

# Investing in knowledge

Learn everyday, but especially from  
the experiences of others. It's cheaper!  
– John Bogle.

## Q1/17

### Monetary policy statement signals

# STEADY AS SHE GOES

THE RESERVE BANK OF  
NEW ZEALAND'S MONETARY  
POLICY STATEMENT (MPS)  
IS ALWAYS CLOSELY REVIEWED  
BY US. THE MPS IS A QUARTERLY  
ASSESSMENT BY OUR RESERVE  
BANK OF WHAT IT BELIEVES  
IS HAPPENING IN NZ AND  
INTERNATIONALLY, AND  
THE IMPACT ON OUR  
FINANCIAL STABILITY.

The February 2017 MPS signals a 'steady as she goes' approach for the remainder of this year. However, the RBNZ does highlight a number of clouds on the horizon.

#### Quick read

- The Official Cash Rate (OCR) remains at 1.75%;
- The global outlook is improving due to a recovery in commodity prices plus a more positive business and consumer sentiment;
- Global inflation and interest rates have increased and monetary policy is likely to be less stimulatory;
- In NZ, long-term interest rates are rising as is our dollar exchange rate. The RBNZ believes our dollar is higher than is sustainable for balanced growth and would like to see our dollar weaken;
- Economic growth in NZ has increased as expected and the outlook remains positive. This is supported by ongoing accommodative monetary policy, strong population growth, increased household spending and rising construction activity.
- The RBNZ welcomes the slowing of house price appreciation but is not sure if the slowing will be sustained as we still have a shortage of houses in the areas where people most want to live.
- Inflation has increased but is expected to remain for the longer term at around 2%.

*For a more detailed insight as to what all this might mean for you and your longer term savings, feel free to give us a call.*

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### Is it time to pause to ensure your wishes are documented?

For many of us, writing or reviewing your Will never seems to get to the top of our priority list. We recommend that reviews be done every 5 years or after any major change in your life, e.g.:

- Getting separated/divorced
- Getting married (this cancels any Will you made before)
- Having a child
- Buying a house
- If someone named in your Will dies

*If you think it's time to make your Will your priority, please call us to make an appointment.*

### Inside

- ... Why hello from Nigeria might mean goodbye to savings.
- ... We're rich! Kiwis now 5th wealthiest in the world.
- ... Is it time to sell your rental property?

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# How to avoid being suckered by SCAMS AND PONZI SCHEMES

INVESTMENT SCAMS CAN HAPPEN TO ANYONE. THEY'RE OFTEN VERY SOPHISTICATED. THE PEOPLE INVOLVED SOUND CREDIBLE AND THE WEBSITES LOOK VERY PROFESSIONAL, USUALLY INCLUDING TESTIMONIALS FROM OTHER INVESTORS. IT CAN BE HARD TO TELL A SCAM APART FROM A GENUINE INVESTMENT OPPORTUNITY.

## Warning signs to look out for

The Financial Markets Authority (FMA) advises that an 'investment' is likely to be a scam if you experience any of the following:

- Someone you don't know contacts you about an investment opportunity.
- You're promised very high returns, with little risk. These promises are nearly always too good to be true.
- The person/business gives you little or no information in writing. All legitimate investments must have documents explaining the investment.
- You're told the offer is known only to a select few and should be kept a secret. This is often a ploy to make you feel special and to stop you speaking to a financial adviser or the authorities.
- You're promised access to 'secret' overseas banking markets supposedly offering very high returns – these markets don't exist.

Ponzi schemes are so named after Italian Charles Ponzi who ripped off investors in the US in the 1920s and forever had his name associated with those types of scams. They involve early investors being paid their promised profits from money put in by subsequent investors and are unsustainable long-term as they don't actually earn any money.

Serious Fraud Office Director Julie Read says Ponzi and other fraud schemes tend to be more active at times of low interest rates when savers are looking for higher returns than offered by the banks.

*The moral of the story should be: "Give us a call before even remotely considering any investment." Our job is to not only get you a return ON your money, but to also ensure that over time, you achieve the return OF your money.*

"An important key to investing is to remember that stocks are not lottery tickets"  
– Peter Lynch.

## Life's tips/1

# Taking property profits MAKES SENSE

An increasing number of clients have seen the value of their rental property increase by over 20% in the past two years. For those with rentals in Auckland, the gain could be over 30% depending on property location.

Unfortunately, rental incomes have not kept pace. The tax efficiency of owning rental properties is changing and costs are increasing. We are likely to see rising mortgage rates over the next few years and this makes it difficult for landlords who are highly leveraged.

An increasing number of our retired clients are selling rental properties and investing the proceeds into diversified portfolios which over time provide more liquidity and potentially higher returns.

Many clients purchased rental properties years ago and have made a good capital gain but are now facing higher insurance, rates and maintenance costs. The income return they get may be attractive compared to the price originally paid. However, when the return after all expenses (including factoring in your management time) is divided by the current inflated market value, then the return in many instances is pathetically low.

By selling now when prices are high, they have more money to reinvest into a diversified portfolio plus some left over for enjoying a holiday, giving to the kids or making a new purchase.

## Summing up

- ... Every good investment starts with due diligence.
- ... It might be time to cash up on that investment property.

# NEW ZEALANDERS RANKED *FIFTH* RICHEST PEOPLE IN THE WORLD?

2016 SAW NEW ZEALAND NAMED THE  
WORLD'S BEST PLACE TO LIVE AS RANKED BY  
THE LEGATUM PROSPERITY INDEX.



NEW ZEALAND  
HOUSEHOLD  
WEALTH SHOT UP  
14.1% AND  
WEALTH PER  
ADULT ROSE 12.9%.

