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# WEALTH MANAGEMENT



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## Innovative industry stays ahead of the game

The wealth management industry has never had so many tools at its disposal and a brighter breed of advisers are using them to produce radical new solutions in a tough market.

The current investment environment is undoubtedly a challenging one for investors and for wealth management professionals.

Slowing economic growth, rising inflation, increasing volatility and the likelihood of slower future market growth make a depressing roll call and cannot be described as the ingredients of choice for stellar investment returns.

Investors must be very astute. Most importantly, they should ensure that they are accessing the best wealth management services, in terms of advice and investment propositions, and that their portfolios are positioned judiciously within a volatile market.

However, having got the gloomy prognosis out of the way, we can turn for a more optimistic outlook to the wealth management world, where there have been many changes for the better.

Not only is the industry now attracting a brighter and more highly qualified breed of adviser, but these young hotshots are also lucky enough to be equipped with a far greater range of analytical tools than have ever before been available.

> “The higher end specialists are focusing on risk and return, and offering a holistic approach to portfolios”

The profession is also refining its approach to investment. It is becoming more client-centric and value-adding.

The higher end wealth management specialists are increasingly research-led and asset-allocation driven. They are concentrating more on risk and return, and offer a holistic portfolio planning approach.

Furthermore, specialist investment firms, including many small, but impressive ‘boutiques’, are mushrooming. They are creating innovative investment solutions for both wealth management advisers and investors.

The type of investors seeking help from the experts is also changing. Many more are self-made entrepreneurs with a dynamic, youthful approach to investment. They are demanding different types of products, which carry more risk, but are potentially more lucrative than many of the more conservative products used by older investors.

These are exciting times for wealth management. Our publication examines the recent developments in this dynamic, fast-moving industry.

PHOTO: ISTOCKPHOTO



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**WEALTH MANAGEMENT** The new wealth management

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**MEDIA PLANET**

WEALTH MANAGEMENT
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# CFDs attract younger breed of investors

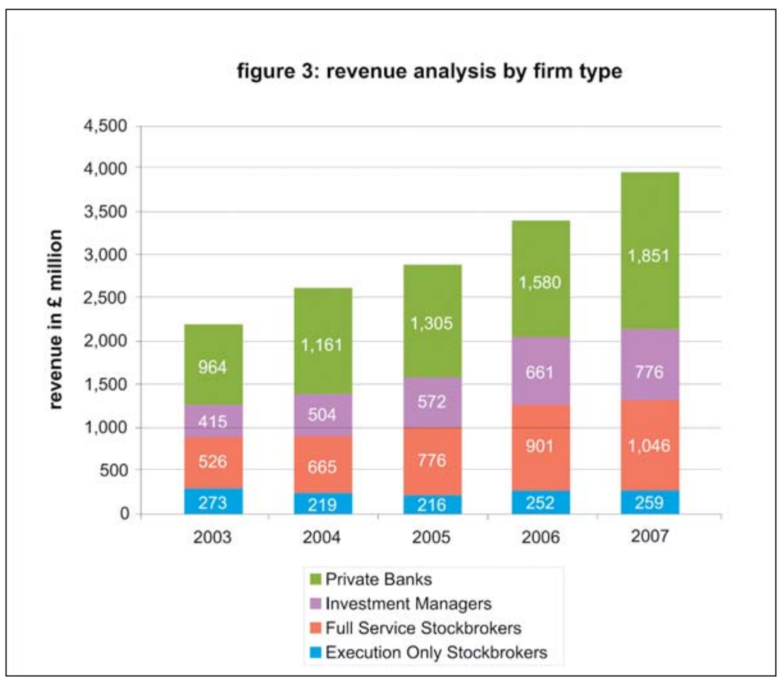
A new generation of younger, wealthier clients are seduced by high-risk products which hold out the promise of greater yields and Contracts for Difference fit this bill perfectly.

One of the great sea changes in the fund management world in recent years has been the emergence of a new, younger generation of self-made wealthy clients.

With the hot-bloodedness of youth, comes a different approach to investment. Typically, these younger investors are attracted to exciting, potentially lucrative, but high-risk products, whereas older investors tend to prefer safer, tried-and-trusted models.

One type of investment that has caught the eye of the new go-getters, is Contracts for Difference (CFDs), which have expanded rapidly since they were introduced for retail investors in 1998. They now account for around 25 per cent of the London Stock Exchange's daily turnover.

"The younger investors are definitely the ones most active in CFDs," says Jason Palmer, CFD manager at Hoodless Brennan. "Our client pool is very diverse. There are brokers, accountants and company directors. But most of them are aged between 25 and 45 and are from 'new money' backgrounds. The majority are business owners, often working from home with the trading screens always on.




▲ Data from ComPeer

"They are attracted by the dynamism of the products and they are often the ones coming to us with ideas, saying 'did you read the report in the FT? What do you think?"

