

Why Buy Financial Advice



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Deciding to pay for financial advice is a big step. It is normal to question yourself, especially as the results of this particular investment may not be apparent for years to come. This booklet is for anyone going through that decision making process. We hope you find it helpful, and please don't hesitate to ask if you have any questions or would like to talk to us in more detail about the advice service we can provide.

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Getting advice - The basics

There are some financial steps that many of us can probably take ourselves without the need for professional advice, and with just a little research online. For example, write a simple will, put some money aside each month into a work pension (your employer is obliged to enrol you into their work pension automatically these days) and pay off debts. But as you start to accumulate assets and your situation potentially becomes more complex, it's natural to think about seeking advice. That might be to help with the financial implications of a specific situation such as retirement, the sale of a company, divorce or the birth of a child. Or it might be to seek reassurance that you are on the right track financially (and to make any necessary adjustments if you're not).

Understanding your needs

Whatever financial decisions you have to make, the first step towards making the right decisions for you is to establish a clear understanding of your financial needs.

These might be obvious – for example, you've taken out a mortgage and need insurance to help your family pay it off should you die. Or they might be less obvious – for example, you've accumulated some money over time but don't know how much you need to retire.

One of the most valuable things an adviser can do for you is to draw out a clearer vision of your financial future. They can help you understand what options you have around longer term issues, such as retirement, estate planning and looking after your family. If you have an obvious and immediate need, they can also help you to meet this, in the form of a financial product.

Talking to an adviser you may even find you have financial needs you've not yet considered. An adviser's professional experience can help to tease these out and address them for you.

TIP:

Unless you understand your needs you won't know which direction to take and what your destination will be. It's impossible for you or an adviser to decide on the right solution for you without understanding your needs.

Keith Relf BA (Hons), Cert PFS

Managing Director

Keith Bonner Dip PFS

Director



Setting your financial priorities

Once your financial needs are clear, the next step is to be clear on your priorities.

Depending on the amount of disposal income and investable wealth you have, maybe you'll be able to satisfy all of your financial needs. Or you might need to prioritise some over others. An adviser can use their expertise to help you work things through in this area, and develop a plan of action that suits your personal situation.

As a general rule, the first thing you would normally look to do is ensure that you and your family are protected in the event of misfortune, such as ill health or death.

Getting the right insurance cover might sound relatively simple. Many of us can go online and buy fairly straightforward policies such as holiday or motor insurance with ease. But where greater knowledge or technical expertise is required, an adviser can add value.

A good example is critical illness cover, which pays out a lump sum on diagnosis of a 'critical' (but not necessarily fatal) condition. Critical illness cover can be difficult to compare without expert knowledge, because different companies use different lists of conditions as a basis for their cover. An adviser would be able to tell you if the reason one company might be offering cheaper cover is that it has a relatively narrow list of illnesses on which it pays out.

Income protection is another area where an adviser's knowledge can help. This is a useful insurance, especially for the self-employed, providing financial cover if you're unable to earn because of injury, sickness or (if you're employed) redundancy. There are rules, though, which limit how much cover you can have based on your income. Without knowing what these are you risk paying for a policy that doesn't pay out when you need it to.

It's not just about choosing the best value insurers. You may also benefit from an adviser pulling together just the right combination of insurances to meet your particular needs.

TIP:

Always ask whether your adviser is choosing from the whole of the market or if they are contractually obliged to use certain ones.

Jill Rickson CeMAP

Principal Mortgage Adviser

Tracy Brailsford

Client Support



The need to invest for your future

Beyond protection for you and your family, for many people the next priority is investing for their future, and in particular for their retirement.

The state pension provides a relatively modest income of £155.65 a week for anyone reaching state pension age now (if you qualify for the full payment). But if you're not already very close to state pension age, relying on it to be there by the time you retire is probably unwise.

The state pension age is gradually being pushed back by successive governments. People are also living longer and this is placing a financial burden on the state that future governments may need to address. We just can't be sure what the future holds.

Some people are still lucky enough to have company defined benefit (final salary) pensions. These have historically paid out reasonable pension incomes to those who have accrued longer periods of service with their employer. An example is the NHS pension scheme. Final salary pensions are becoming increasingly rare amongst private employers though, and even if you have one you may still not achieve the income you would like in retirement.

