

Building a robust investment advice process

Create business value – Manage regulatory risk – Delight your clients

For investment professionals only – not for retail investors.



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Introduction



Thriving under RDR

Thriving, not just surviving, under-RDR will require a robust and systematic investment advice process. Such a process can help you to:

- Have more satisfied clients.
- Build greater business value.
- Avoid creating business risks.

This guide introduces the basic concepts needed to help you develop a process based on lessons learned from thriving fee-based advisers both here in the UK and in other countries with many years' experience with fee-based advice models.

Thrive, don't just survive

The Retail Distribution Review (RDR) signals a significant opportunity for prepared advisers. Adopting a systematic approach to financial planning and portfolio construction offers you the opportunity to add value that is not solely dependent on investment performance, which is often outside your control.

Control regulatory and legal risk

Taking a structured and disciplined approach to the investment advice process can avoid a build-up of risk within the practice – risk which isn't always visible. A systematic process leads to transparent and consistent client outcomes, which helps to manage risk because you can demonstrate the systems and controls to the regulator and your clients.

Create long-term business value

Having a systematic investment planning process can result in sustained value creation for an advice practice. If you base your client proposition on goals and outcomes which are within your control – rather than investment performance, which isn't – it's more likely to lead to satisfied clients, willing to pay ongoing fees for long-term advice. And having satisfied and engaged clients leads directly to long-term business value.

See our six-part series called *Creating a successful fee-based advice practice* for an in-depth discussion of how to create long-term business value.

Use your process to sell your service

Rather than an onerous chore, having a process in place actually helps you sell your service. With trust at a premium in the financial services, being able to show your clients that you have a rigorous process which helps control risk and systemised investment planning will go far to help build that trust.

Start with a set of guiding principles

Successful firms know what they believe in and what they're good at. Defining your investment principles at the outset will help bring consistency to your investment advice process. Consistency means that each client should get the same service and outcome no matter which adviser they see.

Inconsistency leads to regulatory and reputational risk, while consistency leads to trust and solid, long-term and profitable client/adviser relationships.

Consistency requires strong organising beliefs

You should be able to demonstrate to clients and regulators alike that you have a strong investment philosophy in place, based on research and knowledge, showing that you are working to that belief system in the interests of clients. You should be able to demonstrate with an objective process/framework/ motivation how you arrived at a given investment plan and populated it with certain investment products.

‘Statement of Investment Principles’

You can use a formal ‘Statement of Investment Principles’ to set out your firm’s beliefs and approach to investment management. In other words, how you assess risk, allocate assets, choose managers and review portfolios.

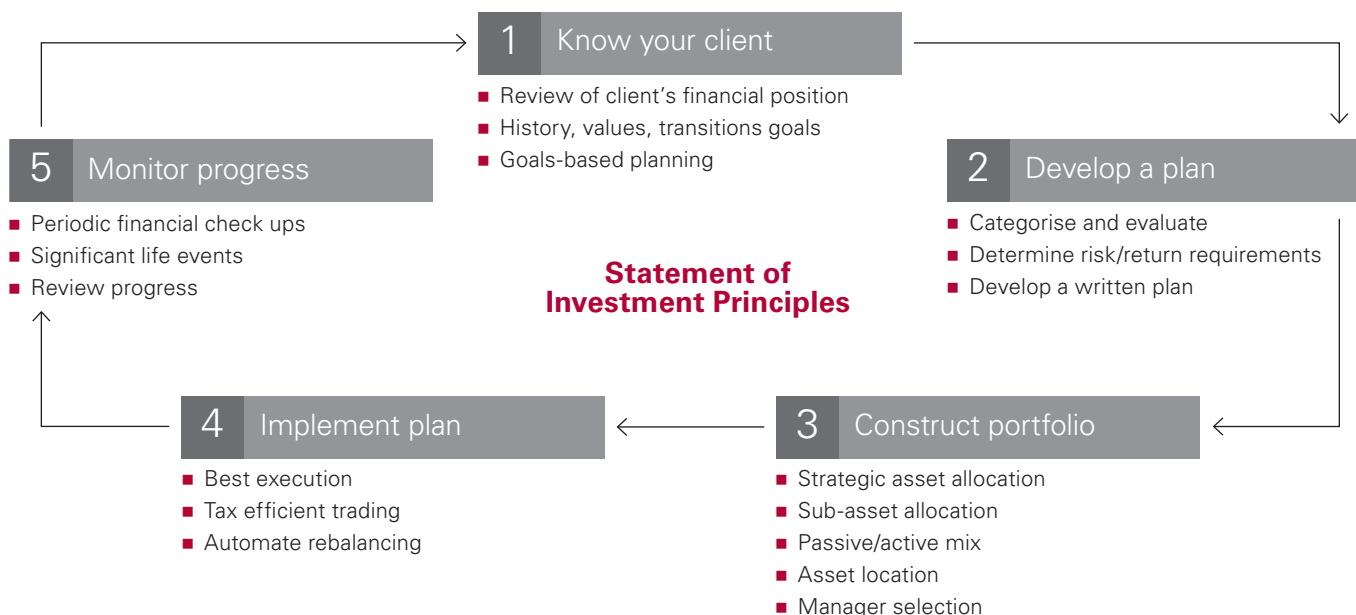
The point of this document is consistency across client experiences and adviser practice. Clients should experience a firm, not an individual adviser. If they moved from one adviser to another within the firm, they should get exactly the same outcome from the process. The individual client’s investment plan would then explain how your firm applies these principles to that client’s unique circumstances.

See the appendix, pp. 52-53, for an example ‘Statement of Investment Principles’.

Systematic investment advice – an overview

Creating value and controlling risk requires a consistent step-by-step business methodology. This section provides an overview of the five basic steps involved. The following sections go into greater detail on each of the five steps.

Investment advice model overview



1. Know your client	In a comprehensive and systematic process, this requires that you understand your clients' 'real intent'. Financial planning exists to help people meet specific life goals and it's your job to understand them and help clients achieve them.
2. Develop a plan	The planning stage involves formulating a comprehensive financial plan based on the goals and risk profile of the client. This needs to be written down and agreed with the client.
3. Construct a portfolio	With a clear understanding of your clients' goals and profile, a systematic process calls for a top-down approach to portfolio construction, starting with strategic asset allocation, through to manager selection.
4. Implement the plan	Implementing the plan can then be fairly automated to ensure best execution, tax efficient trading and scheduled rebalancing to avoid the portfolio drifting out of alignment with the client's goals and risk profile.
5. Monitor progress	Regular check ups and progress reviews ensure that the plan stays on track. Should anything change, such as a significant life event, the process might start over by checking against the goals and life situation, and a subsequent adjustment of the financial plan. But remember, if it's not broken, stay the course!

1. Know your client



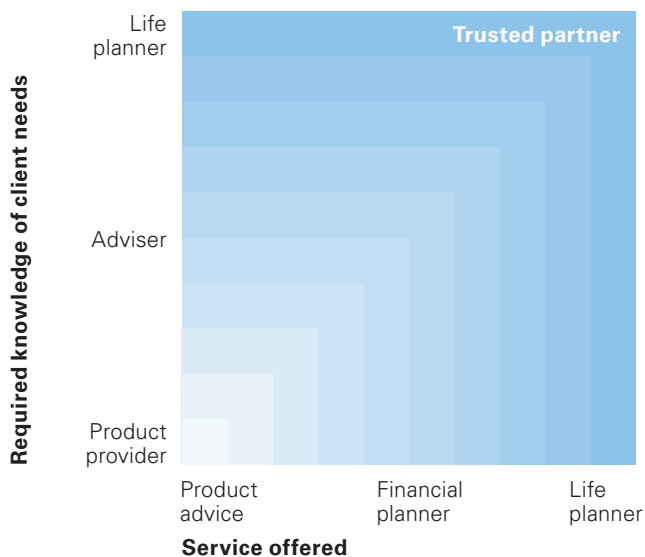
1. Know your client

A solid client/adviser relationship rests on mutual understanding. This starts with an in-depth evaluation of the client's situation, where they've been and what they really want to achieve financially. For example, not many clients yearn to own a pension, but they do want the financial independence that a properly funded pension will bring.