CFDs fit the bill of "exciting but risky" products to a tee. They are agreements between an investor and a provider to settle the difference between the opening price of a security and its closing price, at some point in the future.

Investors do not buy the underlying security, but put up a small percentage of its value, which can be as little as five per cent. The other 95 per cent is borrowed from the CFD provider, giving clients full exposure to the underlying securities at low cost. The debt is repaid when the position is closed, and interest paid on the loan.

What makes this approach so seductive for younger investors is that the leverage, or debt, can boost returns dramatically. Of course, it can also increase losses if things go wrong, which means it is "not for the fainthearted", says Mr Palmer.

"It's a way of trading which is not associated with the old, stuffy stock broker world," he says. "The returns and turnover are more intense. Investors can make 10 or 20 trades a day, so there is a much faster pace than with traditional shares, where you buy XYZ and lock into it for 18 months in the hope it returns a longer-term profit."

Another major draw for investors is the flexibility of CFDs, which allows them to go short.

"If I believe that the price of British Airways is going lower I can open a sell position looking to take a profit by buying the shares back at a lower price. Alternatively if you have a physical share holding and believe that stock is going lower in the short term you can protect your investment by opening a short position with a CFD as a hedging instrument whilst still maintaining the longer term position."

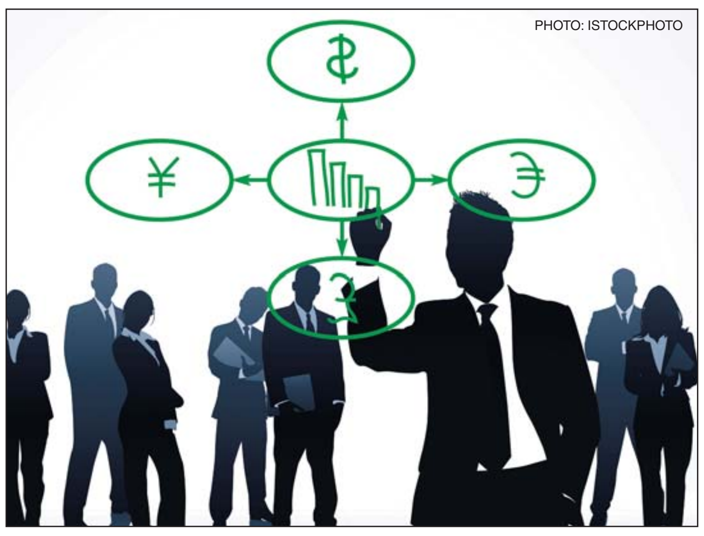
Much of the growth in CFDs and other sexier, riskier investments (including spread betting; self-invested pensions or SIPPs, self-selected stocks in Individual Savings Accounts, and ISA schemes), has been spurred by the advent of online trading systems. Other risky investments in start-up companies with tax incentives for private investors are venture capital trusts and enterprise investment schemes.

Geoffrey Hoodless, the CEO of Hoodless Brennan says: "In recent years investing has become easier and more transparent with the advent of online trading systems.

"These DIY online products have considerable appeal to the new generation of investors because of their low cost. Clients don't pay management fees and commission charges are low. There are now online SIPP and ISA products, and these online trading portfolios are growing quickly. A lot more investors are now opening online accounts with us than advisory ones."

There is, however, a downside to the explosion in DIY products, which is that the less savvy clients may not develop balanced portfolios.

"It's not a good idea to put all your shares in one basket, or one sector. Investors should have a broad portfolio to guard against risk especially in the volatile markets we have at the moment," says Mr Hoodless.



