FINANCIAL PLANNING
IMPACT REPORT
2022

Investwise
Financial Planning
Invest In Your Future...

Contents

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> ***Being rich is having money; being wealthy is having time.***
> – Margaret Bonnano

What is Financial Planning?

Considered financial advice is so much more than fund price data or the ebb and flow of stock market values. It should never simply be transactional but instead a holistic approach to life planning through a financial lens. As Bonnano's quote highlights, money is not the end goal but the freedom and possibilities it can give us.

Our clients today are planning towards that financial freedom as opposed to simply buying stocks and shares. They are focusing on key life milestones and putting plans in place to make sure that when these moments arrive, they have sufficient funds available to fulfil their aspirations. A real understanding of a client's goals, and their journey towards those goals, is key to giving good quality advice. Today, conversations between financial planners and their clients are focused on cashflow planning for educational expenses, life possibilities as empty nesters or retirement. Instead of simply seeking the latest fund prices clients want professional advice to make their hard-earned money work harder, and rightly so. Oftentimes, the real value of professional financial planning and advice is understanding a client's relationship with money, helping them to become more self-aware about their personal money management and supporting them to build good financial habits.

At Investwise, we do this operating a fee-based charging model rather than a product commission system. While still relatively rare this is becoming a more common model for financial advice in Ireland. Clients should consider several factors when deciding what charging model to engage.

1 — What are you trying to achieve by getting financial advice?

2 — Are you buying advice or a product?

3 — What is the cost of this advice?

4 — What is the value of the financial advice?

Two recent client experiences illustrate the value of good financial advice:

A 31-year-old client wishes to take out an income protection policy that will insure her income until she reaches the age of 65. After examining the options available to the client we found that by removing the commission on her policy the gross payment was reduced from €135 to €101 per month. This provides a savings in premium of €14,133 gross over the 34-year lifetime of the policy.

Another client is reviewing retirement options. After taking his tax-free lump sum, he would have a retirement fund of approximately €550,000. If investing this in an Approved Retirement Fund (ARF) a financial adviser could receive up to €27,000 in a commission payment from the ARF provider. This commission, whilst initially funded by the ARF provider, is ultimately funded by the client in the form of higher ongoing fund management fees. The alternative is that the client pays an upfront fee for the financial advice in relation to the retirement product, provider and investment strategy. This fee will be significantly lower than the potential commission and results in lower ongoing fund management fees which could span 25 years or so, depending on mortality.

Clearly there is a financial saving for the client but the other key benefit is ensuring the client invests in the right product for them – not the product with the highest commission for the advisor or broker.

Investing time and energy in developing and following a smart financial plan today will create a secure financial future for tomorrow.

The Psychology of Finance: Can Money Buy Happiness?

The answer to this enduring question is 'yes, but only to a point'. A study by two US based Nobel Laureates, Daniel Kahneman and Angus Deaton (2010), found that emotional wellbeing rises as income levels increase. However, contentment does not increase at an equal rate to the rise in income; as an individual's wealth grows, their wellbeing increases at an ever-slower rate. Interestingly, the data also shows that once annual income surpasses approximately $75,000, wellbeing stops increasing altogether.

Many of us feel there is never enough money. Comparing ourselves to others and their lifestyles and possessions can lead to a constant shifting of the goal posts. And sometimes increased income can mean increased debt as the bigger house, better car, more luxurious holidays absorb the additional income.

David Quinn, MD, Investwise Financial Planning, said,

"I recently spoke to a client of mine who had bought a new sports car. When I asked him about the decision, he agreed that while he probably spent too much, it made him happy so it was worth it. However, once we drilled down into the decision further and got to the truth, he admitted that the reason it made him happy was mostly to do with being seen in the car and catching other peoples' attention. Once we explored this a bit further it was clear the decision was driven more by keeping up with his peers and appearing successful rather than actual increased happiness due to the driving experience."

Yet worry or anxiety about finances can affect mental health. The strong connection between physical and mental health and financial wellbeing is being investigated in a pilot scheme currently underway in London. The Financial Shield scheme involves 2,000 participants in Lambeth and Southwark boroughs. The scheme involves GPs prescribing financial advice sessions to people with long-term health conditions. Under the scheme, financial support link workers to help patients claim benefits, grants and manage debts. The programme, which will run until September 2022, will include a cost-benefit analysis to measure outcomes and an independent review to encourage a national rollout across the UK.