Outside these two types of pension, the onus is entirely on you as an individual to save and invest enough money for your income in retirement. Without a thorough understanding of when you want to retire, the life you want to live in retirement and the income you'll need to fund it, it's impossible to know what action you need to take to achieve your goals. So this is another area in which you can benefit from the support of an adviser.

Even once you reach retirement, you still need to make wise decisions with your money. The options open to you for taking retirement income range from the simplicity but reduced flexibility and expense of buying an annuity, to staying invested and taking income as and when you need it, with the ongoing investment risk associated with this.

TIP:

For more information about taking an income at retirement, please ask for our our Key Guide booklet which summarises your options.

Andy Knight APFS
Chartered Financial Planner





Understanding investment

Someone could approach you and ask you to invest all of your savings in their new business venture. Most people would be uncomfortable with this. It's difficult to make an assessment of whether a new business will be successful with no track record and you would be putting all your eggs in one basket. It could make you very rich, but there's also a very good chance you will lose all of your money. And what if you wanted to sell your investment?

If you invest in an established, publicly listed company a lot more information is available. You can examine its financial track record and – compared to a private company – it is far easier to sell the shares when you want to. Even better, by investing in multiple publicly listed companies you are less reliant on the performance of just one business. Your investments are diversified. And you can diversify still more by spreading your investments across different types of industries and countries, reducing the risks you might be exposed to if there are problems in a particular geographical or business sector.

Establishing how much risk you are prepared to take with your money, and understanding what risk really means to you, is critical to the investment decisions you make. Some of the risks we've already touched on are:

- **Capital risk.** Losing your capital (the amount you originally invested)
- **Liquidity risk.** Not being able to find a buyer when you want to sell
- **Volatility risk.** Share prices going up and down based on performance and other factors
- **Concentration risk.** Concentrating your investments in a single market

And there are many others which might be relevant at different times of your life.

An adviser – perhaps working with other investment professionals – can help you to make sure your investment portfolio is set at an appropriate level of risk for your particular circumstances. That includes diversifying where your money is invested, so that a downturn in one particular market does not necessarily mean a downturn in all of your investments.

They will agree a solution for you that strikes the right balance between your financial needs and objectives, and the amount of risk you are prepared to take in achieving them.

Sometimes that means you'll need to compromise, and an adviser will be able to identify where that is the case and build it in to your plan. For example, you might need to take more risk, invest more money, or continue working a little longer to achieve your objectives. Equally, you might find you can take less investment risk than you'd first thought.

With so much information available online you might wonder if you can manage your own investments. If you are experienced, knowledgeable and confident that might work for you. But there are also some good reasons it might not be wise. We'll come back to these later.



TIP:

A good adviser will act as a coach to help you meet your goals, managing you and your investments through more turbulent times and advising you against making rash decisions.

Adrian Moy BSc (Hons), Dip PFS
Independent Financial Adviser



You need a plan before you need a product

We've already established that, when it comes to making good financial decisions, the most important thing to do is to get under the skin of your needs, goals and objectives.

TIP:

A good adviser won't simply focus on a set of products or funds that you might need.

Ryan Marshall Dip PFS, CeMAP
Independent Financial Adviser



It might be concern around a pension or an investment which prompts you to contact an adviser in the first place. There are some very complicated products out there, with successive governments making constant adjustments to suit their political and economic agendas. For pensions there have been hundreds of changes in the past decade alone, some minor, some major. But the starting point for any advice should not be a product.

An analysis of your income, expenditure, assets and liabilities will allow an adviser to create a financial strategy or plan for you - an assessment of what income you will need to generate to match your expenditure over the longer term. It's an important part of the service an adviser provides for you. It helps you make much more informed decisions on how much you need to invest, what investment risks you need to take, and even when you might be able to retire.

In some cases you might not need a product, or the products you already have might be the right ones for the job. But where one or more is ultimately recommended by your adviser as part of implementing your strategy, it's likely to be from one of three basic groups:

- **Insuring you against an event.** Covering you and your family in the event of misfortune (for example, life cover, critical illness cover and income protection cover)
- **Helping you save and invest for the future.** Tax efficient vehicles (or 'tax wrappers') through which you can invest, often in underlying funds. They all have different tax advantages and disadvantages you should be aware of. The most common examples are pensions and ISAs.
- **Providing you with an income when you retire**

Stand-alone products or an investment platform?