This has now been followed by the Credit Suisse Global Wealth Report that ranks New Zealanders the fifth richest people in the world.

New Zealand has leapfrogged the UK, Singapore and Belgium to be fifth. The Swiss remain the world's wealthiest at \$US562,000 total household wealth, ahead of Australians at \$US376,000, Americans at \$US345,000 and Norwegians at \$US312,000.

New Zealand comes in at \$US299,000, just ahead of the Brits at \$US289,000.

New Zealand household wealth shot up 14.1% and wealth per adult rose 12.9%. Japan's was a spectacular 19% plus jump for both households and individuals.

No other countries increased by double figures, though there were plenty who lost a lot of wealth – for example, Argentina down 27.3%, Ukraine at 18.5% and Russia at 15%.

At the global level, overall wealth was up less than 2% and that is basically static when

population growth is taken into account.

The wealth is calculated on financial assets including stocks and bonds, non-financial assets – mainly property, and subtracts debt. The

change in New Zealand's household wealth is due to three major reasons: a rise in house/property prices, a 23% rise in the sharemarket and a dollar that rose 5.3% against the US dollar.

Currency appreciation, or depreciation, has an important impact in measuring world wealth trends as the report is based on US dollar values.

For example, Japan and the US had the greatest increase in wealth because their currencies rose, while the Brexit-induced 15% fall in the UK pound depressed the total wealth of Britons by \$US1.5 trillion.

Wealth in Switzerland and Norway also fell, because European currencies were weaker, though it didn't affect their country rankings that much.

## NEW FINANCIAL ADVISER LEGISLATION ON ITS WAY

The Financial Services Legislation Amendment Bill has finally been published. This recommends sweeping changes to the financial advice industry including licensing, a requirement to place client interests first, minimum competency standards and heightened penalties for those who fail to follow the rules.

We welcome the proposed new legislation as it is good for New Zealand. For our clients, there will be no major change. However, for those New Zealanders who deal with financial advisers who are currently not authorised, then the impact of the changes will be significant.



### *Life's tips/2*

"Even the intelligent investor is likely to need considerable willpower to keep from following the crowd"  
– Benjamin Graham.

### *Summing up*

... Your wealth might look good on paper, but is it real wealth? Talk to us about consolidating.

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# TRANSFORMING YOUR BASIC ADVANTAGE INTO A BASIC DISADVANTAGE

US MARKETS ARE CLOSED EVERY YEAR ON NEW YEAR'S DAY, MARTIN LUTHER KING DAY, GEORGE WASHINGTON'S BIRTHDAY, GOOD FRIDAY, MEMORIAL DAY, PRESIDENT'S DAY, JULY 4TH, LABOR DAY, THANKSGIVING AND CHRISTMAS.

Beyond holidays the stock market has a history of extended shutdowns for various reasons including natural disasters, terrorist attacks, and power outages. The longest ever such streak was in 1914 when the stock market was closed for around four months because the start of World War I basically dried up all liquidity on the NYSE.

But for the most part, markets are open around 252 trading days a year. These days any time you want you can pull up the value of your portfolio on a near-instantaneous basis to check the current prices of your portfolio, funds or individual securities. While this may seem like a huge improvement from the days when investors would have to wait to check the next day's newspaper to see the new price of their shares, there are some downsides to this ability to have up-to-the-minute prices on every market price imaginable.

The longer I'm involved with the markets the less I find myself paying attention to the daily, weekly or monthly gyrations. You begin to realize that things you once

fretted over many years ago were just wasted energy.

Benjamin Graham discussed how investors would be better off if their stocks had no price quotations at all in his classic, *The Intelligent Investor*:

*The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation. He need pay attention to it and act upon it only to the extent that it suits his book, and no more. Thus the investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage. That man would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused him by other persons' mistakes of judgment.*

Some investors are able to watch every tick in the markets with complete indifference but it seems most investors see more harm than good by trying to swim through the sea of noise in the short-term movements in the market.

The reason this can be so problematic for investors is that we humans suffer from what Richard Thaler calls myopic loss aversion. Myopia or nearsightedness can be harmful because the more often we check the value of our portfolios or

holdings, the more likely we are to see losses (stocks are basically a coin flip between being positive or negative on any given day). The more likely we are to see losses, the more likely we are to experience loss aversion, which is the human tendency that makes us regret losses twice as much as gains make us feel good.

Thus, the more often you look at your portfolio, the more often you're likely to feel terrible from seeing short-term losses in value. The less frequently you evaluate your portfolio the more likely you are to see gains in your account because the probability for gain increases with a longer holding period.

Paying close attention to the markets on a tick-by-tick basis can also give people an illusion of control. You begin to assume that because you're keeping up with everything that's going on that you have more control over the outcomes. The opposite is true more often than not and the harder you try the more mistakes you make in the markets. Admitting you have no control is the first step to gaining more control over your sanity when dealing with the markets.

Here are a few questions I'm pondering about market holidays and what it would mean if we had more of them:

- If the market closed for a couple months and you didn't get to see the prices or value changes in your portfolio, would it really matter?
- Does knowing the price of your portfolio or holdings on a minute by minute basis actually help?
- How often does the knowledge of performance on a single day, month or year really impact most investors who often have multi-decade time horizons?

As Graham alluded to, the biggest advantage you have as an investor is the ability to think and act for the long-term. That may be more important today than ever because our society and the finance industry have become more and more obsessed with the short-term.

## Life's tips/3

"The stock market is a device for transferring money from the impatient to the patient"

– Warren Buffet.

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