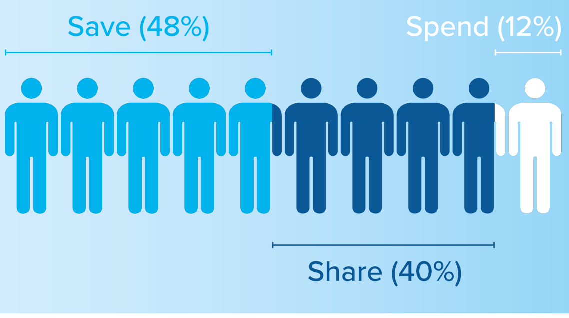
One of the reasons people seek financial planning advice is for peace of mind; the luxury of a restful night's sleep! A recent survey of Investwise clients found that almost 45% of respondents agreed that since engaging a financial planner they feel 'generally more confident', almost 41% agreed they feel 'generally less anxious' and 57% said they have a 'clearer sense of direction'. 28% said they 'feel more optimistic'.

SINCE ENGAGING A FINANCIAL PLANNER

- 45% ✓ Generally more confident
- 41% ✓ Generally less anxious
- 57% ✓ Clearer sense of direction
- 28% ✓ Feel more optimistic

In the same survey, when asked ‘Do you feel happier when you save, spend or share money?’ 48% said they felt happier when they saved, 40% when they shared and just 12% when they spent money.

DO YOU FEEL HAPPIER WHEN YOU...?



Where does our relationship with money come from? Most people will either mirror their parent’s financial management style or do the complete opposite. The Investwise client survey revealed that just under 63% said that their relationship with money is somewhat similar to that of their parents and almost 10% said it was exactly the same. 27% said they had the exact opposite relationship with money to that of their parents.

How does thinking about money make us feel? 58% of survey respondents revealed that they ‘feel confident’ when thinking about money but 28% admitted to feeling anxious, just 10% said it makes them feel happy and 4% agreed it made them feel bored.

Examining these questions and becoming self-aware in relation to finances can help to develop a healthier relationship with money. And there is room for improvement. Almost 63% admitted to not being fully aware of their income versus spending habits and nearly 51% said that they would like to have better personal financial management.

While it can be tempting to brush them under the carpet financial issues are best tackled head on; anxiety and avoidance create a vicious cycle. And it is something that we think about regularly. 35% of respondents to the Investwise survey said that they think about money at least once a day, 27% said at least once a week, 15% agreed that they thought about finances many times a day. The key is to turn these thoughts into positive actions and take the first step to financial freedom.

The Value of Financial Planning

Defining the value of financial planning can be somewhat different for everyone. In broad terms though, most people who engage a financial planner feel more confident about their financial decisions and financial future and are more likely to stick to their financial plan.

Data from a range of bodies and international advisors shows that financial advice does increase the wealth of those who seek advice. Research carried out by Professional Financial Brokers Ireland (PFBI) shows that people who get financial advice have nearly three times the savings and investments than those who don't, are more than twice as likely to have a pension, are more financially protected and feel more confident about their financial future.

*People who get financial advice **have nearly three times the savings and investments** than those who don't, are **more than twice as likely to have a pension**, are **more financially protected** and **feel more confident** about their financial future.*

Similarly, data compiled by Vanguard, one of the largest asset management firms globally, compares the impact of returns on investment portfolios that have financial advisers with those that are self-managed (i.e. managed by the individual investor). This research shows that engaging a financial advisor adds, on average, 3% extra growth per annum compared to individuals self-managing their portfolio. 3% isn't much of a difference in return, right? Wrong! Let's see how this plays out on an investment of €250,000.

For self-managed investment portfolios the €250,000 would be expected to grow in an average year by 4% per annum, over a 15-year period this gives a portfolio value of €450,239 (if compounded annually). By working with a financial advisor, the same investment could benefit from the additional 3% growth, so now the pot has grown to €689,758 (if compounded annually).

How is this additional 3% generated? Not necessarily through a better investment but rather by smarter strategising to maximise the dividend. The value of professional financial advice is in the expertise and insight it can bring to ensure investments deliver as much as possible. This involves taking a holistic view of an individual's situation and looking at risk profiling, timing in terms of entering or exiting the market, tax considerations, estate and retirement planning.

Research by DALBAR, a leading North American financial services market research firm, found a 2.11% difference between the performance of the Standard & Poor's 500 and that of individual financiers who invested in US equities. According to DALBAR this underperformance is due to a 'behavioural gap' or a number of behavioural biases including:

- **Anchoring:** Focusing on the purchase price or one key piece of information, rather than making a rational judgement about overall value.
- **Availability:** Solely using readily available information, rather than doing wider, independent research. Social media preys on this bias, continuously feeding us the information we want.
- **Overconfidence:** Having too much confidence in our own decisions, and not as much in the advice of others. For example, 90% of people think we are above average drivers!
- **Loss aversion:** The pain of a loss is twice as intense as the gain from a win. Hence, we sell too early, and worry too much.

