

The Financial Planning Process



Introduction

The aim of this document is to explain how personal Financial Planning can be of enormous help in determining which financial goals in life are the most important to you and the most logical way of attaining these goals.

Our mission is to help you determine and prioritise these goals and then set out a logical financial plan that shows the way in which these goals can be achieved.

We will then meet you regularly to discuss progress to make sure that things are “on track”, and will be there to help if things go wrong.

Our aim is to give you the peace of mind that can be found by knowing that you have thought all these matters through carefully, that you are being looked after by people you trust and that there is someone that you, or your family, can turn to should your circumstances change.

The Financial Planning Process

What it is

As much as anything else, our service is about trust. It requires you to entrust us with all the information about your personal circumstances, your family situation, your hopes, dreams and your fears. Then it is about our ability to understand what is important to you and what you wish to try to achieve, so that we can be there for you at all times, but particularly at the 'turning points' in your lives, to ensure that you remain on track.



What it isn't

If you are not yet entirely sure what the term Financial Planning means, rest assured you are not alone. It is not a difficult concept, but understanding the difference between Financial Planning and Investment Management is important, because they are not the same thing.

Recognising this difference is fundamental to understanding the way the Magenta team work with our clients. It is really important because it encapsulates the way we add value to our client relationships. It isn't a 'one off' exercise and it isn't about dubious promises or 'get rich quick' ideas – either for you or us.

It may seem a little odd, but one of the most important aspects of Financial Planning is that it isn't just about money. It certainly isn't about investment performance and it isn't a question of our providing the same solution for all clients regardless of their real requirements, the 'one size fits all' approach is not our style.



If you become a client of Magenta, we spend a good deal of time finding out about all the things we need to know in order to plan specifically for your own requirements. We consider what needs to be done in order for you to achieve your goals, and what might happen that would prevent you from achieving them. Then we work with you to agree a long term planning strategy.

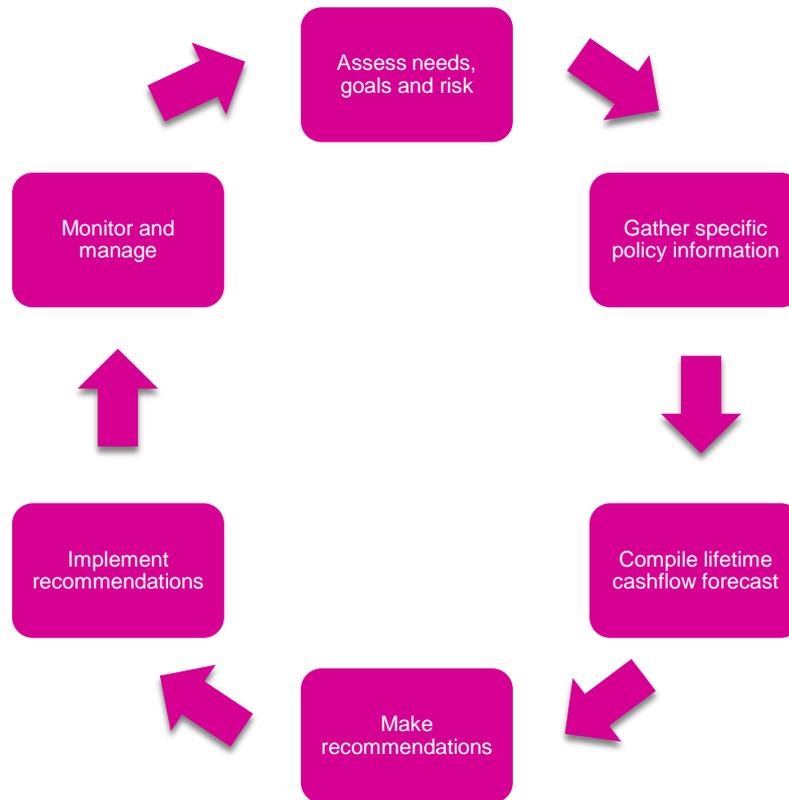
However, there is no point in 'planning without doing' and without commitment there are only promises and hopes, but no plans. So our next task is to agree time scales with you to make sure your agreed plan is put into action. Then we arrange to review it with you regularly, making sure it is 'on track' and to discuss any changes that need to be made as time goes by, especially if your circumstances have changed.

