money management

Financial Planner Awards 2014

Case study 2

Investment companies planner

£500
First prize

£200
Runner up

Your answers should be no more than 2,500 words. Please ensure that you state the number of words used for each case study entry.

Background

Alani Khan is 25. She started her own wedding events business two years ago. She works on a self-employed basis and has had net relevant earnings of £15,000 and £35,000. She has not started a pension but does have some savings and investments as follows:
Cash on deposit, no interest £4,000
5,000 shares in Biotech Growth which she bought on 01/06/12
She has just inherited from her grandfather (on 20/05/14):
5,000 shares in Aberdeen New Dawn
10,000 shares in JPMorgan Income and Growth
£120,000 cash
Alani describes herself as a realistic investor. Although she doesn't understand a huge amount of detail about equity markets she appreciates that to get a decent return, risk needs to be taken. She is happy to invest up to 50 per cent in global equities. She rents a flat in London and has personal expenditure of £27,000pa. When she has cashflow problems her father gives her cash to avoid her dipping into her savings pot. This has started to become a regular occurrence.

Problem

Alani want to keep £20,000 of the inherited cash for emergencies and to avoid having to accept money from her father in the future. She would like to utilise £30,000 of the remaining cash in her business as it grows. She envisages employing one person to help with administration and phone calls within the next 12 months, for which she anticipates the cost to be £20,000pa which will be funded from the revenue of the business. She would like to keep her investment trust shares to use as part of a portfolio for her retirement fund when she reaches 50. She wants advice on how best to invest the £100,000 cash with 40 per cent for medium term growth (over the next 10 years) and the remainder for the longer term for her retirement. She would like £20,000 net of tax pa in retirement in today's terms. Alani does not understand whether and how the recent pension changes will affect her and impact how she should save for retirement. Specifically she believes this year's Budget changes will help her in the long term as she won't be forced to buy a pension and can continue to obtain tax relief buying investment company shares.

Advice

1. Analyse Alani's investments and comment on the extent to which they meet both her attitude to risk and her longer term objectives.
2. Explain the recent pension changes and how these will affect her long term savings and her income in retirement.
3. Explore the various ways the £74,000 cash could be invested which meet her objectives.
4. Make specific recommendations so that Alani can meet all her objectives as they arise and ensure that any investments are in line with her attitude to risk and take into account suitable tax wrappers.

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The Association of Investment Companies