Part 1: Establishing the adviser relationship

All relationships are based on trust and knowledge. Changing your clients' perception of you from service provider to trusted financial partner requires the highest level of client knowledge. The most successful fee-based practices ask just as many qualitative questions as they do quantitative ones. They seek to find out their clients' real intent, not just their financial intent. While this may not suit all advisers' style, the most successful firms use these questions to demonstrate to their clients that they understand them as people, not just their finances. They put in practice the knowledge that trust is the basis of any long-term relationship.



Try asking one or more of these questions to spark a conversation with your client. You may be surprised by what you learn.

- What was money like growing up?
- How do you define financial success?
- What is the biggest financial concern you are facing in your life right now?
- What is a goal you have yet to accomplish?

The resulting conversation can be incredibly insightful and begin to build the kind of mutually satisfying adviser / client relationship that will benefit both you and your clients. Moving to the role of trusted adviser requires a deeper examination of your clients' lives from a number of different perspectives as outlined on the following pages.

Life history

Life history has always played a dominant role in shaping individual attitudes. In fact, most individual attitudes and beliefs about money are shaped by childhood experiences. What people, places, or events have shaped your clients' attitudes toward money? Understanding their satisfaction with their financial past gives you a backdrop to their financial story.

See the appendix, p. 54, for an example of a life history questionnaire.

Financial satisfaction

Satisfaction can be defined as a feeling of fulfilment and contentment. It often depends on your clients' definition of success. Therefore, evaluating your clients' level of satisfaction with their financial life depends more on emotional than material factors. Use a detailed questionnaire to examine the level of financial satisfaction in your clients' life and help determine what areas of their financial life need immediate attention.

See the appendix, p. 55, for an example of a financial satisfaction questionnaire.

Life principles and values

Life principles and values include all of the attitudes and beliefs that help individuals navigate through life. Understanding your clients' underlying principles and beliefs that relate to their life and attitude towards money is critical to building a financial plan that aligns with their belief system and will help ensure they are happy and engaged with the plan.

See the appendix, p. 56, for an example of a life principles and values questionnaire.

Life stage and transitions

Life transitions are planned or unplanned life events that involve the movement of money. Once you better understand your clients as individuals, you can focus on the events in their lives that may have financial implications.

See the appendix, p. 57, for an example of a life transitions questionnaire.

Life goals

Work with clients to identify their aspirations in greater detail, then prioritise and plan for them accordingly. By understanding how specific goals fit into the larger picture of your clients’ lives, you can work together to better align their financial goals with their guiding principles and beliefs. You can apply a goals priority matrix like the one below to put those goals in perspective and decide their relative importance.

See the appendix, p. 58, for an example of a life goals questionnaire.

Goals-based financial planning

The ultimate purpose of investment planning is to achieve your clients’ life goals, in other words, the end of the means. Different clients will have different financial goals, both as a whole and with individual parts of their financial whole. A true financial planner is in the goals achievement business, not the investment business. Throughout the process and life history of your clients, every action you take and plan you make should hinge on helping your clients achieve their goals. Likewise you should measure progress against the clients’ goals, rather than some unrelated performance target.

Goals priority matrix

Want		
Need		
	Now	Later

Part 2: Gather financial information

The second part of knowing your client resembles a traditional fact find. It goes beyond time horizons and risk profiles into greater depth on a client's current state, behaviours, family situation goals and progress to date.

Current financial situation

Start with your clients' total net worth in the form of all static assets and liabilities, e.g. personal balance sheet. As a separate sub-section you will also need a detailed breakdown of their current investment portfolio. Finally, generate a cash flow statement for them comparing all income and expenses.

See the appendix, pp. 59-60, for simplified examples of a personal balance sheet and a personal cash flow statement.

Financial goals

In the first section, we looked closely at clients' life goals. With those in hand, you can begin to drill down to specific financial objectives and categorise them. These include details on retiring, buying a new home, or saving to send a child to university.

Progress to date

You can now make a preliminary assessment of clients' progress towards their goals. Map the current state to the articulated goals and identify any gaps. How ready are they to retire? Run a straightforward simulation of expected retirement income. Compare their liquid assets to their liquidity requirements and see how they fare. This information will form a key component of the plan you eventually develop

You may need to assess the reasonableness and achievability of their goals and educate your clients to adjust their goals or habits as needed. You will need to prepare them to begin to adjust their savings and spending habits or restructure their investment portfolio.

Moving to the role of trusted partner requires a deeper examination of your clients' lives from a number of different perspectives.

2. Develop a plan

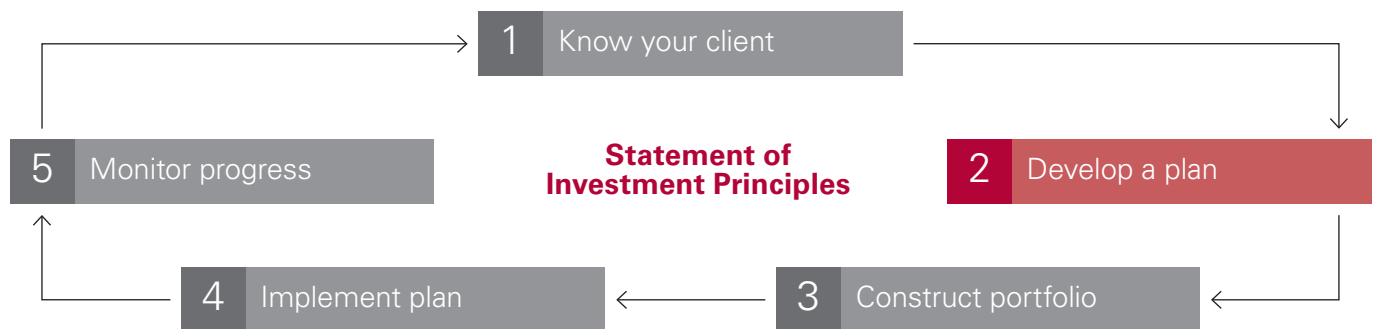


2. Develop a plan

A clear, written plan is crucial to the success of a systematic investment process. It will help you:

- define a portfolio's purpose.
- measure its success at fulfilling your clients' goals.
- establish and strengthen your client relationships.
- clearly articulate your client promise and deliver more consistent outcomes.
- protect your clients from the negative effects of emotional decision making that can undermine investment portfolio effectiveness.

This section takes you through the process of evaluating the gathered data and using it to write an effective investment plan.



Part 1: Categorise and evaluate the data

The following framework provides a useful way to categorise the different types of information you gathered into categories that will help structure and inform your clients’ plans.

Return	Determine income, capital appreciation and total return required to meet client goals Educate clients to set and achieve realistic expectations, including the importance of saving more and the requirement to rationalise and prioritise goals.
Risk	Determine clients’ ability (financial) and willingness (psychological) to take risk. Understand how clients view risk, including risk of loss, risk of not meeting critical financial goals, maximum threshold for portfolio volatility etc. This is where a standard risk profile questionnaire comes into the process.
Time	Determine the investment time horizon for each goal or goals. This may be a single-phase goal such as retirement; or multi-stage goals such as an emergency fund, first home, children’s education, accumulation for retirement, retirement draw down. This may imply dividing the portfolio in to different pots, each with their own horizon and risk/return profile.
Tax	This includes the location (such as in a pension or tax wrapper) and the types of investment assets and accounts. It includes a consideration of capital gains thresholds and income tax band.
Liquidity	Define the amount of assets or portion of portfolio that must be liquid at all times, as agreed with the client and driven by things like short-term investment goals, emergency fund requirements and risk tolerance.
Legal	Determine any legal considerations. This includes an understanding of the relevant regulatory requirements that govern the adviser-client relationship and the nature of the services you provide
Unique	Take into account any out-of-the-ordinary circumstances that apply. These include divorce, terminal illness, job loss, dependants with special needs.

Focus on risk and return

The risk and return sections of the framework deserve particular attention. They define the after-tax return requirement consistent with acceptable risk tolerance and the clients’ financial goals. However, clients don’t have just one ‘risk profile’. They have different risk/return requirements or profiles for different goals. You will need to define the return requirements to reach critical and discretionary goals as they will differ both in priority and time horizon.

