

# Investing in knowledge

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

## Q3/12

## It's not all BAD

THESE DAYS, IT CERTAINLY TAKES A BIT OF FAITH TO BELIEVE THAT THINGS WILL COME RIGHT AND THAT THE WORLD IS NOT HEADED FOR TOTAL DESTRUCTION. HOWEVER, THINGS MAY NOT BE AS BAD AS WHAT SOME COMMENTATORS MAKE OUT.



Let's try and look at things objectively.

Parts of the world economy, especially Europe, are struggling with massive debt and the likes of Greece may still default

and others could come close to defaulting. There is certainly a massive debt overhang in most developed nations and this will still take a number of years to work through and reduce to manageable levels. Markets are now suffering fatigue and respond less positively each time central banks agree to some bail out or form of quantitative easing. China is slowing down and this will create pressure for those who are big suppliers of goods and services to China. We now seem to have entered a mindset of a 'glass half full' and there is increasing likelihood that the global economy will 'muddle through' for a while yet. We don't want to sugar coat the current economic difficulties but it is fair to say that the dire predictions of 12 months ago that the world was on the brink of economic melt-down seem to have waned slightly.

There are a number of positive aspects that bring a glimmer of hope to investors.

### These include:

- Interest rates in New Zealand are likely to stay low for at least another 12 months. This makes it easier for households and corporates to repay debt. Unfortunately, these lower interest rates also fuel a localised house price increase which is good for the building industry but not good for those looking to purchase.
- The high NZ dollar makes it easier for those with offshore debt to repay it but it also makes our exporters less competitive.

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## WEALTH ACCUMULATION STRATEGIES



To quote Benjamin Franklin, "By failing to prepare, you are preparing to fail". The thought that on average we'll live another 18 years once we 'retire' at 65, and therefore need sufficient financial resources to ensure we can live comfortably is a concept we often choose to overlook because it all seems very daunting.

*We have new interactive software available to help pre-retirees in developing a plan to see you reach your retirement goals. Call us to book a no-obligation session with an adviser – don't procrastinate any longer!*

## Inside

- ... The aging process and processing information.
- ... Keeping the financial balance right.
- ... A healthy respect for the facts: what you need to know about falling ill.

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- The unemployment rate is predicted (NBNZ) to be 6.1% over the next 12 months and already skill shortages are becoming evident in some sectors. There will be employment opportunities for those willing to retrain or move to Christchurch.
- Inflation is predicted by NBNZ to be 2.2% for the next 12 months. This is within acceptable limits but the day to day increase in the cost of living is likely to exceed the official rate.
- The ANZ truckometer uses traffic volumes to forecast GDP. Combine with a recent increase in electronic card spending and analysts are predicting a slight strengthening in gross domestic product (GDP) in the last quarter of the year.
- China may be slowing economically but it is likely to be a 'soft landing' where there is a weakening of demand but not an economic crash.
- The US housing market has finally turned the corner. Prices seem to be stabilising and housing stock now meets demand. It has been many years coming but it is likely that sometime in coming months, US house prices may slowly start to rise. This is significant as the US is still a global power house and an increase in US confidence can translate to a willingness to start spending again.

## Life's tips/1

"Sometimes your joy is the source of your smile, but sometimes your smile can be the source of your joy."

– Thich Nhat Hahn

It happens to all

OF US

AS WE AGE, WE HAVE EVOLVING NEEDS AND EXHIBIT SUBTLE AND NOT SO SUBTLE CHANGES IN HOW WELL WE PROCESS NEW INFORMATION.

The aging process for some can be so gradual that we often don't realise how our capabilities may have changed over time. Most of us will face an increased occurrence of medical conditions, medications, a decrease in vision and hearing, and other physical limitations.

The extreme examples of dementia and Alzheimer's will require that someone be empowered or appointed to make decisions for those who suffer these illnesses. However, the majority of us will retain our legal capacity, but we will face a predictable erosion of cognitive and physical abilities over the years.