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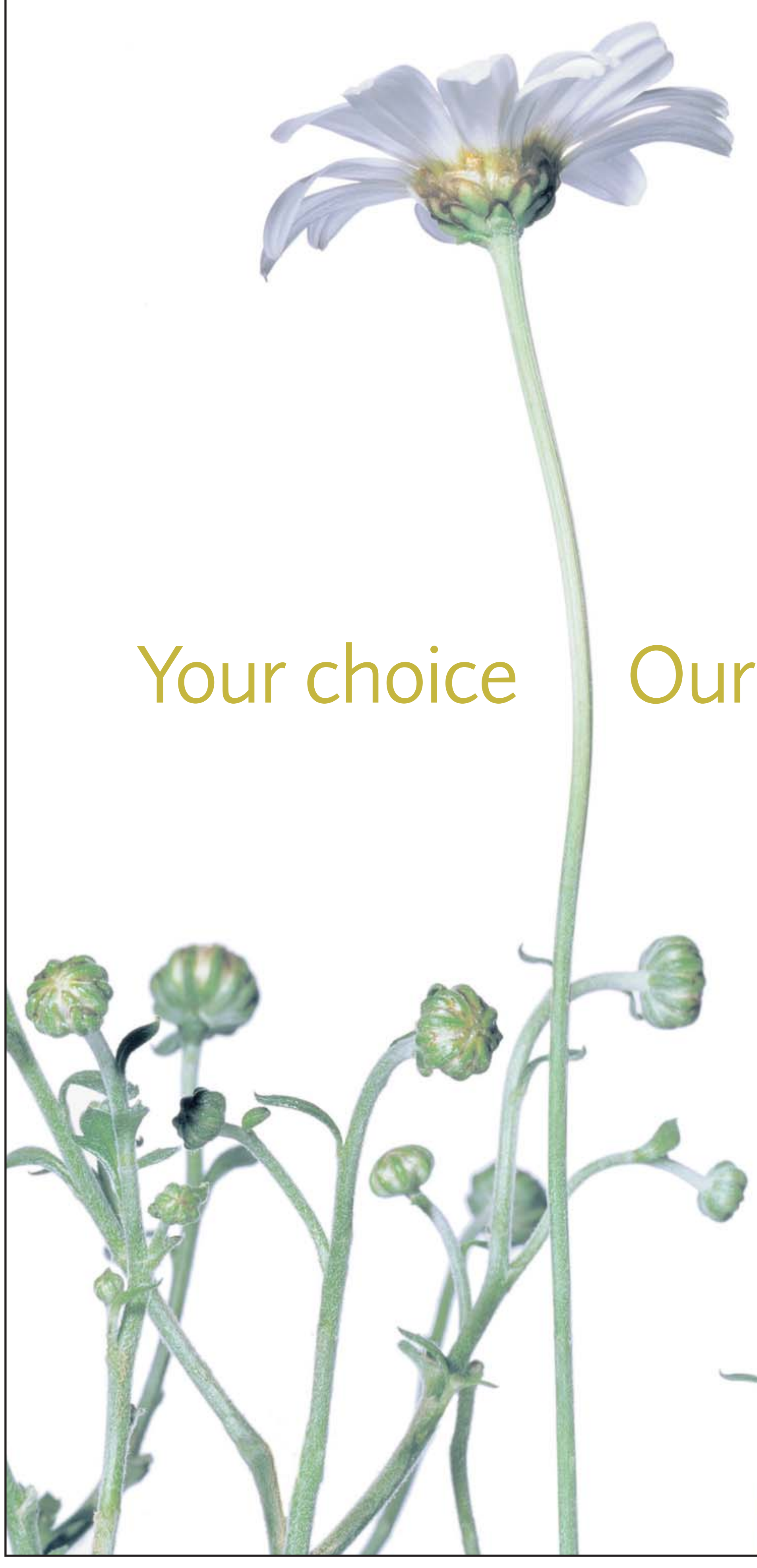

**Wealth management as a service**

# Scrambling for space in a congested market

The wealth management world is far more crowded than it was five years ago, when there were just two or three clients parading their wares before clients, but some enterprising companies are still thriving in this 'wide open' field.

In May the wealth management arm of UBS was shaken when 48 staff quit to join their former boss, David Scott, who had left the previous year to set up his own firm, Vestra.

The same thing happened in 2006 when Michael Kerr-Dineen led a mass defection to set up Cheviot Asset Management. UBS was angry this time and determined to stop it happening again.

In August, 2006, it got a High Court injunction to stop Vestra's raids. A trial was set for October, but weeks later the two sides settled out of court with Vestra agreeing not to poach any more staff or clients until specified periods elapsed.

This drama is just one sign of the volatility in the UK wealth management services market these days as providers manoeuvre to attract, and profit from, a rapidly changing client base.

