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Would you move your money from a bank account in the UK to another overseas without knowing how much was in it?

Probably not. Yet this is what many people do when emigrating to a new life in their dream location if they have not considered how they are going to exchange their money and other financial assets into the new currency of their chosen destination.

Exchange rates play a vital role in your move abroad, as the rate you achieve will determine how many Australian Dollars, New Zealand Dollars or other currency, your Pounds sterling will buy. It goes without saying that you should aim to obtain the greatest amount of foreign currency for every single Pound you transfer and spend.

This document is intended to help you understand the various methods available to you to best manage your currency transaction. We will show you how simple it can be to transfer all your financial assets overseas and how exchange rates should be seen as an opportunity rather than a hassle or something to be feared. Your circumstances will almost certainly be unique but there are certain common procedures that most migrants will have to follow. For example, your visa may be conditional upon you investing in your destination country even before your application can be accepted, and in some cases if you wish to purchase a new home in your chosen country, the money must be available in your new bank account before an offer will even be considered on the property.

SCENARIO – MOVING OVERSEAS

As you probably already know, moving to a new way of life can take months, sometimes even years of planning. There are many 'new' things to decide on. Your new home, new job, new lifestyle, new friends, maybe new schools, the list is endless. However, what you may not yet have considered, as it rarely features at the top of most migrants list of priorities despite its obvious importance, is your 'new financial wealth'. It is worth remembering then, that during the weeks or months between deciding to migrate, receiving your visa and getting on that plane to start your new life, the exchange rate will continue to move up and down, and this will directly affect the value of your new financial wealth.

Should you want to know all your costs up front, then converting every penny you own in one transaction would be the ideal solution for you. However, as with many people, you may have chosen to invest your money in a portfolio of financial investments and your financial net worth is unlikely to be found solely residing in cash, in your bank account. In fact, releasing your money may be complicated, as you may have equity in your home, a car to sell, maybe a stock market portfolio or PEP, possibly a pension and other financial investments. It will take time to release the money tied up in all of these assets into easily transferable funds. Unfortunately, it is this extended timeframe that exposes you to currency risk; the risk that the exchange rate may move adversely against you.

If we assume that the measure of 'success' in your overseas move is dependent on reducing costs and also knowing how much your financial assets will be worth in your new currency, you will need to overcome this common 'time lag' problem. The following example will help demonstrate this.

Assuming you and your family are moving to Australia, the table below outlines a generic example of where your financial wealth may be tied up:

Asset	GBP Value	Due For Release By
Liquid Cash	£25,000	Immediately (31/05/04)
PEP	£20,000	30/06/04
Stock Investment	£30,000	31/08/04
House (equity)	£ 150,000	30/11/04
Car	£15,000	28/12/04
TOTAL	**£ 240,000**	

As your departure date approaches you will need to convert your financial assets into Australian Dollars ahead of your new life overseas. The exchange rate you achieve will directly determine the amount of Australian Dollars that arrive into your new bank account and are therefore available to invest and spend in Australia.

Given the inherent uncertainty and time frame, you will be pleased to hear there are a number of ways in which you can buy your currency and transfer your money effectively. You choose the plan that suits you best.

N.B It is worth being aware of any financial commitments that your visa may stipulate.

LOW RISK STRATEGY – BUY THE CURRENCY UP FRONT

The strategy is very simple and popular with cash rich, risk averse buyers. It is only really suited to migrants whose transferable funds can be moved freely and quickly, perhaps because their financial wealth resides solely in their bank account as cash or those who have already realised their assets by selling their house, car and other investments. If you fall into this category then you are free to exchange your funds at short notice; possibly in just one transaction.

