Investing in
knowledge

Q2/16

To be an investor you must be a believer in a better tomorrow.
– Benjamin Graham.

Risks increase but
NEW ZEALAND STILL STRONG

THE PAST QUARTER HAS GENERALLY BEEN GOOD FOR INVESTMENT RETURNS AND HAS RESULTED IN THE LOSSES INVESTORS SUSTAINED IN LATE 2015/EARLY 2016 BEING REVERSED. THIS IS GOOD NEWS FOR INVESTORS. UNFORTUNATELY, GOOD TIMES DO NOT CONTINUE FOR EVER.

The recently published Reserve Bank of New Zealand Financial Stability Report indicates that the risks to the global economy are increasing with slowing economic growth in many of the countries we trade with, extraordinarily low interest rates, and low commodity prices. Many dairy farmers are now facing a third season of losses and there will be an increasing level of problem loans in coming months. Add to this Auckland housing prices continuing to escalate out of reach of the average New Zealander, and things start to sound pretty dire.

However, the Reserve Bank is closely monitoring developments and believes our financial system remains strong.
We have record inflows of tourists and this helps to boost our economy. Our banks are profitable, well-funded and secure, and this will enable them to handle the inevitable pressures that come from the negatives listed earlier.

Mark Twain (1835-1910) once said "Plan for the future because that is where you are going to spend the rest of your life." This makes incredibly good sense as many investors make decisions using the rear view mirror (ie: investing based upon events that have already been) rather than realising that we are unable to predict the future with any sense of accuracy so

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2016 GOING QUICKLY

July 1st (the 182nd Day of the Year) marks Second Half of the Year Day – a chance to step back, evaluate your year so far with your goals and objectives (never mind the new year's resolutions which likely didn't last until February...) and to take action to get back on track if necessary.

It's a great opportunity to do some hard thinking over your finances, your diet, your career and other aspects of your life that you might want to improve.

Make the second half of the year count!

the best way to prepare is to diversify our investments so we do not have "all our eggs in the one basket." By this we mean creating investment portfolios where your savings are invested into different asset classes such as cash, fixed interest, property and shares plus these are invested both locally and also overseas. These portfolios usually include managed funds where we use the skills and experience of top rated fund managers to enable investors to smooth out the inevitable ups and downs in the market and obtain better returns over time than leaving money in the bank.

Please give us a call if you have any queries regarding your investment portfolio.

Procrastination

I hesitate to make a list
Of all the countless deals I've missed;
Bonanzas that were in my grip
I watched them through my fingers slip;
The windfalls that I should have bought
Were lost because I overthought;
I thought of this, I thought of that,
I could have sworn I smelled a rat,
And while I thought things over twice
Another grabbed them at the price.

It seems I always hesitate,
Then make my mind up much too late.
A very cautious man am I
And that is why I never buy.

A corner here, ten acres there,
Compounding values year by year,
I chose to think and as I thought, they
bought the deals I should have bought.

The golden chances I had then
Are lost and will not come again.
Today I cannot be enticed
For everything's so overpriced.
The deals of yesteryear are dead;
The markets soft – and so's my head.

At times a teardrop drowns my eye
For deals I had, but did not buy;
And now life's saddest words I pen –

"If only I'd invested then!"

– Written 1917

LATEST RESEARCH SHOWS THAT CHASING RETURNS DOES NOT ALWAYS MAKE MORE MONEY

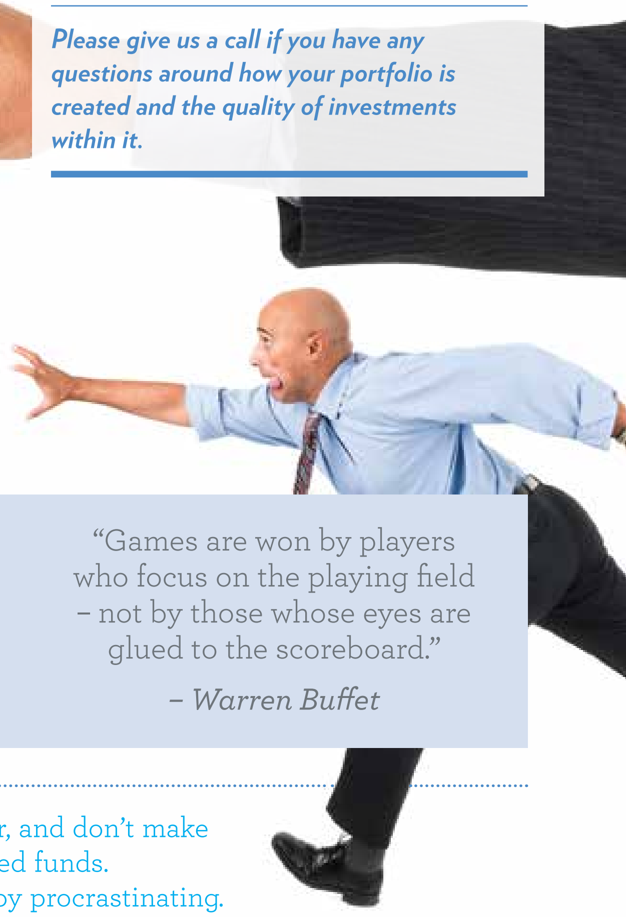
MORNINGSTAR (A GLOBAL RESEARCH COMPANY) HAS JUST PUBLISHED A REPORT SHOWING THAT INVESTMENT RETURNS ACHIEVED BY NEW ZEALAND RETAIL INVESTORS GENERALLY FALL BELOW PUBLISHED FUND PERFORMANCE FIGURES