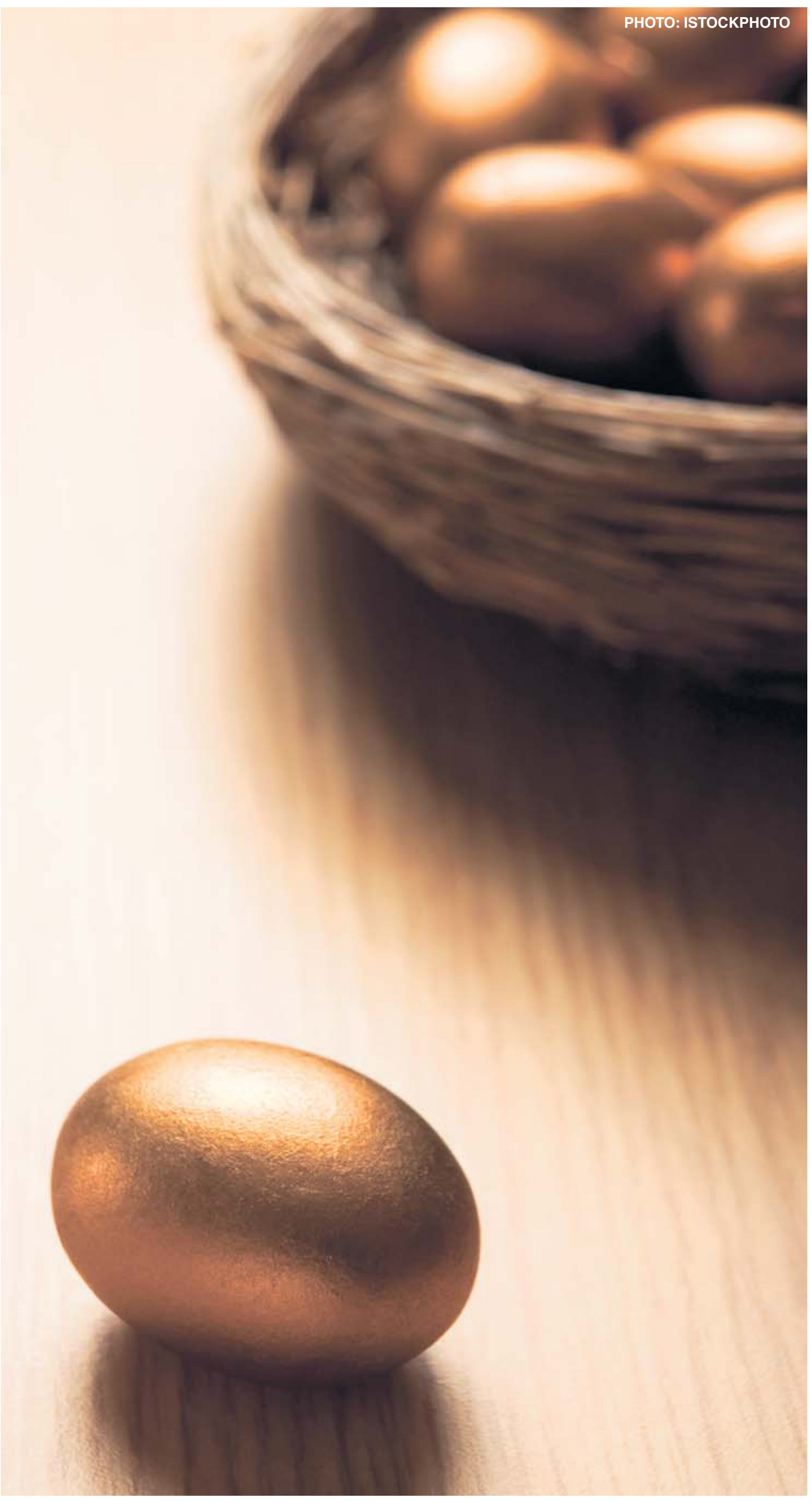
PHOTO: ISTOCKPHOTO

> "Advisers should urge clients to stick by the plans they hatched before the gloom started gathering, because they were usually good plans"

The seeds of the current, highly competitive situation were sown back in 2001, when retail banks scrambled to cash in on the new 'mass affluent', people with liquid assets of £50,000 or more. At the same time, investment banks were snapping up established brokerages to offer the growing number of high net worth individuals private banking services that were formerly the preserve of old money.

Neither the retail banks, nor the investment banks met with unqualified success over the next few years. In the retail space several firms shut or restricted themselves to wealthier customers when the expense of managing more modest assets became clear.

In the higher echelons, the investment banks and brokerages did not always prove to be an easy fit. "It was a total, absolute model clash," says Mr Kerr-Dineen, who had been chief executive of Laing & Cruickshank, a private client broker bought by UBS in 2004, before his defection to form Cheviot.

Mr Kerr-Dineen said that UBS tried to paste a Swiss model of cradle-to-grave Private Banking onto UK clients who were used to using different professionals for diverse aspects of wealth management.

He also found it bureaucratic and stifling. If a particular stock was on UBS's buy list, he couldn't sell it, he claimed. "My guys hated it there," he said, adding that the short history of wealth management is littered with instances of global banks causing mayhem by buying traditional firms and suffocating them.

He claims that Cheviot was the first to deconsolidate back into the traditional, independent partnership structure.

> "Anybody can make money in a bull market. Wealth hasn't gone away. The challenge now is managing it in a trickier environment"

With 26 partners and 30 advisers, it is London's largest such firm, he says, though he will no doubt be keeping a close eye on developments at Vestra.

Despite all the competition, ill-feeling and volatility, some of the bigger players have clearly found a formula for wealth management that works. Kleinwort Benson last year made profits of £18m and boasts 6,000 clients. Its head of private wealth management, Mark Hussein, says his team of 700 staff know how different the requirements of Britain's new wealthy are. A diverse clientele, including traditional old money, serial entrepreneurs, high-flying executives and football and entertainment stars, all have different risk appetites and need different handling.

