Investing in
knowledge

Education is the ability to listen to almost anything without losing your temper or your self-confidence – Robert Frost.

Q4/12

While economic data remained weak in all of the major regions, the prospect of additional monetary stimulus from China and the US supported the outlook for slow, but sustained, global growth.

Business as USUAL

THE LAST ECONOMIC QUARTER UNFOLDED IN FAVOUR OF EQUITY MARKETS, WHILE BOND MARKETS HELD THEIR GROUND. INVESTORS' AVERSION TO RISK GRADUALLY SUBSIDED AS IT BECAME INCREASINGLY APPARENT THAT POLICY MAKERS WOULD DO "WHATEVER IT TAKES" TO HALT THE DETERIORATING SITUATION IN EUROPE.

We have been increasing our exposure to equities within client portfolios and this is starting to show positive returns especially for those who have had the confidence to increase their international equity exposure. The current low interest rate environment is likely to continue for some time so bonds will struggle to deliver the returns investors have been used to. Multi sector fund managers have underweighted their bond exposure but still retain bonds as a tool to reduce risk plus provide some income.

Investors around the world are getting used to the constant volatility that we have seen in recent years. Opportunities are out there and investors are starting to feel more confident about committing cash reserves to the market.

GENERATION
WEALTH MANAGEMENT

Albany Office
PO Box 301 789, Albany
North Shore CIty, Auckland 0752
TEL. 09 448 5083
EMAIL. albany@generationwealth.co.nz

Botany Office
PO Box 64001, Botany, Manukau 2163
TEL. 09 272 9030
EMAIL. botany@generationwealth.co.nz

Pukekohe Office
PO Box 66, Pukekohe 2340
TEL. 09 238 3322
EMAIL. pukekohe@generationwealth.co.nz

We wish you a Merry Christmas and happy and prosperous 2013

They say that as you get older time seems to move faster – well, everyone at Generation Wealth can vouch for this as 2012 seems to have raced by! It's near the end of another busy and successful year for us, with much to be done before the end of the year rolls around, let alone thinking about things like xmas presents, holidays and of course what's happening on the big day itself. We will be closing our offices to give all of our staff a well earned break, the last day being Friday 21st December, and re-opening on Monday 7th January. Note that there will be an adviser to assist you after the 7th with any queries you may have.

Inside

Generating

RETIREMENT INCOME

New Zealand investors who seek income to fund their retirement needs have historically been somewhat spoilt. New Zealand has had historically high returns from bank deposits, bonds, company dividends and residential property appreciation.

This has created the belief and expectation that one can live off the income from one's retirement nest egg and retain the capital for the kids. However, the rest of the western world has largely lived in a lower interest rate environment where bank deposits and bond returns have been in the vicinity of 1-4% before tax. For these people, retirement has been about having a well diversified, relatively liquid, investment portfolio and discussing 'capital drawdown ratios' has had much more significance than how much income they can generate from their lump sum. For much of the western world, retirement has been about calculating how many years their retirement funds will last if they eroded the capital at 4%, 4.5% or 5% per annum.

New Zealand investors may need to start thinking the same way. Our economy is becoming increasingly aligned to the rest of the world. Interest rates are likely to stay low for some time and the government is starting to take steps to slow down residential property price appreciation. Obviously, if your retirement nest egg is large enough, then a discussion on capital erosion is not required but for the average investor, capital erosion is definitely more on the cards than before.

For options on funding retirement income needs see the chart below.

We recommend that a diversified approach to funding retirement be considered. This will provide you with greater flexibility, less risk and potentially more cash to enjoy retirement. Enjoy your retirement and use your capital and income. After all, you worked hard to accumulate the capital so spend it yourself rather than giving it to the kids to spend.

Talk with us about how best to achieve your retirement funding.

