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WEALTH MANAGEMENT

HOW TO PLAN, INVEST AND
PROTECT YOUR FINANCIAL ASSETS

SECOND EDITION

JASON BUTLER



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THE FINANCIAL TIMES GUIDE TO WEALTH MANAGEMENT

HOW TO PLAN, INVEST AND PROTECT YOUR
FINANCIAL ASSETS

SECOND EDITION

JASON BUTLER

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As always, any errors and omissions in this book are mine, but any value that is created from its contents is yours.

Jason Butler
September 2014

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INTRODUCTION

The first edition of this book was published in late 2011, just as we were emerging from the depths of a global financial crisis. So much has changed in the wealth planning arena in the past few years that this second edition is almost a new book. As well as radical changes to many of the chapters, there are five new chapters: socially responsible and impact investing; property, land and woodlands; single-premium investment bonds; non-trust structures; and young people and money.

This book is set out in four main sections. Part 1 covers strategic wealth planning issues, including the importance of developing and maintaining a proper overall wealth plan that is in tune with your personal mission, vision, values and goals. This edition explores behavioural finance and the impact of emotions on decision making and financial outcomes. In addition, I have explained the role of guidance and advice and when and how to choose suitable professionals to work with, as well as the negative impact that the media can have on your financial wellbeing.

Part 2 deals with wealth preservation, including a condensed and ‘elegantly simple’ investment framework that is likely to form the core of your wealth plan, as well as an expanded chapter on the role of insurance. While there are many investment-related books that go into forensic detail, I’ve tried to explain the subject matter on the basis of what matters and, more importantly, what works. My view is that the simpler you can make your investment approach, the more likely it is to be effective.

Part 3 focuses on wealth enhancement, with an overview of tactical planning issues including general tax, portfolio tax and pension planning.

Part 4 deals with wealth transfer and succession, including later life issues, trusts, young people and money, philanthropy and life purpose.

Some of these subjects are complicated and wide ranging, so I’ve tried to cover what I think will be the most important issues to the majority of readers. I could easily have written three times as much material, so bear that in mind when reading those chapters, and if necessary seek additional reading.

Don’t feel that you have to read the whole book from beginning to end. You might prefer to read random chapters that take your fancy, or read one whole section. If you read this book in small chunks, you might get more out of it than thinking

you need to absorb every word. The language is as jargon-free and clear as I could make it, bearing in mind the complexity of some of the subject matter.

I do not think there is a definite 'right way' to manage personal wealth, but my approach has been shaped as much by my 25 years of practical experience of working with families on private wealth matters as it has by the thousands of hours spent studying, training and updating my technical knowledge. I would hope that this book becomes your trusty companion along life's financial highway and that it gives you the inspiration, understanding and confidence to make good decisions about your wealth or to hold to account professionals whom you engage to manage it for you.

If you spend less time and effort worrying about your money and more on living your life to the full then it will have been worth the effort.

PART 1
WEALTH PLANNING

CHAPTER 1

KNOW WHERE YOU ARE GOING AND WHY

‘Happiness is not having what you want, but wanting what you have.’

Hyman Schachtel, US rabbi

Many people go about planning and managing their wealth in a haphazard and random manner. They have a vague idea of what they want, gain some information and go from one financial solution to the other, without any real plan or context. Over the years I’ve answered many readers’ questions for the *Financial Times* and other weekend newspapers and a common question is: ‘How should I invest my capital?’ This is the same as asking: ‘How long is a piece of string?’ The answer is: ‘It depends.’

Viktor Frankl, in his classic book *Man’s Search for Meaning*,¹ wrote about his observations of human motivation when he was held in a Nazi concentration camp. His central observation was that ‘a man can always find the “how” if he knows the “why”’. Before you can go about making good financial decisions you need to know your ‘why’.

The key to a successful wealth plan is setting personal life goals and objectives in the context of your money values. In addition, agreeing and articulating overarching financial planning principles will assist with future decision making.

