

# GENERATION

## WEALTH MANAGEMENT

### REGULAR UPDATES

We have been operating as **Generation Wealth Management** for eight months now as an independently owned business and independent of any national brand. The difference has been dramatic for us but we have worked hard to ensure that the effect on clients is minimal.

Newsletters have always been one of the ways we communicate with clients and we intend to continue this mode of contact. You may, therefore, expect to receive an update from us on a quarterly basis. We will be aiming to provide you with news and views both from our office and from the wider world of investment markets generally.

### CHANGES IN FINANCIAL MARKET AND ADVISER REGULATIONS

Restoring investor confidence in New Zealand's financial markets is the major goal of the new Financial Markets Authority (FMA) which was formally established on May 1<sup>st</sup>.

The FMA is a new crown entity that has taken over the functions of the Securities Commission, amongst other roles. "FMA's intent is to establish clearer and more consistent rules for market participants, improve market intelligence and surveillance, and be more visible and proactive in regulation and enforcement as well as raise the standards of financial advisers," said new chairman Simon Allen. The FMA has new powers, new functions, a greater mandate and

significantly increased budget compared to its predecessors to ensure the proper and transparent operation of financial markets.

From 1 July 2011, financial adviser regulations come into full effect, making it an offence for unlicensed financial advisers to provide retail clients with personalised investment planning services and financial advice on investment products.

All advisers at Generation Wealth Management will be qualified under the new regulations, meaning it's business as usual. Qualified advisers are publicly recognised as an Authorised Financial Adviser (AFA), licensed by the FMA.

### KIWISAVER IN FOCUS

The changes to the terms of KiwiSaver announced in the latest budget have created a lot of media comment and brought the scheme back into focus. So why is there so much interest in KiwiSaver and why is it important for you to re-look at what you are doing about it?

KiwiSaver was set up in 2007 with the aim of boosting personal savings and building an 'investment culture'. The scheme has been wildly successful, so much so that it has become a victim of its own success in these tough economic times. KiwiSaver was forecast to gather 186,000 members in its first year and have 680,000 members by 2014. In fact, it attracted 716,000 members in the first year and

now has over 1.7 million members with over \$8bn in personal retirement accounts. These numbers have meant that the government has trimmed its extremely generous incentives to help it meet its deficit reduction targets.

So what has changed? The government's initial \$1,000 kick-start contribution remains, but the member tax credit has been halved from the current dollar-for-dollar contribution matching on the first \$1,042 added annually from 1 July this year. From 1 April next year employers contributions will be taxed, and the following year the minimum contributions from employees and employers rises to 3% from 2% of earnings.

All of this means that KiwiSaver remains an extremely good way to build up retirement savings and you'd be crazy if you looked this gift horse in the mouth! Of the sums credited to individual KiwiSaver accounts for most adult members, only 35-50% has come out of each of their back pockets. This means that each such member has been getting a top up on their annual contributions of between 100% and 200% - an exceptional return!

Given the amounts now invested and the benefits to be gained, you'd think that Kiwi's would be taking more of an interest in their savings. As financial advisers, we find it astonishing that more than 50% of members have taken no part in choosing their KiwiSaver scheme and have ended up in a default fund. These default funds are very conservatively invested and will struggle to outperform bank deposits – hardly the way to invest to build long term wealth!

So what should you do? If you're eligible and not one of the 1.7m Kiwi's who have joined, reconsider your decision bearing in mind the attractive incentives in place. If you are a member, review the type of fund you're invested in and perhaps the fund manager. In either case, you would be best served by seeking professional advice. Please don't hesitate to call us; we'd be delighted to help.

### What is GWM doing for its KiwiSaver clients?

We are currently reviewing our client's (known) KiwiSaver investments and we will be writing to them in the next few weeks with suggested changes if deemed advantageous. Please contact us if you'd like a review of your own scheme.

## **PUTTING PERFORMANCE INTO A LONG TERM CONTEXT**

2010 was a mixed year if one looks at investment returns for parts of the growth portfolios. While looking at annual performance is part of portfolio monitoring, a more important consideration is whether the portfolio is correctly structured to reliably meet your goals over time. Our work as advisers is to assist and guide clients in this regard. In doing so, we have to accept that markets will have good and bad years. However, a well-structured, Goals-based portfolio is a great help in lessening the emotional and fiscal impact of annual variations in any one investment category.

We have devoted a lot of time to reviewing and understanding why parts of the growth component of portfolios have not delivered the results we expect.

We are very pleased to report that as a result of this review the growth portfolios asset allocation, investment managers and risk management strategies are being reconfigured over the next 3 months. At the end of this transition each growth portfolio will provide what we believe to be a better balance of risk and return and be more responsive to rising and falling markets.

We are very pleased with these changes and look forward keeping you up to date with the research and development we are applying to your retirement portfolio.