We help you to formulate a plan aimed at achieving agreed goals rationally and effectively, to put the plan into action and to review matters regularly. This brings you the peace of mind of knowing that not only are you in good hands now, but that should there be problems or catastrophes in the future, there is someone there to help you through the difficult times as well as the good ones.

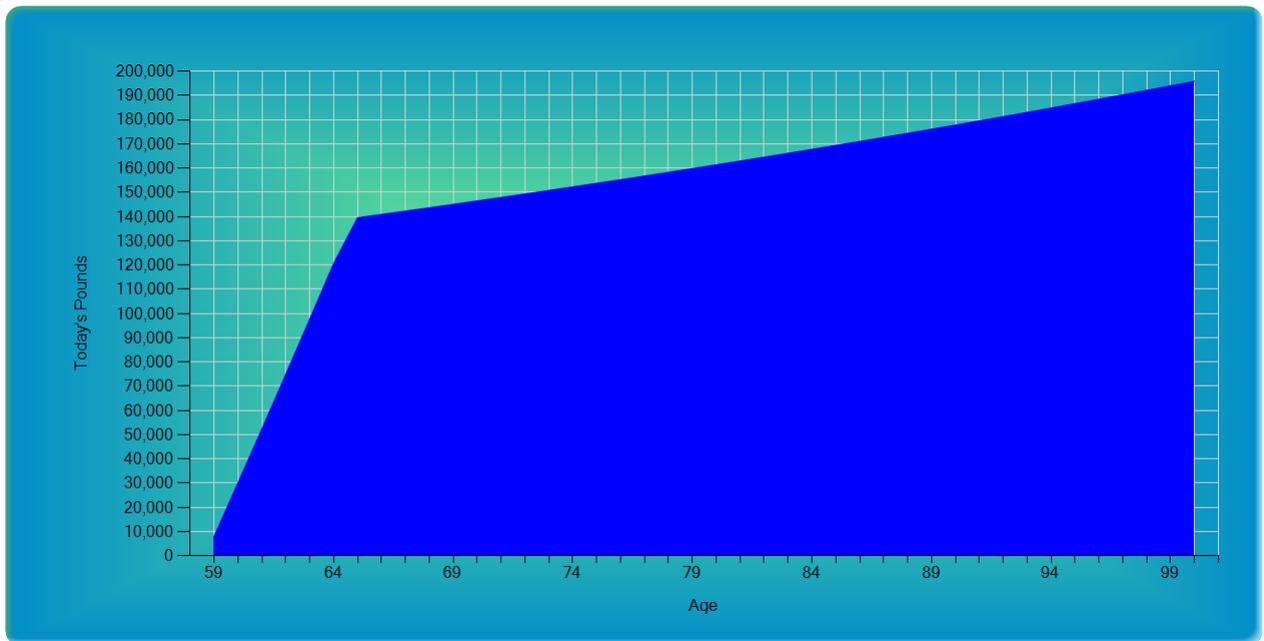


How we do it: The six stage process

Much of the work we will do with you involves going through tried and tested processes. These are important, because they ensure that we don't miss anything and that our advice is tailored especially for you.