OPTION	COMMENT
Invest into higher returning products	This is dangerous as normally the higher the return, the higher the risk and once retired, one cannot afford to suffer permanent losses. Higher returning products often have higher volatility and this may mean that the value of the investment is low just when you need to access the capital.
Draw down capital at a sustainable rate	A diversified portfolio would be constructed with a conservative projected return. Capital would be withdrawn from the portfolio each month at a rate calculated to sustain your desired lifestyle and to match your expected longevity.
Live off rental income	The problem with having one's retirement based upon investment property is that capital values are becoming more volatile, property is illiquid and can be hard to sell in depressed times and if a major event such as an earthquake or volcanic event occurred, then you may have no tenants and an insurance payout could be some time away. Christchurch has been a traumatic experience for those retirees who were funding their living needs from rental properties which have ended up being uninhabitable.
Sell a business	NZ is a nation of small business owners and many people are anticipating funding their retirement from selling their business. However, the sale may occur too late and the business may have been in decline for some time – resulting in a much lower than expected sale value being achieved. It is recommended a well-structured succession plan be implemented so ownership is transitioned to more energetic people whilst the business is performing well. Businesses are illiquid assets and cannot always be sold just when the retiree needs the cash.
Sell home and trade down	This works best if one sells and moves to a lower socio-economic area and purchases a smaller home. However, many are reluctant to do that and would prefer to remain in the same neighbourhood. Consequently, the amount of capital freed up is often less than anticipated. Discuss with the family the concept of a reverse mortgage or where they lend you money at a preferential rate using your house as security.
Sell unused assets	We often hold onto some assets longer than we really need to. This includes holiday homes, caravans, boats etc. If they are not being regularly used then consider their sale as their continued ownership incurs costs.

Summing up

- Time for a rethink on how you use your capital in retirement.
- You don't have to spend all your capital in one go. Think of it as a glass where you drink a little, then fill it up a little.

Assets seem to be rated higher THAN LIFE

International insurer AIA recently completed a survey of insurance cover and attitudes amongst New Zealanders. This showed that many New Zealanders feel more comfortable insuring key assets such as their house, contents and car, rather than their lives, health and income.

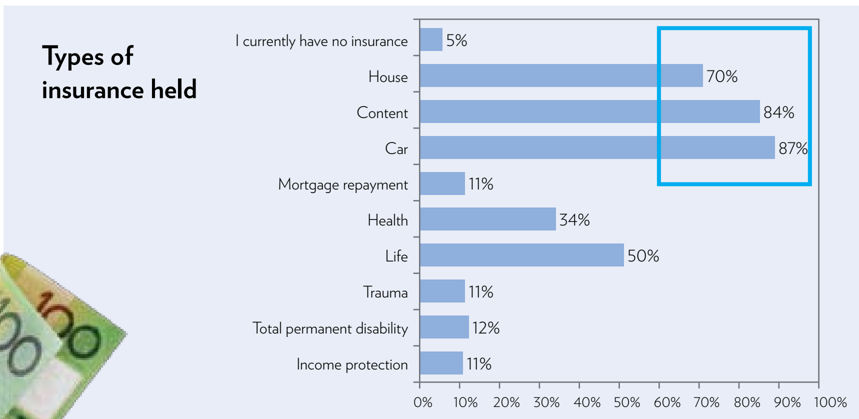
The ramifications of this underinsurance of life were vividly displayed in the Christchurch earthquake. Of the 185 lost lives, only 84 life insurance claims were paid out (total of $16.5m) giving an average payment of $196,429 per claim. It is likely that of those who had life insurance, the amount they were insured for was well below what they needed to repay the mortgage, provide for the spouse and family and meet other commitments.

Interestingly, the research indicated that 92% of those surveyed regarded home and contents insurance as being very important or quite important whereas only 65% regarded life insurance as being very important or quite important. Those regarding other key personal insurances such as trauma, total permanent disability and income protection with the same level of importance were all around 40% or less.

The reasons for the chronic level of personal risk underinsurance in New Zealand are not fully known as everyone has their own specific reasons. Some of the more common reasons are:

- A perception that life insurance is too expensive – whereas the reality is it needs to be more expensive than house insurance as the likelihood of making a claim is greater.
- Lack of understanding and knowledge around the products and just how essential they are.
- A lack of awareness of the sometimes catastrophic consequences of not having any or not having enough life insurance.
- A perception that death, illness or major injury is "not going to happen to me". Once we do realise our own mortality, then the ability to obtain the much needed insurance is often denied due to some pre-existing condition that has developed. The moral of the story is to apply for the insurance when you are fit and healthy and when the cost of the insurance is low.

Don't end up being an under-insurance statistic. Talk to us now regarding your insurance needs and amount of cover.



CHRISTMAS – A TIME OF JOY? TIME TO GET IT SORTED

As we age our view on Christmas seems to change. When young, Christmas is a period of presents, fun and excitement. When we are middle-aged, Christmas becomes a time of stress, rushing, expense and a sense of having to do one's duty and catch up with long lost family. Once the kids have left home, Christmas still seems to be stressful and you are confronted with who to share Christmas Day with, what sort of presents the grandchildren will like, plus how to stay awake after a huge meal and a few drinks.

