

Investing in knowledge

In order to carry a positive action
we must develop here a positive vision
– Dalai Lama.

Q2/14

When a negative becomes an INVESTMENT POSITIVE

Investing can sometimes seem confusing and counter-intuitive, especially when your financial adviser suggests you invest

more money offshore and in the same breath informs you that the fund being recommended had a negative return in the past quarter. How can this be rational and what would prompt such a recommendation?

In the first quarter of 2014, the MSCI World Index produced a 1.2% return but when converted to NZ dollars, it suffered a 2.1% loss. An increasing number of New Zealand economists and fund managers are predicting that the NZ dollar is overvalued. ANZ Investments is of the view that although our dollar is over-valued on a long-run purchasing parity basis, our strong terms of trade and relatively attractive rates on offer will keep the NZ dollar at current high levels but it might weaken against the US dollar which is expected to benefit from the US Fed scaling back on the level of monetary stimulus in place since the GFC. This means it is still a good time to be investing offshore into international equities, especially since domestic fixed interest will struggle with rising interest rates and NZ and Australian equities are looking less attractive.

There are still plenty of risks investing offshore but a high quality managed fund invested into quality multi-national corporates has the ability to do well for some time to come. Offshore investing

OFFSHORE INVESTING
BECOMES EVEN
MORE ATTRACTIVE
WHEN WE HAVE A
STRONG NZ DOLLAR
WHICH BUYS MORE
OFFSHORE ASSETS.

GENERATION 
WEALTH MANAGEMENT

Albany Office

PO Box 64001, Botany, Manukau 2163

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

LOOKING A GIFT HORSE IN THE MOUTH?

It seems that not all KiwiSaver members are saving enough to collect the maximum \$521 annual tax credit from the Government. The credit is based on 50% of the contributions each member makes up to \$1,042.86 per year ending 30 June. If you haven't gotten around to maximising your contributions yet, we would urge you to do so quickly as the KiwiSaver year end is approaching fast.

This is also a good opportunity to review your KiwiSaver scheme. Please don't hesitate to make an appointment with an adviser for a free review.

Inside

- ... Risky business: conservative or aggressive risk profiles for the 65+.
- ... Personal protection: why many people cancel their insurance too soon.

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becomes even more attractive when we have a strong NZ dollar which buys more offshore assets. When our dollar eventually weakens, then not only is there the potential investment return from the fund in offshore dollar terms, but there is also the ability to achieve a currency gain when the investment is converted back to NZ dollars for reporting purpose.

Although our natural instinct is to not invest into something with a negative return, the logic says otherwise and for many investors, increasing their offshore exposure at this time makes good sense.



A GOOD FINANCIAL PLANNER WILL BE ABLE TO PRUDENTLY STRUCTURE MULTIPLE PORTFOLIOS OR BUCKETS FOR YOUR DIFFERENT INVESTMENT TIMEFRAMES.

Life's tips/1

"The broker said the stock was "poised to move." Silly me, I thought he meant up."
– Randy Thurman

Mortality and RISK PROFILE

Morningstar research recently reported that many New Zealanders are potentially missing out on achieving their retirement goals as their KiwiSaver funds remain invested in default schemes or conservative/defensive type funds.

They advised that if investing for the longer term (seven years or more), then it makes sense to have a higher allocation to growth investments such as shares and property in a diversified portfolio. This advice makes perfect sense for those accumulating wealth but what about those who have already retired?

A number of KiwiSaver schemes have a changing asset allocation based on the premise that the closer one gets to age 65, then the more conservative a person's investment portfolio should become. This logic seems to have been accepted by many to be the normal progression of events and a number of financial commentators seem to automatically reinforce this as being some form of gospel.

However, it should not automatically be 'one size fits all'. For those who intend to use a good portion of their investments within the short to medium term, having money in low risk more conservative funds makes perfect sense as you need to ensure capital remains intact so it can be drawn down when needed. However, if you are fortunate to have more than enough money to live on, then there is little point taking a low risk conservative approach with 100% of your portfolio.