They attribute this to the "fear and greed" behavioural cycle where people tend to buy and sell on recent fund performance results. What happens is investors are swayed by competing fund manager advertising promoting how well their fund has performed in recent times and as a result, they switch to the higher performing fund. However, they usually do that once the fund they are exiting from has fallen in value and the one they are investing into has gained in relative value. It often takes time to recover from this hasty move.

As professional financial advisers we work closely with our clients to help them determine their long-term risk profile then encourage them to 'hang in there' when the markets go down. In fact, we encourage clients to invest more in these dips as investing during these times is like buying on special at the supermarket.

We like to recommend stable, long-term good performing fund managers rather than the number one manager today who has fizzled out a few years down the track. Consistency of performance over time is usually less costly for investors than chasing last month's or last year's best performer. We invest into high quality research to identify the consistently good performing fund managers.

Please give us a call if you have any questions around how your portfolio is created and the quality of investments within it.



Life's tips/1

"Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard."

– Warren Buffet

Summing up

- KiwiSaver isn't KiwiGambler, and don't make your managed funds damaged funds.
- No-one ever built a fortune by procrastinating.

Why am I not wealthy?

Many people ask this question of themselves. Often they are hard-working, well-educated, high-income people. Why, then, are so few of them 'affluent'? Some of the answers to this intriguing question are contained in the book *The Millionaire Next Door* by Stanley and Danko. We recommend this book for those who are serious about increasing their net worth.

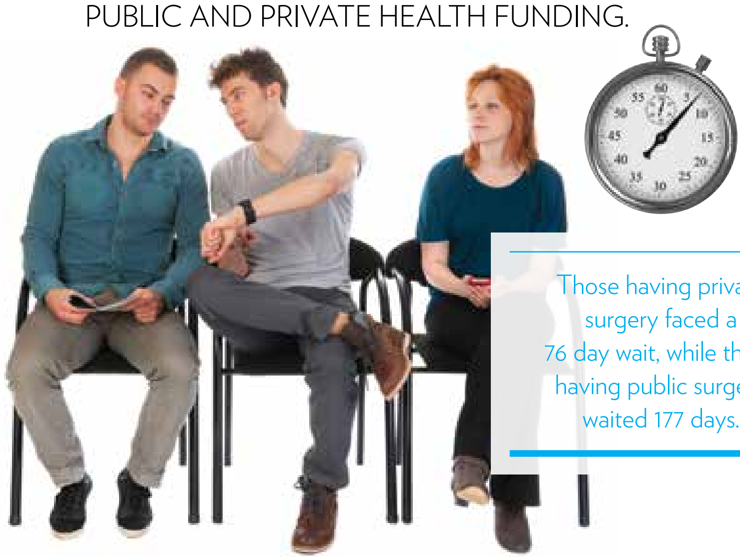
Affluent people typically follow a lifestyle conducive to accumulating money. In the course of investigations by Stanley and Danko, they discovered seven common denominators among those who successfully build wealth:

1. They live well below their means.
2. They allocate their time, energy and money efficiently, in ways conducive to building wealth.
3. They believe financial independence is more important than displaying high social status.
4. Their parents did not provide economic 'out-patient' care.
5. Their adult children are economically self-sufficient.
6. They are proficient in targeting marketing opportunities.
7. They choose the right occupation.

Stanley and Danko discovered that building wealth takes discipline, sacrifice and hard work. If people are willing to make the necessary trade-offs in their time, energy and consumption habits, they can begin building wealth and achieving financial independence.

CAN YOU AFFORD TO WAIT?

280,000 NEW ZEALANDERS ARE WAITING FOR SURGERY. INDEPENDENT RESEARCH SHOWS THE NUMBER OF NEW ZEALANDERS WAITING FOR ELECTIVE SURGERY REMAINS AT 2013 LEVELS, DESPITE INCREASES TO BOTH PUBLIC AND PRIVATE HEALTH FUNDING.