**Decline in physical function.** The first and most obvious decline is our vision. From our mid forties, over 50% of us will require glasses for reading and our eyes will deteriorate for a number of years before they stabilise. This creates challenges with basic written material. The next issue will be hearing. Sixty percent of people over age 65 and a full 90% over age 80 have some hearing loss. This can impair understanding of conversations, particularly those that occur in noisy environments such as cafes. Arthritis and other physical ailments can interfere with basic mobility, making it difficult for these people to get to appointments.

### Decline in cognitive function.

Ageing minds can be like older computers. They still function pretty well, but they're a bit slower. As we age, we tend to process information

more slowly and the number of pieces of information that can be held in 'memory' at any one time decreases. Think of it as losing RAM. It becomes harder to focus attention and deal with distractions or irrelevant details. Coupled with a little short-term memory loss and it is no wonder many of us may seem a bit fuzzy on information presented only a week ago.

The older we are, the greater the difficulty we have drawing inferences or reaching conclusions by reasoning from facts. We also tend to become less flexible in our thought processes. We tend to be less able to change a decision or judgment when given additional information. This ability to change long-held opinions to accept new information, called cognitive flexibility, decreases with age.

Older adults do tend to retain knowledge and skills accumulated over a lifetime. We tend to rely more and more on this "crystallised intelligence" in our decision making, being much more likely to form decisions based upon past experiences rather than by analysis of facts. An example would be avoiding the share market because of past losses rather than by examining investment objectives and expected returns.

### What are we doing to assist?

We are:

- Keeping our sentence structure short and direct
- Identifying key points and putting them upfront in documents
- Using more document headings
- Using a larger font size
- Eliminating background noise during meetings
- Ensuring we speak clearly and slowly
- Making meetings shorter.
- Following up with a written summary from a meeting.

*Please advise us if you are having any difficulty understanding our meetings, phone calls or written documents.*

*We are happy to cater to your specific requirements.*

## Summing up

- ... Signs of a turnaround in the NZ economy.
- ... China might be a soft landing.
- ... US showing signs of confidence again.

# Finding your FINANCIAL BALANCE

PLANNING FOR YOUR FINANCIAL FUTURE IS ABOUT MAKING TRADE-OFFS. IT'S LARGELY A QUESTION OF DEALING WITH THE CONSTANT TENSION BETWEEN LIVING FOR TODAY AND SAVING FOR SOME FUTURE EVENT.



What seems like a complicated process (so much so that we often give up before we start) is really just a balancing act. It often helps to put a framework around this process, which we can do by asking a few questions:

- How much can you reasonably save?
- What rate of return will you earn?
- How much will you need?
- And when will you need it?

While these questions may sound simple, they're not necessarily easy to answer. And certainly there are more questions that you can ask. But these four are pretty central. Only one question – the second one – has to do with investments. Yet so much of our anxiety about money revolves around that projected rate of return.

Rate of return is only one relatively small part of the equation. The pursuit of higher investment returns may make a positive difference in our outlook, assuming things go as we hope. But there are other things you can do that are more certain where you don't have to rely on hope – and just

as effective. Save a little more if you can. Consider retiring a little later or pursuing a second career.

*Planning for your financial future is a balancing act rather than a single minded pursuit of the highest return. Real planning requires thought, frequent course corrections, and above all, an effort to keep things in balance. Finding that balance is a different process for everyone.*

## Life's tips/2

"All good men are happy when they choose to be their own authors. Those who choose to have others edit their pathways, must live on the edge of another man's sword."

– Julie Arabi



## Summing up

- ... Achieving balance in finances means taking account of many factors.
- ... Being prepared for surprises, good and bad, gives you peace of mind.



