

New Model Adviser[®]

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Guidance gripes

We examine the impact of Osborne's pension reforms



Retirement champion

Ros Altmann on living and working longer



Sipps under siege: an industry under attack

Will face-to-face advice survive the D2C revolution?

How to become a contrarian fund picker

Going solo

Graeme Mitchell is the sole adviser at Lowland Financial after fine-tuning his business

Business

A new landscape

Graeme Mitchell is optimistic about Lowland Financial's plans to grow assets and profits as he faces the future as sole adviser after fine-tuning the business





Graeme Mitchell

Curriculum vitae

CAREER

- 2000-present** Lowland Financial, managing director
- 1997-2000** Lowland Insurance, independent financial adviser
- 1984-1996** NPI, IFA consultant
- 1981-1984** Northern Rock, manager

PROFESSIONAL MEMBERSHIPS/ QUALIFICATIONS

DipCII

TIM COOPER

Graeme Mitchell, managing director of Lowland Financial, has gone solo after several spells of employing other advisers since he took over the firm in 2000. Influence from down under has helped him streamline the business and placed an emphasis on marketing, and growing assets and profits again.

Singer and guitar player Mitchell is happy dancing to his own tune as the firm's sole adviser, having previously employed four other advisers over the years.

'There have been years when the income was higher than it is now, but the profitability and recurring income was a lot less,' he says. 'Now we have good levels of both. I am more than happy to be just me, in control of what I do and not having to supervise anyone or

worry about what they are doing, how and how much.'

He admits that, having reached 60, this might present problems if anything were to happen to him – he relies on a locum – and in succession planning.

There were no underlying reasons for all four advisers leaving, he says: 'It could be an element of bad luck. I suspect I am not hard-nosed enough, so I have allowed things to drift. If I was doing it now, I would know that an individual was working or not working and I would be much more inclined to deal with it.'

'There was one adviser who I thought might have helped in terms of succession, but that adviser was poached because it wasn't happening quickly enough for them. I do have to think about what happens to my clients in the future, but I love what I do and enjoy the job, so I will be here for 10 years,' he says.

FIVE top tips

- Plan ahead; don't just react to what is on your desk.
- Keep in regular contact with clients to remind them you are there, interested in them and want their business.
- 'Life can only be understood backwards but must be lived forwards' (Søren Kierkegaard, Danish philosopher).
- Find something you are really good at and hope it is profitable.
- Underpromise and overdeliver.

Starting a shift from in-house to outsourced portfolios

Lowland uses in-house bespoke portfolios, put together using research from OBSR and FE Analytics, and in March it started using five of FE's 15 outsourced model portfolios. These use funds from its 'top 100' funds, which combine qualitative and quantitative research.

So far, 20% of assets have been moved into FE portfolios. 'It will probably increase to 70%,' says Mitchell.

The FE risk level four portfolio has outperformed the IMA Mixed Investment 40-85% Shares sector every year since 2010, except 2012. According to FE, the two main drags on performance that year were Schroder Japan Alpha Plus and M&G Global Basics.

The Japan decision proved ultimately justified thanks to the impact of Abenomics, but FE says M&G Global Basics has continued to struggle.

FE says it remains confident that positioning in more basic industries makes sense over the long term as prices are depressed in this area compared with others.

Total expense ratios on FE's portfolios range from 0.7% to 1.04%, excluding adviser and platform fee.

Portfolio changes

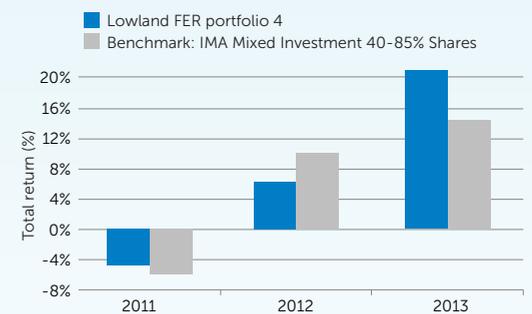
The only significant change Mitchell has made to his in-house bespoke portfolios recently was to Invesco Perpetual High Income following the departure of manager Neil Woodford.

Mitchell says: 'With a high profile manager about to leave, my view was that the fund would suffer

and money would disappear from it in a fire sale, which must impact the fund. Woodford was setting up a competitor, which would potentially take business from them and people too. Those factors made it sensible to look at an alternative.'

If clients in Lowland's portfolios want to switch out of Invesco Perpetual High Income, Mitchell suggests Artemis Income, a Citywire Selection pick run by Citywire AA-rated managers Adrian Frost and Adrian Gosden. According to Citywire Discovery, Frost and Gosden are ranked 29/78 on three-year risk-adjusted returns in the UK equity income sector.