Those having private surgery faced a 76 day wait, while those having public surgery waited 177 days.

The research by TNS New Zealand, commissioned by the Health Funds Association (HFANZ) and the Private Surgical Hospitals Association (NZPSHA), (April 2016) found 110,000 New Zealanders were on official waiting lists, but a further 170,000 had not been placed on waiting lists despite being told they required elective surgery. These numbers were consistent with the findings of a similar 2013 study, although higher than figures cited recently by the Ministry of Health. HFANZ chief executive Roger Styles said the new TNS research gave a better picture of overall unmet surgical need because it counted both referred and un-referred need, whereas official figures don't yet count people who need surgery but haven't been referred by their GP. "Of particular concern is the increase observed in overall waiting times – particularly for those who have yet to have their surgery. These are up by 80 days to an average 304 days, with virtually all of these waiting for public surgery," he said.

For those who had had surgery, when split between public and private, there was a big difference in average wait times. Those having private surgery faced a 76 day wait, while those having public surgery waited 177 days.

Life's tips/2

"I buy on the assumption they could close the market the next day and not reopen it for five years"

– Warren Buffet

Are you prepared to wait for publically funded surgery? If not, talk to us about whether you are eligible for private medical insurance and what it might cost.

Summing up

- Don't ask why you're not wealthy. Ask for advice instead.
- As we live longer, the chances we will need a visit to hospital increase.

HOW GREAT IS DOLLAR COST AVERAGING?

You don't know the half of it

YOU MIGHT HAVE READ THAT THE S&P 500 HAS BEEN NOTHING SHORT OF DISAPPOINTING SINCE THE TURN OF THE CENTURY.

I hope that everyone who is still adding money to their investment portfolio on a regular basis ("dollar-cost-averaging") has thought to themselves: that's good for me! If you didn't, let me get you there. You see, low returns on stocks keeps prices depressed and allows savers an extended opportunity to buy more shares that should eventually shoot higher. And more shares at these higher prices means more wealth!

We all feel better about our investments when they are gaining in value. When they return more than their long-run average, we're just borrowing returns form the future, yet we feel increasingly optimistic about what lies ahead (we're nothing if not extraordinary followers of short-term trends). In reality, as savers we should feel better when we get a chance to buy shares on sale. No one seriously thinks a diversified stock portfolio has reached a peak or that it will decline and never come back. So downturns are just buying opportunities.

Want to see the wonders of dollar-cost-averaging in action? Consider the 15-year period from 2000-2014. The Vanguard S&P 500 fund earned a paltry +4.1% per year. That's not nothing of course, but it is nothing more than the return generated by the Vanguard Short-term Bond Index fund – which achieved this result with 7X less volatility and not a single negative year!

You might think to yourself, what a loss, I've sunk $1,000 into stocks every month for 15 years and have little more than ultra-safe bond returns to show for it. But you'd be wrong. Despite only saving $180,000 cumulatively, your total ending portfolio value was $352,202 – twice as much as you saved – for a rate of return on your contributions of +8.5% per year!

How can this be? The S&P 500 only averaged +4.1%. But not all of your savings averaged 4%. Some money went in after 2001 and 2002 and 2008 and 2011 when shares were extremely depressed and subsequently earned returns of +12%, +15% and +20% or more. That's the benefit of consistently buying stocks—they have high long-term expected returns and they're volatile, which means that on regular occasions, if you keep investing, you get to buy them at depressed prices with much higher-than-average expected returns.

We can see the opposite effect when we observe the outcome of dollar-cost-averaging the same amount into the low-risk bond fund. Remember, it had the same annual compound return over the 15-year period. But the amount of accumulated wealth was only $228,294, almost $130,000 less than what you netted from the S&P 500. The internal rate of return on the savings into bonds was about 3% per year, only about 1/3 of what the contributions would have earned going into stocks.

I personally find this astonishing. I think dollar-cost-averaging on a regular and disciplined basis is the most underrated investment strategy there is. It takes full advantage of high stock returns, turns the annoying volatility of stocks into a benefit, and gets an additional lift from compound interest over time. Just remember, it only works with stocks (don't buy for a minute the guidance that young investors should own a chunk of bonds) and it only works if you stick with it. On that latter requirement, it's better to learn discipline young because we become more set in our ways as we age and staying-the-course will be absolutely critical for your plan once you're in retirement.

I THINK DOLLAR-COST-AVERAGING ON A REGULAR AND DISCIPLINED BASIS IS THE MOST UNDERRATED INVESTMENT STRATEGY THERE IS.

Life's tips/3

"Life is simple but if you don't put anything into it, you won't get anything out of it"

– Auliq Ice

Next step

••• See us about the best investment and insurance options for you.

GENERATION
WEALTH MANAGEMENT