Vanguard®

Financial advisers
How they can help

Few people find it easy to invest on their own, particularly as they amass wealth and their financial situations become more complex. This is one of the areas where professional financial advice can help.

This guide takes you through:

1. The role of your adviser.
2. The importance of developing an investment plan and how your adviser can work with you to build your portfolio.
3. The role of asset allocation and the factors to take into account in reaching your long-term goals.
4. Key considerations for positioning your portfolio, including how to maximise tax efficiency and the importance of costs.
5. The role of financial life planning.

From reading this guide, you will understand the role your adviser can play in helping you build a portfolio that meets your investment goals.

The role of your financial adviser

A financial adviser offers the discipline, strategic planning, and continuous monitoring that will help you meet your investment goals.

A skilled financial adviser has the training and insight to:

- Understand your current situation, goals, and reasons for investing to help you develop a financial road-map to prepare for important life events.

- Create an investment strategy that meets your short and long-term needs and reflects your attitude to risk.

- Understand the markets.

The importance of an investment plan

A carefully constructed investment plan is a practical way that you and your financial adviser can make sure that you maintain the direction and discipline you need to reach your investment goals.

The first step in creating an investment plan is to work with your adviser to understand your current situation and decide what you want to accomplish with your portfolio.

Your financial adviser will help identify what is important to you, including your attitude towards investment risk, asset allocation, investment costs, and other issues. This will help guide the decisions you and your adviser make about your portfolio.

Your financial adviser will ask you questions about your current investments, the amount you plan to invest, your investment time frame, the level of risk you're comfortable with and the return you expect from your portfolio.

Periodically, your adviser will also revisit your investment plan to ensure that your portfolio is on track and to make any necessary adjustments.

The allocation of assets

Asset allocation is critical to determining the long term effectiveness of your portfolio.

Your financial adviser will consider a number of factors when developing an asset allocation that's appropriate for you, including:

- Your investment goals.
- Your risk tolerance.
- Your comfort with risk versus return.
- Your time horizon.
- How to diversify your portfolio and when to rebalance your portfolio.

Your investment goals
Your adviser will need to understand your short and long-term objectives – for example, a home purchase, education, retirement, or business financing – to create an asset allocation that helps you reach your goals.

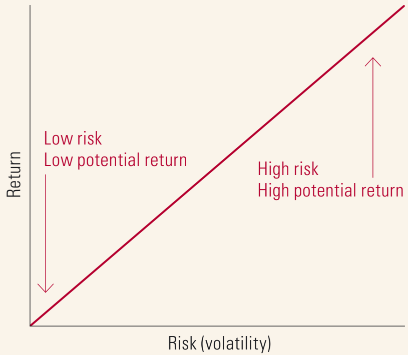
Your risk tolerance
Do you lose sleep when the markets fall? Or do you shrug a market slide off as the normal course of business? Your adviser can help understand your emotional reactions to the risks of investing and can help you create a plan that suits you.

Asset allocation
Asset allocation means deciding how to spread your money across the different asset classes (including equities, cash, bonds and property) and how much you want to hold in each.

Your comfort with risk versus return

The concept of risk/return suggests that low levels of investment risk will result in potentially lower returns, while high levels of risk will generate potentially higher returns. Of course, there are no guarantees. While increased risk offers the possibility of higher returns, it also can lead to bigger losses. Balancing the risk you are willing to accept with the investment returns you need, or want is something your adviser will discuss with you.

The relationship between risk and return



Source: Vanguard Asset Management Limited

Determining the amount of investment risk you can tolerate is essential in establishing an asset allocation. Your financial adviser will examine your income, investable assets and investment goals to determine the risk/return trade-off that's right for you.

Investment risk

The chance that an investment's actual return will differ from expectations.

Volatility

The extent to which share prices or interest rates fluctuate over time. Volatility is often used to assess the potential risk associated with an investment.

Your time horizon
In order for your adviser to tailor your portfolio to your goals, it's important to define your financial time horizon. For example, a portfolio invested to finance retirement in 20 years would probably include a different selection of investments than one intended to finance an imminent retirement.

