

## Financial Planning Reviews

As we approach the end of another tax year, it is prudent to find a little time in our busy lives to reflect on the past year, to contemplate what the future might bring and to think whether we should be taking any action either before the end of the tax year or at the start of the new tax year.

As we all know, one of the key criteria to any successful plan is to ensure that time is taken to review how the plan is progressing, monitor whether it is still on track to achieve its objectives and make adjustments as needed.

Unfortunately, especially with financial planning, we can set a plan in motion and then become distracted by the 'hurly-burly' of life and forget to check how things are going until it is too late.

In this newsletter, we thought it would be a good time to identify and describe what we believe are the core elements of a comprehensive financial planning review.



## Our current situation

It seems so obvious that we should check on our current situation, because we are living through it every day, that there is a tendency to overlook this step.

The key thing is to have a quick think about our current situation and to see how things might have changed since the last review. Here are some prompts:

- Personal circumstances – Has my health changed? Has the make-up of my family changed?
- Assets and liabilities – What is the current value of each of my assets and liabilities? How have the values changed since the last review?
- Income and expenditure – What income am I receiving and from what sources? How has this changed since the last review? Has this income covered my normal day to day outgoings since the last review?

This should be a fairly straightforward exercise providing we have a simple and efficient way of tracking the valuations of our assets, liabilities, income and expenditure over time. It can quickly show us whether we need to be carrying out tasks such as revising our will, paying off a loan, or reducing our outgoings.

## Our future aims and aspirations

As we have mentioned in previous newsletters, at Breed Elliott we believe that taking time to properly explore our clients' future aims and aspirations is the single most important aspect of our work. We make sure that we record our understanding of each client's aims and aspirations in our recommendation reports so that there is a permanent record at any given point in time.

So, when we review our financial plans, we should make sure that we set aside time to look back to see what our aims and aspirations were at our last review, then contemplate what they are now and see how they might have changed.

Here are some prompts to assist in our ruminations:

- Home – Am I happy in my current home? Do I need to make improvements to it? Where do I really want to live and when do I want to move?
- Holidays – Over the next year(s), where in the world do I want to travel? When shall I do this?
- Lifestyle – What do I want my typical week to look like? What do I want to happen with my work? What do I want to do in my leisure time?
- Family – What are the aims and aspirations of the members of my family? How would I like to help my children/grandchildren?

Although it may be time consuming, we advocate recording our aims and aspirations in writing. We use a simple tool which we call a 'lifeline' to do this and we are happy to share this if it would be useful.

This exercise will quickly show us if there have been significant changes in our objectives which might lead to changes in our financial plans.

## Our financial planning priorities

The first two steps in the review process have involved a review of where we are currently and a reassessment of where we are going. As a natural progression from these two steps, we should be able to identify our financial planning priorities.

Identifying priorities should involve placing target monetary values and dates on our aims and aspirations. For example, how much will the extension to the home cost and when do we want to carry out the work? How much do we think the holidays will cost next year? When do we want to stop working and what financial resources will we need to ensure that this is affordable? How much do we want to contribute to our daughter's wedding next summer?

Once the priorities have been identified and recorded, we can compare them to the priorities at the last review and make any adjustments needed.

## Budgeting

A budget is a plan for how much income or capital we have, how much we are going to spend and what we intend to spend it on over a set period of time, e.g. until the next review.

Looking ahead, we should analyse whether the regular income we receive is going to be sufficient to meet our day to day living costs; such things as our monthly bills, our food shopping, our car costs, our hobbies and our social life.

We should also check that we have liquid capital investments earmarked to cover the cost of the more ad hoc outgoings such as holidays, home improvements, new cars, school fees, etc.

Finally, we should ensure that we have sufficient money held in secure and easily accessible cash funds, which we can call upon to meet unforeseen expenses and emergencies. Most experts suggest that we should keep the equivalent of three to six months' normal day to day expenditure in our 'emergency fund.'

If our analysis shows us that everything remains on track then this is good news. If it looks like we may spend more than we can afford, we will have to make adjustments to either our spending or how we generate additional income.

## Reviewing individual investments

Successful financial planning involves earmarking individual investments for specific future objectives. This enables us to identify the probable time horizon for the investment, which is a critical element in deciding how best to construct an investment portfolio.

Having reaffirmed our objectives and when they are likely to occur, we should check that our attitude to investment risk has not changed since the last review.

We should endeavour to make sure that our attitude to risk is not swayed too much by the current economic climate, whatever that might be.

It is worth remembering what the renowned investor, Warren Buffet, has been quoted as saying about his investment company '**We simply attempt to be fearful when others are greedy and greedy only when others are fearful.**'

The time horizon for our investment combined with our own attitude to risk should guide us as to the level of risk to build into our portfolio. In turn, this will help us to determine how we should allocate our investment amongst the main asset classes, cash; fixed interest securities; property and equities. This will provide the benchmark asset allocation against which we can compare our current investment portfolio.

If equity markets have performed strongly since the last review, it is likely that our portfolio will be overweight in equities and underweight in the other asset classes. If so, we should 'rebalance' the fund back into line with the benchmark. The same rebalancing exercise should occur if equity markets have fallen. In this way, we will either be securing gains or buying at a potentially low price.

Therefore, as stated above, a vital part of the role we perform when helping our clients with the ongoing management of portfolios is to ensure that timescales, attitudes to risk and asset allocation benchmarks are carefully reviewed and investment portfolios adjusted to take into account any changes.

We will also look closely at the performance of individual funds and suggest changes when necessary. It is notoriously difficult to pick the funds that will be the top performers in the future but we do commit significant resources towards compiling our own short list of highly rated funds.

## Tax considerations

A final consideration within a comprehensive financial planning review, particularly at this time of year, is to understand the current legislation with regard to income tax (IT), capital gains tax (CGT) and inheritance tax (IHT) and how any of this may impact on our planning.

Changes in tax legislation can offer opportunities as well as threats and it is important that we regularly consider ways in which we can reduce the tax liability on our investments, so potentially increasing the net benefits.

This year is noteworthy because of the freezing of a number of tax allowances and the reduction of the annual exemption from Capital Gains Tax from £12,300 in the 2022/23 tax year to £6,000 in the 2023/24 tax year and then to £3,000 in the 2024/25 tax year.

## Summary

We believe that the regime and discipline of undertaking regular reviews is fundamental to the success of any financial plan and we hope this has been a useful guide on how to conduct an effective review.



## Market data

Market	2022	Current situation	Comments
<b>Interest Rates (BOE base rate)</b>	Increased from 3.0% to 03.50% in December	4% at 28/02/23	The official bank rate is 4%.
<b>House Prices (Nationwide)</b>	House prices fell by 2.8%	House prices down 0.5% at 28/02/23	Annual house price growth down 1.1%.
<b>UK Share Prices (FTSE 100)</b>	Closed at 7451.74. An annual rise of 924 points	7876.28 at the close on 28/02/23	The FTSE 100 rose by 104.58 points in February.

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