An important but often overlooked aspect of risk and return is defining these two critical factors in ways that resonate with clients. You can present the return side of the equation in terms of expected return, expected retirement income and the historical probability of reaching their goals. In the context of historical asset class returns you should carefully explain the risks to your clients in real and meaningful ways, including volatility, shortfall risk and maximum loss.

Part 2: Develop an 'Investor Policy Statement'

Institutional investors manage their investments based on a written agreement, sometimes called an Investor Policy Statement (IPS). Successful advice businesses have adopted this practice as part of their investment advice process. Each client's IPS should reflect your firm's Statement of Investment Principles. The IPS states explicitly how you are applying your investment principles to the individual client's circumstances, investment timeframe and goals.

Defining goals and measuring portfolios

The IPS defines the purpose, objectives, and measures (Key Performance Indicators) of success for your client's investment portfolio. It also summarises the agreed investment strategy. Having a written plan in place helps establish productive communications and set expectations with clients. This can be especially useful when markets go through inevitable periods of volatility as it can help focus the clients' attention on long-term goals, rather than short-term market noise.

Managing risk

Developing an IPS with your clients lays a solid foundation for the relationship, fostering trust, confidence and understanding. It also helps to avoid misunderstandings that can lead to legal and regulatory risk. If you can show that all your decisions adhered to the tenets of an explicit and well-crafted IPS informed by your Statement of Investment Principles, be it to the regulator, or in a worst-case scenario a court, it may be of great help.

Writing the IPS

Now you're ready to convert all the information you've gathered into an IPS to agree with your client. Again, each of these categories should flow from your Statement of Investment Principles as they map to clients' individual circumstances, investment timeframe and goals.

Account information	Summary of investor and circumstances, personal preferences and constraints, including any tax, legal, or regulatory issues.
Goals	Clearly state the goals and time horizon of the portfolio. This should include any benchmarks that apply to monitoring progress towards the goal(s).
Risk/return requirements	<p>Define the return requirements and the agreed level of risk (based on their risk profile balanced by return requirements) needed to achieve those requirements.</p> <p>Include any ongoing income distribution needs from the investment portfolio, and other liquidity concerns stemming from withdrawals from the portfolio.</p>
Allowed investments	Define the permissible asset classes and investment types, including any constraints or restrictions, e.g. ethical funds etc.
Asset allocation policy	Include allowable asset classes, sub-asset classes and target strategic asset allocation, including all ranges and targets.
Diversification policy	Define the required diversification and tolerances for drift.
Rebalancing policy	State how often a portfolio will be rebalanced if following a time-based plan, or what the trigger will be if you're going to rebalance based on changes to the asset allocation that results from market movements.
Monitoring	Define responsibilities regarding how the portfolio and performance will be monitored, reported and controlled.
Relationship	Clearly defining the client-adviser relationship should probably also be documented in the governing document.

See the appendix, p. 61, for a example of an IPS.

3. Portfolio construction



3. Portfolio construction

Taking a top-down approach to portfolio construction can help redefine the client-adviser relationship and fits well within a post-RDR framework of financial planning in a fee-based environment.

A top-down approach results in portfolios mapped specifically to clients' circumstances, attributes and financial goals.



Take a top-down approach

When it comes to building a portfolio, some individual investors focus on selecting the right fund manager or fund. However, manager selection forms only a small part of the portfolio-construction process. A top-down approach calls for building client portfolios by starting with asset allocation based on clients' goals and risk tolerance for each goal, then proceeding to populate the agreed asset allocation with manager selection as only the final step.



Asset allocation – focus on risk and return

Several studies have shown that the most important decision when constructing a portfolio is asset allocation. This means making sure the portfolio has the right mix of assets to suit your client's individual circumstances, investment aims and attitude to risk. This is where you can use traditional tools such as model portfolios to help determine the basic building blocks of the portfolio. The risk-return profile will determine this at very high levels, but don't overlook the importance of diversification at asset allocation level.

Asset class performance over time

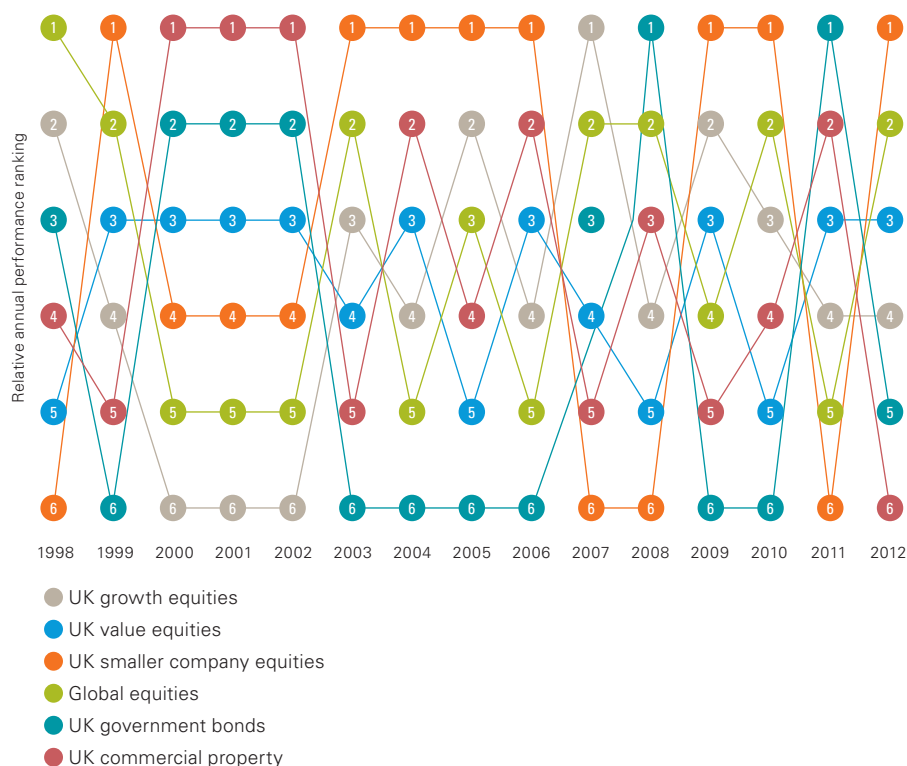
Depending on things like changes in the overall economy and even investment fashions, the best and worst performing asset and sub-asset classes continually change. For example, growth funds may perform well compared with income funds during economic booms and vice-versa when the economy is slower.

The chart puts this into context, showing how various equity sub-asset classes performed between 1994 (the first year that separate data for growth and value styles became available) and 2011. The numbers show their ranking from best (1) to worst (6) for each year since 1994. This is why it's so necessary to diversify across different asset classes. Since it's difficult to forecast which sub-asset class or classes will be next year's winners, it makes sense to hold a spread, proportionate a client risk/return profile, rather than trying to pick the next big thing.

Adviser as 'behavioural coach'

Using an asset allocation strategy helps free your clients from the risk of following dangerous investment fads. Even professional investors get their timing wrong, following the herd into a hot asset or market that has reached its top and may fall dramatically. In a sense you are acting as your clients' behavioural coach, keeping them from making emotional decisions and ensuring that their portfolio stays balanced and in line with their risk-return profile. Please see our separate adviser guide, Behavioural Finance for more details on this topic.

Annual performance rankings for selected asset classes



Source: Thomson Reuters Datastream, discrete annual performance 01/01/1998 – 31/12/2012. Indices used: UK growth equities (FTSE Growth), UK value equities (FTSE Value), UK smaller company equities (Hoare Govett smaller companies -ex IT), Global equities (MSCI World ex UK), UK government bonds (FT-A British government all stocks), UK commercial property (UK IPD Property). This table does not represent a particular investment so doesn't show the cost of investing.

Past performance is not a reliable indicator of future results.

Sub-asset allocation – focus on diversification

Once you’ve decided an overall asset allocation, you need to decide on sub-asset allocation – that is, how you divide the portfolio between the sub-assets, or different kinds of asset within each asset class. For example, a sub-asset class within equities might include large companies, smaller companies, growth funds, income funds and global equities.

Just as when you combine the major asset classes, diversification is essential when choosing sub-assets. It helps to ensure that you don’t add too much risk by concentrating in a particular sub-asset class. In some cases, you may decide to adjust the proportions of sub-classes held to increase a portfolio’s potential for growth (while tolerating an extra degree of risk).

