Ovation

Ovation Finance Limited
141 Whiteladies Road
Clifton
Bristol BS8 2QB
Tel: 0117 942 4333
Fax: 0117 942 4666

The Best Advice Isn't Always Free

Chris Budd offers a salutary tale about some pitfalls to avoid when dealing with finance.

This is the story of Joe and Joanna Public. All their lives, Joe and Joanna have been prudent with their money, and have, they thought, taken great care to make the correct decisions.

Whilst not having huge amounts to fall back on, they have saved wisely, been members of pension schemes and now, as they enter retirement, they look back on some of the decisions they have made, and look forward to the future.

Joe Public certainly takes care of his investments, and likes to dabble in the stock market. Not directly into stocks and shares, you understand, but into funds via PEPs and ISAs.

Joe invests based upon what he has seen happen. So, as markets begin to rise, he starts to feel confident. As they rise more, his confidence increases, however he holds off until he feels really certain that the increasing markets of the last few years are the sort of thing that he wants to be involved in. Now he invests.

As the markets immediately begin to tumble, Joe remembers that he must invest for the medium to long term. He therefore resists taking a knee jerk reaction, and stays in the markets. As they fall further, he starts to get concerned, but the words of his advisor – "three to five years minimum, ride out the rough and smooth" – stay with him.

One further drop in prices, however, and panic grips Joe, and he sells and gets out of the market. This is, of course, the cue for markets to rise again, and the cycle start anew.

Joanna, meanwhile, was visited by an old school friend of her son, Toby, a newly qualified financial advisor. Toby told Joanna that she wouldn't have to pay him anything for his advice. This seemed like a good deal.

Joanna now spends £100 a month on various policies, although she's not quite sure what they are. She hasn't seen Toby for several years now and her son seems to have lost contact with him.

Joe had a nice little pot in his pension fund when he retired, but he is very mistrustful of financial advisors. He was provided with some options by his employer, and therefore he bought an annuity. Unfortunately, Joe didn't tick the box to enable the annuity income to increase, and, as inflation has increased the price of everything, his pension has stayed the same.

Despite the above, Joe and Joanna are happy in their retirement. Both of their golf handicaps are coming down, and they enjoy seeing their grandchildren. However, they are thinking of letting the golf membership go, because although they have the money it seems a bit of a waste. They would like to see their grandchildren more often but they live on the other side of the country, and the train fares are expensive.

What can we learnt from Joe and Joanna? When you invest, look forwards not backwards; don't try and pick the top or bottom of a market; every advisor has to get paid, even if it is by commission, so make sure your advisor is FSA regulated and explains how he/she is going to be paid whether by fees, or commission paid for by charges on your policy. Sometimes it is worth paying for advice, as the long term benefits outweigh the cost – ask for an initial free consultation at the very least.

And finally – if you have scrimped and saved to create a nice pot in your retirement, make sure you spend it! Savings and pensions are there to be enjoyed and, when the day comes to begin drawing on your pensions and savings, try to find a happy balance between making it last and enjoy it.

This article is for general information only and you should seek professional advice in respect of your own circumstances.

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