

Personal finance

DON'T STAND STILL - keep your financial planning moving forward

by Jason Holmes, Lumen Financial Planning,

There is an old saying about the cobbler's children having no shoes. It applies to a lot of people in many walks of life as they are so busy doing their day job that they don't have time to use their area of expertise at home.

Thankfully I took time out a couple of years ago to totally update my financial planning; I changed what provision needed to be changed, I increased my monthly savings to stay on target for the future and have been reviewing it regularly ever since.

What about you and your financial planning?

The vast majority of people that I meet have started on the journey with their financial planning. They have set up a business; started saving regularly into a pension or investment; bought a house to rent out; put some life cover / critical illness in place to provide for their family. They have started.

All of that is good but unfortunately they have not reviewed their planning, mainly due to time pressure or lack of confidence in financial markets. I wonder do they know if it will be sufficient to provide them with what they want in the future? What else do they need to do? Is it growing in line with the market or lagging behind? Is it appropriate to their situation now?

It is important to take time out to review the financial planning that you have in place, to ensure that it is appropriate, and that what you have in place in an evolving marketplace is the best and most cost effective that you can get. Even if you are not planning to put any more money into savings at present, it is essential that you have your existing financial planning reviewed and specifically look at the following areas;

Costs

Many older style pension and investment products have high charges with as much as five per cent of the contribution being charged initially and an annual policy fee being charged. Though some new products still have higher costs the vast majority can be bought with no initial cost and a vastly reduced ongoing cost or Total Expenses Ratio (TER).

It is imperative that you (or your adviser) look closely at what you currently have in place and see if there are less expensive alternatives out there. The more you can lower costs the more you keep in your investment pot. Wiping out the five per cent initial charge and lowering your annual costs by one per cent (it can be achieved!) would increase your pot of money by more than 18 per cent after 20 years and 22 per cent after 25 years.



Funds

There is a biannual report produced by Bestinvest called 'Spot the Dog' in which it highlights funds which persistently fail to deliver results for investors. The report last issued in November 2010 stated that £13 billion was languishing in these so-called 'dog' funds. These are funds which have underperformed their chosen benchmark in each of the past three years by at least 10 per cent.

Is your fund performing as it should? When was the last time it was reviewed and compared to its peers in the market?

These 'dog' funds may have been the best performers some years ago and may have been purchased then. However, if they have not been reviewed and now that they are underperforming the investor is not getting the best for their money.

A successful investment strategy should include knowing exactly what fund you are in and why, understanding what the fund in your portfolio is expected to do and then measure it at least each year against its benchmark. We at Lumen firmly believe in a buy and hold strategy that does not chase the current 'flavour of the month' funds. Research has shown that investors usually buy too late and do not get as high a return that they would have if they held the market.

Protection

Life and critical illness rates have fallen recently and now may be a good time to review what cover you have and if it can be purchased at a lower cost. It is also worth reviewing the cover you have in place against your current situation. For many, circumstances change as children come along, perhaps more borrowing is taken or they change job and lose some benefits. Is the cover you have in place appropriate for your situation now?

In having your financial planning reviewed I would encourage you to use an independent adviser who will charge you a fee for this. This should ensure that the adviser is unbiased in the advice they give and they will not have to change something in order to sell you a product just to get paid. This should also give you more confidence in the advice you receive.

Jason Holmes is a Certified Financial Planner and owns Lumen Financial Planning, a fee based local financial planning firm.