Although the starting point for any advice should not be a product, in the end relatively simple needs can often be met by stand-alone products such as a pension, ISA or life insurance. But where more active management of an investment portfolio is needed, you might want to consider using an investment platform.

A platform lets you buy and sell investments across your whole portfolio, including your pension, ISA and any investments you hold outside of a tax wrapper. It makes trading easier, as the services are online. You can often make changes to your whole portfolio at the same time, and you'll have an aggregated view of your investments and their value, typically updated on a daily basis.

Comparing different platforms, and their costs, can be complicated. At the least you'll need to have an idea of which tax wrappers you want to invest through, how much you want to invest and – potentially – how often you think you'll want to trade. Although all platforms should offer an investment range covering the most commonly used funds by investors, some have a narrower investment range than others (some only offer funds for example, while others might also let you invest in individual stocks and shares).

If you use an adviser all of this work is taken care of. Your financial plan would set out your high level requirements, followed by a recommendation of the products and investment funds needed to achieve that plan, including whether an investment platform would be suitable for you and, if yes, which one.

TIP:

As part of their ongoing service, most advisers will also handle the practical side of implementing their recommendations for you, leaving you with little to do once the advice has been agreed.

Pembroke's Client and Adviser Support Team



Cindy Maloney
Client Support
Manager



Sue Beck
Deputy Client
Support Manager



Lorraine Francis
Client Support



Judi Reidy
Personal Assistant
to the Director



Tracy Brailsford
Client Support



Sarah Large
Client Support



Damon Cooper
Practice Manager

Doing it yourself - The problems

So far, we've been focusing on the basics of investing and the ways an adviser can help you with these. Now it's time to turn things on their head and take a closer look at the reasons why, no matter how tempting it may seem, doing it yourself isn't always the wisest choice.

We're hard-wired to make mistakes

Everyone knows that if they buy something relatively cheaply and then sell when it has grown in value, there will be a profit. Growth. Successful investing. Easy. Who needs a financial adviser? But if it really is that easy, why are we not all rich?

Hindsight is a wonderful thing. If you look at a past performance graph for a fund or asset over time, it is easy to see when the best moments to buy and sell would have been. But if all you have is the price of a range of funds today, do you know which are going to go up, which are going to go down, and which will make the most money over the longer term?

Economic bubbles rely on investors getting it wrong. People see an asset increasing in value and want a share in that growth. So in they go. And the more who invest the higher the price of the asset goes (demand being greater than supply). This means still more people want to invest and on the upward cycle goes. Until someone, somewhere realises that this asset is now over-priced and decides to take their profit. The whole thing begins to crash like a stone. Everyone piles out at just the wrong time. Bought high and sold low.

Why do investors continue to follow this path? Because we are hard-wired to do so. The instinct to follow the crowd goes back to the plains of the prehistoric world, when it gave us a hunting advantage and helped us protect our young from predators.

This is just one example of how our psychology can actually hold us back from investing in a balanced way. There are many more, each proven by extensive research over the years.





How psychology can hold us back

We don't always interpret information well

What we see and hear can affect our view of how likely we think something is to happen. For example, we might believe that a particular natural disaster is more likely to happen than it actually is because of a frequently reported story across various media channels. Information overload (a real issue in the digital age) can also lead us to focus on incorrect or inappropriate inferences, unimportant data, or just get distracted by too much choice. Over-deliberation and sometimes misuse of information can result.

We tend to be over-confident

Anything can be explained with the benefit of hindsight, so we tend to become overconfident about the accuracy of our judgements and our ability to predict future events. That can include the likelihood of good events occurring or things working out well for us. For example, studies have shown that retirees tend to be overconfident that their income will cover them in retirement, underestimating how long people tend to live. In one study respondents estimated that 50% of people who retire at 65 in good health will live to 80, when the reality is more like 80% of men and 85% of women.

We don't plan enough for change

We tend to expect that how things are now will continue in the future. That can mean we don't build the possibility of change into our plans. One example of this would be tying up your money in an asset such as a property which is difficult to sell, not expecting you might need to get access to that money quickly at some point in the future. Another would be making plans without any allowance for the fact you might want to change job or start a new career in the future.

