Managing your investments

To make sure you get the maximum return on the hard-earned money you've invested, you need to make sure your IFA is proactive, says Suzanne Allen

If you hold a private pension, ISA or savings policy of any sort, can you recall when it was last reviewed? If you have a good financial planner, the chances are it was looked at fairly recently – certainly within the last 12 months. But otherwise you will fall into the bracket of many clients we come across who remain invested in the same funds they started out with maybe five, 10 or even 20 years ago. When you consider what you went through to earn that amount: studying, exams, and years of professional hard slog, don't you now wonder whether it is working as hard for you as you did for it? Investments don't manage themselves and in today's increasingly complex financial markets, maximising them requires the combined skills of proactive IFAs and their chosen team of specialists.

Your hard-earned cash

If your pension is invested with a company that no longer actively transacts new business, there's a good chance that you are still invested in the original funds. That means your investment in that pension is not being proactively managed and therefore you may not be getting the best return. As it is most unlikely that you have the same mortgage with the same lender, or save for tax in the same building society account that you took out all those years ago, why is your pension still invested so unwisely? Many dentists have invested tens or hundreds of thousands of pounds into personal pensions, ISAs and insurance policies at the recommendation of their professional advisers, and most continue to delegate that investment responsibility. There's no problem with delegating responsibility but abdicating it is a different issue entirely.

Complex money management

Historically most financial planners have viewed managing clients' money as an integral part of their role. Today though, as the range of investment products becomes more complex and reactive to economic factors, managing clients' investments effectively is becoming increasingly complex and requires a lot more research and time, and different levels of expertise.

The processes IFAs take to ensure each client's money is managed in line with their ever-evolving requirements are pretty complex:

1. Agree with the client the purpose of the investment, the timescale, flexibility needed, the client's tolerance to investment risk and current and future tax position.

2. Select the most appropriate investment vehicle, perhaps a personal pension, unit trust, ISA or insurance bond.

3. Agree the spread of investments between the different asset classes, such as equities, bonds and commercial property. There are a number of asset allocation models available and the importance of getting the asset mix right cannot be overstated. Investing in a poor-performing UK equity fund when equities are rising as a whole is generally better than putting money into a well-run commercial property fund when that sector is falling and offers a compelling case for the importance of market timing!

4. Ensure the most consistent investment funds are selected. This is achieved by comparing the fund manager's rating with his/her peers, the strength of the research team, the investment processes, the fund manager's views for future opportunities and of course how that manager

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has performed through bull and bear markets.

5. Constantly monitor and review performance. As mentioned, too many investments are taken out with a strong mix of funds initially but are then left untended. A good farmer doesn't plant his crops, then sit back and do nothing until harvest time.

An investment needs to be reviewed regularly to ensure the asset allocation remains appropriate, the selected funds are doing what they say on the tin and the client's needs haven't changed rendering the original advice inappropriate.

So you can see how complex it can be for IFAs to effectively manage clients' money. Add to that the not insignificant administrative and regulatory burden and your financial planner has significantly fewer hours in the week to look after each client.

The modern approach

More and more financial planners are recognising that their skills and experience are more about the 'big picture' in managing clients' financial planning rather than the day-to-day aspects of investment management. A good financial planner prefers to spend more time face-to-face with the client, developing creative solutions to improve the clients' finances e.g. to save them tax, to introduce them to other specialists who can add value such as specialist accountants, solicitors and banks.

The result is that many financial planning firms are now developing links with discretionary fund management companies to outsource the investment management side of their business. These companies invest heavily in research and the clients are appointed a personal investment manager who monitors the clients' portfolios on a daily basis.

Once a fund manager is given their remit they will manage the portfolio on a discretionary basis and make investment decisions without recourse to the client. The advantage of this approach is clear; the fund manager has the authority to respond dynamically to investment opportunities that would otherwise be missed if authority had to be constantly sought. These managers also have access to investment areas not readily available to individual investors, such as hedge funds and structured products, adding to the opportunities available to the client.

Monitoring performance

The financial planner will monitor the performance of the portfolio manager to ensure the chosen mandate is followed and they will recommend changes whenever the client's circumstances alter, for example, when reaching retirement age there will be a need to draw an income from investments.

Most discretionary management groups will look after all areas of a client's investments, including pensions, unit trusts and OEICs, ISAs and bonds. They will take a cohesive approach to their clients' investments and working alongside the client's financial planner, will use the tax status of each investment to its best advantage.

Your financial planner is not abdicating responsibility by passing the investment of your money to a professional fund manager – quite the opposite. As a great dentist you take full responsibility for your patient's mouth by ensuring it is looked after to the highest professional standards. However, you will also refer your patients to a specialist for complex treatments. In the same way, a good financial planner will take overall responsibility for your finances and will take advantage of specialists, such as discretionary managers, to ensure you achieve your financial goals and aspirations. DT

About the author

Suzanne Allen
is managing director of Heritage Financial Advisers, a team of independent, fee-based financial planning specialists dedicated to the dental sector. She has over 12 years experience in the financial-planning industry, having spent half this time working with dentist clients. Suzanne holds a diploma in financial planning and possesses specialist knowledge of pensions, taxation and trusts.

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