Performance



Data net of platform and adviser costs. Dividends reinvested

ACTIVE FUNDS **PASSIVE FUNDS**

85% **15%**



‘I am more than happy to be just me, in control of what I do and not having to supervise anyone or worry about what they are doing, how and how much’

Graeme Mitchell Lowland Financial

Importing business ideas

Lowland Financial started 14 years ago, when Mitchell bought it out of Lowland Insurance, for which he was working at the time. The first three years were particularly hard work, he says, because he had to create enough income to pay the owners back over that time.

He has always focused on the pre- and post-retirement markets and has absorbed ideas from a wide range of sources in building the firm’s business model. Some of these ideas have come from trips to Australia and America. When the UK market depolarised in 2005, he visited Australia to speak to other advisers about how they coped with a similar regulatory model.

‘The advisers in Australia said being tied was not a problem compared with independence and actually made their lives a lot easier,’ says Mitchell. ‘Although I was initially wedded to independence, that sowed a seed and after the retail distribution review (RDR) I became restricted.’

‘Being tied or restricted doesn’t matter; only the job you do. I am whole of market for everything except the areas I don’t necessarily understand: investment trusts, unregulated collective investment schemes, structured products. That is why I went restricted,’ he explains.

He uses a helpful table he has drawn up to show clients exactly what his restrictions mean in a clear and understandable way for each area of advice.

Fee structure

Mitchell also introduced a fee structure to Lowland after the Australia trip. ‘It helped me realise that for investments it is better for clients to pay initial fees direct,’ he says.

As the RDR approached, he worked with another Australian export, consultant Brett Davidson of FP Advance, to fine-tune processes and service delivery. ‘Brett suggested we charge 1%. But I found it difficult to justify, so I squeezed it up to 0.6% this year,’ he says.

‘Brett also recommended

we use cashflow modelling software,’ he says. ‘Now we use Voyant and it has become indispensable.’

Mitchell acquired a good feel for the software after visiting the Voyant headquarters in Austin, Texas. ‘They took me to a Texan barbecue for lunch,’ he says. ‘It was really good to get close to them. Now if I need anything, they know who I am.’

After the RDR, he also decided to start charging fees on general insurance products.

‘The commission on insurance products is obscene, so clients will be much better off,’ he says.

‘For the 0.6% ongoing fee, clients receive one annual meeting, which includes reviewing and updating the Voyant report, and looking for opportunities to improve funds, and for tax efficiencies. That takes five or six hours for me at £150 an hour; and two or three for support staff at £40 an hour.’

Falling income and costs

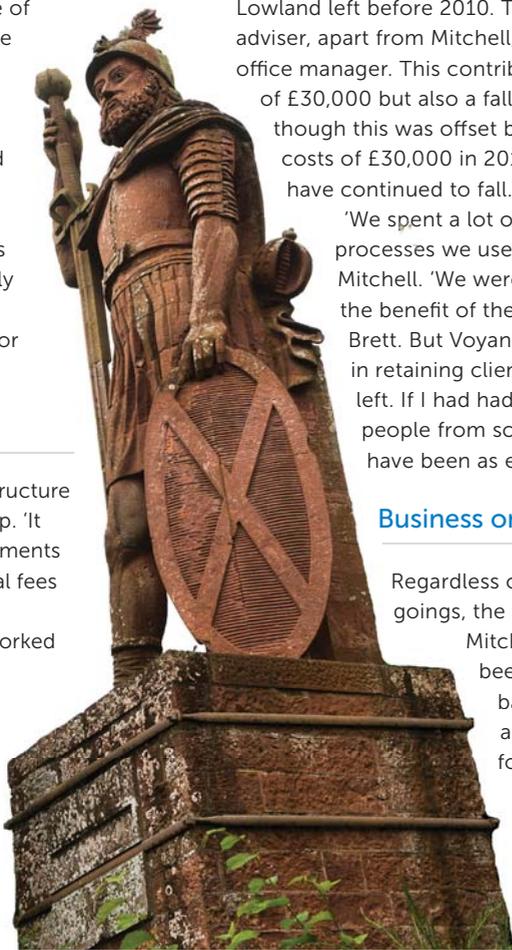
Three of the advisers who were working at Lowland left before 2010. The one remaining adviser, apart from Mitchell, left in 2011, as did an office manager. This contributed to a fall in income of £30,000 but also a fall in costs of £50,000, though this was offset by extra RDR-related costs of £30,000 in 2012. Since then costs have continued to fall.

‘We spent a lot of time looking at the processes we use after that,’ says Mitchell. ‘We were also getting some of the benefit of the work we did with Brett. But Voyant made the difference in retaining clients after the last adviser left. If I had had to get to know these people from scratch, they wouldn’t have been as engaged without it.’

