LIFE PLANNING

HudsonGore
Financial Services Pty Ltd

Life Planning

Introduction

Over many years I have seen countless marketing pitches in regard to financial planning & financial products and I am sure it is all very daunting to the consumer. The industry itself has come a long way. Reform, education standards and disclosure have all dramatically improved and I have no doubt further changes are on the way. My belief is that the industry is an essential service to many Australians and it is only now that the industry is becoming service based rather than product based. This is an important point for you, as the prospective client. Your adviser should be focusing on the life planning process:-what services and products are needed to achieve your goals.

Please find the Hudson Gore summary of Life Planning below.

Role of the Financial Planner

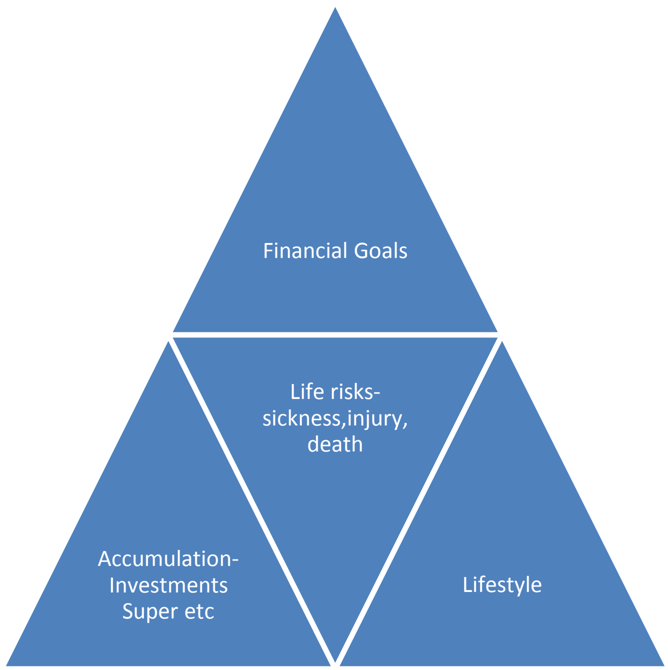
Hudson Gore has built up a large client base through referrals from existing clients over many years. My experience is that the prospective client has a view that they would like to engage in a similar strategy to the existing client (referring friend). Sounds plausible? Let’s look at what Life Planning is:

Why are you considering seeing a financial planner?

Generally clients will see a financial planner from a needs basis: i.e. I need to save for a deposit on a house, retirement is underfunded etc. The planner generally is referred from a centre of influence, whether it is an accountant, bank manager or friend. A specific outcome is desired for a specific need. When you see a professional Financial Adviser one of your requirements of the Adviser is that hopefully they know more about their profession than you! While your goals are the key, how to achieve them and integrate the risks associated into a fluent, processed based plan is the adviser’s role.

Life Planning

"The Pyramid of Life" is the core of our approach to financial planning:-



The apex of the pyramid is what you are trying to achieve, that is, your financial goals, inclusive of short, medium & long term goals.

Underneath, are the checks and balances.

1. How do I achieve those goals, what strategies, investments cash flows do I need?
2. What things can go wrong, how do I plan against this?
3. What impact will this have on my lifestyle? What impact will it have on my future lifestyle?

How do I bring all these facets together?

Financial Goals

Setting your financial goals is stage one of the process. If you have a partner you should sit down and discuss these goals and you should split them into time frames and importance as you may have different priorities. (It is not the adviser's role to tell you that private schooling is more important than paying off your mortgage!) The adviser's role is to discuss and prompt you in setting your goals and importantly review your goals on an ongoing basis. Once the first set of goals is established, the planning process can begin.

Accumulation

We are using accumulation in a broad sense. This part of the process involves wealth creation strategies to assist in achieving your goals. Generally, this is an introduction to different types of investments but in many cases, the actual strategy can be a powerful tool e.g. transition to retirement strategies, salary packaging and mortgage strategies. The strategy should be based on your goal setting priorities. This is a discovery process. Our role is to show you what is required to achieve your goals, whether it is changing your cash flows (Life Style) or understanding the associated risks (Investment Risk, Strategy Risk & Life Risks).