In most cases, a portfolio’s sub-asset class allocation should be diversified and proportional to the market-cap weightings of the broad market, unless you are overweighting a market segment or sector as part of a conscious strategy.

Active-passive – focus on effective structure

Indexing and active management may seem like opposite sides in a debate, but each has its advantages.

All-index portfolio	Active/passive mix	All-active portfolio
For those who want: <ul style="list-style-type: none">■ Minimal return variability relative to market or benchmark■ Lowest expenses■ Lowest manager risk■ History of long-term outperformance	For those who want: <ul style="list-style-type: none">■ Returns between an all-index and all-active portfolio■ Moderate variability to benchmark■ Moderate potential for alpha	For those who want: <ul style="list-style-type: none">■ Opportunity for alpha■ Opportunity for style diversification■ But willing to accept:<ul style="list-style-type: none">– Higher costs– Higher manager risk– Higher variability relative to market

Combining the two very different approaches to portfolio construction can add real value. Broad-market index funds combine diversification with low costs, a strategy that has historically and on average outperformed most actively managed funds. On the other hand, because active managers veer from the market-cap weightings typical of most indexes, they provide the opportunity of outperforming their benchmarks, as well as the risk of lagging them.

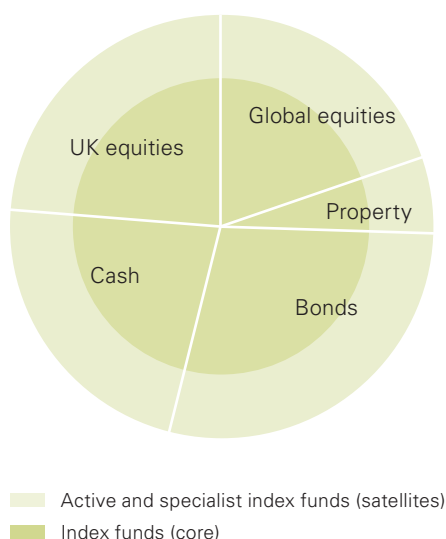
Under the right circumstances, active and passive components can complement each other by moderating the swings between the extremes of relative performance. Such a combined strategy can help avoid the pangs of regret that your clients might otherwise experience when one approach trumps the other.

The core-satellite model

In the core-satellite approach to portfolio construction, a large part of the portfolio (the core) is invested in index funds to capture the market return. Then, carefully selected active or specialist index investments (the satellites) are added to provide the potential for extra returns and diversification.

The chart shows how a portfolio could be constructed combining the advantages of both passive and actively managed funds. Please note that the asset allocation shown is for illustrative purposes only and is not a recommendation. Asset allocation should always be designed individually, to suit each client's individual situation, needs and aims.

Allocate core and satellite proportions



Focus on tax

Investors, the media and advertising typically focus on a fund's pre-tax total returns, overlooking the fact that this is not what investors get after taxes. Others might go to the other extreme and focus solely on tax-efficiency, ignoring the simple arithmetic that low taxes on a low return may still produce a low return.

Asset **location** tackles the issue of allocating assets among taxed and tax-efficient accounts (such as tax-efficient pensions or ISAs) to maximise after-tax returns. In any given year the extra return one gets after taking taxes into account might be small, but can make a dramatic difference when compounded over time.

Manager selection – focus on costs

Whether you choose index or active managers you increase your chance of outperformance by focusing on those with lower fund costs, because you get to keep more of any return the funds achieve.

Costs, like interest, also have a compounding effect over time. They can have a dramatic impact on investment returns, one that's not always obvious or transparent. The chart reveals the true importance of costs by showing the impact of Annual Management Charges (AMC) over time.

We've assumed neutral growth so that the compounding effect of costs is readily apparent and not obscured by investment returns (either positive or negative). Note how a low-cost portfolio, such as 0.2%, retains over 95% of the capital after 25 years, while a high-cost portfolio, say 2%, has eroded by almost 40%.

AMC (%)	Percentage of portfolio retained after costs							
	Years							
	1	3	5	10	15	20	25	30
0.10	99.90	99.70	99.50	99.00	98.51	98.02	97.53	97.04
0.15	99.85	99.55	99.25	98.51	97.77	97.04	96.32	95.60
0.20	99.80	99.40	99.00	98.02	97.04	96.08	95.12	94.17
0.25	99.75	99.25	98.76	97.53	96.31	95.12	93.93	92.77
0.30	99.70	99.10	98.51	97.04	95.59	94.17	92.76	91.38
0.35	99.65	98.95	98.26	96.55	94.88	93.23	91.61	90.02
0.40	99.60	98.80	98.02	96.07	94.17	92.30	90.47	88.67
0.45	99.55	98.66	97.77	95.59	93.46	91.37	89.34	87.34
0.50	99.50	98.51	97.52	95.11	92.76	90.46	88.22	86.04
0.55	99.45	98.36	97.28	94.63	92.06	89.56	87.12	84.75
0.60	99.40	98.21	97.04	94.16	91.37	88.66	86.03	83.48
0.70	99.30	97.91	96.55	93.22	90.00	86.89	83.89	81.00
0.80	99.20	97.62	96.06	92.28	88.65	85.16	81.81	78.59
0.90	99.10	97.32	95.58	91.36	87.32	83.46	79.77	76.24
1.00	99.00	97.03	95.10	90.44	86.01	81.79	77.78	73.97
1.10	98.90	96.74	94.62	89.53	84.71	80.15	75.84	71.76
1.20	98.80	96.44	94.14	88.63	83.44	78.55	73.95	69.62
1.30	98.70	96.15	93.67	87.73	82.18	76.97	72.10	67.53
1.40	98.60	95.86	93.19	86.85	80.94	75.43	70.29	65.51
1.50	98.50	95.57	92.72	85.97	79.72	73.91	68.53	63.55
1.60	98.40	95.28	92.25	85.10	78.51	72.43	66.82	61.64
1.70	98.30	94.99	91.78	84.24	77.32	70.97	65.14	59.79
1.80	98.20	94.70	91.32	83.39	76.15	69.54	63.50	57.99
1.90	98.10	94.41	90.85	82.54	75.00	68.14	61.90	56.24
2.00	98.00	94.12	90.39	81.71	73.86	66.76	60.35	54.55
2.10	97.90	93.83	89.93	80.88	72.73	65.41	58.83	52.90
2.20	97.80	93.54	89.47	80.06	71.63	64.09	57.34	51.31
2.30	97.70	93.26	89.02	79.24	70.54	62.79	55.89	49.76
2.40	97.60	92.97	88.56	78.43	69.46	61.52	54.48	48.25
2.50	97.50	92.69	88.11	77.63	68.40	60.27	53.10	46.79
2.60	97.40	92.40	87.66	76.84	67.36	59.04	51.76	45.37
2.70	97.30	92.12	87.21	76.06	66.33	57.84	50.45	43.99
2.80	97.20	91.83	86.76	75.28	65.31	56.67	49.17	42.66
2.90	97.10	91.55	86.32	74.51	64.31	55.51	47.92	41.36
3.00	97.00	91.27	85.87	73.74	63.33	54.38	46.70	40.10

The 4-P selection matrix

After costs, you can use the standard 4-P model of fund manager selection, as well as a fund comparison tool. We have a fund comparison tool on our website within the Adviser Support section, which is free to use.

Compare fund managers to benchmarks, not peers

Remember to measure any manager's performance against the actual benchmark for the fund, not against other similar funds. Over the long term, fund managers can fall behind their benchmarks, but still have a high ranking

People

Investigate the experience and expertise of the fund managers – and find out how long they've actually been running their fund. This applies to both active and index managers.

Philosophy

Check that the firm has a genuine commitment to the long term, and that they have an investment philosophy or a 'Statement of Investment Principles' with which you feel comfortable. In the case of index managers, you will want to know how they approach the challenge of replicating the index returns.

See the appendix, pp. 52-53, for an example of a Statement of Investment Principles.

Process

Some firms give managers much more leeway than others. How much discretion do you want your fund manager to have?

With index funds, you will want to examine the way they go about implementing their index strategy and how well they do it. With index managers you should also investigate their approach to stock lending.

