EXPATLAND SYDNEY

Financial Planning

One of the great challenges upon arrival in Expatland is often how to manage your money. There is no easy answer and it depends upon the complexity of your affairs.

Similar to your home country jurisdiction, financial planning requires a number of steps. The following will serve as a good guideline:

The Client/Planner: The financial planner defines their responsibilities and yours. They outline who will remunerate them for their services and how.

As an expatriate client, you discuss and agree with the planner how long they will work for you and how the decisions concern in your finances will be made.

Given that you are generally going to seek broad financial advice, make sure you discuss your global assets and assess how often the relevant planner has worked with clients from your home country.

Goals & Expectations: Your financial planner will ask all the relevant questions about your finances, your goals (both fiscal and personal and whether you prefer a high-risk or low risk strategy, gathering all the appropriate documentation.

An additional overlay here is to acknowledge that time horizons for investment as an expatriate client can shift year to year if not more frequently. Generally speaking flexibility is the key.

Analysis & Evaluation: After gathering all the appropriate information, the financial planner will assess your information and determine the best course of action. This could include examining your asset, liabilities and cash flow, current insurance coverage, investments or tax strategies.

As the relationship in Expatland is likely to be a relatively new one, it is prudent to involve advisors from your home country where applicable at the evaluation stage. This ensures that a well rounded evaluation takes place.

The Financial Plan: The financial planner offers financial planning recommendations and/or alternatives that address the client's goals based on the information the client provided. The planner reviews the recommendations with the client to allow the client to make informed decisions. The planner listens to client concerns and revises recommendations as appropriate.

Again, it makes sense to involve your home country accountant and/or lawyer to review the plan where they are qualified to and also act as sounding boards. Given the newness of the relationship, getting independent third party assessments makes sense.

Implementing the Recommendations: The financial planner and client agree on how recommendations will be carried out. The planner may carry out the recommendations for the client or serve as a 'coach', coordinating the process with the client and other professionals, such as attorneys or stock brokers.

It is usually the case that implementation is done in a phased manner and where funds are invested in too short a period you can miss the benefits of averaging into the market.

Other parts of the financial plan, such as personal insurance, is something that is done more promptly as usually health risk needs to be covered sooner than funds need to be invested.

Monitoring the Plan: The client and financial planner agree upon who will monitor the client's progress toward goals. If the planner is involved, they should report to the client periodically to review the situation and adjust recommendations as needed.

How to Choose a Financial Planner

However, it is very often the case that financial planners make contact with you and seek you out because they have access to information about recent arrivals into Expatland.

Independent financial advisors often actively seek new clients and offer a wide range of ready made savings and wealth management products and insurance products designed to offer an enticing picture to you.

Just as in your home market, it is clearly the case that financial planning is important and needs to bed one in a way that is relevant to your risk profile, your objectives and your medium and long-term goals.

The challenge in Expatland is that you are new to the country and therefore keen to make new connections, but it is quite easy to make the wrong type of connections.

Most importantly, if a wealth advisor or a financial planner approaches you, you need to consider what their experience and qualifications are.

You should obtain two or three written references from clients of theirs and determine how long they have been in the market.

Many regulatory regimes do not require the financial planner to declare their position on what fees they are earning. It has been my experience that financial planners in some Asian markets are under no obligations to declare certain types of fees and very often mislead clients with over optimistic projections and the full impact of their remuneration from the sale of the product is not known.

Of equal importance is that the perspective of the financial planner has to be the same as your perspective. For example, if you expect to be in Expatland for say 3-5 years, there is little point in going into a 10 or 15 year savings plan.

Often these types of savings plan have annual and lock in periods that may require a defined or set monthly commitment.

The profile of the asset being invested in may not actually be in accord with your risk profile or that of your partner. In one case, I came across a client who had unwittingly signed up for a 25 year savings plan in one of the Channel Islands

My client was unaware that the commission to be paid to the financial planner would effectively reduce the earnings for the first six years of the product. In that particular case, the client would forfeit contributions if they stopped making monthly contributions for the first 10 years of the product.

Worse still, if the client returned to their home country, in this case Australia, the tax consequences of that foreign financial product were horrible. The client would have an Australian tax obligation, but they were unable to access capital from the product to meet their Australian tax bill.

Some clients feel a need to save the tax differential and make the most of the expat experience. This is a most natural and worthy objective for moving to Expatland, which often requires a move away from family and friends. As such, there is a natural temptation to do something to improve your financial position quickly.

Questions to Ask a Wealth Adviser

As you can understand from these horror stories, the decision to choose a financial planner is not one to be taken lightly. It is very important and great care should be taken before the person is selected.

Personally, I would ask the financial planner to highlight certain strategies that they have use in other cases, and I would always make sure that I obtain relevant feedback. Many regulatory regimes do not require the financial planner to declare their position on what fees they are earning.