Investment & Strategy Risks

Advice on investment risk is one of the reasons most consumers seek advice. The advice may be from (amongst others) a stockbroker, real estate agent or planner. As part of your goal setting you have identified your main goal, which for example, may be to retire at age 60 and be fully self funded with $65,000 in today's money. Your adviser may say that you need $2.1m to achieve this goal at retirement and to achieve this you need one or more, but not limited to the following:

1. Sacrifice more income to superannuation
2. Change you investment strategy from conservative (more cash & fixed interest) to assertive/aggressive (more growth orientated investments such as shares & property)
3. Save more income from wages to commit to a strategy
4. Borrow to invest using existing assets as security into growth investments such as shares or property

This is an important part of the process. You will be asked to examine what risk/income you are prepared to commit to a strategy. As advisers we should be able to identify what strategy suits you best through your feedback.

Communication is the key to this process.

Storm Financial

The collapse of Storm Financial and the devastating effect it had on many individuals' lives is very well documented. Reports indicate that Storm used one similar strategy for most clients. This strategy based on gearing to invest in equity based investments. This is a well accepted wealth creation strategy. *Where did it all go wrong?* From the information available in the media it seems to me that there was a "one hat fits all" approach i.e. you borrow aggressively against your existing assets, purchase equity and property based products; use the purchased assets as security for further margin lending to purchase more equities. This strategy is essentially a cash flow strategy, which needs high level monitoring, cash buffers and available free cash flow from the clients to support it during a downturn. Many clients of Storms were referrals who sought the strategy because their friends have created wealth in the boom times. It seems most of these clients did not understand the strategy, the risks involved nor the cash flows needed. Back tracking to my opening paragraphs: - while a strategy employed by a friend might sound plausible, a comprehensive plan tailored to your needs, goals and risk parameters is far more important.

Life Risks

When we buy a car, part of the price of the purchase is to ensure that before driving from the showroom, that the car is insured. The level of cover will depend on the value of the asset. We may just insure for damage to other vehicles or we may seek to insure our own car as well. This is a risk/cost/reward matrix. The thought behind the process is: - how much do I need to pay to minimise my risk associated with this vehicle. Often though, **most** consumers do not apply this rudimentary thought process to their own lives. When you examine your largest asset, you might conclude that it is your share portfolio, your house or your car, but in most circumstances it is your ability to earn income. Yet, most Australians do not have existing income protection insurance. Statistics show that:-

- 3 out of 5 males will have a medical trauma between the age of 30-60,
- 2 out of 5 women will have a medical trauma between the age of 30-60,
- 80% of people between ages 30-60 do not have Trauma insurance.

Most Australians have not implemented planning through life insurance and proper estate planning to consider the needs of their loved ones in the event of an untimely demise. Most small businesses & partnerships have not thought of the ramifications of a partner passing on or suffering a trauma and the fact that the partners spouse will be their new partner.

It is the Adviser's role to help you understand your life risks and carefully plan around them and it may involve consultation with other professionals such as solicitors. Again, life risk planning should be reviewed on an ongoing basis as many changes occur. Ideally as your wealth accumulates the level of risk is diminished.

Lifestyle

Maintaining our lifestyles is often one of the most important goals, both now and in retirement. While the planning processes above help achieve that goal it is important to balance what income you actually have now to assist you in maintaining your lifestyle in retirement. A budget is a good start. Having done a budget myself, it is amazing how much money should be left over which in fact is not. Trimming your spending may be a requirement to meeting your long term goals. As with achieving any goal the discipline in sticking to your chosen strategy is 90% of the challenge.

Summary

At Hudson Gore we believe that we are the mentors and partners in your life planning. It is important that you note our qualifications, expertise and references however we are only part of the process. We believe those clients that take ownership of their situation, are proactive with their adviser initially and on an ongoing basis will be the most successful in achieving their desired outcomes.

Please do not hesitate to contact us on 02 93889033 or services @hudsongore.com.au to answer any of your queries or to organise an appointment.

Services offered by Hudson Gore Financial Services Pty Ltd

- **Investment portfolio structuring and advice**
    - Geared portfolios
    - Share portfolios
    - Managed funds
    - Instalment gearing and Savings Strategies
    - Mortgage Reduction Strategies
- **Superannuation portfolio structuring and advice**
    - Managed funds
    - Share portfolios
    - Corporate superannuation strategies and advice
- **Self Managed Superannuation Fund (SMSF)**
    - Setup
    - Administration
    - Investment advice and strategies
    - Estate planning
    - Gearing strategies
- **Risk products**
    - Income protection
    - Trauma
    - Total and Permanent Disability (TPD)
    - Life Insurance
    - Business insurances
        - Key person
        - Buy/Sell cover – Life/TPD/Trauma
- **Mortgages** – through our subsidiary Bay Finance Australian Credit License No.386038
    - Home loans
    - Investment loans
    - Commercial loans
    - Lines of credit
    - SMSF loans
- **Business Succession Planning**
- **Estate Planning**