Perhaps the most significant value a financial planner can bring to a client is a change in perspective. Behavioural coaching is a crucial skill that financial planners use to support their clients, helping to nurture and sustain positive financial habits that deliver real benefit into the future. It's all in the planning - working closely with an advisor, individuals can develop clear financial plans that are particular to them and their unique circumstances. A good financial planner will guide and counsel their client to develop a plan that is practical, workable and will help them achieve their life goals. Because ultimately, money is not the end goal. It's a tool we should use to enhance our life and achieve our aspirations.

David added, "We recently advised a younger client on pensions and establishing some financial structures. We recommended a modest fee to manage the account over time including our professional view on investment markets, however the client felt they had it under control and could manage the ongoing investments themselves. Unfortunately, this account is now down 75% over the past 12 months, compared to our in-house portfolios have increased by an average of 5%. Our fee is insignificant when compared to some very damaging consequences we see occasionally when investors make mistakes."

Developing Financial Literacy

Financial literacy is a crucial life skill that enables us to make informed, smart decisions about our finances. Understanding how money works supports smart household financial management as well as planning for the future, or investing in a business.

It's not about understanding esoteric economic concepts or complex financial jargon. It's about knowing the basic nuts and bolts of finance to make educated decisions about how best to manage money.

> ***"Financial literacy matters to all of us. It improves our financial wellbeing, providing us with knowledge that also builds resilience to cope with financial shocks. It should be a core part of our children's education,"***
>
> **Central Bank Governor Gabriel Makhlouf.**

The good news is financial literacy is not some magical quality conferred on an elite group of financially savvy spenders and savers. Like reading, writing or riding a bike, it's a skill that any of us can learn and develop.

And there are many good reasons to boost financial understanding. Poor financial literacy can hit people right in their pockets, leading to bad financial decisions, falling prey to scammers, or a cycle of debt. Good financial literacy supports financial stability and planning for a secure financial future and protection from financial predators.

How does our national financial literacy compare with other countries? A 2014 global study of financial literacy, using insights from Standard & Poors ratings services, found that northern European countries such as Sweden, Denmark, Germany and the Netherlands had the highest financial literacy in the EU, while southern European countries such as Spain, Greece, Italy and Portugal had the lowest rates. Ireland sat somewhere in between. So, there is an opportunity to do more from an educational perspective.

It's never too late to improve financial literacy, although the earlier the basics of finance and financial planning are learned, the better. A 2018 survey from the Competition and Consumer Protection Commission (CCPC) found that though many Irish consumers claimed to have positive levels of financial security, around 16 per cent said they were in a more precarious position with their finances, and 7 per cent said they were seriously struggling to get by. The survey also found that, among those who were financially secure, 60 per cent studied finance as part of their school education, while only 10 per cent of those who were struggling had received financial education at school.

Ignorance of financial basics can be a real disadvantage for those trying to make it in the business world. A Small Firms Association (SFA) survey from 2019 found that less than half (46 per cent) of Irish small business owners considered themselves financially savvy, while 42 percent said they did not understand financial statements and 51 per cent of respondents admitted that they didn't review their monthly accounts to see how their business was developing.

But the poll also reflects a desire among Irish business people to beef up their financial literacy. Small business owners were worried that they did not have the financial skills and knowledge to steer their businesses to greater success, and 81 per cent of small business owners polled felt that financial literacy was hugely important to a company's survival and growth. *"Unlike larger companies who have access to experts, the success of small firms depends on the knowledge and skills of the owner,"* said SFA director Sven Spollen-Behrens.

"Financial literacy matters to all of us. It improves our financial wellbeing, providing us with knowledge that also builds resilience to cope with financial shocks. It should be a core part of our children's education," says Central Bank governor Gabriel Makhlouf.

David commented, "*As a nation we have only really experienced true wealth in the last 25 years. As a result there is very little knowledge passed down through generations on how to deal with money, unlike in other parts of Europe or in the UK, for example. The Swiss are the experts in Europe at managing money over multiple generations. They take a very long term view, managing risk very carefully. In Ireland I often feel we still think in periods of weeks and months, whereas they think in decades."*

"I often refer to us as being similar to a teenager with their first pay cheque! Now that we have embraced entrepreneurial culture there are some important business and financial lessons that we need to learn as a nation. Lessons such as how to deal with windfalls, how to control spending when business is going well and how to develop a rainy day fund for the tough times."

The value of financial literacy is clear; it makes sense for the Government to establish good financial educational policies to enhance citizens' financial literacy. It's worth taking the time and effort to boost our financial acumen so we can plan for a better future for all.

Fee Based Advice Vs Product Commissions

Investwise Financial Planning is different to most other financial advice firms in Ireland as we fundamentally disagree with product commissions. Instead, we operate a simple, transparent fee structure for the advice we provide. Commissions muddy the waters and can mean that instead of finding the best product most suited to a client's needs at the lowest cost, brokers or financial advisors are incentivised to recommend the product that will pay them the highest commission.

