Investing in knowledge

The man who has the largest capacity for work and thought is the man who is bound to succeed – Henry Ford.

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New year NEW ATTITUDE

IT'S SURPRISING WHAT A SHORT HOLIDAY AND A NEW CALENDAR YEAR DOES FOR PEOPLE. MUCH OF THE 2012 DOOM AND GLOOM HAS BEEN WASHED AWAY AND THE YEAR STARTED ON A POSITIVE NOTE.

The European central banks have agreed to 'do whatever it takes' to sort things out; the US housing market is showing signs of recovery; inflation is under control; sharemarkets have shown positive returns, and investor confidence has ticked up.

Some of this renewed positivism may be attributed to the holiday break but more likely, it was just a matter of time and the passing of certain events before the world markets accepted the 'new normal' and got down to doing what they do best – which is make money. It is amazing how quickly we forget things that seemed really important at the time. The Mayan calendar has been and gone and the world did not destroy itself. The 'fiscal cliff' became yet another US speed bump and resolved itself for a period (but the longer term issues are still there) and despite bush fires, floods, droughts, earthquakes and volcanic eruptions, life goes on, houses get built and people spend money.

This shows that deep down, the local and world markets are pretty resilient and one needs to be invested in order to reap the rewards.

NEW HOUSING BUBBLE

Warnings abound of a new house price bubble as interest rates remain below historic levels spurred on by strangled land supply, red tape and higher building costs. New Zealand prices are 5.3 times annual household earnings, compared with Australia at 5.6. Hong Kong rates are most unaffordable at 13.5 times annual household earnings, with the UK at 5.12 and the United States at 3.1. Houses in NZ are now nearly 80% more expensive than the early 1990s, when the figure was 3 times annual household earnings. Within NZ Auckland is the least affordable market, with a median multiple of 6.7. Christchurch is 6.6, Tauranga-Western Bay of Plenty 5.9, Wellington 5.4 and Dunedin 5.1.

Inside

We humans still make

THE SAME MISTAKES

HUMANS OFTEN REPEAT THE SAME MISTAKE TIME AND TIME AGAIN. WE ALL KNOW THAT WHEN THINGS ARE CHEAP, THAT IS THE TIME TO BUY.

We know this when we buy things on special at the supermarket but why don't we follow this philosophy when we are investing our money?

History shows that the biggest share market gains come after a massive downturn. It was inevitable that share markets would increase in value and we were trying to get clients to start reweighting back into equities. Those who followed this advice have seen a dramatic improvement in their portfolios as the share market indices have performed well as demonstrated in the below table.

Having larger than normal sums of money in cash or bank term deposits is a safe strategy but one that will underperform over the long term. It is important our clients are adequately diversified and protected from massive downside risk. However, the risks are somewhat reduced from this time last year and there is still upside in the equity markets. If clients have a long-term investment time horizon, then consideration should be given to repositioning some of the accumulated cash so that the portfolio is appropriate for the risk profile. Many investors may have missed the first major rise in the markets but they can avoid the next major mistake by investing now that the trend is clearer and not waiting until the market peaks sometime in the future.

IF CLIENTS HAVE A LONG-TERM INVESTMENT TIME HORIZON, THEN CONSIDERATION SHOULD BE GIVEN TO REPOSITIONING SOME OF THE ACCUMULATED CASH SO THAT THE PORTFOLIO IS APPROPRIATE FOR THE RISK PROFILE.

Life's tips

"Nothing can stop the man with the right mental attitude from achieving his goal; nothing on earth can help the man with the wrong mental attitude."

