

Investing in knowledge

He who will not economize will have to agonize – Confucius.

Q3/14

What are the three words that profile the affluent?

FRUGAL FRUGAL FRUGAL

Webster's Dictionary defines 'frugal' as "behaviour characterised by or reflecting economy in the use of resources". Being frugal is the cornerstone of wealth-building. Often, self-made millionaires become millionaires by budgeting and controlling expenses and they maintain their affluent status the same way. They are disciplined, they plan,

they budget and this translates into wealth. Living frugally is not to be confused with living with poverty consciousness.

Frugality is about sensibility, it is about value for money, it is about appropriate exchange. Frugality is about expansion and integration whereas poverty consciousness is about contraction and fear. However much or little we have, we do have a choice in every decision we make.

We can choose to be frugal, knowing that in doing so we can still get a whole lot out of life, whilst contributing in return, or we can choose to feel sorry for ourselves,

operate from poverty consciousness, slam on the brakes, stop giving and back ourselves into a dark and lonely corner.

How do you plan to budget and control your spending in the future so that it translates into wealth? Contact us – we can help.



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WELCOME TO MYWEALTH

myWealth is an online tool for you to estimate how much you need to save for your retirement, in an easy and interactive way. It shows you how you might build your wealth through your working life. Your KiwiSaver, home, mortgage and other assets can be considered to see how they may all contribute to your future savings. myWealth is confidential and secure and we are sure you will find myWealth useful in mapping your financial future.

For complimentary access for yourself or friends please contact us.

Inside

- ... Fair exchange: what are the upsides of a declining dollar?
- ... Cold comfort: how to get the most out of Winter.
- ... Acts of God: how to prepare yourself for the unavoidable.

4	1
3	2

The New Zealand dollar...

HAS IT GONE CRAZY?

THE CONTINUED STRENGTH OF THE NEW ZEALAND DOLLAR (NZ\$) HAS PROVOKED CONSIDERABLE MEDIA AND MARKET INTEREST SINCE THE START OF THE YEAR.

The rapidly appreciating dollar is positive news for New Zealand consumers purchasing imported goods but negative for New Zealand exporters and for investors with money already invested in US-dollar-denominated investments.

Our dollar is hovering around post-float highs and this could indicate that the trend of a strengthening NZ\$ against the US\$ may be coming to an end. There is increasing speculation that the NZ\$ will start to decline against the US\$ over the next 12 months.

Some commentators are even predicating our dollar will be down around 77 cents to the US\$ by the end of 2015. This might not be favourable for kiwis wanting to travel overseas, but it will be welcome relief for our exporters.

The strong NZ\$ creates a positive environment for international investing for two reasons. First, the New Zealand dollar's overseas purchasing power has significantly increased, meaning every dollar buys a bigger share of the investment pie. Secondly, as discussed above, past cycles suggest the NZ\$ will likely weaken in the future. Therefore, future tightening of the NZ\$ will result in positive currency gains for those invested in offshore funds.

Contact us now to find out more about offshore investment opportunities.



Tips for beating THE WINTER BLUES

GO BANANAS – BANANAS HAVE A BENEFICIAL EFFECT ON PHYSICAL, MENTAL AND SEXUAL ENERGY.

1. Drink up! It might be cold, but staying hydrated assists in flushing toxins out of your body.
2. Go bananas – bananas have a beneficial effect on physical, mental and sexual energy.
3. Smile – however badly your day is going, try to see the funny side to something – anything!
4. Write a romantic novel – penning a hot-blooded romp might dispel the chill from your life.
5. Join a dance class – you've seen what it did for Rodney Hyde!
6. Have a massage – it relieves tension, aids relaxation, and also helps the body to recover.
7. Get wet – rub all over with a sponge or loofah to get your circulation going.
8. Buy yourself a small bunch of your favourite flowers – you know you deserve a treat!
9. Indulge in a spot of retail therapy.
10. Give blood – honestly, it's not as bad as you think. One small scratch and the worst is over!



Life's tips/1

“Most folks are as happy as they make up their minds to be.”
– Abraham Lincoln

Summing up

4	1
3	2

- ... The NZ\$ could drop as low as 77cents to the US\$. Great if you hold US stock.
- ... Just remember winter is like a recession. We'll come out of it eventually.

RISK MANAGEMENT AND INSURANCE

LIFE IS FULL OF RISKS. AS THE SAYING GOES:
NOTHING VENTURED, NOTHING GAINED.

Life's risks range from the not-so-serious through to the deadly serious. From the risk of missing the bus or being late for a meeting through to the risk of catching the flu, getting cancer, having a serious accident or dying at a young age. Most risks can be avoided, minimised or managed. For example, the risk of missing the bus can be avoided by leaving home earlier, and the risk of getting run over can be minimised by exercising a bit of common sense when crossing roads.

Insurance is all about getting cover for the risks that you can't totally avoid. With insurance, you 'offload' the financial cost of risk to an insurance company, while the insurer absorbs that risk by spreading it among all its other policyholders.

Everyone has varying chances of having their car stolen, their house broken into or burned down. On a more serious level, around one in three people will at some stage be off work for three months or more due to illness or injury, and not everyone lives long enough to collect New Zealand Super. If those odds worry you, you should take out insurance.

By taking out an insurance policy, your money is pooled with that of other policyholders, so that those who do suffer misfortune can receive some monetary compensation. While it may not seem like it, insurance is really the

opposite of gambling. With gambling, the winners collect off the losers. But with insurance the losers – that is, those who die early, have their cars stolen or houses burgled, etc. – collect off the winners, those who don't suffer those misfortunes.