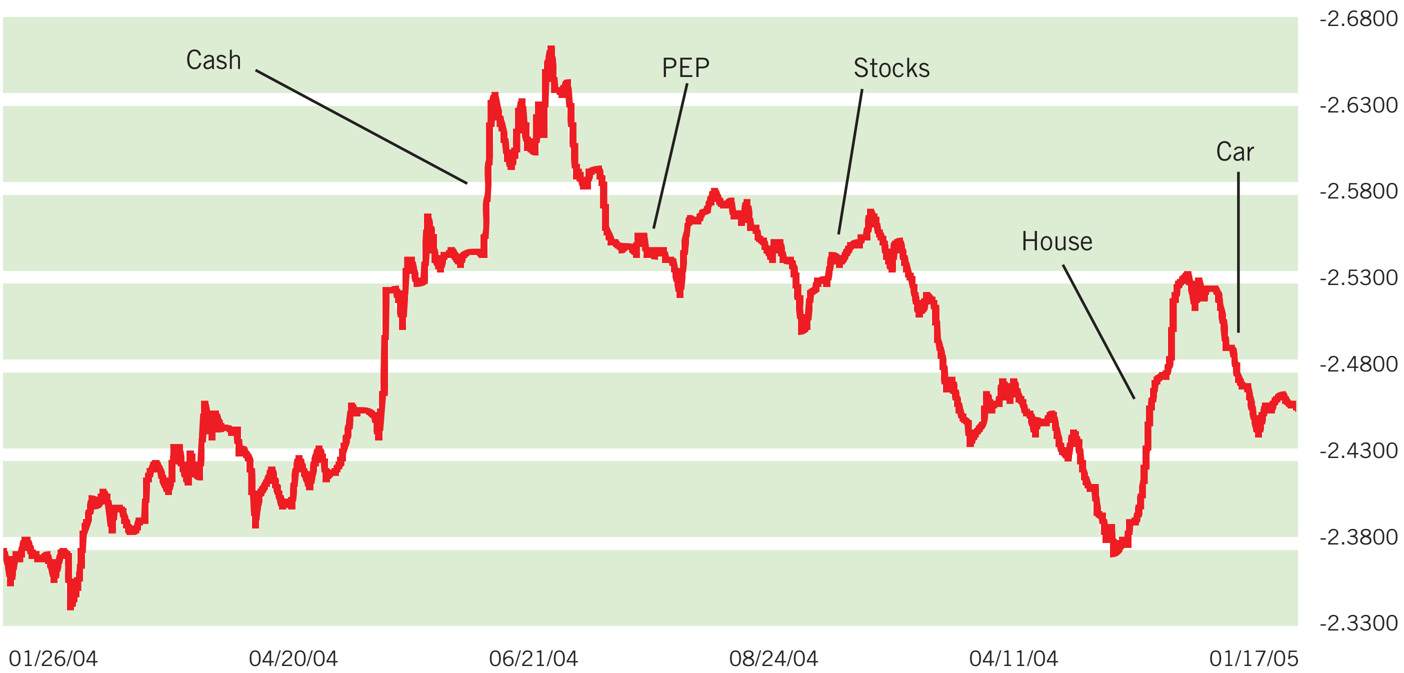
Using the example of you and your family moving to Australia, to reduce the ongoing exchange rate risk, this strategy involves the exchange of £240,000, the family's total financial wealth, into Australian Dollars in one transaction, on a spot contract at the prevailing exchange rate of the day. The Australian Dollars could then either be immediately transferred to Australia or held in a transaction account with Halo Financial until you direct otherwise. This may be necessary if you haven't yet set up a bank account within your chosen destination.

This strategy not only reduces currency risk and administration, it also provides immediate confirmation of how much new currency you will have available to you, but does require you to have the settlement funds immediately available to transfer.

MEDIUM RISK STRATEGY – BUY THE CURRENCY IN STAGGERED PAYMENTS

This strategy is simple. You reduce the ongoing exchange rate risk, through the immediate conversion of each separate asset, from one currency to another, as they are released into transferable funds. Because this strategy spreads the currency risk over an extended timescale, 7 months in this example, it is not until you have completed every stage of the transfer, that you will be able to calculate the average exchange rate you have received.

The chart below illustrates how volatile exchange rates can be. The jagged line represents the exchange rate over the course of a 12 month period and the boxes detail when each asset has been released and converted.



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Remember that as each asset is released, you would exchange those funds into Australian Dollars on or soon after the release date. Therefore, whilst this strategy enables you to manage your currency risk on an individual asset basis, as and when they become available to you, the main downside is that you have no control over determining the exchange rate for subsequent assets.

The table below illustrates this point:

Asset	GBP Value	Date For Release	Prevailing Floating Exchange Rate	Amount of Currency bought
Liquid Cash	£ 25,000	Immediately (31/05/04)	2.5625	AUD 64,063
PEP	£ 20,000	30/06/04	2.5951	AUD 51,902
Stock Investment	£ 30,000	31/08/04	2.5565	AUD 76,695
House (equity)	£ 150,000	30/11/04	2.4610	AUD 369,150
Car	£ 15,000	28/12/04	2.5028	AUD 37,542
TOTAL	**£ 240,000**			**AUD 599,352**
Average Exchange Rate				**2.4979**

Whilst it is simple and can be quite effective, this strategy may not suit you or your timeframe. You will not know how many Australian Dollars you will receive until the final payment has been made, 7 months after the first currency exchange. The fear of not knowing what exchange rate you will receive from one week to the next and the increased administration of having to manage several currency contracts over an extended timeframe, means that this strategy will not suit everyone.

HIGH RISK STRATEGY – IGNORE STRATEGIES AND EXCHANGE YOUR FUNDS AT THE LAST MINUTE

This is a common course of action for people who may be unaware of the risks that exchange rate fluctuations bring. Sadly this inaction often costs them a lot of money. This higher risk, strategy, involves converting your hard earned capital to Australian Dollars on a single spot contract just before your actual move, or, as it has been known, just before you board the plane!

The chart below illustrates how volatile exchange rates can be. The jagged line represents the exchange rate over the course of a 12 month period. The actual exchange rate you get could, in this instance, be anywhere between A$2.33 and 2.68. On £240,000 this is a variance of A$84,000 or £36,000. Clearly, timing and planning are essential if this sort of loss is to be avoided.