Operating a transparent fee structure instead of product commissions ensures the advice is impartial and in the best interests of the client.

Commissions have been banned or phased out in some countries including Australia, the Netherlands, the UK, India, Norway, Finland, Denmark and South Africa.

In Australia, Future of Financial Advice (FOFA) reforms began in 2010 with the aim of banning financial adviser commissions. Under the financial advisor remuneration reforms, the fee charged for a financial product and the fee for any advice in relation to that product must be separate.

This effectively banned:

- charging clients a fee for financial advice which is a percentage of the client's initial investment;
- trail commissions charged as a percentage of a client's assets;
- fees for advice charged as a percentage of the client's funds under management;
- any form of payment from a product provider or from any financial services business — in relation to the distribution of, or advice regarding, retail financial products — which is based on volume or sales.

According to the Australian Securities and Investments Commission (ASIC) the aim of the reforms is to remove conflicts of interest which may affect the quality of financial advice. For example, a particular financial product may pay a higher rate of commission than its competitors, which may lead an adviser to recommend that product, regardless of whether the product is most suited to the client's needs.

The future is a fee-based, holistic model of wealth management and financial planning that delivers much more to the customer than the traditional model of commission heavy financial products. In recent years the Central Bank of Ireland introduced tighter controls around the transparency of commission arrangements in an attempt to minimise conflicts of interest but stopped short of a ban on investment commissions. It will be interesting to see how the commission narrative develops across Europe, what type of legislation the EU introduces and how consumers in Ireland will benefit as a result.

UK Ban on Commissions for Retail Investment Advice

The Retail Distribution Review (RDR) resulted in a ban on commissions for retail investment advice in the United Kingdom which came into effect in 2012. Commissions can still be agreed between client and advisor but the regulation means it must be transparent and clear cut.

David Crozier, Director and Financial Planner, Navigator Financial Planning, a fee-based financial planning and wealth management practice, in Newry, Northern Ireland shared his thoughts on the consequences of the ban since it was implemented.

"Overall, while its not perfect, it has been a very positive development for customers and the sector. While mis-selling has not been completely eliminated – as in any sector there are rogue elements – it has been significantly reduced and we're on the right path," he said.

In the short term the ban possibly did drive down access to advice as people were unfamiliar with the concept of paying for financial expertise. More consumer education and awareness is needed to increase understanding of the value and benefits of independent financial advice, as opposed to being sold a product because it offers the adviser or broker the highest commission.

"I think the regulation has moved the market focus from one of product selling to financial planning, which is definitely a good thing for consumers."

David Quinn, MD, Investwise Financial Planning, said,

"Clients should be fully aware of all fees and charges they are paying for advice or a product, no matter how that charge will be paid. For example, often hidden deep within the small print will be a charge called 'Reduction in Yield' which essentially means a commission payment to the broker or advisor that will be deducted from the investment. Very often customers are unaware of such hidden charges."

Fee-based advisors offer a service that, in some cases can cost somewhat similar to a commission arrangement, but delivers much more value to the client as it is bespoke advice resulting in a personalised financial structure and plan.

For anyone considering seeking financial advice Investwise suggest the following tips:

Top 5 Tips Before Making an Investment:

1. **Pick an advisor who is interested in your goals, lifestyle and financial plan:** Avoid advisors who immediately ask about how much you are investing, or quickly introduce products. A good advisor will get to know you first and establish your needs before carrying out independent research.

2. **Watch out for tax treatment:** Most insurance companies and exchange traded funds are taxed under Exit Tax Rules. This might be fine, but if you have tax credits available, or previous capital losses, a Capital Gains Tax Structure might be much more appropriate. This type of structure is not available through insurance companies. For older clients, Capital Gains Tax Investments can also be more appropriate from an estate planning perspective.

3. **Understand costs:** Ask your advisor what the TOTAL costs are. These will include the following;
   - ***Allocation Charge***: Any potential deduction from your monthly investment or lump sum.
   - ***Investment Management Fee:*** What are the total annual costs, including all hidden costs that are often not disclosed? This is called the Total Expense Ratio (TER).
   - ***Advisor Fees:*** Is the advisor adding an annual fee, and if so, how much is that in Euro terms? This is usually quoted in percentages.

4. **Risk Level:** Is the investment appropriate to your needs and requirements? Some advisors will just ask the client to complete a risk questionnaire, and then match the investment exactly to the result. Good advice and good investment management requires a much more detailed analysis than this.

5. **Access:** Do you need access to the funds? If so, ask if there are early encashment penalties in the first 5 or 6 years. Almost all investment accounts can be set up with no encashment penalties or lock-in periods at all. Early Encashment Penalties are often a sign that commission is being paid by the provider to the advisor. This is recovered by the product provider through higher annual charges. It is a lie that there is no additional cost to the client. The product providers do not absorb this cost, as I have heard being said to clients.

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