Finally, a few words of caution. Always read the fine print of any policy very carefully to check exactly what is and isn't covered. For example, if your house is broken into and your property stolen, there should be no problem in getting the insurance company to pay out. However, if you left the bathroom window open or your flatmate or a lodger stole your property, then your claim could be turned down.

Also, make sure you fill out the application forms honestly and accurately. Don't assume something is irrelevant or too long ago to mention.

If you aren't sure about how to answer a question – especially for life insurance where you are asked for virtually your entire medical history – don't just skip it, ask.

**Contact us for
advice on what type
and amount of cover
you need.**



Life's tips/2

"Only those who will risk going too far can find out how far one can go."

– TS Eliot

Changing intergenerational attitudes to money

Are there any teenagers out there who do not spend all their income? Saving, risk management, diversification and long-term returns would hardly register when all you want is the latest cell phone or pair of shoes. This attitude to money is different from a generation or two ago when working hard and saving for the future were of greater importance. Why does it matter? Savings are something you have to learn about when you're young, or it just becomes a habit to spend everything and worry about tomorrow later.

Here are some useful tips:

1. Practice what you preach – unless you too are saving, it is very difficult to encourage your kids to put money away for a rainy day.
2. Encourage them to open a bank account or investment fund early on.
3. Promote saving towards a goal.
4. Do not let them have a credit card until they have their own income and are responsible with their budgeting (maybe never!).
5. Praise them when they have done well financially and perhaps consider contributing \$1 for every \$2 they save.
6. Educate them on their various investment options including shares, managed funds and bank deposits.

This all sounds great in theory but the reality is most teenagers still won't be interested. However, the key is you are actually doing something positive; often the greatest barrier to savings is excuses and inertia. The teenager who moves into the workforce with an understanding of savings and investment will be far more likely to be

able to come to grips with more complicated financial decisions, such as paying off their loan, saving for a home and managing their financial affairs.

Summing up

- ... Insurance is the opposite of gambling: the losers win.
- ... Good parenting includes showing them how to be good with money.

4	1
3	2

Running with the crowd

MIGHT NOT BE RIGHT!

IN UNCERTAIN SITUATIONS, WE LOOK FOR SOCIAL CUES ABOUT WHAT TO DO BASED ON WHAT EVERYONE ELSE IS DOING. THIS KIND OF SOCIAL PROOF CAN BE HIGHLY EFFECTIVE IN HELPING US TO NAVIGATE WHAT TO DO IN THE ABSENCE OF PROPER INFORMATION. IN FACT, SOMETIMES THE EFFECTS CAN BE REMARKABLY POWERFUL, CAUSING THE HERD TO DO SOMETHING DRAMATIC “BECAUSE EVERYONE ELSE IS DOING IT TOO” – EVEN IF NO ONE ACTUALLY KNOWS WHY THEY’RE DOING IT!



In uncertain situations where we’re not certain what to do, we have a strong tendency to just go along with the herd. In essence, we assume that we must be missing out on some crucial piece of information, and that everyone else is in the know, and that therefore it’s a good (or at least, safe) idea to do what everyone else is doing. Simply put, we accept the idea that if everyone else is doing it, that must be “social proof” that it’s the right thing

to do. A rather astonishing example of this phenomenon is illustrated below.

In Singapore in the 1980s, the customers of a local bank began withdrawing their money in a frenzy one day, despite the fact there was no notable news and no apparent reason. It turned out, the cause was surprisingly simple – an unexpected bus strike had created an abnormally large crowd waiting at the bus stop in front of the bank that day. Local bank customers passing by mistook the large bus-waiting crowd for bank customers waiting to make a withdrawal, and consequently got in line themselves to get their money out, assuming that if there was such a huge line in front of the bank, it must be in trouble. Although the waiting bus passengers were simply standing nearby coincidentally, the bank was forced to close its doors that morning just to prevent an actual bank run.

The social proof phenomenon is not unique in this regard. It’s an underlying root cause for a great deal of herd-like behaviour, from teenagers who make irresponsible decisions because their friends are doing it (If your friends jumped off a bridge, would you do that too?), to investors who substitute following the crowd for real due diligence (I don’t know why everyone else is buying gold, but if they’re doing it, I guess I should be too!). The principles of social proof apply frequently in giving financial advice as well – although we often fail to recognise

the scenarios when they occur, and the kind of behaviour that is implied or condoned in the message. For instance, consider the litany of research indicating that baby boomers are ill prepared for retirement. While financial advisers lament the dramatic retirement shortfalls, consumers may perceive a very different message – “apparently most other people haven’t figured out how to save much, so I’m not going to either” or perhaps even worse, “hey if I have \$50,000 of retirement savings, I must be doing great!” In other words, statistics that report widespread shortfalls for retirement run a fine line between showing the depth of a retirement crisis, and informing people that having a shortfall is actually a normal behaviour.

In turn, this suggests that an effective application of social proof to motivate investors should actually steer away from showing them how having a severe shortfall is the norm. If the research – and the media that reported on it – focused instead on statistics like “the average successful retiree had an account balance of \$750,000 at retirement” now a prospective retiree with only \$50,000 realises what a shortfall it really is. The same is equally true for statistics and social proof about low national savings or the extent to which people are underinsured.

The bottom line, though, is simply this – social proof is a reality of how we think, as the research has now well established. Whether desirable or not, investors will constantly be drawing on the news media, what they see, and other information around them to come to conclusions about whether they are doing “the right thing” or not compared to their peers.



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4	1
3	2

Next step

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

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