Performance

Past performance is perhaps the least reliable predictor of future results. Investors need to consider a fund's record in context, and ask: is recent success consistent with the firm's general investment philosophy and process? You should also look back over the long-term performance, comparing this with the relevant benchmarks, not peer groups (see below). This is true of both index and active managers.

4. Implement the plan



4. Implement the plan

With a clearly articulated plan in place and a portfolio constructed, the theory ends and the practice begins – it's time to start investing. Successful practices strive for consistency of client outcome driven by their Statement of Investment Principles.



The implementation balancing act

Successful practices understand that all implementation decisions must achieve an optimum balance between cost efficiency and ensuring the best possible client outcome. Cheapest isn't always best and both your business interests (profitability, risk management etc.) and client outcome (best execution, selection etc.) have to be achieved for an implementation process to remain sustainable. Achieving this balance entails consideration of three key topics:

- Whether to outsource or DIY.
- Managing risk, both for the client and the business.
- Systemising portfolio management based on your Statement of Investment Principles.

Outsource or DIY?

First you need to decide whether outsourcing or DIY is best for you and your business. Remember, even when you outsource, you're still responsible for everything that the outsource provider does. Your provider becomes part of your service offering and your clients will hold you responsible for the outcomes. The question of whether or not to outsource rests squarely on whether or not your outsource partners can deliver on your service promise to your clients at an advantageous cost, to the level of quality your clients will expect.

Successful practices do tend to outsource anything that is not part of their core competence, such as specialist legal advice for example. But if outsourcing is not any better than you at something, why do it?

Managing risk

Managing risk boils down to having a consistent client outcome, no matter who the individual adviser is, rather than relying solely on adviser flair, which can lead to embedded risk.

Compliance and risk management – along with implementing systems and controls as part of your FSA responsibilities as a controlled function – can seem difficult and overwhelming, but it's central to remaining compliant and building trust and ensuring the sustainability of your business. Also, having a robust risk management system in place can be a powerful selling point for your clients. They like knowing that their adviser is working hard to protect them.

The first step is to identify each risk point, both financial and reputational, and put in place provable, demonstrable risk mitigation steps. For example, dual sign off of any asset purchases to make sure they align with the client IPS. A related activity is systemising the non-negotiable items, e.g. test performance against the risk parameters as laid out in the client IPS. This isn't negotiable and should be automatic.

Ensure that you’re not permanently embedding a problem however. For example, make sure you understand how an asset allocation tool works and why it generates a given outcome to ensure that it’s not a flawed outcome.

Systematic portfolio management

Questions concerning implementation ultimately come down to decisions about in-house IT systems and third-party services, such as platforms. The first thing to come to terms with is there’s no holy grail – it all comes down to achieving an appropriate balance between client outcomes and costs.

Now that you have a plan that your client agrees with, it’s time to consider which systems or platforms you need to implement it. Your client proposition should drive your system/platform/wrap decisions, not the other way around.

System/platform choice

Deciding on systems and choosing platforms leads to a variety of questions you need to answer. These questions all centre on ensuring that you only make promises you can keep and that your systems will help you keep those promises. Any decisions must include both client and business benefits to be sustainable.

System or systems	First decide how many systems or platforms you need to implement your client promise. Find the best mix that favours both your client and your business. Remember that multiple platforms also equal multiple costs. Each platform or system entails training and implementation costs regardless of how much or little you use it and those costs are fixed.
Coverage	To implement fully, you may need to have access to all the relevant funds and wrappers. In a post-RDR world you may also need to demonstrate a ‘whole of market’ examination; can your mix of systems ensure that?
Costs	Cutting system costs only in the interest of margins probably isn’t sustainable. Costs have to be balanced against the relevant client outcome. Remember, cheapest isn’t always best.
Risk controls / MI	Does your system provide the relevant risk controls and management information you need?
Client access	Have you promised your client direct access to monitoring their investments? If so, does your system(s) support that promise?
Servicing vs. sales	Does the system balance the needs of servicing and sales? Making the ‘sale’ is important, but keeping your client promise through robust servicing ensures clients are willing to pay your fees for your service for the long term.

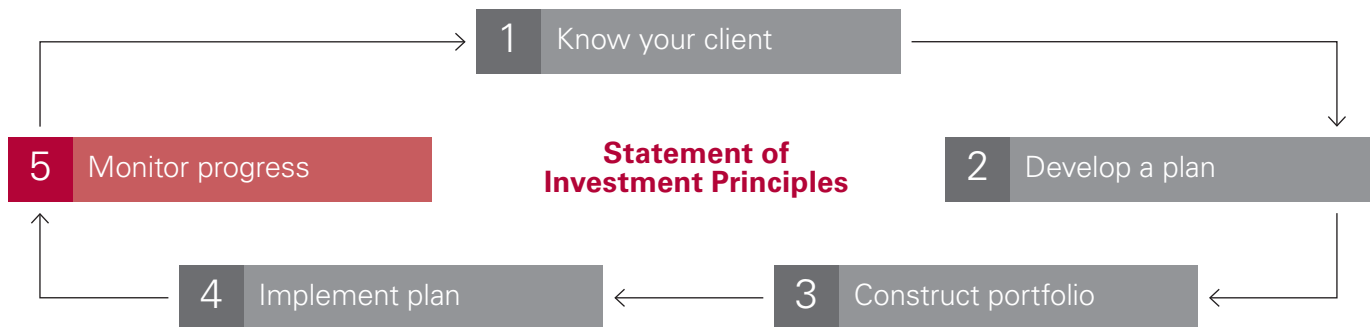
5. Monitor progress



5. Monitor progress

To ensure the plan stays on track it needs to be monitored and regularly assessed. This includes periodic assessments at set intervals according to a predefined set of criteria. Regular reviews consider the progress against the clients' goals and required rate of return and adjust if necessary.

Monitoring and review also help to solidify the client-adviser relationship by continually adding demonstrable ongoing value and expertise for the client.



The importance of review

It's no accident that successful advisory practices place a significant emphasis on the review process. In the past, initial client engagement was perhaps the most significant event, as this established the relationship and where commission was earned.

Thereafter, 'review' meant a cursory check on client holdings and a chance to uncover further sales opportunities. As the fee-for-service model has grown, best-practice advisers have come to understand that the client will only pay an ongoing fee for a valuable service. Only if clients feel they are making progress towards their goals will they keep paying their adviser. Indeed, demonstrating your ongoing service for the fee you charge is now a regulatory requirement.

The most successful advice practices don't just offer a portfolio review service, they offer a 'goal attainment' service. As a result, the 'review' has become more than just a review of the investment portfolio. It involves a fundamental reappraisal of client goals and aspirations, with adjustments to the financial plan if necessary. Advisers can use the review process to reassure clients that they remain on track to meet their goals.

Automation

The review should be automatic and scheduled, based on the IPS agreed with your clients. Reviews should not be haphazard or driven by emotions that result from market volatility. Investing is for the long term and automating the process helps to filter out the 'noise' that can lead to sub-optimal decision making.

Your clients should know exactly when their reviews are and this automatically becomes a part of your basic client proposition.

Rebalancing to stay on track

Over time, a given portfolio will likely drift from its target asset allocation, resulting in risk-and-return characteristics that may be inconsistent with the client target profile. Portfolio rebalancing helps to maintain your client target asset allocation. As part of the portfolio-construction process the IPS should include a rebalancing strategy that addresses how often, how far and how much to rebalance.

Research conducted by The Vanguard Group suggests that the cost of rebalancing can have a serious impact on long-term returns if done too frequently.

For an in-depth discussion of rebalancing see our white paper on the topic, *Portfolio rebalancing in theory and practice*.