Christmas seems to have taken on too much commercialism and we seem to be trying too hard to jam too much into just one day. If you think this way, then it's time to get Christmas sorted this year. Consider some of the following changes:

- Give the present of time and wisdom rather than money or some toy.
- Spread the joy over the entire Christmas break rather than jamming it into one day.
- Experiences are usually remembered long after the more tangible gift. Spend time thinking of each person you love and consider carefully what sort of experience you can provide for him/her that they will remember long after Christmas Day.
- Surprise the kids and/or grandkids by embracing technology and communicating with them using their technology. Get them to help you build your Facebook page, web page or personal electronic vault.

Encourage a more relaxed Christmas Day. Be light on the presents but make the presents more relevant and enjoy the time discussing what to do and how to give it. Everyone will benefit.

Summing up

- You are more likely to claim on your life insurance than your home cover.
- Slow down and enjoy Christmas more!

KiwiSaver
TURNS FIVE

IF YOU HAD TOLD ANYONE THAT KIWISAVER WOULD HAVE TWO MILLION MEMBERS IN THE FIVE YEARS FROM LAUNCHING IN 2007, THEY WOULD PROBABLY HAVE LAUGHED AT YOU.

After five years of frenetic growth, KiwiSaver is now seen as New Zealand's most popular savings 'brand'.

Here are some of the facts so far:

- Treasury estimated that in the first 6 years only 680,000 would enrol. After just 5 years, we have almost 2 million KiwiSavers, with $11.8 billion accumulated so far
- More than 900,000 KiwiSavers are aged under-35
- IRD says around a third of the investment in the fund is new saving

About 23% of all KiwiSaver members are in the six default schemes: AMP, ASB, AXA, OnePath, Mercer and Tower. If this is you, you should take a positive step by making an informed choice about the best fund for you – one that will build your long-term wealth.

To give an idea based on fund performance these past five years, an employee earning $40,000 and contributing 2% should now have $11,200–$13,200. If they had set aside 4% it would be $19,500–$23,000, and at 8% they would have $33,500–$40,000. Over time, there will be many more people reaching this milestone with far more sizeable savings.

The 5-year minimum enrolment period has now passed for those who signed up at inception. If you're eligible (approx. 17,500 people are), you can now tap into your entire KiwiSaver account: your contributions, your employer's, the government kick-start and member tax credits, and the returns you have earned. (Since you have already paid tax on your earnings each year, you will not be taxed when you withdraw.)

But how fast you open the tap is up to you: keep it closed for now to keep growing the balance, open it slightly to supplement your retirement income, or all the way to release the entire amount to spend or invest elsewhere. Think carefully and consider getting financial advice before you decide. It's a good idea to talk with an Authorised Financial Adviser about your goals, your financial needs and risks, and to work out the best course of action

What about keeping your KiwiSaver account growing? You may be able to continue contributing to your account and earn returns. If you are still working, your employer may choose whether to keep contributing or not, but they don't have to. The government will no longer contribute its member tax credit.

If you do leave your money in your KiwiSaver account, check that you have the right type of investment, with the right amount of risk, for your needs.

Research firm Morningstar released the performance figures for that first five years of investing, revealing a wide range in the competing funds' performance, and allowing savers to compare their fund with others. Five years is a timely period for savers to consider the performance of their KiwiSaver fund. The fact that this particular five years has been dominated by the global financial crisis should make no difference.

So what if your fund's performance is below the average in its category for the past five years? Firstly, it's important to first make sure you're comparing the same type of fund. People need to look at the risk of the fund, don't compare a conservative fund with a growth fund.

If a fund is consistently performing poorly, compared with others in the same category, investors should be asking why: "is it management, is it strategy?"

The alternative is to consider switching but be cautious about making a decision to switch based purely on the return figures. Savers also need to consider things such as disclosure, transparency, cost and quality of information. And if savers want to change scheme they should seek advice first.

We can help investors find out their risk profile and make sure you are in the appropriate option.

Straight after the global financial crisis many people were very conservative and that has served them well over the last five years but in the longer term that's not going to give the best performance.

Remember KiwiSaver is a long-term investment, not one for the short term. Research tends to show people over-respond to short term performance and under-react to long term trends.

One of the reasons the Australian economy performs better than ours, and its investors come over here and buy our companies, is that they have deep pools of savings capital. They save 9% of their income and that is increasing to 12%. KiwiSaver is the start of the fight back!

Life's tips

"Sometimes I lie awake at night and I ask, "Is life a multiple choice test or is it a true or false test?"... Then a voice comes to me out of the dark and says, "We hate to tell you this but life is a thousand word essay."

– Charles M Schulz

Next step

··· See us about the best investment options for you.

GENERATION
WEALTH MANAGEMENT