## DID YOU KNOW

- 4 out of 10 males and 6 out of 10 females are likely to be put off work for 30-90 days due to illness or accident before they turn 65 (Davies Financial and Actuarial Ltd, January 2010)
- Disease or illness is the most common cause of disability in adults followed by accidents or injuries (Dept of Statistics)
- 73% of New Zealand adults would not be able to afford elective surgery costing \$5000 or more (Health Funds Association of New Zealand Annual Report 2009)
- 51 people a day are diagnosed with cancer in New Zealand (Cancer Society March 2011)
- 21 New Zealanders a day have a stroke, 25% of which are under 65 (Min of Health Dec 2010)
- 57% of adults diagnosed with cancer will survive up to 10 years (Min of Health Dec 2010)
- 1 in 9 females and 1 in 6 males over the age of 30 will die before the age of 65 (Dept of Statistics life tables)

*Personal insurance cannot prevent you becoming one of the above statistics but it can certainly provide you with the funding to ensure that the event is not going to cause financial ruin.*

# TOO MUCH INFORMATION

IN THE INFORMATION AGE, WE SAY THAT WE ARE BETTER INFORMED AND ARE THEREFORE ABLE TO MAKE IMPROVED DECISIONS. BUT IS THAT REALLY THE CASE?

Each day we are hit from every which way with information, on the news, into our inbox, on the web, to our phones – it's relentless. However, we often find our best decisions are made when we step back from it all.

Traders watching the "All News" Reuters page may be bombarded with 20 stories a minute that flash up giving them 3 seconds or so to absorb each item, always assuming, of course, that they had finished reading the 20 stories from the previous minute.

It's for this reason that investors are often slow to wake up to news that perhaps isn't a headline on CNBC. Economist, Fisher

Black, described this information as "noise" and people often trade off the back of it even though it has no value. Trouble is at the time, it's often hard to distinguish between noise and useful pieces of information.

As an example, an extraordinary amount of attention is paid to analyst company forecasts, yet forecasting error has proven to be greater than 40% over 12 months and 95% over two years.

We think that the markets now resemble those nesting chicks that chirrup constantly for their parents to feed them. They gorge on a daily diet of supposedly important

economic data.

More information does not necessarily lead to better decisions. A case study on horse racing handicappers shows that the more information received the more confident they became about their answers, but the success of their predictions was worse when given 40 pieces of information, than when given 5.

If you can manage to extricate yourself from the media and investment community we have found it allows you to block out a lot of the noise and make your decisions based on facts to hand.

But breaking away from the herd isn't easy, as they say on Wall Street – be first, be smarter, or cheat!



## STAYING ON TRACK IN VOLATILE MARKETS

If you have been investing for years and witnessed many highs and lows in the market, you probably have more realistic expectations about your investments. But some investors, especially those new to investing, may have expectations that are too high or even too low.

Learning from market history. While past performance does not guarantee future results, looking at market history can help you develop realistic expectations about your investments.

As an example, the best year posted by the Standard and Poor's 500 Index (an index based on the top 500 US companies) since 1986 was a 38% return in 1995. The worst year's return was a negative 37% in 2008. Would it be realistic to expect either of these returns year after year?

Single-year extremes are to be expected, but it is not realistic to expect them to continually repeat themselves over the long haul. A more realistic outlook would be to focus on the average annual return and not get carried away by the highs or the lows.

The danger of being swept away by unrealistic expectations is rooted in two common human emotions: fear and greed.

**Fear:** If the market declines and stories in the media take on a gloom-and-doom feel, fear of losing money may tempt you to change your long-term plan.

**Greed:** Likewise, when the market is flying high and everyone seems to be getting rich overnight, greed can tempt you to abandon your plan and take on too much risk in pursuit of higher returns.

### Create a financial plan and stick to it:

The temptation to follow the crowd may be great but most investors are better off sticking to a plan based on their personal financial goals, time frames and comfort with risk.

*A Financial Adviser can help you define your investment goals and create a sound strategy for meeting them. With this financial plan in place, realistic expectations based on a historical perspective can be a comfort when the world around you is up in arms about how high or low the market is on any given day.*

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Next step

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

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