Similarly, a growth-oriented investor seeking to maximise long-term return potential, may have a higher concentration of equities in their portfolio. On the other hand, an investor with short-term goals might be more likely to choose a bond-oriented allocation that's more suitable for generating income. Your financial adviser will work closely with you to establish an allocation to meet your particular needs.

How to diversify your portfolio
Your adviser will generally build your portfolio using a variety of asset classes to achieve a high level of diversification which aims to reduce investment risk.

When to rebalance your portfolio
Your needs, goals, and time horizon change over time. So, too, does the market. One of the ways your financial adviser adds value to your investment plan is by monitoring and periodically rebalancing the asset allocation of your portfolio.

You and your financial adviser should review your investment plan to make sure it stays on track to meet your short and long-term investment goals.

Asset classes
A category of assets, in which you can invest, for example equities, bonds, cash or property. Investments within an asset class have similar characteristics.

There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Diversification does not ensure a profit or protect against a loss in a declining market.

The positioning of your portfolio

Taxes and investment costs can significantly erode the value of your portfolio. A low-cost, tax-efficient portfolio can be the foundation for long-term investment success.

Costs matter

Never underestimate the importance of investment costs. Simply stated, these eat into your returns. By keeping costs to a minimum, you improve your potential returns.

Costs typically include an Annual Management Charge (AMC) – this covers the fund manager's costs of running a fund.

Other ongoing administration charges may include audit fees, custody fees and other operational expenses. Together all of these costs make up the Total Expense Ratio (TER) of a fund. Most funds have a TER of around 1-3%.

Dealing charges sometimes also apply, such as an initial charge or a redemption charge.

Tax efficient investing

The implementation of tax-efficient strategies is another important way that your financial adviser can add value to your portfolio.

Some examples of tax-efficient investments are ISA (Individual Savings Account), SIPPs (Self Invested Personal Pensions), and investment bonds.

Individual Savings Account (ISA)
An ISA is a tax efficient savings vehicle which allows you to invest in equities or cash up to defined limits.

Self Invested Personal Pension (SIPP)
A SIPP is a government-approved pension savings vehicle that allows you to choose your own investments.

Investment bond
This is an investment vehicle usually issued by a bank or insurance company.

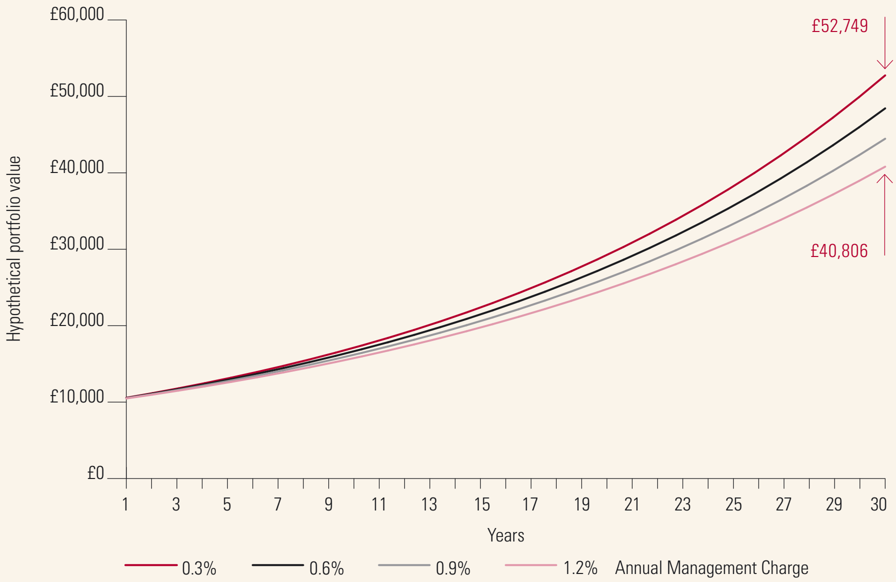
How lower fund costs can help you over the long run

Using a hypothetical example (which does not represent any particular investment), the graph illustrates the potential impact of costs on a initial investment of £10,000 over a 30 year period. This graph assumes 6% average growth per annum which is compounded year on year. As this shows, an Annual Management Charge (AMC) of 0.3% compared to an AMC of 1.2% could potentially lead to savings of £11,943 over a 30 year period.