Kleinwort Benson is one of a handful of companies thriving in a congested market which Mr Hussein describes as "far more crowded than it was five years ago, when only two or three familiar names would parade before potential clients". He says the market is now "wide open". Asked to name any rivals he admires for creating elbow room in a short time, he declines, but warns that the credit crunch will separate the wheat from the chaff: "Anybody can make money in a bull market. Wealth hasn't gone away. The challenge now is managing it in a trickier environment," he says.

And what effect is the credit crunch having on the wealth management world? Predictably, many clients are getting to know their cautious sides. But Billy Mackay, Marketing Director for AJ Bell, which specialises in managing self-invested private pensions (SIPPs), says advisers should urge clients to stick by the plans they hatched before the gloom started gathering, because they were usually good plans.

"Nothing has really changed," he says. "It's just that the potential for losing money seems more real now."

**WEALTH MANAGEMENT** Fund management and tailored products

# Stripping away the mystique

The fund manager still has a vital role in casting a dispassionate eye over investments, but the industry must keep working hard to shelve its jargon and improve its image.

Newton fund manager Phil Collins acknowledges a trend towards younger, savvier investors, but he still believes that most people have a weak understanding of financial matters.

His view is that a little knowledge can be a dangerous thing and to be half-educated but imprudent, can lead down some costly dark alleys.

"The biggest change in recent years has been in the advent of younger, more financially savvy investors, and a trend away from wealthy, landed gentry to self-made wealth," he says. "We've also seen an enormous increase over the last five to ten years in the number of ways to invest.

"However, the understanding of the general public is often weak. If we take residential investments, when I ask people about capital growth, variables, transaction costs, and rental yields, they haven't a clue. They know percentage rises and falls, but little else."

> "The role of a fund manager is to be dispassionate and not see the emotion in the situation and whose future it represents"

This incapacity to look coldly and rationally at financial affairs is what still makes the fund manager such a valuable ally. In a nutshell, he can save investors from themselves.

"Human nature is the problem," Mr Collins says. "People have unrealistic expectations. They will go to the bank and say 'can I have a loan please for a buy-to-let, I think it will go up'. They wouldn't do that to put it on a horse in the 3pm at Chepstow, or on Vodaphone shares.

"People have a great capacity for self-delusion. Whenever I hear the words 'never' or 'always', my instinct is always to do the contrary because those words smack of sentiment rather than reason and cold analysis."

Mr Collins relishes bringing investors back down to earth. "The role of a fund manager is to be dispassionate and not see the emotion in the situation and whose future it represents," he says. "A fund manager talks about valuation, which usually turns most people right off. We give advice on constructing sensible portfolios, tweaking them here and there, setting out all the expenses, being consistent-ish over a long period."

This sensible analysis of his role is part of what be believes is a much-needed demystification of fund management.

"The industry is trying to lose some of its mystique. Ten or 20 years ago there was more jargon. Hedge fund managers might still be at the mystiquey end of things – protective of their super secrets, but most sectors are becoming more accessble. Fund managers need to recognise that they are just glorified waiters, part of the service industry."

PHOTO: ISTOCKPHOTO

Increasing media coverage of financial matters has also familiarised investors with terminology and encouraged talk about finance.

Mr Collins believes it is difficult to discern trends in these volatile times, but he does, cautiously, make some predictions.

"There's a lot of short-term volatility and equities, bonds, and commercial property have been on a downtrend. Gilts have done very well, but I struggle to see value in them now and corporate investments look more attractive.

"Many investors got really excited about the long-term uptrend of commodities, but they have done horribly recently. They are horribly volatile by nature, but investors were probably right to pile in and they will go up again."

What Mr Collins won't be doing is calling a surefire bet. Valuation will always be his mantra.

# Dictating everything in the client's best interests

Many tailored products are available on the high street, but Private Banks argue that their services provide far better value because they are free to deliver wholesale access to the best structures.

It is perhaps not entirely surprising that the world of Private Client Banking and Investment services should be pervaded by language emanating from the world of tailoring, that traditional haunt of the well-heeled British gentleman.

Much of the language is identical in both worlds. The client is provided with "bespoke" products, "tailored" to "suit" his precise needs. The terminology is so inescapable it can become a little tiresome for Private Bankers.

"Forgive the rather crass analogy," says Mark Rushton, a director of Fortis Private Banking. "But it does provide a good explanation of the type of service Private Banks and investment managers offer. Like buying a suit, you can buy one off the peg, or order one with four pockets down the left and buttons all over the shop."

Of course, not everybody can afford the finest tailoring. Fortis requires a minimum of £250,000 in investable assets, and some Private Banks demand even more.

Mr Rushton distinguishes between Private Banking with capital letters, which is the full service investment and banking offering, and plain banking for private clients, which is merely a more tailored deposit, lending and FX version of high street banking for wealthier clients.