- 1) The first stage is a 'Discovery' meeting for us to find out more about each other, so that you find out how we work and we learn about your current circumstances and your goals. We will explain how our service can help you and detail our fees and the way in which we work. If you wish to proceed, then we will ask you to sign a Terms of Engagement document. This confirms, amongst other things, what service you can expect from us and what the costs for our services will be.
- 2) The next step is to help you collate precise financial information, not only about all your current financial assets and liabilities but also about potential future liabilities, income and expenditure too. This information will provide the base from which your plan will evolve, so it is important to get it right.
- 3) The third stage of the process is the preparation of your Financial Plan and our 'Planning' meeting. From the information we have obtained, we will provide long term cash flow projections which show what the likely outcome will be if you carry on as you are at present. This helps to determine whether any changes need to be made to your existing arrangements. We create cash flow diagrams which not only help to illustrate how potential changes to your planning could improve the outcomes, but also what the situation would be should any catastrophes occur. At the same time, we will have a thorough discussion with you about investment risk, so that we have a mutual understanding of the amount of risk you are prepared to take to achieve your aims, as well as your capacity to withstand financial losses. This will also help us establish for you the investment return you require and how this ties together with your tolerance and capacity for risk.



- 4) In the fourth stage of the planning process, we present our recommendations to you and discuss specifically how these will help you. We will create various 'what if' scenarios in your lifetime cashflow forecast which will show the effects of any changes. For example, we will want to know how things look for you in the event of long term ill health, or even premature death, and we can also personalise scenarios to show the possible effects of losing employment, retiring early, selling a business, making financial gifts or downsizing property.
- 5) Having agreed a way forward, the fifth stage in the process is the implementation of your Financial Plan. This may involve rearranging some existing investments or policies to improve their suitability, but it may also require you to agree to change your spending pattern, or perhaps make regular gifts out of income if, for example, reducing inheritance tax is a key objective.
- 6) Finally, we agree with you when we should next meet to monitor and review your plan. At that time, we can check with you whether your plans are still on track, and/or whether there have been changes in your plans or circumstances since we last met.

Assessing your needs and goals

In order to help you make sound decisions about your money, we need to know what you want to achieve. Working through the **Financial Planning Process** together helps us to establish and prioritise values, goals and desired lifestyle.

With your help we work out how much the life you desire will cost. Having determined this, we can then assess whether your *current* financial resources (savings and investments) and *future* expected financial resources (surplus earnings, pensions and inheritances) will be sufficient to fulfil your ambitions and wishes.

You may find that in order to achieve the things that you want within the timescales you have set; you need a higher return on your savings capital than you can earn from cash deposits. Even if you *can* afford the things you want to do, you may feel that your money should be sensibly invested for the longer term. It is important that we determine what your required investment return is, to ensure that you are invested correctly.

In all these circumstances it will mean that some of your savings capital will be invested into higher risk assets such as equities (shares), bonds and property investments which have higher expected returns over time.

That being the case, we then need to have some indication and understanding about the degree of risk you are prepared to take.

Alternatively, you might find that your existing assets will provide you with what you require without taking risks that make you feel uncomfortable. Whatever the requirement, we will find the most suitable approach for you.

Assessing risk

We all take risks every day, there is no such thing as a 'risk free' environment. We spend our lives managing risk. Some people cross the road at the traffic lights, some jay walk. Most of us would test the bath water before jumping in. Managing risk is a part of life, but we all have different approaches to it.



In the same way, there is no such thing as a risk free investment: *every* type of investment involves risk. The important thing to assess is the type and degree of risk and the potential consequences, both good and bad, of taking it. Even money deposited in a bank will be at risk, because in an inflationary environment, its future purchasing power is unlikely to be as good as it was when it was put there. The risk is that leaving money on deposit for long periods will cost you money when compared with other investments and this is known as opportunity risk.

So if you want your money to have the opportunity of working for you and potentially increasing its purchasing power, you have to accept different types of risk and some degree of volatility. The *degree* of risk that any one person needs, or wishes, to take depends entirely on their personal circumstances and outlook.

Conclusion

Having worked through the Financial Planning process with you, established your goals and identified what is needed to achieve them, we will then work with you on an ongoing basis to ensure you reach them.

Our clients tell us that they enjoy the process, the reassurance that the relationship with a trusted adviser brings and, most importantly, the peace of mind that their affairs are well managed and on track to achieve the life they dream of.

“A goal without a plan is just a wish”

Antoine de Saint-Exupéry