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In this example, the exchange rate available on the date your assets are finally exchanged into Australian Dollars will determine the amount of currency you receive into your account and thus determine your net financial wealth in Australian Dollars. In this strategy, we will assume you don't exchange your funds into Australian Dollars immediately they become available for release. You ignore the exchange rates prevailing on the day of release and choose to exchange the total value of your funds, £240,000, into Australian Dollars at the last minute, 7 months after the release of your first asset.

Because you are soon to depart and time is no longer on your side, you exchange at the rate of the day on the 28th December 2004.

Asset	GBP Value	Date For Release	Prevailing Exchange Rate On Day Of Release	AUD Value On Day Of Release	Exchange Rate Traded At	Currency Bought	Gain or Loss
Liquid Cash	£25,000	Immediately (31/05/04)	2.5625	AUD 64,063	2.5028	AUD 62,570	-£597
PEP	£20,000	30/06/04	2.5951	AUD 51,902	2.5028	AUD 50,056	-£738
Stock Investment	£30,000	31/08/04	2.5565	AUD 76,695	2.5028	AUD 75,084	-£643
House (equity)	£150,000	30/11/04	2.4610	AUD 369,150	2.5028	AUD 375,420	+£2,505
Car	£ 15,000	28/12/04	2.5028	AUD 37,542	2.5028	AUD 37,542	£0
TOTAL	**£240,000**			**AUD 599,514**		**AUD 600,672**	**+£527**

By adopting this plan, you not only remain uncertain for many months as to what your new financial net wealth will eventually be, you may also exchange your funds at a significantly worse exchange rate if the value of the currency has fallen. In doing so you therefore run a far higher risk than is necessary. Would you move your money from one bank account to another without knowing how much was in it?

RISK MANAGEMENT STRATEGY – BUY THE CURRENCY ON A FORWARD BASIS (PERHAPS THE BEST OF BOTH WORLDS)

Forward contracts are beneficial as they allow you to:

- Manage your currency risk
- Identify the amount of money you will have in your new bank account from the outset
- Keep you cash rich by not tying up large quantities of your money.
- Beneficially time the liquidation of your assets

In many ways they are perfect for transferring money overseas as they offer a simple, risk free means of securing advantageous exchange rates without the pitfalls of the other options.

Forward contracts enable you to fix an exchange rate at the outset for delivery and settlement of your foreign currency at an agreed date in the future. As it is fixed, the exchange rate is not subject to rampant currency fluctuations so you can budget for your future life far more easily as you know how much money you will have in your new bank account from the start.

In addition, a forward contract can be agreed and an exchange rate fixed without the need to pay for the contract in full, in advance. In fact, a major advantage of forward contracts is that the immediate payment of a small deposit, equal to 10% of the amount you wish to convert, can fix an exchange rate against the total financial value of your assets, with the 90% balance payable upon the contracts completion. This is perfect if a sizable amount of your wealth is tied up in various investments. For example, if you need to buy £100,000 of currency, all you will need to send us is a £10,000 deposit immediately and £90,000 at an agreed date in the future.

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The chart below illustrates how a forward contract can iron out currency volatility:

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In the above example, the fixed exchange rate guaranteed you A$615,000 for your £240,000. A forward contract was purchased against your total asset value to fix the exchange rate and protect it against any deterioration in its value. The forward contract was secured by using just £24,000, and was paid for from the funds available in cash. You will notice that the forward contract was purchased against the fixed exchange rate rather than at the prevailing market exchange rate, which deteriorated significantly.

The financial savings from this risk management strategy versus the high and medium risk alternative, is outlined in the table below:

Strategy	Amount	Exchange Rate (Average)	Amount Of AUD Bought	Saving
Medium risk	£ 240,000	2.4979	AUD 599,352	£ 0
High Risk	£ 240,000	2.5028	AUD 600,672	£ 462
Risk Management	**£ 240,000**	**2.5625**	**AUD 615,000**	**£ 6,200**

Not only can forward contracts save you money, they also reduce the administration and worry often associated with currency buying. These contracts are very flexible, allowing smaller sums of money to be drawn down within the contract period whenever you require them. Indeed, should you experience any delay in your move or any unforeseen costs that need to be paid in your new country of residence, your contract can be amended to reflect this. (A small charge for this service may be levied depending on the currency and timescale involved. Please check with your FX Consultant).

Foreign exchange therefore has a very direct impact on the value of your new wealth. Generally the longer the timeframe the greater the extent of a currency's volatility, However, it is worth noting that, in time of increased exchange rate volatility, shorter timeframes can be equally affected. Should you be moving imminently, don't make the mistake of assuming you will be unaffected. Risks remain – risks that could prove very expensive if not considered and managed early.

OUTCOME

The above generic examples help to explain the importance of foreign exchange within the process of moving overseas. They also show that when you buy and the means you use to buy your currency will have an impact on your overall costs and cash flow, The confidence needed to manage the risks comes from knowledge and guidance – we hope we have given you a head start. However, your circumstances are unique and so the solution that bests suits you is likely to be unique as well. We recommend you contact us for a personal consultation to discuss your individual requirement.

GETTING STARTED

For further information on how Halo Financial can help and to enquire about account opening documentation, please contact the private client team on:

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