MoneyMarketing

Foundation course

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An investor looking to add to their portfolio must undergo a review of their existing investments to prepare the ground

I have inherited a sizeable sum of money and need some guidance. My wife and I are retired with savings, investments and a comfortable standard of living but we do not feel we understand our investments as well as we should. We have no children so are not concerned with inheritance tax issues.

You should not consider making plans with your inheritance until we have ensured the foundations to which they are to be added are structured correctly. This will necessitate obtaining appropriately detailed information about your investments and savings and assessing that data thoroughly.

It is essential to establish what your immediate and short-term capital requirements are and include a contingency for unforeseen expenditure. Such capital should be maintained in deposit-based savings vehicles with reasonable ease of access. If you have any debts, these should be repaid. Any money that may be required within the next five years, such as home improvements, should also be set aside.

An accurate understanding of your risk profile is one of the most important steps of the investment process. Investment risk means different things to different people. Completion of a carefully designed questionnaire will give us an indication but the results then need to be sense-checked against your aspirations. This exercise should be repeated periodically, particularly as circumstances change, such as entering retirement or in light of your recent inheritance.

The assessment of your existing investments needs to incorporate a review of their stated objectives, charges, strategy, risk profile and per-formance behaviours produced over various timescales.

The results are then contrasted against your established risk profile and the advice for each investment will be one of the following - either maintain it because it is compatible with your requirements and doing a good job; sell or transfer it because it is no longer fit for purpose; or maintain it but make some adjustments where appropriate, such as alternative fund selection. All these steps are vital before you invest any of the new money.

Depending on the sum of money remaining for investment it is likely that more than one solution will be recommended. This is because a single investment vehicle can not always accommodate all your objectives and sentiments regarding growth, income, access, control, flexibility, risk and tax-efficiency.

An investment platform or wrap is an efficient way of consolidating investments for ease of management. Using one of these will certainly aid understanding and give a sense of control - something many people feel is missing when they have amassed an assortment of investments over the years and have not revisited them since inception.

Third way products also offer attractive solutions, such as guaranteed capital or income to complement other investment solutions.

It is strongly advised that reviewing your current arrangements and investing new money is not a one-off exercise. Reviews should be repeated periodically to ensure your financial planning arrangements remain appropriate for your evolving requirements. Furthermore, regular reviews will create familiarity with your financial affairs and this will give you a greater sense of understanding and control.

Peter Chadborn is director at Plan Money

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