We're inclined to procrastinate

If something - like starting a financial plan - feels a bit difficult and we can't see a short term benefit, we tend to put it off, even if we know it's good for us in the longer-term. Procrastination can lead to:

- Under-researching products or investments and giving up too easily
- Not reviewing things to make sure they're still right for you and giving value for money
- Hanging on to products and investments you no longer need

There is little evidence that simply being aware of procrastination is enough to overcome it, and even tasks requiring very little effort can be postponed indefinitely.

We're tempted by instant gratification

This means we tend to make decisions based on what we want now, in the present, regardless of whether we suspect we might regret these choices later. We struggle to relate to our future selves, and the results for investors are often too little long term saving and too much debt.

We're not objective about gains and losses

We tend to set our own rules for what makes a gain or a loss, rather than assessing a particular outcome on its own terms, and we tend to feel the impact of a loss about twice as much as a gain of the same magnitude. So we place a disproportionate weight on losses. That can make our decision making unstable and varied. For example, we might sell our house for way under its market value, but still choose to view this as a gain because we sold it for more than we bought it for. Another way of putting this is that we often avoid situations where it can appear that we made the wrong decision, even when it was the right choice. With financial decisions you might sell or hold a particular fund at the wrong time for exactly those reasons.

We tend to stick with previous decisions

The success of 'default options' for pension fund choices and contribution levels are an example of this. There is also clear evidence that people fail to shop around for better annuity deals when they retire and stick with their pension provider by default.

Not only can psychological factors like these lead to poor decision making on our part, financial businesses understand them and can manipulate them through their marketing and sales processes. For example, aggregator websites that you might use to compare and choose financial products may focus on specific criteria - typically price - leading you to ignore other relevant details and encourage a quick purchase that may not be right for you.

From this we begin to understand that, in many circumstances, the most significant factor in failing to reach a financial objective is likely to be our own behaviour; by procrastinating and not saving for retirement, by impulsively buying funds at the top of the market and selling when they have fallen, or by focusing on the one particular criteria that a marketing department wants you to focus on.

TIP:

A good financial adviser will keep a laser-like focus on meeting your financial goals, steering you away from situations like these, where the psychological factors we've described above might otherwise cause you to make poor decisions and veer off track.

Steve Simmons Dip PFS, CeMAP
Independent Financial Adviser



Some other practical disadvantages

As a single consumer navigating the financial markets on your own – even if you do have the confidence, knowledge and experience to feel you can give it a go – compared to an advice business looking after hundreds, maybe thousands of clients, you are always going to be at a natural disadvantage on the practical side of things.

Information disadvantage

Understanding the difference between noise and useful information is a challenge for even the most experienced investor and we've already seen there are psychological factors at play that can exacerbate this. From market moves and macro comment to fund factsheets and platform charges, there can be a huge amount of detail to absorb if you want to keep up to date and ahead of the game. Advice firms have the depth of professional knowledge and experience to know what's important and what isn't, as well as access to data and research that may not be available to you.

Technical disadvantage

The pace of regulatory change has accelerated in recent years, particularly when it comes to pensions. The pension reforms of April 2015 provided extra flexibility for investors from the age of 55, but they also created additional complexity and pitfalls. A series of changes to pension allowances and the taxation of pension pots have added to the need to stay on top of the continually evolving regulatory landscape. Advice firms have access to up-to-the-minute regulatory briefings. Many also have people who specialise in regulation who can ensure advisers and their clients are kept abreast of developments.

Time disadvantage

Building, monitoring, reviewing and rebalancing a portfolio can be a daunting process. So many options, so much information to sort through, not to mention the administrative side of things. Add other elements of financial planning to the equation, such as tax, succession planning and dealing with various life events, and you're looking at a considerable time overhead. Advice firms can dedicate time and resources at a level that individuals are rarely able to. A growing number of advice firms outsource some of their work to specialists (such as investment management) both so they can provide the best possible service to their clients overall and spend more time on clients' financial planning needs.

