Chapter 1

What does financial security mean to you?

The concept of financial security is very personal. Your idea of the amount of money you would need and want in order to consider yourself financially 'secure' and your family properly provided for in the future, will be determined by your lifestyle, the size of your family, current financial commitments and future plans.

A lot of people talk about achieving 'financial freedom', but does that mean the same to you as financial security? Although it would undoubtedly be ideal to know that your investments would continue to deliver an excellent income while growing in capital value, without needing any day-to-day time commitment from you, would something less still give you security?

You might say that's all semantics, but my point is that you need to really think about what income and capital you're going to need for the rest of your life:

a. as a minimum, to ensure your financial commitments are covered and you can continue to have a good lifestyle, and
b. ideally – the amount that would allow you to live the life you dream of.

Once you've got those two figures – and it's going to take some time to work them out properly – then you can start to plot the steps you'll need to take to get there and set some measured, achievable goals that will enable you to build an investment portfolio that delivers on those goals.

Where are you now?

Far too many people have only a vague awareness of their own financial profile. I meet lots of budding investors who tell me they want to build a property portfolio for passive income so they can become financially free, but when I ask how much they need, why and by when, they have very little idea. All they really know is that they don't have enough right now and want more!

If you're really serious about having a financially secure future, you need to consult with an excellent wealth manager and/or financial advisor, and if they're going to advise you effectively, you've got to be able to give them an accurate picture of both where you are now and where you want to be. As I'll elaborate on in the next two chapters, one reason why pensions are failing to deliver is that many people simply haven't properly calculated what they're going to need in the future. And if you don't have a realistic target to aim for, you can't possibly expect everything to turn out 'fine'.

Set goals for yourself; if you don't know where you're going, how will you ever get there?

So, begin with your current lifestyle, financial and family situation, and put together a clear statement of your income and outgoings every month and year. I use Excel to keep a clear track of my assets, other investments, monthly income and expenditure, plus a budget, which I revise every month. However you choose to collate this information, your 'financial statement' should include:

- Monthly income & expenditure, remembering:
    - the spread cost of any one-off or lump-sum annual
    - outgoings, such as Christmas, car servicing and holidays
    - Allowances for eating out and entertaining
    - Income from investments – you may need to put this down as average estimates
- Information on existing property assets - borrowing, interest rate, term of loan, repayment amount, cash flow, etc.
- Details of any other investments
- Your current pension provision (see Chapter 2)
- Credit card and loan rates & outstanding balances
- Any other assets
- All on-going financial commitments, such as school fees.

It’s important to be realistic about your expenditure. This exercise is the first step towards establishing how much income you’ll need in retirement, so be absolutely honest about how much you spend – and on what.

What do you need and want?

You can fine-tune your projections when you meet with your advisor, but it’s important that you have a clear plan to discuss with them. And remember that your future begins right away - it’s not just about retirement - so make plans and calculations relating to the short, medium and long term.

If you’ve never put pen to paper regarding financial and lifestyle goals, I’d recommend you read ‘Goals’ by Brian Tracy and ‘Goal Mapping’ by Brian Mayne. There’s a skill to doing it right, much of which comes down to managing your time excellently and committing to doing what you’ve said you’ll do – and neither of those things are as easy as you might think! The vast majority of people need to train themselves to be disciplined and a very big help in succeeding with this is having someone that you make yourself accountable to. It’s a bit like sticking to new years’ resolutions or diets – telling someone else what you’re doing and asking them to keep checking up on you is a great motivator for staying on track.

The other thing that will really help is having a visual representation of what you’re trying to achieve. We subconsciously focus on the things we see and hear most often, so when you've got your goals down in black & white, stick some of the key figures, targets and end-game images around your home and office. I've done this for a number of years now and I promise you, it works. Some people talk about having a vision board; I have lots of them, from A5 size on the fridge, to big panels - several feet wide - in my office. That may be a bit extreme for you (!), but do make sure you have some kind of visual reminders of your targets for the short, medium and long-term and something that represents the kind of life you want in retirement.

So, on to your projections. I'd recommend that, using the calculations and information you put together for your financial statement, look at how much income is required to cover all your expenses, and estimate the figures for different timeframes, e.g.

- Over the next couple of years
- In, say, 5 years, when one or more children might be at secondary school
- In 10 years, when you are mortgage-free, but your children are at university and when you perhaps might want to remodel or update your home
- In 15 years, when all your children have left home
- In 20 years.

Include absolutely everything that would allow you to continue to live your current lifestyle, plus a 10% contingency.

Then add in the things that you don't do at the moment, but would like to be able to, for example: additional travel and holidays; investments and provision you might want to make for your children or other family members, perhaps deposits for homes or putting money into trusts; charitable contributions, and new assets and personal items you might want to buy, such as cars, jewellery, art and clothes.

This should highlight the kind of money you'll need and when you'll need it in order to live the life you want – both in terms of on-going income and lump sum capital returns.

Consult with the best advisors you can find

Now that you have your personal financial statement and your short, medium and long-term needs and plans drafted out, you're in the right position to get professional financial advice. Having all this information to hand means that when you meet with advisors, you can make the best use of the time you're paying for – and they'll be very grateful to have such an organised client! They will be able to help you calculate the kind of savings and investments you'll need to make in order to achieve the income and level of financial security you want.

Note that all professionals giving you financial advice MUST be properly qualified and regulated by the Financial Services Authority (FSA).

The first financial professional you should engage is a Wealth Manager. They will look at all your financial affairs – mortgages, savings, investments, earnings, and so on – essentially as a portfolio, within the context of your business, lifestyle, family situation and desires for the future. They'll be able to advise you on the kinds of investment you should consider in order to achieve the right returns, in the most tax-efficient way. If you can find a Wealth Manager who invests in property themselves, that would be ideal.

Wealth Managers should also have the CISI Masters in Wealth Management (MCSI after their name).

Assuming that when you've finished reading this book you're still seriously considering investing in property, you should also engage an independent mortgage broker, who has plenty of experience in securing buy to let mortgages, and a property tax specialist. You may already have an accountant, and your wealth manager will certainly be able to give you tax advice, but property tax is quite complex and you need someone who knows what allowances you can take advantage of, when and from where. Make sure they're happy to liaise with your wealth manager, so that you get an accurate picture of how income and gains from various property investments might impact your overall tax position.

Any person acting as a broker or making recommendations for your mortgage finance must have one or more of these qualifications: Certificate in Mortgage Advice (Cert MA); Certificate in Mortgage

Advice and Practice (CeMAP) from the ifa School of Finance; Mortgage Advice and Practice Certificate (MAPC) from the CIB in Scotland.

As well as qualifying under the Association of Chartered Certified Accountants (ACCA), your tax advisor should also be a member of the Chartered Institute of Taxation (CTA).

Clients often ask if I can recommend advisors to them. Mine are excellent and I'm happy to disclose who they are, but I do recommend you find someone reasonably local to you, as face-to-face meetings are always the most beneficial and you don't want to have to travel long distances every time you meet, or when you need to exchange paperwork.

Ask friends, family and colleagues for their experiences and recommendations with regard to wealth advisors in your local area, then make appointments with them in order to see who you feel is going to be the best fit for you and your financial plans. Building your own 'power team' of specialists is very important.

KEY NOTES

- Put together a complete ‘statement’ detailing your current financial position: income & expenditure, assets & liabilities, investments

- Research goal-setting techniques

- Project your lifestyle and financial requirements for the short, medium and long-term future

- Get an idea of what financial security would mean for you

- Meet with a Wealth Manager