Your financial adviser understands the nature of investment costs and can be instrumental in ensuring that your portfolio is as cost effective as possible.

It is important to note that cost is not the only factor. This example assumes growth of 6%, however in reality returns may vary and you may get a lower return from a fund with higher investment costs.

Growth of a £10,000 initial investment over a 30 year period, assuming 6% growth per annum



This hypothetical example assumes an investment of £10,000 over 30 years. Annual compounding is used for both the assumption of 6% average growth p.a. and the investment costs. Costs are applied to average annual growth of 6% for each year. As it is a hypothetical, this example does not represent any particular investment.

Source: Vanguard Asset Management Limited

The role of financial life planning

Helping you develop and maintain a successful investment strategy is an important element of any adviser's service, but there are other personal financial matters which your adviser can assist you with.

Throughout your life, you will have different financial needs and the strategies that are right at one stage in your life may not be suitable at another.

You should think of your adviser as your financial coach – someone who can help guide your investment strategy to ensure that you achieve your life goals and aspirations.

Your adviser can help you develop a financial roadmap to prepare for important life events and to identify how best to build your wealth to help achieve your goals. This map will consider many different issues – some of a 'positive' nature, some not. It may be necessary for example to prepare strategies to help meet the costs of educating a child, fund a business plan or mitigate any potential inheritance tax liabilities that you may incur.

And having established a blueprint for you, your adviser will want to review it regularly, simply because your goals, circumstances and financial resources will alter over time.

How to find a financial adviser

Finding good unbiased financial advice can be a real challenge. Trusting your finances to a stranger is a serious and important decision. It's worth dong your homework to find an adviser who truly meets your needs and works in your best interests.

Different types of advisers

Financial advisers currently come in two general types: tied and independent. Tied financial advisers only supply their companies' products. Independent Financial Advisers (IFA) are independent and look to provide unbiased advice for their clients by selecting products from the whole market. In both cases, advisers are required to ensure that the advice they give is suitable for your financial needs.

Commission or fee based?

Independent financial advisers (IFAs) can be self employed, or employed or associated with financial advice firms. Traditionally many have received commission from product providers for selling investment products to you. It's important to remember that this doesn't mean the services of a commission-based adviser is free, because the product provider will pay the adviser's commission out of the charges they levy on the investment products the adviser sells you.

Some advisers currently operate on a fee-based model where they will charge you an agreed fee for the services they provide. The Financial Services Authority plans to eliminate the practice of fund managers paying sales commission to financial advisers. This means that financial advisers may no longer be paid by product providers and will, instead, charge you for their advice. The FSA believes this will ensure that the interests of the adviser and client are more closely aligned.

Personal recommendations

Selecting an adviser based on a personal recommendation is one option. If someone you trust has successfully used an adviser for a period of time, you stand a fair chance of getting a similar level of service. However, it’s worth checking with the Financial Services Authority to make sure that the adviser is authorised to give financial advice. You can use the FSA website: www.fsa.gov.uk/register.

Free online tools

There are a number of free tools which can help you find a financial adviser. All of the national newspapers, for example, have free IFA search tools in the financial section of their websites.

Another good resource is **unbiased.co.uk,** which lists authorised financial advisers in your area, and lets you choose between commission or fee-based advisers.

Interview them

Once you have a shortlist of advisers in your local area, you should interview them to see if they’re right for you. Even fee-based advisers will normally give you an initial consultation for free so you can get to know them before making a choice. They will want to know a lot about you and will ask you questions about your financial situation so that they can make their advice as relevant as possible. But you should also be prepared to ask them questions and ensure that you are completely comfortable with your choice.

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Our Client Services team is available
Monday to Friday from 09.00 to 17.00.

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