Price and product disadvantage

As an individual, you are unlikely to be able to negotiate the best possible terms on the financial products and services you use. Advisers, acting on behalf of all their clients, may be able to negotiate better product terms or discounted charges. Some products or investments are not even released into the mainstream market. They may be made available solely through advisers as this makes it safer or easier to control volume. This could be a special mortgage product not available direct to consumers or a lower cost share class only available to financial institutions and advisers.



Investing in an adviser - Why it's worth it

Hopefully, by now you have a better understanding of some of the ways an adviser can help you, and the value they can add to managing your financial life, along with the challenges you may face if you try to 'do it yourself'.

In this final section we summarise the key benefits you can expect from investing in a financial adviser. We also outline some of the reasons you can be confident in the service you'll receive and, finally, the protection that's available to you in the unlikely event you do experience any problems.



Helping you get what you want out of life

Financial advice is often viewed as providing solutions to problems, or meeting specific needs. This is part of what it does, but it's also much more.

An adviser offering a financial planning service looks beyond short term problems and needs and looks at your situation more holistically. They'll find out what you really want from life and about your hopes and ambitions for yourself and your family.

It's not just about organising your finances, but about identifying where you are, where you want to go and building a financial roadmap to help you get there. Ultimately, it's about helping you get what you want out of life.

Taking care of you and your family

Financial advice is most commonly talked about in the context of investments, but the reality is that your needs go a long way beyond that.

Good advisers won't simply talk to you about the money you have to invest or the products you could invest in. Instead your wider circumstances and needs will come into play, to ensure that every step you take fits in with the overall plan to get what you want out of life.

That means your adviser will take tax into consideration, so that you invest tax-effectively, don't miss opportunities to save money and don't risk unnecessary tax charges. Your family needs are part of it too, including inheritance tax and your family's financial security, along with insurance, savings and later life issues such as long-term care and wills.



Saving you from yourself

Poor decisions are perhaps the biggest threat to successful long-term investing and we've already seen how human psychology means our decisions risk being driven by emotion rather than reason. Working with a third party professional can make a big difference here.

A financial adviser doesn't have the same emotional attachment to your investments. Their responsibility is to you, which means helping provide a clear vision of the future and a view of the bigger picture. In other words, keeping that laser like focus on your longer-term goals.

A good adviser will thoroughly understand your needs and objectives and how to meet them. There's a good chance they've been there before, know where the pitfalls are and recognise when emotions are getting in the way of good decision-making

Your adviser is well qualified to help

Under rules set by industry regulator, the Financial Conduct Authority (FCA), all financial advisers must be qualified to at least 'Level 4'. That's broadly equivalent to the first year of a degree and covers topics including personal tax, pensions and retirement planning and investment principles and risk. There are also Masters and Phd equivalents above that, and specific qualifications for areas such as mortgages, pension transfers and equity release.

TIP:

If you're meeting a financial adviser for the first time it's always worth asking about the qualifications they have and what they mean.

Guy Ovenden APFS
Chartered Financial Planner



You agree the fees you'll pay upfront

Your adviser will agree their fees with you upfront, and the services that will be covered for that. This is good business practice, so that you understand the cost of both the initial and ongoing advice that your adviser will give you. It is also something that the FCA requires advisers to do. You can usually agree for the fees to be taken out of your investments if you wish, rather than paid separately.

Advisers are no longer paid commission by investment providers, so you don't need to worry that they may be influenced by this.

You have access to protection if things go wrong

If you ever feel that your adviser gave you wrong or misleading advice, you can usually make a complaint to the Financial Ombudsman Service, at no cost to you. All advisers have to hold minimum levels of professional indemnity insurance, to cover complaints. And if your adviser firm is no longer around or able to meet a claim you may be able to access compensation from the Financial Services Compensation Scheme. You can find out more about this scheme and how much you could be covered for at www.fscs.org.uk

TIP:

If you use an unregulated adviser these protections won't be available. They will often approach you through unsolicited telephone calls or mailshots. You should not take financial advice from anyone without first checking that they are authorised and regulated by the Financial Conduct Authority. You can do this by checking the Financial Services Register at www.fca.org.uk



Keith Towler Cert PFS
Independent Financial Adviser

And remember, if it sounds too good to be true, then it almost certainly is.

Whatever your financial objectives, contact us

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