Money values

Abraham Maslow was a psychologist who developed the theory of ‘the hierarchy of needs’, which provides a basic framework for all human motivation and associated

¹ Frankl, V.E. (2004) *Man’s Search for Meaning: The classic tribute to hope from the Holocaust*, New Edition, Rider.

actions. At the bottom of the ladder are basic needs such as food, shelter, sex, etc. Once these basic needs have been met the individual will seek to fulfil higher-level needs that serve to meet their wider personal desires, such as friendship, love, material possessions and status. Once these intermediate needs have been met, an individual will seek much higher-level needs, which at their highest level are known as 'self-actualisation'. These needs generally relate to wider society and the desire of the individual to find their real meaning or place in the world.

The self-actualisation stage is where real meaning and contentment can be found. For many people this concept of self-actualisation can appear a bit woolly or vague, even frightening. We can adapt Maslow's ideas to help us make decisions that are in tune with our 'money values'. Money values are overarching beliefs that you have about money and these follow a progressive hierarchy. The 'values

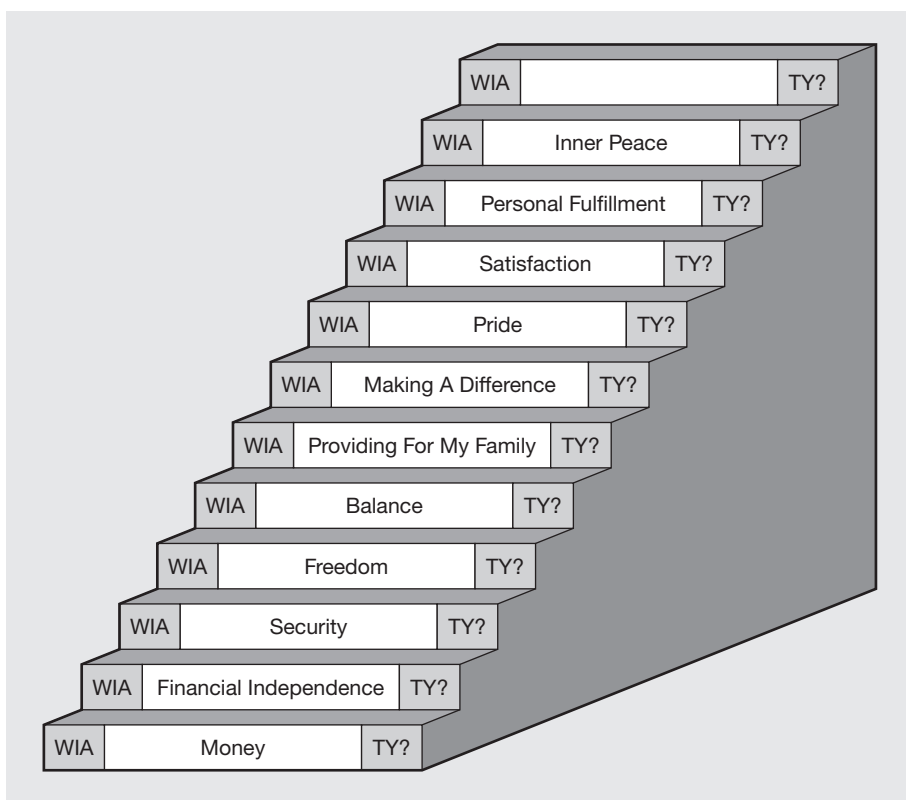


Figure 1.1 The values staircase: what's important about money to you?

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conversation', as it is known, starts with asking the question: 'What's important about money to you?' (See Figure 1.1.) This approach was pioneered by Bill Bachrach in his excellent book *Values-based Financial Planning*² and this forms the basis of the training that his company provides to progressive financial planners.

