COSTS AND CHARGES BREAKDOWN

We do understand the confusion over these statements which we believe help no-one and are an inane and bureaucratic waste of time and money not guiding anyone in their decisions. The subject takes explanation which I shall now provide.

Charges Summary

Investment Services and/or Ancillary Services

We charge a management fee of 1.5%pa plus VAT for Portfolios and ISAs and 1.25%pa plus VAT for SIPPs. That is calculated on the daily value of the account and collected monthly in arrears, so even over a year, that will never be '1.5% or 1.25% plus VAT' of the value at the start or the end of the reporting period because the values change daily. It will be reasonably close and is still clear.

The only other cost to you is stock market brokerage which is applied to your account whenever we buy or sell an investment. That is levied at a flat 1% on purchases with a Stamp Duty charge of 0.5% on most buys and 2% on sales on the transaction, with no minimum and a capped maximum of £150. If there are no transactions there is no brokerage and if there are lots of transactions (in value terms) following the addition of funds to an account, there is more brokerage. So, if we buy £500 of a holding, you pay only £5 towards the brokerage costs we suffer in dealing for you. (Outside of our management, if a client calls to buy something direct, there is usually a minimum brokerage cost which can be as much as £30.50 and with higher percentages).

Please note that whilst the monetary values are correct, the percentages noted are based on the value as at 5 April 2020. Having just reviewed the figures noted for a specific client, we noted that based on his actual charges (management fees and brokerage on real transactions over the tax year), they were far lower than the arbitrary percentages shown on his summaries which are calculated based on the value of each strategy at the reporting date.

That is 'it' insofar as what your account pays us. There are no extra charges for withdrawals or income payments as are often the case elsewhere. We also don't charge you any subscription fees on new money (most advisory firms take an average 3% but some, like St James's Place, takes a 6% charge upfront).

What do we pay from what we charge you? Aside from our usual business bills, we pay the market its brokerage for deals. We pay part of the percentage fee to the administrator and independent custodian holding and protecting your funds. We pay any 'product' administration fees, to make our account offerings as clear as possible.

What else do our you receive for the fee we levy? It covers the necessary protection you enjoy in regard to regulations and professional indemnity insurance (which alone costs approaching six figures a year now) to give our clients the security they expect. However, quite uniquely in the industry it seems, the management fee also covers free-of-charge annual strategy reviews in relation to clients' personal circumstances and as you will know, the opportunity to raise enquiries and seek guidance any time. Most other financial advisory firms charge extra for that; as much as 1%pa plus VAT based on the investments' values on top of underlying fees and brokerage etc. The 'worth' of this extra facility is ignored in the 'costs and charges' summary.

Investment Product Costs

This figure suggests the costs from the underlying investment components within your account. No money is taken from your account with us for these but it is a best guesstimate of what the underlying funds may cost based upon the amount of each holding you have. The monetary values and percentages noted are estimates only but then based on the average valuation of the account over the course of the tax year.

Itemised Breakdown of the Charges

This section is a breakdown of the Charges' Summary, divided between the Investments' Services charges which are paid direct from your account and the Financial 'Fund' charges which reflect underlying costs against certain types of managed holdings. There are no extra costs for direct shares and stocks but we should be wrong to simply have those alone so as to avoid paying an underlying manager its costs for a specific specialist job for you.

One-Off Charges – Comprises entry and exit charges. As confirmed, there are no charges levied to accounts to add or withdraw funds in cash (see full terms). As stipulated in our Client Agreement with you, costs do arise for the transfer of funds to another provider.

Ongoing Charges – The Investment Services' figure is the Management Fee paid to us. The Financial Instruments' amount reflects underlying costs met by some of your holdings.

Transaction Charges – The Investment Services' figure is the brokerage charges for any "direct" stocks (which show no underlying costs) sold or bought. The Financial Instruments' amount reflects all underlying costs estimated by specific holdings as a result of the acquisition and disposal of investments.

Incidental Costs – We do not levy such fees but some individual holdings have a performance fee if certain attainments are achieved within a period and in this scenario, the charge deducted from your account will be noted in the Financial Instruments' figure. This is very rare as we tend to avoid funds which have them.

