FINCOMMUNICATIONS

The gift of consolidation

There's nothing more liberating and empowering than a good, thorough spring clean. While we're all happy to admit the benefits of decluttering our homes, we can be surprisingly stubborn about our wealth portfolios, which often go untended for years on end. The good news is that it's never too late to face the music and clean up your act…

A messy wealth portfolio

Your portfolio of wealth is probably more complicated than you realise. Like a veritable potjiekos, it may comprise your home, rental property, your business and some retirement annuities. Not to mention preservation funds, unit trust portfolios and life assurance policies that include personal, business and group cover.

If your portfolio isn't aligned with your investment objectives and risk cover needs, we could even go so far as to call it 'messy'. This often happens when investors don't have a financial advisor (bad idea) or when they rely on multiple financial advisors (too many cooks spoil the potjie, remember)…With the result that they never endure a thorough financial needs analysis based on all the evidence: facts, figures and their true-life circumstances.

Why it's easy to end up with a scruffy portfolio

Many people convince themselves that having a 'messy' wealth portfolio is in fact a form of diversification and are happy to overlook possible contradictions in investment philosophy, reliance on expensive debt, duplicate or lack of life cover. They bury their heads in the sand and justify being 'messy' as 'diversification of opinion'.

Your wealth portfolio could also get scruffy because you fear the outcome of a thorough financial needs analysis. It can be hard to look in the mirror, so even some of the brightest investors choose not to know whether they can afford to retire and refuse to acknowledge that they may be wasting hard earned money in some ways.

Portfolios can also become misaligned through your own laziness. In the same way you put off washing the car you may postpone your annual trip to an advisor…Who may or may not know that there are several other advisors out there who're also attempting to participate in the management of your wealth.

Risks of unconsolidated portfolios

The greatest risk of an unconsolidated portfolio is that your overall asset allocation will likely not align with your time-based investment goals. Asset allocation is underpinned by a strategy which balances risk (the volatility of the asset value) against the potential return of assets (local and offshore equity, bonds, property and cash).

Unconsolidated portfolios also bring with them the infuriating risk of *waste* as you may be paying unnecessary fees. Financial advisors typically charge portfolio management fees based on a sliding scale depending on the value of the portfolio. These fees generally range between 0.25% and 1% charged annually on the total value of the portfolio – the larger your portfolio the lower the percentage. If you're employing more than one advisor you could be paying unnecessary fees which will have a significant impact on the growth of your portfolio in the long-term.

Additional benefits of consolidation

In addition to a more appropriate asset allocation and a reduction in fees, there are other benefits of consolidation, namely:

- **Simpler Reporting: Having s**tatements and reports come from one source assists you to have a full understanding of all the variables and their interrelatedness. Simple consolidated reports are also exceedingly helpful when it comes to preparing for the tax man!
- **Easier monitoring and adjusting:** As your circumstances – and the markets – change, your target asset allocation will need to be adjusted. A much easier process if you have all your funds under one umbrella.
- **Potential tax savings:** If you're a pre-retirement investor, having one advisor will assist to ensure that you're benefiting from all the tax incentives that encourage you to invest into retirement funds. And that you're not over or under contributing the allowed 27.5% of your income toward retirement funds. Advisers can also help post-retirement investors to minimise tax by advising on which funds to draw down from.
- **Easier estate planning: A consolidated portfolio is one of the greatest gifts you can give your heirs as it will allow them to sidestep** the nightmare of having to track down

myriad funds in multiple locations — some of which may be forgotten. With one advisor, your heirs can deal with one trustworthy point of contact.

- **TIME:** This is arguably the most significant saving as few people have enough time to manage multiple advisors.

While we're on the topic…

Modern unit trust based retirement annuities allow investors far more flexibility – and opportunity for growth – than old-fashioned annuities bought through insurance platforms. Investors who wish to make the shift should be aware that – depending on the policy – there may be 'early penalty fees' that can total up to 30% of the fund.

Even so, in some cases it may still be advisable to make the change to afford yourself some control over the allocation of your hard-earned savings and thus ensure that they're invested in funds that perform consistently well. Your financial adviser should be able to assist in this decision.

This Christmas…

You can give yourself the best festive gift of all by settling on one financial adviser and consolidating a messy portfolio. Because there really is nothing more liberating than knowing for a fact that you have enough to retire on, whatever happens.