In my case, I intend to work past age 65 so there is no point me reducing my KiwiSaver risk profile just yet. I will consider that when I am 3-7 years away from when I might need some of that money. I have also identified that I will have a significant chunk of assets which I am unlikely to use in my lifetime so have created a new portfolio and moved that money into there and will take a much more

aggressive investment strategy with it. After all, the kids will not thank me for keeping it in low risk investments for the next 30 years and having a big chunk eroded by inflation.

The amount I think I will consume as income and capital to fund everything I intend doing in retirement will be designated as my retirement fund and I will take a less aggressive approach with that. Nevertheless, it will be a balanced or growth orientated strategy until closer to when I intend using it. Once I hit retirement, I will keep 1-2 years of required income in cash or a low risk portfolio, then 3-5 years of income in a moderate to balanced portfolio, with the rest staying more growth orientated. This means that every year, as I deplete my cash holdings, I will top up the cash by moving money from the other portfolios. By doing this, I can keep as much of my money working as hard as it can for me for as long as it can. I will have a sufficient buffer to ride out any big market downturns and I should be able to protect my hard-earned money from the ravages of inflation.

This sort of approach may sound risky and hard to implement but in reality it is neither. A good financial planner will be able to prudently structure multiple portfolios or buckets for your different investment timeframes plus be able to explain what the potential risks and advantages are of this approach.

My recommendation is next time you visit your financial adviser, discuss your mortality and how much of your capital you will realistically need to see you through your lifetime. Add on a bit more as a safety margin in case you live longer than anticipated, then discuss with your adviser what approach to take with the remaining funds.

David Greenslade, 2014.

You could be surprised how your risk tolerance may change once you have mentally compartmentalised your investment portfolio into money you need to live on in the short/medium term, money you need in the longer term and money you just do not need at all. In the interim, check up on the kids to see if they have the right risk profile with their KiwiSaver investment.

Summing up

- ... The high dollar will buy more overseas, but be prepared to wait for the returns.
- ... You may only need a conservative investment strategy if you need the money now.

When income protection
insurance gets too expensive

THINK Laterally – DO NOT JUST CANCEL IT

ONE OF THE MOST IMPORTANT PERSONAL INSURANCE PRODUCTS ONE SHOULD HAVE IS INCOME PROTECTION INSURANCE, OR INCOME REPLACEMENT INSURANCE. THIS CAN PROVIDE EITHER AN AGREED AMOUNT PER MONTH, OR A SET PERCENTAGE OF ONE'S INCOME IN THE EVENT ONE IS SICK AND DISABLED AND UNABLE TO WORK.

When young, with minimal savings and big debt, it is common to have a short wait period of 4 or 8 weeks before insurance payments commence, and a type of insurance cover which potentially pays out to age 65 or 70. With stepped premium payments this is relatively cheap when you are young but expensive as you age.

An Asteron Life NZ survey of their own Income Protection book found that the average age of claim was age 47 yet the average age of policy cancellation was only one year before that at 46! Logically thinking, the main reason for such a high cancellation rate is the rising cost of stepped premiums.

Requesting level premiums from the outset to protect your greatest asset would appear a sound move to avoid the 'getting too expensive' issue in the first place. Key findings from a Gen Re survey indicated that only 15% of income protection claims go longer than two years and only 4.1% of claims go longer than five years. The best insurance recommendation is to take cover to age 65 or even older, but if price becomes a major barrier and a person's financial situation is more stable now they are older, plus if they have money invested

to last three months or more, then it becomes viable to consider a portion of self-insurance rather than entirely cancel the income protection policy.

A meeting with your financial adviser will help determine the most appropriate strategy for you but one option many

are now considering is extending the income protection wait period out to 13 weeks (90 days) and/or reducing the cover or benefit period so it only pays out for a maximum of five years. The remainder of the risk is then 'self-insured'.