"Many of the new private banking clients are from financial or business backgrounds, so they take a more, active and informed interest in their investments. They want to be able to talk through exactly how their investments progress with the trusted individual who makes the investment, not with a relationship manager," says Mr Rushton.

> "With many banks or insurance companies, a client can end up with poor terms because up to 8 per cent has been siphoned off in fees"

As well as traditional investment asset classes, alternative investments have proved increasingly popular. "We use a strategic asset allocation across all asset classes for each client to match their long term objectives," says Mr Rushton, "but within that we can make short-term tactical asset allocations to take advantage of prevailing economic circumstances."

Alternative assets can play an important role in the diversification of risk and the offering involves structured products when appropriate – usually with a degree of capital protection. "When we design a structured product, for example, we create the most suitable product and source the optimal exposure from top providers with whom we can negotiate the best value - thereby dictating everything on behalf of clients, independently."

Structured products are also available on the high street, but Mr Rushton argues that they provide less value and limited choice. He claims that Investment Managers have a huge advantage over the high street because they are free to offer private clients wholesale access to the best structures.

They do not suffer the retail fees and sales incentives that other banks charge clients for in-house products. "We don't take any money out of the product itself," he says. "With many banks or insurance companies, a client can end up with poor terms because up to 8 per cent has been siphoned off in fees. There is also a limited capacity to sell these retail products back when necessary. We want to be able to sell for our clients at any time."

PHOTO: ISTOCKPHOTO

# Impatient investors are still clamouring for swift profits

A return on an investment used to be expected over five years, but now clients want to make a significant profit within a maximum of three years, an ambition which does not always sit easily with the current desire to avoid significant risks.

Investment management has changed enormously in the past 18 months and investors looking to use the service need to know how the land lies. The following 'all points bulletin' has been compiled with help from James Davies, Investment Research Manager at Chartwell Fund Management and Christopher Taylor, Chief Executive of Blue Sky Asset Management.

**1. Increased Risk:** The credit crunch may seem old hat but the fact is, the contamination of risk spreading out from the American sub-prime fiasco is still uppermost on investment managers' minds. It is still not clear who is going to be left holding the bad-credit baby. It has affected even traditionally safe harbours like bank shares. "Culpability doesn't just lie with the banks, but also the credit ratings agencies and to some degree the regulators," says James Davies.

**2. Impatience:** It used to be that a return on an investment would be expected over five years. Now that's been reduced to three years, at the most, thanks to 12 years of rampant property inflation and cheap, easy credit. Mr Davies says adjustments are due. But Christopher Taylor argues that 'who dares, wins' still holds. "Investors need to differentiate between strategic and tactical planning and balance both approaches," he says. "Strategic planning positions asset class exposure for the longer term, whilst tactical investment seeks to exploit short term anomalies. Patience is a virtue, but there is no reason why more sophisticated retail investors can't also gain access to shorter term propositions." Mr Taylor says structured investments can provide defined levels of capital protection and open up short term high growth opportunities.

**3. More tools in the tool box:** Mr Davies says investment managers used to stick with either equities or bonds. Then along came property. Now many use all three, together with assets like hedge funds, derivative back products, commodities and other alternative investments. This "multi-asset" investing approach is all the rage. Christopher Taylor says this is good, but warns investors to beware sales and marketing noise. "Far too many providers operate with at least one eye on which products might sell the most," he says, "as opposed to using research to develop investments that will open up the best opportunities."

> "Just over a year ago investors didn't want to miss out on stock market gains, now they want arguments why they shouldn't stick their cash in a building society at 5 per cent"

**4. More access:** It used to be only the ultra high net worths who could access all the instruments above, say, with five million minimum to play with. "Now you can access the same investment managers, through a fund, with your seven thousand in ISA money," says Mr Davies. Mr Taylor adds: "The scope to be highly innovative through working closely with advisers as opposed to simply offering prescriptive products is adding real value."

**5. Capital preservation:** In the last 18 months investors have become fixated with not losing money. Mr Davies says: "Few complain about an investment manager delivering 20 per cent when the market delivers 25 per cent, but claiming outperformance when you lose ten per cent against a market fall of 15 per cent won't impress." There are now more investments that protect capital either through an absolute-return style investment, or a capital protected structured product, similar to the old Guaranteed Equity Bonds. Blue Sky's Mr Taylor, believes investors will not be able to stay in their foxholes forever. "Investors also need to make real and superior returns or they might just as well stay in cash," he says.

**6. Cash is king:** In times of uncertainty it always is, but Mr Davies says investors' appetite for risk is the lowest it has been for over ten years. "Just over a year ago investors didn't want to miss out on stock market gains, now they want arguments why they shouldn't stick their cash in a building society at five per cent." But, Mr Davies cautions, cash may be a good temporary home but it's a poor long term investment, especially in high inflation. "Trying to time markets by moving in and out of cash is a near impossible task," he says. "While many investment managers have increased their cash positions, few have made it more than a third."