– Thomas Jefferson

The below table shows the gross market returns before tax and fees for the period ending 31 December 2012:

INDICES	LEVEL	1-MONTH % CHANGE	3-MONTH % CHANGE	YTD % CHANGE	1-YEAR % CHANGE	3-YEAR ANN. % CHANGE	52-WEEK HIGH	52-WEEK LOW
Index close as at:	31/12/12	30/11/11	30/9/12	31/12/11	31/12/11	31/12/9		
MSCI World Index (G)	626	2.2%	3.4%	16.5%	16.5%	6.8%	629	537
NZSX50 (G) *	4067	0.4%	6.1%	24.2%	24.2%	8.0%	4116	3209
ASX200 Accum	37135	3.4%	6.9%	20.3%	20.3%	3.0%	37867	30989
Dow Jones	13104	0.6%	-2.5%	7.3%	7.3%	7.9%	13662	12035
S&P500	1426	0.7%	-1.0%	13.4%	13.4%	8.5%	1475	1267
MSCI Europe (G)	5443	1.4%	5.2%	16.4%	16.4%	4.5%	5495	4532
NZX Property (G)	2903	-1.1%	3.5%	20.5%	20.5%	11.5%	2951	2406
Aust LPTs (G)	25358	2.9%	6.9%	33.0%	33.0%	9.3%	25694	19749
Int'l LPTs (USD) (G)	657	4.1%	6.0%	28.9%	28.9%	14.0%	657	509

* Note: Returns are in local currency, except where designated. ** Excludes imputation credits. (G) = Gross, all other indices are capital.

Summing up

- Better than the bank? The chart above shows some pretty decent returns.
- You don't have to be brave: history shows this happens time and time again.

Boomerangers, kippers and SLOPS

THE EXPRESSION "YOU HAVE TO BE CRUEL TO BE KIND" COULD NOT BE MORE APPROPRIATE THAN FOR THE GROWING NUMBER OF 'KIDS' STILL LIVING AT HOME WITH THEIR PARENTS LONG PAST THEIR TEEN YEARS.

We love our 'kids' but in a number of instances they are costing us a fortune and many baby boomers are having to work well into their 70s to fund their retirement plus fund the kids.

'Boomerangers' are kids who left home and for one reason or another have returned home – either short or long-term – to cohabit with Mum and Dad. It would be fine if these boomerangers paid their way but usually they don't. They seem to expect their parents to support them just like when they were a teenager.

> AS ADULTS, THEY SHOULD CONTRIBUTE BOTH FINANCIALLY AND ALSO TASK WISE TO THE HOUSEHOLD IN WHICH THEY CO-RESIDE.

'Kippers' or 'kids in parents' pockets' are similar to 'slops' or 'singles living off parents.' Whatever the term one applies, we cannot escape the reality that these are adults still living at home with their parents. As adults, they should contribute both financially and also task wise to the household in which they co-reside. They would be expected to do that if they went flatting or lived in a permanent relationship with someone, so why not have them do it at home?

Just charge them board I hear you say! I tried that in our household and I ended up looking like the big bad ogre. In January, I realised that the emotional stuff around getting kids to pay board was not going to work so I thought "logic baffles brains" and dug out some statistics to share with my wife and kippers/slops – who, by the way, I love dearly and really enjoy having them living at home with us. My thought pattern was: "These kids are all university educated so surely they will understand my research paper on the cost of kids living at home." Alas, that didn't go down well and I was accused of "just being smart!" However, the reality has sunk in and I will get some board money but only a pitiful $100 per week. "Well that's a victory I hear you say." But somehow I don't think so. The money will be paid not to me but to my dear wife who I suspect will turn around when I am not at home and give the money right back to the kids again! All that drama just to be no better off.

However, my research should not go to waste so I thought I could share it with you just in case you have some boomerangers, kippers or slops hanging around. Have a read of the below tables then work out what the actual costs would be in your household – and good luck getting a payment plan from the kids implemented!

Amount of board charged per week

The amount parents charge their children when they are living at home can vary enormously. Research has shown that many do not pay any board (until they have a full time job) and those who do, tend to pay $50-$100 per week cash. Variables include offsetting board against jobs undertaken or taking a percentage of the persons regular income.

Weekly average real costs of a young adult living at home

Food	$100.00
Phone/internet	$10.00
Electricity/gas	$30.00
Insurance	$7.00
Health insurance	$10.00
House maintainance	$10.00
Water charges	$6.50
Wear and tear (sheets, towels, furniture etc)	$10.00
Clothing	$10.00
Increased petrol costs and car maintenance	$20.00
Total	**$213.50**

Source: David Greenslade, Strategi Limited.