Usually the first response to the question 'What's important about money to you?' will be general and basic answers such as 'financial security', which is a perfectly reasonable response. However, if you keep following this line of questioning with 'And what's important about financial security to you?', it will allow you to discover more deep-seated values. It is this process of self-actualisation that helps us to find real meaning and purpose for the future wealth plan. Some people find this process a bit uncomfortable as it requires a level of reflection and contemplation about money that we rarely give to it. However, this reflection can be highly liberating and might allow you to develop a better sense of priorities and objectives.

Life planning can give deeper meaning to goals and dreams

Over the years I've met many financially successful people who have stopped dreaming. They have 'switched off' from identifying real meaning, purpose and authenticity in their life. It is not uncommon for a business owner to work hard for years, sell their business for a significant sum and then lose all purpose in their life. This is because their central focus, their business, has been taken away. They then drift along slowly losing motivation and purpose. Other times they jump straight from the sale of their business to 'investing' some of their hard-won capital into a new business venture, only to see the business, and their hard-earned capital, slowly dwindle to nothing.

When I was looking for ways to help my clients to envisage a better future and to articulate their life goals and objectives, as well as to improve my own happiness and life meaning, I discovered life planning. In essence, life planning is about living life on purpose, whatever that means to you. George Kinder is considered by many to be the father of life planning and his ground-breaking book, *The Seven Stages of Money Maturity*,³ sets out a radically different way of approaching managing wealth. I attended a training workshop during one of George's regular trips to the UK a few years ago, and I found it very enlightening as it made me question a

² Bachrach, B. (© 2000–2011) *Values-based Financial Planning: The art of creating an inspiring financial strategy*, Aim High Publishing.

³ Kinder, G. (2000) *The Seven Stages of Money Maturity: Understanding the spirit and value of money in your life*, Dell Publishing Company.

number of my principles and ideas about my life and the role that money played in it. A consequence is that eventually I realised how much was ‘enough’ and what was really important to me.

The three difficult questions

A key element of the Kinder approach is to ask yourself three difficult questions.

- **Question one.** I want you to imagine that you are financially secure – you have enough money to take care of your needs, now and in the future. The question is, how would you live your life? What would you do with the money? Would you change anything? Let yourself go. Don’t hold back your dreams. *Describe a life that is complete, richly yours.*
- **Question two.** This time, you visit your doctor who tells you that you have five to ten years to live. The good part is that you won’t ever feel sick. The bad news is that you will have no notice of the moment of your death. What will you do in the time you have remaining to live? *Will you change your life and how will you do it?*
- **Question three.** This time, your doctor shocks you with the news that you have only one day left to live. Notice what feelings arise as you confront your very real mortality. Ask yourself: ‘What dreams will be left unfulfilled? What do I wish I had finished or had been? What do I wish I had done? What did I miss?’

The purpose of these questions is to help uncover your deepest and most important values. Equally important is uncovering what is standing in the way of leading the life that is truly the one you want to live. In this context, another home or expensive car might not be the answer.

What’s really important?

Kinder sets out a framework for helping us identify what is really important in life. The values grid, as it is known, determines between ‘heart’s core’ – what really matters; ‘ought to’ – things that you feel obliged to do; and ‘fun to’ – irreverent things that aren’t really important but nevertheless are possible goals. (See Table 1.1.)

Life can seem complicated, things get in the way and we sometimes do things we would rather not do and don’t do the things that we would rather do. Maria Nemeth is a clinical psychologist and a Master Certified Coach. Maria asks her

clients: ‘Would it be OK if life got easier?’ Maria has developed a useful tool called the Life’s Intentions Inventory and this is reproduced in Table 1.2. Why not take some time now to go through the inventory and score the relative importance of each of the intentions. You might find it quite enlightening and it might make you rethink what’s important to you and why.