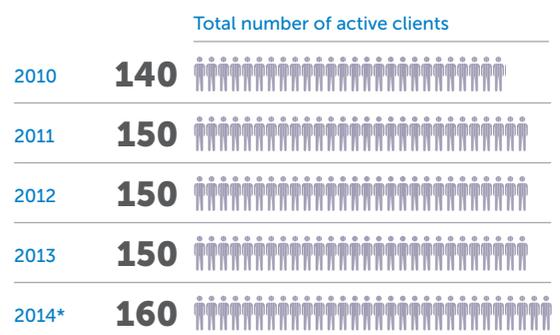
Business on the rise

Regardless of staff comings and goings, the size and profitability Mitchell’s client bank has been growing gradually, based on referrals from accountancy firms and a focus on marketing.

‘I don’t know my capacity [for clients] yet,’ he says. ‘I think I could cope with another 20 or 30. My assets under advice



BUSINESS FIGURES
LOWLAND FINANCIAL



*projected figures

Business



TEAM SUPPORT: (L-R) Kay Scott, administrator; Rachael Dytor, administrator; Graeme Mitchell, managing director; Sally Dodds, administrator

“My assets under advice have increased recently with help from rising equity markets and fewer RDR-related distractions since it came into force, helping me to focus on new business”

Graeme Mitchell Lowland Financial

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Mitchell uses marketing consultant Richard Lomax of Common-Sense Marketing, to whom he speaks every fortnight. ‘That helps me keep focus and brings fresh eyes with a specific brief to improve communication,’ says Mitchell.

‘For example, as the RDR approached, I wanted to write to people about it. The consultant suggested we make it into a positive communication and attached an offer of a free retirement plan. 25 potential new clients came in, and four converted to ongoing clients, plus more needed one-off advice.

‘For another exercise, we offered to donate £50 to a cancer charity for clients who recommended us. We picked up two or three more from that, and it reinforced that our business grows through introductions.’

More recently, he has also been doing a road show with accountants on the Budget pension changes; and has developed a one-off advice package on auto-enrolment.

‘I hate auto-enrolment,’ says Mitchell. ‘It has nothing to do with pensions and all to do with administration. I’m stepping right back from [ongoing advice] on that.

‘Instead I devised a service that is a one-off chat with me about what you have to do. I charge £175 for an hour of my time, plus a bit of prep and follow up. It just covers its costs but is a loss leader because I then say “why not come and talk to me about your private finances”.’

Scottish independence

Lowland Financial is located in Galashiels in beautiful Scottish border country. Mitchell feels a strong association with the history of the area and has fond

memories of past times singing with his father at ‘common ridings’ and ‘bussings’, which are traditional border festivals.

Despite living and working near the statue of Scottish independence fighter William Wallace at Bemersyde, Mitchell is staunchly opposed to the current attempts to break from the UK.

‘The vast majority of my clients are against it,’ he says. ‘The main concerns are about cost and cross-border currency risk. Most of our investments are south of the border. If we keep the pound and the Bank of England sets interest rates, we can’t call ourselves independent. Why not just go for devolution max?’

‘I don’t like all the vitriol: all these trolls saying business can’t speak out about it. If that is what Scotland will be like after independence, I don’t want to be part of that. I want to speak my mind, to have a debate and to listen if someone disagrees with me.

‘Historically the border people were stuck between Edinburgh and London, and not beholden to either of them.’

Helping hand

Mitchell has no problem making himself understood but thinks he suffered from learning difficulties while at school. He believes many advisers have similar issues, and thinks it unfair that they do not get help in sitting exams, the way students do.

‘These days everything is about the exams. I have built a lot of knowledge over decades, so I know what I am trying to get across now. But I would struggle if I had to go straight into something that required an exam or a degree. If I was starting out today, I could be on the scrapheap,’ he says.

Steady outlook

Mitchell says the future of Lowland Financial will be ‘more of the same’. ‘Right now I don’t have an exit strategy because I am not ready to exit. If I am fit enough and enjoying it still, I would do this for 10 more years,’ he says.

‘I talk periodically to companies that buy businesses, just to figure out what I need to do to make sure my business is attractive enough, for example, around recurring income and processes. But whether it is bringing someone in or selling, right now it is not on the agenda.’

His work-life balance is much better than when he started, he says. In the past two years he has made a point of not working at weekends. He divides his time between family and a music club in his village of St Boswells, where he plays guitar in a band called the Sub-commitments and introduces other acts.

‘I am a father of five; four of whom are stepchildren,’ he says. ‘I have learned so much from being a parent and stepparent. I have quite a bit of patience. If there is a heated family discussion, it is often me who can calm it down. The kids have been a huge part of my life. I just like to laugh and enjoy life.’



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