PHOTO: ISTOCKPHOTO

# Exploding myth of independence

Hopeful investors once considered emerging markets to be independent of global pressures, but these economies have been deeply influenced by the recent volatility elsewhere, proving that they are far less independent than many had believed.

The longstanding perception that emerging markets would have self-sustaining growth powered by their own internal dynamics has been exploded as a myth in recent months.

The brute fact is that emerging markets are off 13 per cent in the past three months on the FTSE World Emerging Markets Index, proving that they are not as immune to volatility in the global economy as many wishful thinkers had believed.

“These are still economies which haven't decoupled,” says Paul Whyman, head of managed funds at Fortis Private Investment. “They are reliant on global activity and inflationary pressures do have an impact on them. Some of the political risk needs to be put back in.”

For a while, the hullabaloo surrounding the BRIC (Brazil, Russia, India and China) marketing concept misled many people into believing that the only way was up for these economies. But the whole perception of the way emerging markets function has been transformed by recent events, Mr Whyman believes.

“In the past we've seen problems in emerging markets coming from over-indebtedness and currency devaluation, but that's all changed. Now the problems are coming from concerns about global growth and inflationary pressures,” he says.

In reality, the nature of emerging markets means that they are particularly susceptible to inflationary pressures.

“Because inflation is being driven by energy and food prices, which are larger components of the inflation baskets in the developing world, it has had more of an effect on them,” says Mr Whyman.


PHOTO: ISTOCKPHOTO

Even the smaller Asian markets, which were the darlings of previous years and escaped the worst of the recent fallout from the drop in oil prices which affected more energy-dependent economies like Russia or Brazil, are now succumbing to inflationary pressures. Vietnam, for example, has inflation currently running at 30 per cent.

| | Main Market | AIM | PSM |
|---|---|---|---|
| Brazil | 0 | 7 | 0 |
| Russia | 37 | 24 | 0 |
| India | 9 | 24 | 17 |
| China | 6 | 66 | 0 |
| Totals | 52 | 121 | 17 |

▲ London Stock Exchange listings

Given the volatility, it's not surprising that Mr Whyman has positioned himself “very defensively” in the sector. But he does expect opportunities to develop in emerging markets in the coming months. He is looking to increase weightings and is on the lookout for valuation opportunities.

“We are still keen on emerging markets,” he says. “Although you need to be selective, many areas have favourable demographics. They do not have the same government indebtedness that you have in the West and certainly not the same levels of consumer indebtedness. Whilst they might be reliant on global activity, the structural risks internally aren't so acute.

Brazil is one of the markets he is keeping a keen eye on. He anticipates that the Real will revalue over time and praises the rising giant of South America for doing all the right things to sustain its rapid growth.

“Brazil has huge energy resources and has made new discoveries over the past few months in the Tupi fields,” Mr Whyman says. “They are doing all the right things. They have followed the Norwegian stabilisation model, which ensures that the oil industry is supported domestically. Anyone with a licence to build an oil rig offshore will have to buy 20 per cent of the kit from Brazil.”

As early as the end of the year, he believes, opportunities will emerge as the effects of cyclical inflation drop off.

“We don't believe inflation is likely to be a structural issue,” he says. “We feel it's cost-pushed inflation rather than demand-pull and the difference is significant because we think it's unlikely in an era of slowing global activity that you're going to see an inflationary spiral develop. So, as you see some stability developing, we would tactically be looking for some opportunities to increase exposure selectively in emerging markets.”

Apart from the advent of BRICS, the other big change in emerging markets is the rise of Exchange Traded Funds (ETFs), stock-market traded tracker funds of very low cost.

“There's been a burgeoning of these in terms of size and money following them,” says Mr Whyman. “They are a low-cost way to play down to sub-sectors of individual markets. They allow investors to access some of these markets where the average investor wouldn't normally be able to go. They can buy many Middle Eastern stocks, without registration and the other legislative problems around it.”

# Avoidance of risk powers rapid growth of structured investments

Structured products have seen double-digit growth as investors recognise their capacity to reduce risk in the current bear market.

The formulaic nature of structured investments means they can be designed to reduce or even remove risk, which makes them particularly valuable in the current volatile trading environment.

The new risk-averse approach of investors has sparked a double-digit global growth in structured products and significant net outflows from the mutual funds world since 2007.

Chris Taylor, the chief executive of Blue Sky Asset Management, says:

“The fact that structured investments provide ‘20:20 foresight’ in terms of quantifying both investment risk and performance potential clearly appeals to investors. In these uncertain times the certainty of a known risk-and-return profile is precisely what many seek. It is something that active fund managers can only dream of offering.”