Table 1.1 The values grid

	Possible uses of your wealth	Heart's core	Ought to	Fun to	N/A
<p>In the adjacent table, you will find a number of possible uses to which you could put your current or future wealth. For each one, please place an ‘X’ in one of the four boxes to the right based on the following definitions.</p> <p>Heart’s core: a deeply held core value of yours, as to how the wealth should be used. This is a value that you ‘stand for’.</p> <p>Ought to: something you feel obligated to do, based on a commitment you may have made or a belief held by your family, someone outside your family or society in general.</p> <p>Fun to: the ‘icing on the cake’. Doing this would add zest or spice to your life, is not an obligation you feel and is not truly a deeply held core value, but it sure would be fun!</p>	Providing for my family’s ongoing needs (Note: this involves day-to-day living expenses, mortgage and car payments, holidays, funding children’s education, etc.)				
	Supporting parents, siblings and other family members in need				
	Providing an inheritance for my children				
	Adjusting selected elements of current lifestyle (a second home, a boat, an aeroplane, travelling, an ‘expensive hobby’, etc.)				
	Supporting a major change in my work and career				
	Actualising a very different direction for my life				
	Charitable giving/ philanthropy				
	Other(s) please specify				

Source: Adapted from the Kinder Institute of Life Planning, which trains Financial Life Planners all over the globe using the EVOKE Client Interview process. Reproduced by kind permission of George Kinder and the Kinder Institute of Life Planning. www.kinderinstitute.com

Table 1.2 The life’s intentions inventory

<p>Life’s intentions represent underlying purposes that give meaning to our goals and dreams.</p> <p>Please rate the intentions that are currently important to you. Use 1 for Relatively Unimportant and 5 for Very Important. This is only a snapshot in time, reflecting where you are today. How you rate your intentions could change at a later date.</p> <p>My intentions are to be:</p>	
Financially successful	
Physically fit and healthy	
A successful painter or sculptor	
A successful musician or composer	
A successful author, playwright or poet	
A contributor to my community	
A visionary leader	
Spiritually developing	
A loving family member	
A trusted friend	
A well-respected professional	
An effective manager	
An effective teacher	
Well educated	
An effective coach	
A successful business owner	
An effective mediator	
Well travelled	
An effective mentor	
A successful entrepreneur	
An adventurer	
Politically active	
A successful communicator	

Source: Reproduced by kind permission of Maria Nemeth, Founder and Executive Director of the Academy for Coaching Excellence.

Financial planning policies

Once you have uncovered your purpose, motivations and money values, you can then use these to help you to formulate financial planning policies. Financial planning policies are tools for making good decisions in the face of financial uncertainty. They transcend the current situation by expressing, in general terms, what you plan to do and how you are willing to do it in terms not limited to the current circumstances. Such policies are broad enough to encompass any novel event that might arise, but specific enough so that we are never in doubt as to what actions are required. We'll see the value of having planning policies in Chapter 12 when we discuss withdrawal rates from an investment portfolio.

Examples of financial planning policies include:

- I will give 10% of my gross annual income to charity.
- I will only do work that I love.
- I will maintain sufficient life insurance to cover my children's education costs.
- We will provide family members with financial literacy support but will not give them money.
- I will not invest in any investment or tax planning that I do not understand.
- I will invest only in 'positively screened' ethical investments.
- I will delegate everything in relation to my finances either that I do not enjoy doing or that can be done by someone else at lower cost, taking into account the value of my time to be able to do other things.
- I will always maintain a minimum of one year's living costs in cash and if my portfolio falls more than 20% in a 12-month period then I will reduce the amount of regular withdrawal I take to 50% for up to 2 years.
- I will invest only in socially responsible funds.

Financial policies are the anchor points of your strategy to help decision making in difficult times or where there are competing objectives. Think of the policies as the keel of your financial boat, keeping you from capsizing in rough financial seas.

Clear goals

There is something incredibly enabling about defining and writing down clear life goals. Notice that I refer to life goals, not financial goals. My view is that people don't have financial goals, they have life goals that have financial implications.