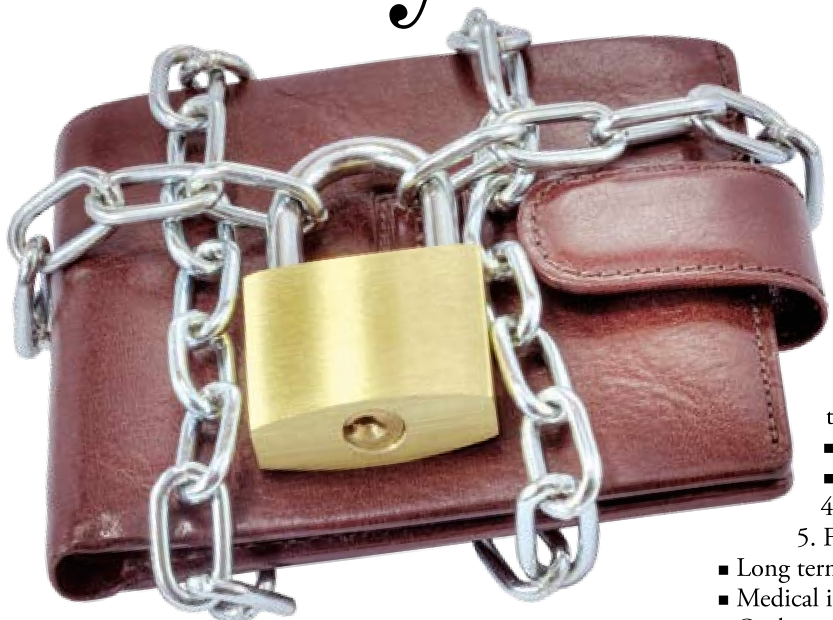
MONEY MATTERS / *By Jonathan Davis*

Who handles your finances?

Be very careful when choosing a financial adviser. After all, it's your money in someone else's hands



The term financial adviser, unfortunately, is often used by those for whom the term is wholly inappropriate and, potentially, deceptive. I like to differentiate between the different types of financial advisers/ planners/wealth managers and the like and wouldn't call mortgage brokers financial advisers, even if they themselves do.

Likewise, I wouldn't call someone who sells you financial products out of his briefcase, with little understanding or interest of whether they are optimal for you, a financial adviser either. So, you, as a saver, family protector and taxpayer need to be very careful about whom you appoint to advise you on your finances and long-term planning.

I'm going to look at the issues that clients consider when planning their finances and/or appointing a professional to advise them.

A financial planner's basket

To me, a wealth manager provides the following services:

1. Cash management – best interest rates
2. Investment management
3. Tax management:
   - Estate planning – wills and inheritance taxes
   - Income taxes
   - Capital Gains taxes
4. Retirement planning
5. Family protection:

- Long term care in old age
- Medical insurance
- On being diagnosed a critical illness such as heart disease or cancer
- On falling ill long-term and no longer earning
- On death.

In other words, your wealth manager should help you preserve your capital and grow it whether you are well or not.

Over and above

Your financial planner should also do Scenario planning. This helps you understand your position should you change your job, have more children, send them for private education, lose your income, die etc.

On top, a financial planner should be able to show you how your spending will affect your long-term financial security. Most advisors explain all of this to you with right computer modelling. The reports are full of clear-to-understand charts and tables.

Further, your financial planner should report to you at least annually to review what has happened during the last period and what changes, if any, need to be made for the next period.

I would also expect my wealth manager to be qualified in the field of financial advice. It is not so strange a concept. Still, right across the world, most people selling financial advice services are either unqualified or are barely so. This is true whether they are advising 'Average Joe's' or multimillionaires. [One wonders why people take financial advice from unqualified people…]. I would expect my wealth manager to have passed qualifications at least at the degree level *in his vocational area*. I am unconvinced that a degree in chemistry makes a person a better financial adviser just because he has a degree. [I have nothing against chemists!]

When a person is all of the above, that, to me, is a wealth manager. The question is: are you getting these services from your financial adviser/planner/wealth manager? Or is s/he just turning up now and again and trying to interest you in the latest 'flavour of the month' product?

Stay Well

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Don't have an adviser?

If you prefer to 'do it yourself', these are some tips on how to go about it:

Think about the next 10, 20 even 40 years. You will be around as will your growing family. What will your spending needs be at different times in your life?

What will be your earnings or likely retirement income from pensions?

What lump sums are you going to need to spend for instance on buying a house or cars?

Put this information in a spreadsheet and compare annual incomes with expenditures and spot expected annual surpluses and deficits. Will you be able to cover the deficits from savings?

What can you do with the surplus? Spend it? Except that you will not build much for retirement. Invest then. Use up tax allowances on investing. Most countries have tax free savings vehicles or even vehicles with tax relief.
Use these first.

Make sure you will have enough in the future to provide for heavy expenditures some years.

In investing, don't just get the products right. You need to look under the bonnet and ensure the investment management is appropriate to your needs. In my view, markets are not ever-rising entities. We are in an active management world now, whereas, previously 'buy and hold' worked well. Keep reviewing your assets and be prepared to sell into booms and buy into busts. That is the way to secure your investment capital. Most people buy at highs and sell at lows.

Ask yourself the question [and answer honestly] how will my family fare if I die? How will we all fare if I fall ill and cannot earn? Most people need life assurance and an income protection plan. Buy these before you invest. They could prove the wisest investment you ever make. I had a client three years ago, who contracted heart disease 28 months after his company bought him critical illness insurance. His consultant healed him and he has now retired, very early, very healthily and very happily.

Whatever you do to manage your finances, make sure you do it again next year and again the following year. As they say on shampoo bottles—lather, rinse, repeat.

Questions to ask a potential financial adviser

- What qualifications do you have and how do they compare with what is available in your country?
- What services will you offer?
- Will you review regularly?
- Also, how do they charge? [If they earn a commission from selling you something can they be impartial advisers? If, however, they charge a fee and rebate commissions, they are far more likely to be impartial and trusted advisers.]