislation which came into effect in 2016 have created an opportunity to pass on wealth to future generations in a tax-effective manner, for example. Again, financial planners can play an important role in helping clients to make decisions surrounding such issues.

A financial planner who is very familiar with the family and their financial circumstances is well placed to provide advice and support.

IN CONCLUSION

There's no doubt that with a bit of time and effort, anyone can create their own financial plan. However, the DIY route will not be right for everyone, and often just having an 'impartial observer' to challenge your thinking and offer another perspective on matters can be extremely helpful.

When working with a financial planner it is easy to overlook the scope and value of a relationship that is far deeper and more important than worrying about the last 12 months' market noise that has resulted in your portfolio value fluctuating daily or the fact that neither the portfolio nor the plan has changed much.

Meeting personal goals, feeling confident in the future and having the time to enjoy the opportunities that money provides for an individual, their family and their wider community are what really matter. Delivering 'peace of mind' may sound a bit trite, but that is the goal, consequence and value of great financial planning.

We provide a complimentary second opinion service for potential clients who meet our client profile, so why not find out if we can add value to your family's financial situation? What have you got to lose?

THE FINANCIAL BODYGUARD

RESOURCES

We have put together some links which might be helpful in informing your financial planning decisions:

Books some of our clients have found useful:

'The One Page Financial Plan' – Carl Richards

Smarter Investing – Tim Hale

The Financial Times Guide to Wealth Management – Jason Butler

Billed as 'motivation for armchair investors' you will find a store of useful information on this website:

www.monevator.com

Check out your attitude to risk using the same tool we use with our clients:

FinaMetrica risk profiling

ABOUT BLOOMSBURY

Bloomsbury Wealth is a multi-award winning specialist wealth management and financial planning firm based in London owned and led by Carolyn Gowen and Robert Lockie.

We specialise in helping successful business people and their families to overcome the challenges involved in managing significant wealth. We act as personal wealth advisers to a select number of families with complex affairs to deliver tangible and substantial value. This gives our clients the confidence of knowing that they can achieve all that is important to them in life.

To arrange an introductory telephone call with one of our friendly and experienced planners or if you would like more details on any of the subjects mentioned in this document please contact the Bloomsbury Wealth Marketing Department:

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