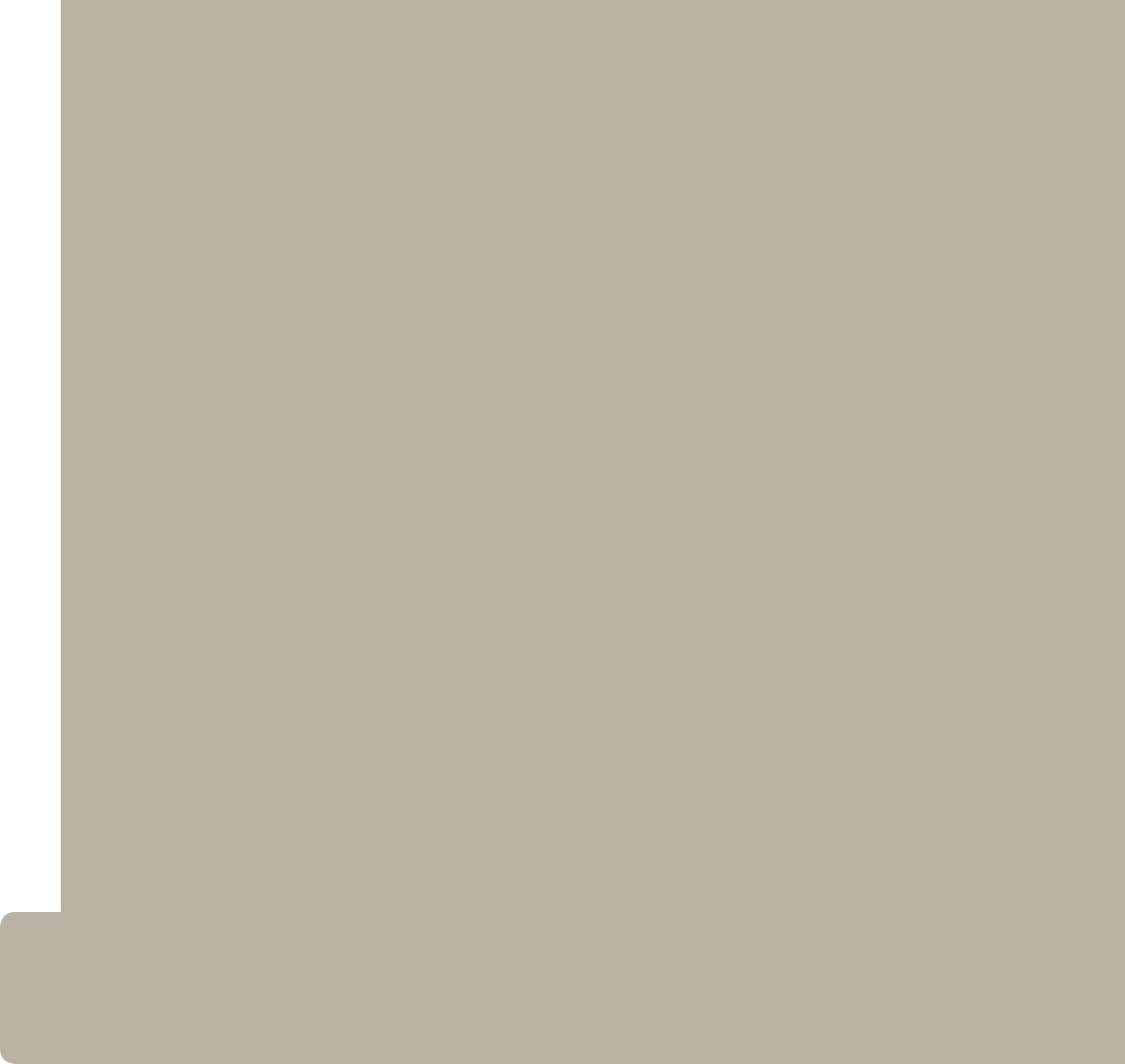
What to review and how

You're seeking to demonstrate to the client that your plan is getting them to where they want to be emotionally. So this is where you check in with your clients to reaffirm their portfolio objectives, situation and stated goals.

Significant life events	If the client experienced a major life-changing event, such as a divorce, death in the family, marriage or an addition to the family, you might need to revisit the plan from step one. This presents a fantastic opportunity to demonstrate your value to the client by showing your flexibility and expertise at dealing with changing circumstances and adjust their plan accordingly.
Asset allocation strategy	If nothing has changed which would require an adjustment of the plan, you review the asset allocation for portfolio 'drift', comparing results to the objectives and assessing the likelihood of achieving them. All tolerances for asset allocation and the resulting actions should be set out in the IPS so that you know what to do to address any gaps or imbalances. As part of this process, review each of the major asset classes and their performance. Consider whether other asset class or sub-asset classes merit consideration, within the parameters of the IPS, which could better help the client meet their long-term objectives.
Real vs. actual risk	You will also need to assess the risk that the portfolio actually produced, in terms of volatility or other risk metrics, and determine if the actual risk matched the predicted risk and if the actual risk was consistent with the client's risk tolerance.
Costs	Review the costs of the portfolio and ensure they stay within the parameters agreed in the IPS. Again, this is another way to overtly demonstrate your value to the client by demonstrably working on their behalf to ensure the most efficient investment portfolio possible.
Fund manager	At the fund manager level, evaluate each individual fund manager against the criteria set out in the IPS for the goal of each fund. Does the fund fulfil the advertised risk and diversification function you've assigned to it? Has the fund manager changed? Have charges changed?

It's no accident that successful advisory practices place a significant emphasis on the review process.

What Next? / Appendix



Thriving post RDR

Building a viable, sustainable and valuable business in the post-RDR world will force broad changes upon the industry, and not just in terms of fee structure. It may require you to completely realign your business along the lines of a comprehensive and systematic financial planning advice practice.

Locking in future profits requires that you provide a valuable ongoing service that clients value and enjoy. This will convince them to pay for your service not once, but often and ongoing.

We are here to help

Vanguard Asset Management, Ltd is committed to supporting advisers and practices through this transformation. If you found this information useful, you may want to visit the Adviser Support section of our website, vanguard.co.uk

Better yet, why not give us a ring? We'd like to hear about what sort of information or resources would be most helpful to you as you work to build a valuable advice practice and develop your own systematic investment advice process.

**Contact Vanguard Adviser Support
0800 917 5508, or visit vanguard.co.uk.**

About Vanguard

With more than £1.3 trillion* in assets under management as of 31 December 2012, including more than £151 billion* in ETFs, Vanguard is one of the world's largest global investment management companies.

Vanguard Asset Management's UK office opened in London in 2009 and has fully functioning investment and client service capabilities to support UK investors and their advisers.

Appendix: Useful tools

The appendix includes a number of templates you can use as starting points to begin to develop tools appropriate to your business.

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An example of a 'Statement of Investment Principles'

Number 1

Investing is for meeting long-term goals; saving is for short-term goals.

Money that investors may need in the short-term (two years or less) should be kept in short-term investments which protect capital. These include money market funds (a fund that invests in short-term financial instruments such as cash), bank accounts, or government bonds (Gilts). Clients should only consider investments in the stock market or corporate bonds when they have money to put away to help meet a longer-term objective.

Number 2

Broad diversification, with exposure to all parts of the stock and bond markets, reduces risk.

If an investment portfolio does not fairly reflect the overall investment market in terms of balanced asset allocation (the process of dividing investments amongst different asset classes such as stocks, bonds and cash) and investment style (such as growth or value), we believe clients are taking additional risk. We judge that this is unlikely to pay off over the long term.

Number 3

An investor's most important decision is selecting the mix of assets to be held in a portfolio, not selecting the individual investments themselves.

Deciding on the mix and proportion of stocks, bonds, and cash in a portfolio is critically important – much more so than deciding on individual assets or funds. To work out the asset allocation that's best for each individual, investors need to consider factors such as their financial needs, their tolerance of risk and the length of time they want to invest.

Number 4

Consistently outperforming the financial markets is extremely difficult.

Economic uncertainties, random market movements, and the rise and fall of individual companies mean it is extremely difficult for anyone – including professional investors – to beat the market in the long term. An active manager buys or sells shares (or bonds) in order to meet a particular investment objective. Therefore, actively managed funds typically have higher operating and transaction costs which can eat into returns. So we believe it makes sense to begin by considering funds that follow an index.

Number 5

Minimising cost is vital for long-term investment success.

Costs matter a great deal because investment returns are reduced pound for pound by the fees, commissions, transaction expenses and any taxes incurred. Investors as a group earn somewhat less than the market return after subtracting all those costs. Therefore, by minimising costs, investors improve their odds of meeting their investment objectives.

