WTF! MONEY?
PERSONAL FINANCIAL COACHING

Making Investment Decisions: The WTF Investment Framework

There are eight key matters to think about when considering any investment. These form the investment framework.

1) Why do I want to invest; or What's the point of making this investment?

– To generate a secondary income;
– To make a capital gain or to save some money;
– To offset or otherwise manage a cost;
– To insure against a future loss (of job, health etc).

2) What do I want to invest in?

– ISAs: most adults in the UK can invest up to £20k per year in an Individual Savings Account and all income and capital gain (a.k.a. increase in value) from those investments remain tax fee. You can invest in stocks, shares, bonds and other pooled investments (funds) for diversification;

– Pension: you can make pre-tax contributions to defined contribution pension schemes which can be very tax effective as you are like to be at a lower tax rate once you retire and draw your pension;

– Property: most people want to own their own home or some form of property. In an uncertain or flat market (as we are currently experiencing) , capital gains are unlikely or small. However, a mortgage payment may be an effective substitute to a rental cost. Alternatively, you may be able to earn some rental income on the property, which could offset your own housing costs;

– Side Hustle: do you have time, spare cash, and the inclination to start a micro-business?

– Insurance: health insurance, life insurance, mortgage insurance, house and contents insurance etc etc. Are you adequately covered? Is your family adequately covered if you were to suddenly become unable to earn money?

– A small or a big business: which can generate ongoing income, or be sold at some time in the future to make a capital gain (or, if you are skilful, both).

If your investment falls outside this brief list, you need to consider closely whether or not it can be considered an actual investment which will deliver the value you require. It may well do, but you need to analyse it carefully.

3) Where will I invest?

Work out your geographical focus (note: a 'global strategy' is not a focus):

– In the UK / EU / Overseas?

– Home or locally (if they are different locations). Near family or away? Near work? What if your work situation changes?

– Where is your country of tax residence? Are there any tax advantages associated with it?

– Are there legal advantages of investing in certain areas?

– Do you have local knowledge? (And by 'local' I mean you grew up there, or you lived there for over 10 years and can speak the language fluently.)

– Will you be investing in a currency that is different to where you get your money from? Could there be problems with a changing exchange rate?

4) How will I fund it? How much will I spend?

It's likely that you will use one, or a combination, of these things:

– A bank loan, or a non-banking institution loan;
– A private loan (including the Bank of Mum and Dad);
– A Limited Partnership;
– Shareholders with funding capital (ordinary shares, preference shares etc);
– After tax rental income from the investment itself;
– Profit or capital gain from the investment itself;
– Your salary / income;
– Cash or savings.

Once you know how you are going to fund something, add up the pennies and work out how much you can afford to spend (a) up front; and (b) on an ongoing basis.

5) How much will my funding cost? When do I have to pay it back?

– Does the bank of Mum and Dad have a 0% interest rate? (It's worth asking.) When do they want to be paid back?

– What does a bank loan cost? Will the cost change in the future? Can you make the payments?

– Can you repay the money bit by bit – or must it be in one lump sum on a date in the future?

– Can you accelerate payments at your own option? (This can save you interest costs.)

– Do you have investors who require the assets to be liquidated and money to be returned in a certain period of time?

– Can your investors make calls on their money (i.e. ask for it back) at any time?

Remember: if you have self-funded your investment, you do not have to pay (or answer to) anyone else.

6) What is my timeline and exit strategy?

– Are you saving for retirement (decades)?

– Do you want to sell up in 3 years?

– How easy to sell is your asset and how big is the market (stocks vs real estate vs businesses)?

– When do you need to pay your funding back? Will you do this from a sale of the asset or bit by bit?

– How will you achieve a sale (private sale, listing, auction, stop loss order)? When is that likely to happen? Does this line up with how your investors need to be repaid?

7) How will I invest?

Will you invest:

– In your own name? Your partner's? Parents'?
– For your company?
– Through a trust?
– Through a managed fund?
– On a stock market?
– In real estate (leasehold vs freehold)?
– In funds?
– In a private venture?
– In a special purpose vehicle?

8) Who will manage it?

I love investments that are mostly 'set and forget'. Consider the **cost**; level of **capability**; and your **trust** in whomever may be managing your investments (this includes yourself).

Managers can be:

– Real estate agents and managers;
– Fund managers;
– Stock brokers;
– Employees;
– Your partner;
– Yourself.

Note that I don't put 'risk' as a separate field in this framework. The questions above help you evaluate certain scopes without labelling them 'risk'. I find that asking about funding costs, timelines, and exit strategies help focus the mind on possible cash flow shortages. All the investments mentioned above involve a reasonable amount of risk – and the longer the timeline you have (I am assuming that the average reader is under 50 years old), the more risk you can tolerate.

If you find in your personal life (or indeed, in your professional life), big decisions are being made without some of these questions being asked – <u>you need to start asking these questions.</u>

About WTF Money

Fleur Iannazzo, CFA provides personalised money coaching services for individuals and couples going through major life changes – like moving out, moving in with a partner, having children, making major investment decisions, career changes, dealing with the aftermath of divorce or bereavement.

BOOK A FREE CONSULTATION

Fleur Iannazzo, CFA