Mr Taylor claims that structured investments can also create high and absolute returns from range-bound, sideways or even bear markets. “Obviously this is precisely what is required in the current markets,” he says. “They are appealing to investors of all types, from the most cautious to the most sophisticated, notably including professional money managers who recognise the value that can be gained.”

> “The certainty of a known risk-and-return profile is what many seek”

The structured approach can be tailored to match almost any investment requirements, including specialist sectors, such as philanthropy and charitable-giving. In these sectors, many trustees are required to employ a prudent, risk-averse approach. The defined-risk USPs of structured investments are well-adapted for the role.

Using indices such as the FTSE 4 Good, socially or environmentally conscious clients can choose products which conform to their views. Alternatively, bespoke underlying investments can be built bottom up, from agreed stock and sector lists.

Real estate is one asset class in the spotlight, with commercial property mutual funds having disappointed many investors in the last 18 months, and UK residential property prices making the wrong sort of headlines. In commercial property, structured investments can link to IPD or global REITS indices.

“The challenge is always delivering participation in the total return, which means taking account of yields as well as capital growth, and this is not always straightforward,” says Mr Taylor. “In the residential property market, either the Halifax's HPI or Nationwide index can be used in much the same way as any equity-linked index, such as the FTSE 100.”


PHOTO: ISTOCKPHOTO

Concerning property, the Holy Grail for structured product firms is to use structured investments to hedge against residential property price downside and deliver positive investment returns based upon falling house prices. “This challenge is probably on the drawing board of many structured product firms at present, but as can be imagined it is not the easiest problem to solve,” says Mr Taylor.

Mr Taylor's praise for the concept of structured investments does not amount to blind adulation. He admits that there is currently far too little value on offer to investors in both traditional and structured sectors.

“Perhaps as many as 80-85 per cent of funds and products in both industries fail to deliver genuine investment integrity, with client-centric added value,” he says. “Of the 2000 or so mutual funds available in the UK, it is well-known that the average fund fails to deliver against its own basic benchmark. As a result, most wealth managers work with ‘white lists’ of funds that their research processes and due diligence have identified as preferred funds - and these lists normally number between just 120 to 180 funds, out of the 2000 plus available.

“Similarly, in the structured products world, in 2007, approximately £7 billion of retail structured products were sold, by 80 providers active in the UK, yet as many as 80-85 per cent can be characterised as sales-driven ‘easy products’, designed to maximise sales for providers, as opposed to being ‘intelligent investments’.”

Despite this clinical view of the overall market, Mr Taylor argues that a minority of 10-20 per cent in either universe do deliver compelling, value.

“Neither sector should therefore be favoured or neglected in principle, and investors, and their wealth management advisers, should be differentiating at provider and product level, not industry level, and embracing the minority best of both worlds, aligning these in optimal portfolio planning processes,” he concludes.

# New wealthy pay high cost for ignorance of tax

In contrast to ‘old money’, which has learned over time to understand tax, many young entrepreneurs lack the time and patience to make essential plans.

A dynamic young entrepreneur experiencing the cut and thrust of running his own business may not have the time or patience to address the prosaic issue of tax management. But this could be a potentially costly oversight.

The ignorance of tax issues among a generation of “new money” entrepreneurs sometimes staggers Mike Harrison, a partner in Saffrey Champness Accountants. He contrasts their naivety with the worldliness of “old money”.

“It's different for clients who have inherited wealth because they are indoctrinated from an early age in capital tax management,” Mr Harrison says. “Old money people understand how to cascade wealth along the line, by using these five trusts, or those two companies, to hold assets for others' benefit.

“But for new wealth owners the whole issue of capital tax can be alien. They've often been immersed for years in growing wealth without considering how to pass it on. They need to consider whether to ‘grow it and blow it’, or pass it down the line.”

Mr Harrison gives an example of a thriving young entrepreneur who was saved from the taxman's clutches in the nick of time.

“A young businessman had a £30m turnover a year. But when we looked into his accounts he had £4m sitting idly in the bank. He said he'd paid tax on it already and couldn't be taxed again.

“We said ‘yes’, it could’. The Inland Renenue would argue that the money was not needed for the trading business and would not be subject to tax relief. He might have needed £500,000 for working capital and machinery, but not this huge pot. It was typical of these people's unawareness of how tax works.”

Before Mr Harrison can formulate an effective tax plan, he must find out exactly what clients want from life. Until he knows the ‘human implications’, he believes it is impossible to construct an effective tax plan, which is flexible enough to deal with rapid changes in circumstances.

> “For new wealth owners capital tax can be alien. They've often been growing wealth without considering how to pass it on. They need to consider whether to ‘grow it and blow it’, or pass it down the line”

PHOTO: ISTOCKPHOTO