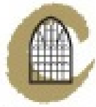

CATHEDRAL
Financial Consultants Limited

Feature Article

Welcome to this latest edition of our newsletter!

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In our first article, we take a look at the different financial challenges that our clients face at different stages in their lives. We also cover some of the solutions we suggest to deal with these challenges. This is followed by an article that delves into the often complex world of investments. In this article we help you to understand some of the jargon that investment professionals use every day!

Finally, there is our usual mix of content that we found on the web that we think will be of interest to you.

Best wishes!

Main Articles

The Financial Lives of our Clients

Our role is to help clients identify their financial objectives and then put a plan in place to ultimately achieve them. These objectives change throughout our lives, depending on a range of circumstances; our family situation, our career and our desired lifestyle. However we've found that many clients share the same goals, depending on their age and stage of life.
We spend our days helping clients to plan their financial futures. What we see is that people face similar challenges depending on their stage of life. At the same time of course, each and every one of us has a unique set of circumstances, has our own specific financial objectives and needs bespoke advice to help us reach our goals.

You see, financial planning is not an exact science. It depends completely on those unique circumstances; your current and potential earnings, your family situation and your assets and liabilities to name but a few factors. And it also depends on what it is you are trying to achieve. For you, is it all about comfort in retirement or are you seeking to maximise your wealth in the shorter term? Is the security of your family your primary concern?

While we clearly acknowledge that everyone is unique, we thought it might be useful to give you a sense of the type of issues that many of our clients see as the big financial challenges at various stages in their lives, and the typical solutions they seek out from us.

The carefree years: Age 20 – 35

Ah the carefree years! At least that's how they start out for this age group before they start placing one eye on the future. For most of our clients in their late teens and early twenties, there are really just a small number of areas that they come to us looking for help with. The first area of focus is savings, often with one eye on building a deposit for that eventual house purchase.

As our clients move through their twenties and into their thirties, mortgages tend to dominate as people seek to get loan approval for that first home. As many of our clients also get married at this time and start their families, they tend to focus on getting protection (health insurance, life assurance, income protection etc.) in place to safeguard their families financially. The very forward-thinking of our clients also turn their attention to building education funds for their children and also their retirement funding. These smart people realise that the earlier they start their funding, the more they are likely to have available at retirement!

The growth years: Age 35 – 50

Hopefully now the mortgage is not hurting quite as much and there is a little spare cash available for other purposes. At this stage in our clients' lives, we see a real commitment to pension funding – making sure that they can maximise the tax breaks available and finding the best pension vehicle for them. We also find at this stage that our clients become a little more aware of their infallibility (remember how indestructible we all felt when younger?), and want to ensure that they have the right protection in place to protect themselves and/or their families against the financial consequences of ill-health or death.

For those who are in the fortunate position of having some spare money, they also seek help in building an investment portfolio, particularly in the current low deposit rate environment.

The consolidation years: Age 50 – 65

As the state pension age moves out (eventually to 68) over the next few decades, this consolidation period is going to expand. We see our clients at this stage furiously continuing to build up their pension funds. However at this stage many are looking to take some of the risk out of their portfolios as they recognise the damage that could be done by a large drop in the value of their funds as they approach retirement.

Another area that we get asked a lot about among this group is in relation to the whole area of wealth transfer. Our clients have seen the reduction in Capital Gains Tax thresholds (hopefully to be reviewed in Budget 2017) and the increase in the CGT rate, and seek out ways to avoid leaving their families with big tax bills. These tax bills can often result in families being forced to sell an inherited family home, just to pay the tax bill. So we help them plan the transfer of wealth in a tax efficient way.

The Drawdown years – age 65+

And now the spending years – hopefully! This is where hopefully you get to enjoy the fruits of your labour and your careful financial planning over the years. Usually our clients no longer have a salary coming in at this stage, but of course we hope that we've been able to help them accumulate a good pension for themselves! Our work with clients who are in the latter stages of their lives tends to be around helping them manage their spending wisely. The risk these clients want to avoid is running out of money, so we help them to manage their assets carefully.

What we also see among this group is the amount of time they spend thinking about others and how important their legacy is to them. They are thinking a lot about their families in particular and how they can leave a lasting legacy (financial and otherwise) with them. Again we help them with their wealth transfer strategy to ensure their financial legacy is valuable and accessible for their families.

We hope this article gives you a sense of the types of challenges our clients face. If you would like to discuss your own particular situation with us, we would of course be delighted to hear from you.

The language of investments made simple

Spending all of our time advising clients comes with a significant occupational hazard: the use of jargon! We're now going to put that right by explaining some of the main terms that we commonly use in relation to investment markets, to ensure we all have the same understanding of them.

Spending all of our time advising clients in relation to their investments and pensions, researching markets and investment propositions, and meeting fund managers and investments specialists comes with a significant occupational hazard: the use of jargon!