Number 6

Investors should know how each investment fits into their plans, and why they own that particular asset.

Investors need to be clear why they own each particular investment. Knowing the characteristics of each investment and the role it plays in a diversified portfolio increases investors' chances of selecting suitable investments that can be held for the long term.

Number 7

Risk has many dimensions and investors should weigh ‘shortfall risk’ – the possibility that a portfolio will fail to meet longer-term financial goals – against ‘market risk’, or the chance that returns will fluctuate.

In the long run, what matters most is whether your investments enable you to meet your objectives. Earning enough to meet objectives is much more important than whether investments suffer interim declines or trail a market benchmark. But many investors react only to market risk. They may bulk up on stocks during when markets are doing well, taking on more market risk than they realise. Conversely, they’re tempted to reduce allocations to stocks in response to market downturns. In truth, to achieve long range goals, most investors need to accept some level of risk from equities.

Number 8

Market-timing and performance-chasing are losing strategies.

Market-timers who buy and sell frequently, hoping to ‘catch the wave’ as securities rise and fall, need to be very sure that their timing is right. Otherwise,

they stand to lose money from market movements while also paying significant transaction costs. As many investors say: it’s time in the markets that counts, not timing the markets. Also, market fashions change – often very suddenly. There is no guarantee that a performance-chasing strategy, asset class (a type of investment such as stocks, bonds or cash), or fund that has performed well will continue to perform well next year, next month – or even tomorrow.

Number 9

An investor should not expect future long-term returns to be significantly higher or lower than long-term historical returns for various asset classes and subclasses.

The major asset classes (equities, bonds, cash investments) have long histories and well established risk/reward characteristics. When estimating future returns for asset classes or sub-asset classes, long-term historical returns are a good place to start. Vanguard expects that returns from various subclasses of the stock market will be similar to each other over long periods. Also, Vanguard expects that the long-term return for

equities will be higher than that for bonds, and that bond returns will, in turn, exceed returns on cash investments over long periods.

However, investors should always remember that no method for predicting market returns is perfect. Past performance is not a reliable indicator of future results.

Your financial life history

Life history has always played a dominant role in shaping individual attitudes. In fact, most individual attitudes and beliefs about money are shaped by childhood experiences. An awareness of your history relating to money will help bring to the forefront any challenges you face in achieving financial well-being. It is these money 'messages' that consciously and subconsciously influence how you now deal with money issues. Answering these questions will help us to better understand the roots of your attitudes about money and your actions and patterns in managing it.

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Personal history

- Where are you from? Describe your childhood.
- What was your family life like when you were growing up?
- What jobs or careers have you experienced up to this point in your life?
- What is your family life like now? Describe your immediate family members.
- Who are the people in your life that are most affected by the financial decisions you make?
- What events in your life would you describe as defining moments?

Financial life history

- What lessons about money did you learn while growing up?
- What is your first memory related to money?
- What are some of the best or worst financial decisions you have ever made?
- Have you worked with a financial adviser in the past? If so, describe the experience.
- If you have not worked with a financial adviser previously, what have your main sources of financial information been?

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Example of this form can be found at the back of this guide

Financial satisfaction survey

Satisfaction can be defined as a feeling of fulfilment and contentment and is often dependent on one's definition of success. Therefore, evaluating your level of satisfaction with your financial life is much more of an emotional issue than a material one. Your sense of satisfaction is influenced heavily by your personal attitudes and beliefs.

The degree to which you feel satisfied with your financial situation is based on a unique set of interpretations related to your personal financial needs and circumstances. By completing the survey below, we will be able to assess your current level of financial satisfaction and gain an understanding of the circumstances and behaviours that may be impeding your ability to achieve a high level of satisfaction.

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Satisfaction scale

Please place a numerical value next to each aspect of your financial history, indicating your level of satisfaction.

Disatisfied	1	2	3	4	5	Highly satisfied
-------------	---	---	---	---	---	------------------

Cash-flow management

_____ The income my current job or career provides me

_____ My ability to meet my financial obligations

_____ My spending habits

_____ The spending habits of my family members

_____ My current amount of and ability to manage debt

_____ The existence of and amount of my emergency fund

Risk management

_____ My ability to protect my current cash flow

_____ My amount of life insurance coverage

_____ My level of property and casualty insurance

_____ My medical and disability insurance coverage

Asset management

_____ The amount of money that I save and invest on a regular basis

_____ My ability to meet my short-term financial goals (education, car, etc.)

_____ My ability to meet my long-term financial goals (education, retirement, etc.)

Estate/Tax planning

_____ My current financial plan

_____ My plan for protection/transfer of my assets

_____ My knowledgeable tax reduction strategy

_____ My level of charitable giving

Qualitative issues

_____ My response to difficult financial circumstances

_____ My level of financial knowledge

_____ The level of meaning my finances bring to my life

→

The following are some additional considerations to help you think about how you define wealth and happiness in your life.

1. I define success in my working life as:

2. I define success in my family life as:

3. I define success in my financial life as:

4. I define balance in my life as:

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Example of this form can be found at the back of this guide

Your life principles

Understanding the underlying principles and beliefs that relate to your life and your attitude toward money is critical to building a financial plan. These principles and values shape your thinking and form the way you approach financial situations. Your responses to the questions will help as we work together to make financial decisions that best align with these guiding principles.

Guiding principles are the combination of attitudes and beliefs that help individuals navigate through the realities of everyday life. Guiding principles help when making decisions in difficult matters, and in strengthening relationships as individuals face life's challenges.

Your life principles

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Guiding principles are the combination of attitudes and beliefs that help individuals navigate through the realities of everyday life. Guiding principles help when making decisions in difficult matters, and in strengthening relationships as individuals face life's challenges.

Investing principles

1. What guiding principles do you follow when making investment decisions?

2. What investments do you avoid as a matter of principle?

General principles

1. What guiding principles do you follow in your personal life?

2. What guiding principles do you follow in your business and/or career?

Working with a financial adviser

1. What do you expect from a financial adviser?

2. Describe some of the experiences (both good and bad) that you have had with other financial advisers.

3. How much contact do you like to have with your financial advisers?

→

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Example of this form can be found at the back of this guide

Life transitions profile

The concept of transition is defined by some as the psychological process that an individual goes through to come to terms with a new situation. Life transitions occur as a result of planned or unplanned events and changes that occur in your everyday life. Each transition has its own unique set of challenges, both personal and financial. How you respond and react to the personal and financial implications associated with each life transition plays a key role in the management of your life and the successes you achieve. Identifying these life transitions will help you and your adviser prepare for the financial challenges and opportunities that lie ahead.

Please place a check mark next to those transitions that are a current priority in your life or ones that you believe you will be experiencing in the very near future.

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Please place a check mark next to those transitions that are a current priority in your life or ones that you believe you will be experiencing in the very near future.

Personal transitions	Current priority	Near-future
You're getting married	<input type="checkbox"/>	<input type="checkbox"/>
You're expecting a child	<input type="checkbox"/>	<input type="checkbox"/>
You're adopting a child	<input type="checkbox"/>	<input type="checkbox"/>
You have a child preparing for university	<input type="checkbox"/>	<input type="checkbox"/>
You have a child getting married	<input type="checkbox"/>	<input type="checkbox"/>
You have recently become a grandparent	<input type="checkbox"/>	<input type="checkbox"/>
You have a child with special needs	<input type="checkbox"/>	<input type="checkbox"/>
You're going through a divorce or separation	<input type="checkbox"/>	<input type="checkbox"/>
Concerned about the health of your spouse or child	<input type="checkbox"/>	<input type="checkbox"/>
You're caring for a family member	<input type="checkbox"/>	<input type="checkbox"/>
Concerned about your aging parent	<input type="checkbox"/>	<input type="checkbox"/>
Concerned about your personal health	<input type="checkbox"/>	<input type="checkbox"/>
Providing assistance to your family member	<input type="checkbox"/>	<input type="checkbox"/>
You have recently lost a spouse or close family member	<input type="checkbox"/>	<input type="checkbox"/>
Concerned about end-of-life issues	<input type="checkbox"/>	<input type="checkbox"/>
Professional transitions		
You're considering a new job	<input type="checkbox"/>	<input type="checkbox"/>
You're losing a business partner	<input type="checkbox"/>	<input type="checkbox"/>
You're considering starting a new business or buying an existing business	<input type="checkbox"/>	<input type="checkbox"/>
You're contemplating a career change	<input type="checkbox"/>	<input type="checkbox"/>
You have lost your job	<input type="checkbox"/>	<input type="checkbox"/>
Phasing in your retirement	<input type="checkbox"/>	<input type="checkbox"/>
You have fully retired from your job	<input type="checkbox"/>	<input type="checkbox"/>
You're transferring your business to a family member	<input type="checkbox"/>	<input type="checkbox"/>
You're considering selling your business	<input type="checkbox"/>	<input type="checkbox"/>

