

Case Study



Title: Investment principles

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I have just 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 although we do not feel we understand our investments as well as we should. We have no children and are not concerned with inheritance tax issues.

You should not consider making plans with your newly inherited money until we have ensured the financial planning foundations to which they are to be added are structured correctly. This exercise will necessitate obtaining appropriately detailed information about your existing investments and savings and assessing the 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 and 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 (or tolerance to volatility) is one of the most important steps of the investment process. Investment risk is a very personal thing and therefore means different things to different people. Completion of a carefully designed risk profile questionnaire will give us an indication but the results then need to be sense-checked against your sentiments and aspirations. This exercise should be repeated periodically, particularly as circumstances change such as entering retirement and in light of your recent inheritance.

Amongst other factors, the assessment of your existing investments needs to incorporate a review of their stated objectives, charges, strategy and the actual risk profile and performance behaviours produced over various timescales. The results are then contrasted against your established risk profile and objectives following which 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 of these steps are vital before you consider investing any of the new money.

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

An investment 'platform' or 'wrap' is an efficient and effective method of consolidating investments for ease of management and this will certainly aid greater understanding and sense of control for you which many people feel is missing when they have amassed an assortment of investments over the years which typically have not been revisited since inception. 'Third way' products offer attractive solutions such as guaranteed capital or income to compliment other investment solutions.

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

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