It is also very useful to know where the financial planner has been educated and what their academic results were. Enquire what their qualifications are as well. A financial planner in all cases should be prepared to be quite open and transparent with you about the best-case scenario.

As an example, let us assume you have moved to Expatland and you have a monthly savings capacity of US $5000 per month. If you plan to be in Expatland for five years, based on your forecast cash flows, let us assume that means you can save approximately US $300,000. A range of options could be discussed about what products could be suited to a five year time horizon given your level of savings.

A financial planner should present you with a sensitivity analysis so that best and worst case scenarios can be presented and the flexibility of any plan should be considered, such as what happens if you need to leave Expatland suddenly; what if there is a period of unemployment; and what if sudden expenses present themselves. These and other relevant questions need to be identified and considered before a fixed regular commitment is made to a financial plan.

It is also the case that many expats have assets in their home country or other countries, and the financial planner needs to understand and appreciate these.

Let's take this example:

A client who has three or four investment properties with US dollar exposure may already have enough of that particular exposure.

Hence if the financial planner does not consider this and indeed offers investments in the same sector and the same currency, you should ask some questions and consider whether you are really being given options that area appropriate for you. It is important to communicate your existing assets and liability position to the financial planner,and you need to fully understand what recommendation should be made to you.

Consideration around tax and the tax impact of taking investments in Expatland back to your home country is also of vital importance.

If a financial planner works as part of a broader dealer group or network and you become dissatisfied with the services of the planner, you need to know if there is some form of complaint arbitration.

The decision to make a new connection with a professional such as a financial planner is important, and you should consider references from complementary professions like chartered accountants, lawyers or bankers.

If the person comes recommended by a professional in one of these industries, that is a good sign. If you are using a chartered accountant or a lawyer in Expatland, you will need to clarify if there is a pre existing relationship between these two parties.

Moving to Expatland is most often a financial decision, and as such the importance of getting the financial planning aspect absolutely right cannot be overstated.

Building Your Wealth Overseas

As mentioned, one of the prime motivations for moving to Expatland is often to build wealth.

As such, how you manage your finance is one of the most critical decisions you need to make. While financial planning in Expatland is similar to your home country, there are a few obvious differences.

These include the following:

- Your length of stay in Expatland/Sydney is often unknown or subject to change.
- Your investment advisory networks in Expatland are generally not the same as in your home country.
- The culture of investment advisors or financial planners and their attitude to client service and the financial planning process may be different from your home country.
- The legal regime that protects you from poor or ill-considered advice may be fundamentally different from your home country.
- While in Australia the Six Step Financial Planning Process is relatively well known and regarded, this type of rigour may differ from your home country.

As a result here are some additional points for you to think about when considering financial planning in Expatland:

- When leaving a jurisdiction, consider your tax position carefully as it is likely that there will be departure taxation issues. For example, you may be due a tax refund if tax has been withheld at a higher rate than you may be required to pay based on the full year.

- Alternatively, some countries, such as Australia, impose a capital gains tax on assets you held at the departure date.

- It is advisable to retain your home country bank account. Retaining this account will allow you to pay bills that continue in your home country.

- Do not cancel your home country insurance policies until you have had your cover in Expatland completely implemented. It may be the case that premiums are more expensive in Expatland, so please examine the options before cancelling the policy.

- Establish a bank account in a third country if that does not cause adverse tax consequences for you in Expatland. It is sometimes an advantage to have the flexibility of being able to receive income in a third location – not in the home country or arrival country.

- It is important to check whether banks in Expatland offer appropriate levels of capital protection compared to your home country banking system. .

- Do your research before making any investment and, generally speaking, you might consider it prudent not to invest all your funds with one financial institution.

- If you select a quality private banking institution, this may offer you more advantages than lesser-known private banks.

- If you have a focus on share trading, consider which companies offer suitable technology platforms.

- Even if Expatland does not impose personal taxes on your income, it may be worth maintaining contributions into your home country national pension plan.

- When you arrive in Expatland, establish a local bank account with a reserve sufficient to provide funding in case of emergencies, such as loss of employment or poor health.

- We do not advise you to join an overseas pension scheme before you have conducted appropriate due diligence on the fund and its management team.

- Make sure you understand all the costs associated with overseas pension schemes. In the event you do not completely understand the arrival country private pension plan scheme, then do not invest before you are satisfied.

- Be careful about making long-term commitments in your new country as plans and circumstances change and families grow and their needs shift.

- An investment decision you made seven years ago would probably not be so appropriate now.

The central point here is that most expats may not be in a position to foresee long term what the best financial decision is, because change is always occurring.

Therefore,making a medium to long term legal commitment to a particular savings products has to be handled with care and attention.