Financial transitions	Current priority	Near-future
You're reconsidering your investment philosophy	<input type="checkbox"/>	<input type="checkbox"/>
You're actively considering an investment opportunity	<input type="checkbox"/>	<input type="checkbox"/>
Concerned about debt	<input type="checkbox"/>	<input type="checkbox"/>
You want to develop or review an estate plan	<input type="checkbox"/>	<input type="checkbox"/>
You're going to be receiving an inheritance or financial windfall	<input type="checkbox"/>	<input type="checkbox"/>
You're considering purchasing a home	<input type="checkbox"/>	<input type="checkbox"/>
You're planning on selling your home or property	<input type="checkbox"/>	<input type="checkbox"/>
You recently experienced a significant investment gain or loss	<input type="checkbox"/>	<input type="checkbox"/>
You would like to make a financial gift to your children or grandchildren	<input type="checkbox"/>	<input type="checkbox"/>

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Example of this form can be found at the back of this guide

Life goals profile

Goals are dreams and aspirations that you would like to have happen sometime in the future. It can be beneficial to explore these dreams and aspirations in greater detail and plan for them accordingly. Although dealing with the transitions that you are experiencing is critical, you should not overlook the importance of setting goals.

Thinking about how you want to live and how you think your money should support your ambitions is a key component of the financial life planning process. By understanding how specific goals fit into the larger picture of your life, we can work together to better align your financial goals with your life's purpose and guiding principles.

	Life goals profile	Financial goals profile
Goals are dreams and aspirations that you would like to have happen sometime in the future. It can be beneficial to explore these dreams and aspirations in greater detail and plan for them accordingly. Although dealing with the transitions that you are experiencing is critical, you should not overlook the importance of setting goals.	<p>1. What would you do differently if you had more free time?</p> <hr/> <hr/> <hr/> <p>2. What would you do differently if you had more money?</p> <hr/> <hr/> <hr/> <p>3. What dreams do you have that you fear you may not achieve?</p> <hr/> <hr/> <hr/> <p>4. What do you envision your day to look like in retirement?</p> <hr/> <hr/> <hr/> <p>5. How much and what kind of work do you want to do in retirement?</p> <hr/> <hr/> <hr/> <p>6. Do you know someone who you consider to be a role model for retirement? Please describe what makes them a role model.</p> <hr/> <hr/> <hr/>	<p>7. What type of legacy do you want to leave for your family?</p> <hr/> <hr/> <hr/> <p>8. Are there charities that you would like to become involved with, either by making a donation or volunteering?</p> <hr/> <hr/> <hr/>

Example of this form can be found at the back of this guide

Simplified personal balance sheet

Simplified personal balance sheet

		01/01/2011	01/01/2012	01/01/2013
Assets				
Cash and bank accounts	Current accounts	£	£	£
	Savings account(s)	£	£	£
	Total cash and bank accounts	£	£	£
Property assets	Address	£	£	£
	Address	£	£	£
	Total property	£	£	£
Other	Car	£	£	£
	Antiques etc.	£	£	£
	Total other	£	£	£
Investments	Pension 1	£	£	£
	Pension 2	£	£	£
	ISA 1	£	£	£
	Company shares	£	£	£
	Total investments	£	£	£
	Total Assets	£	£	£
Liabilities				
Property (mortgages)	Address	£	£	£
	Address	£	£	£
	Total property liabilities	£	£	£
Other liabilities	Car loans	£	£	£
	Student loans	£	£	£
	Credit cards	£	£	£
	Other unsecured/secured debt			
	Total other liabilities	£	£	£
	Total liabilities	£	£	£
	Net worth	£	£	£

Example of this form can be found at the back of this guide

Simplified personal cash flow statement

Simplified personal balance sheet

		01/01/2011	01/01/2012	01/01/2013
Assets				
Cash and bank accounts	Current accounts	£	£	£
	Savings account(s)	£	£	£
	Total cash and bank accounts	£	£	£
Property assets	Address	£	£	£
	Address	£	£	£
	Total property	£	£	£
Other	Car	£	£	£
	Antiques etc.	£	£	£
	Total other	£	£	£
Investments	Pension 1	£	£	£
	Pension 2	£	£	£
	ISA 1	£	£	£
	Company shares	£	£	£
	Total investments	£	£	£
Total Assets		£	£	£
Liabilities				
Property (mortgages)	Address	£	£	£
	Address	£	£	£
	Total property liabilities	£	£	£
Other liabilities	Car loans	£	£	£
	Student loans	£	£	£
	Credit cards	£	£	£
	Other unsecured/secured debt			
	Total other liabilities	£	£	£
Total liabilities		£	£	£
Net worth		£	£	£

Example of this form can be found at the back of this guide

Investment Policy Statement (IPS)

This simplified IPS is for illustrative purposes only.

Client / circumstances

Mr. Joe and Mrs. Jane Blogs (Married)
DOB: Joe: 1973, Jane 1972.
Children: 2, both at university

Service relationship

Wealth Management: Gold (see separate documentation defining level of service)

Financial Goal(s)

- Financial independence and retirement at age 66.
- Legacy: Leave debt-free properties to each of their two children.
- At retirement: 12-month global tour (Europe, Asia, Africa).

Probability of success: 96%, based on their regular savings and modest lifestyle.

Purpose of Portfolio

- Provide steady growth of capital until retirement
- An inflation-adjusted, after-tax income of £XXX every year in retirement.
- A lump sum of £ XXX upon retirement

Risk and Return Expectations

Based on the fact find, we agree that the clients’ acceptable risk rating is 5 on a scale of 7 (the clients would be

uncomfortable with a 20% drop in portfolio value). We expect pre-tax, inflation-adjusted returns of X% from cash, X% from bonds and X% from stocks. We expect a dividend yield of X% from stocks that will at least keep up with inflation.

Time Horizon

Target retirement date is XX/20XX.

Target Asset Allocation

- Cash X%
- Bonds X% (break down by sub-asset class, such as: Corporate, government, inflation linked)
- Property/REITs X%
- Equities X% (Break down by sub-asset class, by geography and market capitalisation.

Diversification policy

No one fund or account should comprise more than X% of a given asset class, except cash, with X% threshold for rebalancing.

Rebalancing and review

- We will provide a detailed annual report for the client review.
- The portfolio will be reviewed annually on 1 August and rebalanced accordingly, selling what has gone up and buying what has gone down if necessary

- New money will be used ongoing to help maintain target asset allocation to help avoid rebalancing transaction costs
- A review of progress and client circumstances will be undertaken at our offices on the third Monday in July annually. Any changes made to the plan will then be subsequently reflected in the rebalancing on 1 August.

Investment philosophy

(Your statement of investment principles)

Investment Universe

- The portfolio will be based on a core-satellite model, with the majority in low-cost index tracking funds and/or ETFs.
- Satellite funds will be geographic or sub-asset class specific index funds, or carefully selected active funds for purposes of diversification and risk management (refer to investment philosophy for selection criteria).
- No individual stock or derivative positions will be allowed.

Signature

Signature

Further reading

Here's a selection of some key books that you may find useful on your journey to systemising your investment advice process.

John Bogle on Investing: The First Fifty Years.

John Bogle

The Little Book of Common Sense Investing.

John Bogle

Winning the Losers Game: Timeless Strategies for Successful Investing.

Charles D. Ellis

Smarter Investing: Simpler Decisions for better Results.

Tim Hale

A Random Walk Down Wall Street.

Burton Malkiel

Beyond Greed and Fear: Finance and the Psychology of Investing.

Hersh Shefrin



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