

Why failing to plan could mean planning to fail

If the dream of retiring before 65 and buying that property by the sea is ever going to be realised, then a sound financial plan is a must.

Fairly small changes now can make a big difference to your future lifestyle, so with a bit of planning, you can do a lot to prepare for retirement.

A financial plan, with achievable goals and ongoing assessment, will not only provide you with a route map to your future desired lifestyle, but it can also help shield you from the effects of unforeseen circumstances. Take the credit crunch, and in particular, the rise in commodity prices such as oil, gas and electricity. The combination of such market events, combined with associated price hikes, can create a further strain on limited financial resources and increase your debt burden. Having a sound financial plan in place might not solve everything, but it could help to reduce the immediate financial worries they can

cause. In fact, recent research¹ undertaken by The Share Centre confirmed that those individuals who have a comprehensive financial plan tend to be less concerned by market volatility and their financial future when compared to those who don't have a financial plan in place.

A financial plan can also help you to manage the cost of major lifetime events such as a property purchase or a wedding. If you don't have a plan in place you could be forced to either increase your level of debt or utilise savings identified for other purposes. Many of these events can be anticipated and therefore should be relatively straightforward to prepare for, providing some simple financial planning principles are set out.

¹ Based on an independent online survey conducted by Canvassé Opinion from Experian, on behalf of The Share Centre. A total of 1,549 UK adults aged 18+, who held Stock Market investments, were surveyed from 18th December 2007 to 11th January 2008.

The Share Centre's Top Tips to get your financial plan underway

1 Budget

The concept is straight forward and requires nothing more than a pen and paper. Begin by listing your monthly income and expenditure. This list should help to give you a clear indication of those essential and non-essential expenses. Any remaining income can then be earmarked for major financial events.

2 Debt

Clearing any outstanding debts should be the number one priority. Credit card interest rates are often excessive, therefore unless you pay the balance in full each month you are likely to end up owing more than you originally borrowed. Consider making additional payments to your mortgage: this could significantly reduce the amount you owe over the longer period. You should also ensure that the provider and interest rate are the most competitive available.

3 Emergency Fund

This should be an easy access savings account without any penalty clauses. There are no hard and fast rules as to how large this fund should be, but as a general rule of thumb, set aside at least three times your net monthly income. Remember, this is an emergency fund that has been put aside for unexpected events such as long term sickness, redundancy, emergency repairs etc. It is not a 'monetary pot' for that exotic holiday!

4 ISAs

This tax-efficient savings wrapper is often overlooked, yet it can play a pivotal role in even the simplest of financial plans due to the tax efficiency it offers. Make use of



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the annual allowance on offer each year through a Cash ISA and a Stocks & Shares ISA. All growth is exempt from Capital Gains Tax and any income tax payable has already been deducted. Don't forget that for the tax year 2008/09, the ISA limit has risen to £7,200.

5 Deposit Accounts/General Savings

There are a variety of high street and online accounts available offering varying interest rates and terms. But remember, if you need to access your money quickly, locking your investment into a higher rate could incur early withdrawal penalties. These accounts are better suited for the shorter term horizon of major lifetime events.

6 Retirement Planning

All too often individuals leave it far too late to start planning for their retirement. The earlier investment and planning takes place, the greater the chance of having the retirement lifestyle you dream of. A simple way to gauge the level of income needed in retirement, is to determine how much annual income you would need to survive (excluding major expenses) if you retired tomorrow. A key assumption is that your mortgage will have been repaid prior to retirement. You can then calculate how much monthly/annual funding is required (allowing for inflation) to generate your target income. Check out our handy 'Calculators' on the 'learn' page of www.share.com.

7 Life Cover

Life cover is often viewed as an unnecessary expense. However, if you have dependants, you need to consider the financial impact of your death on their lifestyle. Would you want the family to remain in the house? Would you want them still to enjoy holidays? Would you want to help support your children through university? Would the remaining spouse need to go out to work and incur child care costs?

Not all of these issues and lifetime events will affect everyone and that's why a financial plan needs to be tailored to your personal circumstances. Simple, effective budgeting and planning now, that marries your incomings and outgoings with your future aspirations will give you a better chance of reaping rewards in retirement.

A customer's view

William (Bill) Elliot, a 79 year old retiree lives in Somerton, Somerset with his wife, who also invests. He has been a customer of The Share Centre since 1999.



When did you start investing in the stock market?

I started investing when I received some free shares from my employer. Later on, I inherited a little money and I decided to find out more about investing in the stock market by taking an investing course for beginners.

Do you consider yourself to have a comprehensive financial plan in place, either set up with a financial advisor or by yourself?

Yes. I am actually in the process of consolidating some of my finances; this way it will be even easier to keep an eye on them.

How do you feel about the recent market volatility?

I am not concerned about the market at present. I have lived through plenty of stock market ups and downs, but you just learn to ride them out. Some of my stocks – Lloyds TSB and HBOS, have fallen back lately but they are both good firms and I'm sure they'll come good in the future.

How do you keep up to date with what's happening in the stock market?

I like to think I am reasonably informed about the markets. I watch the news, read the papers and I have even been to the occasional Annual General Meeting (AGM). The more you know about the company you're investing in, the better. One of the things I like about The Share Centre is that I can get expert investment advice at no additional cost – even though it has very low dealing charges. I like to get a second opinion on my investment hunches.

What is the most important lesson that you have learned about investing?

Use your common sense, do your research and get some good advice! There are plenty of clues out there which may point to a winner. Next time you're shopping or going to the bank, just stop and look around. If a store is refurbishing or expanding it can be a sign that business is going well. Also use your intuition, the atmosphere of a place and attitudes of staff can also tell you a lot about a company. Of course you shouldn't take this as read, but it can inspire you to undertake further research.

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