So first of all, our apologies if you have been on the receiving end of jargon from us. We're now going to put that right by explaining some of the main terms that we commonly use in relation to investment markets, to ensure we all have the same understanding of them.

Asset Classes

This is a term that is used to describe the different types of underlying investment funds that make up a typical investment portfolio. The most popular asset classes include the following;

- **Shares or Equity**: Equity funds buy a fraction of the ownership of a range of companies. These shares (to denote a 'share' in the ownership) are typically traded on a stock exchange.
- **Bonds**: Companies or governments issue these, where they effectively borrow money from investors in return for an agreed rate of return over an agreed period of time.

- **Cash**: In a cash fund, the manager places money on deposit with a bank, across a range of varying maturity dates. This was seen as an absolutely secure means of investing, for which the returns gained are generally quite low. However as we've seen in Greece recently and their banking challenges, nothing is 100% secure...
- **Property**: This is where an investment fund (usually) buys a number of properties and the performance of the fund is dependant on the rise or fall of the value of these properties and the income they produce from rent.
- **Currency**: In a currency fund, the investment is based on the performance of a number of currencies in relation to each other. A specialist manager identifies opportunities based on his/her knowledge and expectation of currency movements.
- **High Yield funds**: This is another type of equity fund that is made up solely of shares in companies that have a common characteristic – a history of having paid and/or an expectation of higher than normal levels of dividends in the future.
- **Absolute Return funds**: These are funds that use complex investment instruments to invest in a range of asset classes. By using these instruments and investment methods, they can produce positive investment returns in both rising and falling stock markets. This approach is utilised widely by ***hedge funds***.

Most investors don't want to "bet the house" on the performance of a single asset class or worse still, the performance of a single share price. As a result, we would usually recommend a ***diversified portfolio*** to investors. Rather than having all your eggs in one basket, this approach spreads the investment amount over a number of asset classes, and within each asset class over a number of underlying investments. The aim is that if one company / sector / region / asset class underperforms; the whole investment is not significantly affected. People in Ireland who had a significant amount of their investments tied up in property in 2007 / 2008 probably rue not having a more diversified portfolio.

Portfolio Management Strategies

Active management is where a fund manager makes investment decisions in relation to investment assets with a view to outperforming an investment benchmark or peer group. In this strategy, they use their knowledge and expertise in relation to stock picking and market timing with the aim of beating their competitors.

Passive management on the other hand removes this need to get timing and stock picking right. Instead the investment fund simply mirrors the investment make-up of the benchmark to produce similar performance to the benchmark and achieve average returns. This reduces the risk of outperformance or underperformance against the benchmark. This investment strategy has gained in popularity, as seen through the growth of a range of index-tracking funds.

Investment Styles

The two most popular investment styles are value investing and growth investing.

Value Investing is where the fund manager seeks to buy shares or other securities that appear to be under-priced or "cheap" when they examine the shares using their investment analysis tools. Warren Buffett has long been a proponent of this investment style.

Growth investing on the other hand is where fund managers invest in companies where they expect significant growth in the share price, even where the share price may look expensive using their investment analysis tools. This investment style fell out of favour somewhat after the dot-com bubble burst, where the expected growth of companies never materialised.

These are just a snapshot of some of the most often used terms / jargon used by us in discussing investments with clients. There are of course many more, and please never be afraid to ask us to slow down and explain them fully to you!

However it is of course one thing understanding the terms, another altogether knowing which is the right approach for you. But that is where our expertise comes in, understanding your specific investment objectives, determining your appetite and attitude in relation to taking risk and then guiding you towards the best investment solutions to fit your own requirements. You just can't beat good, independent advice!

If there are any other terms that you would like explained, please just ask!

Around the Web

Successful Investing Requires a North Star

The best investors in the world all have one thing in common – they have a well defined plan that they stick with through thick and thin. This plan serves as a north star regardless of where they are along the investment journey.

How to Put Your Spouse on a Budget Without Ruining Your Marriage

The quickest way to sour a marriage is to nag your spouse about money and try to control every cent they spend. Here are ways to get your spouse on a budget, without ruining your marriage.

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3 Utterly Obvious Ways To Build Wealth

So, what are the secrets to building wealth? And, once you build wealth, how do you keep it? The truth is that the "secrets" to building wealth really aren't secrets at all.

Why Aren't Businesses Investing?

In theory, the fact that their deposits are earning nothing or next-to-nothing in the bank should make businesses eager to borrow money to invest in research and development and make capital expenditures that stand to boost their long-term growth prospects. It hasn't.

Donald Trump offers some free investment advice

When Donald Trump has offered investment advice his recommendations have been so far out of the mainstream that investors and markets generally have ignored them.

Investors Warned: Don't Buy Gold for Gains

The price of gold has climbed 34% this year – and the number of investors buying gold keeps rising with it. But investors have today been warned not to buy gold in the hope of greater returns.

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