Of course, it would not be wise if we just owned direct shares so your 'costs and charges' schedule looked really low by there being no underlying fees associated with holding certain stocks and which in reality you never see. As an example, let's look at Blue Planet Investment Trust, a small Trust where today for 25p we can own 33p of underlying assets. Effectively if the Trust manager decided to close-down tomorrow and sell all the holdings, we'd receive a 33p pay-out – a 32% uplift for nothing. In the meantime, we receive the return on 33p's worth of assets for you. Its management fee is 1.5%pa but it incurs other costs too – brokerage on transactions and the costs of being a company. Because it's small, some costs are higher disproportionately as they are fixed whatever its size. It is an active fund and whilst it has negotiated low brokerage, there is more of it as a consequence. It also buys some funds occasionally which also incur 'costs'. If we assume its total equivalent hypothetical annual cost is 4%, comprising a combination of management fees, possible brokerage, the costs of holding other funds and the Company's fixed costs, that's 'a lot' but not if the fund winds-up and we receive the 32% bonus which is equal to eight years' of all its fees.

So we may have fifty components in your account, mainly funds but 'free' direct stocks too. The system has to guesstimate what the average split was and then has to analyse each fund for a rough idea of what its unique annualised 'costs' may be and then apply this arbitrary factor against your individual pot. For us as managers, it makes no difference whatsoever what we hold for you. We receive nothing from your holdings at all (the dividends and interest received are of course yours in full). We buy whatever helps us achieve what we believe is the optimum strategy for you. We would not go out of our way to buy an fund with underlying charges unless there is a specific extra attraction for you in doing that over a 'cheap' alternative.

Cumulative Effect of Costs and Charges on Return

This figure discounts any money added or withdrawn from your account via transfers or lump sum contributions/withdrawals, based on the aggregated and proportioned daily values of the accounts. Therefore, this percentage will differ from the total percentage noted in the Charges' Summary section which does not reflect the effect of money added to or withdrawn from account.

What this summary does not include

The benefits of our unique administration and dealing system and how we manipulate it are not accounted for within these statements. For example, so frequently when dealing on accounts we secure special terms not available to the general market. Recently we have been selling-down one of our larger holdings as it has fulfilled our expectations and there is often more buying interest than selling so the market is frequently short of stock, knows we have some and approaches us with compelling prices to sell some of ours. We can be securing 2-4% more than the market's quoted selling price. When clients need to access cash or on liquidations and deaths too, we try our hardest to match those sales with other clients needing to buy the same thing – and again, this means a mid-market price, cutting-out the middleman and worth several percentage points to each side.

So where do these 'benefits' show on the 'costs and charges' summaries'? Nowhere. Would you gain these savings elsewhere? Infrequently, if at all, as most trade on an individualised, automated basis – sales are processed by pushing buttons and purchases happen as soon as cash arrives (and not the deferred buying programmes we engage with new cash, looking to ensure the prices we want are the optimum we can secure and so valuable in times of volatility like we have endured recently).

Conclusion

These figures are all based on so many hypotheticals which may or may not change and indeed, as we have found, inaction on the manager's part (even when action was/is the right thing to do) gives the impression of being 'cheaper'. We have also found that in certain scenarios, the formulae don't work well – for example, if a percentage is applied to a portfolio's average daily value then if you add a chunky subscription and incur brokerage on the purchase of investments it gives the impression of really high overall charges on the small average for the year. Of course, that is false.

These statements are not helpful and don't encourage investors to have conversations with their advisers about the whole field of the real costs they must pay. And that is not to mention the provision of guidance such as during the awful times recently, all as part of our service and included in the 'cost' – apparently cheap 'automatic' services endured significant encashments as people panicked because they had no-one from whom to expect guidance. I am pleased to say that we had hardly any liquidations or withdrawals during the awful times – as we did our best to guide and help everyone even if they needed access to cash – and to invest at such cheap levels instead. How much was that advice and management worth to them – 5%? 10%? 15%? 25%? And that's all in our service. Such possible saving is not reflected in these annual costs and charges' summaries and could have been worth many years' total charges just through one small interaction or trust in our experience, service and judgement.

Overall, as a general average across our accounts – Pensions, ISAs and Portfolios etc, after the administration and custody costs, we receive roughly 1%pa for our job of management of the investments and all the ongoing service and advice in regard to the investments and their suitability for you. We don't think that is wrong nor expensive for all that we do.

I hope that these explanations are helpful. Next year, the summaries will have lower figures as the recent past experience means lower overall costs so smaller factors can be applied for this somewhat futile exercise. Please be assured that we shall do our utmost to do the best we can for you and that includes contain costs as much as absolutely possible – whoever incurs them – as that is what is best for you as long as that does not restrict us from having the best financial advice for you and the optimum underlying assets for your account.

Philip J Milton DipFS CFPCM Chartered MCSI FPFS FCIB
Chartered Wealth Manager
Fellow Of The Personal Finance Society, Fellow Of The Chartered Institute Of Bankers