A shorter cover or benefit period product that has a 'reset' feature and allows multiple claims up to the same period for the same or related disability, is also wise. Having this can reduce the longer term impact of taking the shorter period cover as many disabilities are recurring anyway.

This sort of insurance re-arrangement can result in a reduced level of cover being retained to deal with the really major situations and the insured then takes the risk of dealing with the small shorter situations which may not necessarily send one broke.

The analysis and determination of your

Life's tips/2

"Economy does not lie in sparing money, but in spending it wisely."

– Thomas Henry Huxley

own tolerance to take such risks is best done with a financial adviser. It can save households literally hundreds of dollars per annum in insurance premiums. However, it does involve needing to know and better understand the statistical risks of certain events happening at different stages of life.

We can assist with this information so you can make an informed choice. Contact your adviser now.

* NZ IP Experience Results 2004-08 covering 4500+ claims industry wide.

... ONE OPTION
MANY ARE NOW
CONSIDERING IS
EXTENDING THE
INCOME PROTECTION
WAIT PERIOD OUT
TO 13 WEEKS... OR
REDUCING THE COVER
OR BENEFIT PERIOD.



Summing up

- ... The average income protection claim is made one year after most people cancel.
- ... Level premiums help make income protection affordable.

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How long will your RETIREMENT LAST?

THE TOPIC MANY OF US AVOID ADDRESSING IN ANY SERIOUSNESS IS THAT OF LONGEVITY OR HOW LONG WE WILL LIVE. IT CAN BE AN EMOTIONAL AND SENSITIVE TOPIC ESPECIALLY IF A LOVED ONE HAS RECENTLY DIED OR YOUR OWN HEALTH IS FRAGILE AND YOUR LONGEVITY IS POTENTIALLY LIMITED.



However, we all need to seriously address it – both before and during retirement, as longevity is one of the largest determinants of the amount of retirement savings you will require and the potential quality of life you will have.

When planning for retirement, you want to ensure that you have enough money to cover your living expenses for every year you are alive. The problem is that you

Life's tips/3

“The art is not in making money, but in keeping it.”

– Proverb

have no way of knowing how long you will actually live.

According to the U.S. Census Bureau, in 1900 there were only 3.1 million people aged 65 and older. Today, that number is 44 million and growing rapidly. The average life expectancy in the U.S. is over 78 and that figure is expected to creep up to 85 by 2065, according to Ronald Lee, an economic demographer at the University of California, Berkeley.

However, these life expectancy numbers are misleading. Life expectancy numbers are averaged for all deaths regardless of age – so they include infant and other young person deaths – making the average deceptively young.

More useful statistics include these facts*:

- In 2010, life expectancy for people aged 65 was 84 years old
- In 2010, for those aged 75, life expectancy was 87, nearly a whole decade higher than the general life expectancy of 78
- People aged 100 and older are the fastest-growing segment of the United States population, and this pattern is expected to continue
- There is a greater than 50 percent chance that at least one partner from a couple in their 60s will live to the age of 95.

The figure for New Zealand are very similar.

It is important to understand that you have a good chance of living a long time – to 85 or longer. Good health and good genes contribute to a long life. The average person is born with a set of genes that would allow them to live to 85 years of age.

People who take good care of themselves may add as many as 10 quality years to that. People who smoke, are overweight or fail to practice preventative medicine may subtract substantial years from their lives.

Our longer life spans mean that we must have vastly more retirement assets than previous generations. Our ability to save larger percentages of our income is harder for the majority of the population so we need to become more disciplined and lateral thinking in our approach to retirement planning.

We recommend you seriously consider your longevity then talk to us about undertaking an analysis to identify whether your retirement plan is on track to achieve your potentially longer life span.

* Source: New England Centenarian Study, 2010.

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Next step

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

GENERATION
WEALTH MANAGEMENT