My experience has been that clients have occasionally committed themselves to investment plans costing hundreds or thousands of dollars a month while other financial loans an obligation remain unpaid.

If the level of tax you are paying in Expatland is much lower than in your home country, it can make financial sense to establish a periodical payment from your Expatland bank account to transfer the funds to a savings account so you can build your financial resources.

At the appropriate time, you can then invest the surplus funds as they build up. Consider diversification of both asset classes and foreign currency holdings carefully.

Without attempting to provide specific comment here, the following categories of assets are worth considering:

- Home country real estate
- Expatland real estate
- Home country currency
- Foreign currency
- Home country listed shares
- International listed shares
- Home country managed funds
- International managed funds
- Home country bonds
- International bonds
- Home country alternative investments
- International alternative investments.

While the temptation may be to continually re-invest in your home country in all asset classes, our advice is to speak to quality private bankers working for reputable global private banks and/or independent financial advisors who can help you understand the following:

- Your risk profile
- Your ideal asset allocation
- Your short-term, medium-term and long-term objectives

- Portfolios suited to your life circumstances
- Portfolios that are flexible (important because you now live in Expatland).

What Can Go Wrong?

Generally speaking, our view is if you consider what can go wrong and make plans for an emergency, then if a misfortune occurs a plan has been made.

This makes dealing with it much simpler.

Therefore, our view is that if you have a financial plan that covers potential risks and suits your objectives and, most importantly, is documented and regularly reviewed, then you are well on your way to building your wealth.

Independent Financial Advisors

In some parts of Expatland, the independent financial advisor (IFA) can provide good personalised service.

While they are usually not part of a major private bank or institution, they can offer tailored financial advice across a wide range of products.

Often they are authorised representatives of a larger firm or dealer group.

The dealer group provides them with authority to act on its behalf and to market products and services that have been carefully considered and examined by the dealer group.

However, there are some pitfalls to consider when dealing within dependent financial advisors.

Some of these are:

- As Expatland is a highly mobile and fluid market, your IFA may themselves move around and after a few years you may be left without anyone you know in the dealer group that originally advised you on your financial plan. Hence you should always check what back up for servicing you exists if the IFA leaves their dealer group.

- A colleague or acquaintance may have introduced you to an IFA or the IFA may call you based on an introduction from a contact you know. While that is not a 'cold call' you should still always put the IFA through your own probity and due diligence checks.

- Despite the warm, effusive nature of IFA' s personality, many clients have been let down by particular IFAs who 'sold' products that were not appropriate for them. Often it is not until a few years have elapsed that you can see the downside of poor asset allocation.

- Usually good IFAs do not have to call prospects because they are busy dealing with either referrals from existing clients or existing clients.

- Focus on the strategy of the IFA rather than their personality.

- The risk of relying on one IFA' s recommendations has to be weighed against the protection measures and back up that supports a private banker in a major financial institution. While it may be difficult at first glance to understand the differences between an IFA and a private banker working for a major financial institution, it is our experience that banks offer a better level of protection for clients in the case of misconduct than a dealer group's management of certain rogue IFAs.

AT A GLANCE

- Manage your money carefully in Expatland. A good financial plan and financial planner is important.
- Many regulatory regimes do not require the financial planner to declare their fees, so find out what their fees and commissions are.
- Often expats cannot foresee long-term residence in Expatland/Sydney, hence making a medium to long term legal commitment to a savings product has to be thought through very carefully.
- Consider the tax impact of taking investments in Expatland back to your home country.
- If your financial planner works as part of a broader dealer group or network, find out if there is some form of complaint arbitration if you become dissatisfied with the individual planner.
- Check what back up for servicing you exists if the independent financial advisor leaves the country or the company.
- When you are leaving a jurisdiction, consider your tax position carefully as it is likely there will be departure taxes issues
- Consider retaining at least one home country bank account so you can pay continuing bills.

- Continue making home country pension plan payments if possible.
- Check whether banks in Expatland offer appropriate levels of capital protection when compared with your home country banking system.
- Review the rules around credit and loan facilities before you arrive in Expatland.
- Establishing a credit rating when you move to Expatland is essential if you wish to apply for a credit card or loan.
- Financial planners often know who has recently arrived in Expatland. They will seek you out, but make sure you do due diligence.
- Don't keep your assets in your home country or other countries hidden from your financial planner. The financial planner needs to understand those assets to make informed financial recommendations.
- Keep in mind that the legal regime that protects you from poor or ill-considered advice may not be the same as in your home country.
- Keep your home country insurance policies until you have had your cover in Expatland completely implemented and any waiting period has expired. It may be the case that premiums are more expensive in Expatland, so examine the options before cancelling the policy.
- Regarding any overseas pension schemes, conduct appropriate due diligence on the fund and its management team.