IT'S TIME TO CHECK YOUR POLICY

We all have a number of insurance policies, be they life, disability, medical, car, contents, home or some other specialist policy. Over time, our circumstances change and inevitably, what we purchased years ago may no longer be 100% applicable to what we need today. In addition, all insurance policies have a number of exclusions. At time of purchase, those exclusions may not have been important as you were unlikely to be subject to the circumstances pertaining to those exclusions. However, over time, your health, occupation, activities and location may all have changed and unwittingly, you may have become subject to some of your policy exclusions. Check and make sure you are not paying premiums for insurance that you may not receive.

Another aspect to check is if at the time of taking out your various insurance policies, those policies were subject to some 'loading' or increase in premium amount. This could have been for things such as being a smoker, having recently suffered some medical illness, having a high risk occupation or not having a garage for your car. Since then, you have stopped smoking, had no recurrence of the medical condition, changed to a lower risk occupation and changed houses and now have a secure lockable facility for your car. These could all potentially result in a premium reduction.

We are happy to discuss your existing insurance policies with you and suggest how to make them more applicable to your current situation.

Summing up

- Will they ever learn? Are you teaching your kids to be independent.
- The costs mount up: food is the single biggest cost.

WHAT IS THE JANUARY EFFECT

NO DOUBT ALL INVESTORS HAVE BEEN HAPPY WITH THE WAY SHAREMARKETS HAVE BEGUN 2013, WITH MARKETS HAVING STARTING OUT THE YEAR IN FINE STYLE.

That being the case, should we take heart in the popular sharemarket maxim that – "As goes January, so goes the year."

Liz Ann Sonders of Charles Schwab, a large US brokerage, has analysed data on the S&P500 index going back to 1928, looking into the implications of what happens in January versus the outcome of the following 11 months.

At face value, it does indeed appear that there is something in the saying. When the S&P500 has risen in January, the balance of the year has produced positive results 78% of the time, for an average gain of 8.3%.

Here's the table and chart from Sonders:

FEBRUARY-DECEMBER PERFORMANCE (1928-2012)				
JANUARY	NO. OF CASES	MEAN % GAIN	MEDIAN % GAIN	% POSITIVE
Down	33	2.8%	2.3%	57.6%
Up	54	8.3%	10.9%	77.8%
Up more than 5%	17	6.9%	11.5%	70.6%

2013 – a year of PRINTING MONEY

Globally inflation remains relatively benign as we move into 2013 as economic growth was lacklustre and most developed economies experienced higher than average unemployment. While 2012 may have been characterised by low inflation, it was also a year where central banks have continued to print money (quantative easing) in an attempt to reinflate their economies to restore economic growth. In the final months of 2012 the US Federal Reserve announced that it would buy US$85b of bonds a month until unemployment falls below 6.5% or inflation rises to 2.5%. In Japan, the Liberal Democrat Party was elected on a platform of easing monetary policy and targeting a higher economic growth rate and a higher inflation rate. Similar policies are being implemented in the UK and by the European Central Bank.

These policies significantly increase the probability of higher inflation at some point in the future, so whilst it is currently low, inflation is not something that can be forgotten when compiling an investment strategy.

A CLOSER LOOK AT INFLATION

The latest NZ inflation reading came in at 0.9% for calendar 2012, which is outside of the Reserve Banks 1% to 3% target band. So what is inflation and how is it measured? Why does it seem that for some of us inflation appears to be much higher than the official figure?

Inflation is the change in price of goods and services we purchase which is measured by the Consumer Price Index (CPI). The composition of the CPI changes often to reflect what we buy as consumers. For instance, in the latest review tablet computers, online movies and flatbread were included, while dictionaries, recordable CD's and unflued gas heaters were removed. The weights of goods and services that make up the CPI also change to be representative of what we are spending as a nation. The biggest categories of the CPI are housing and household utilities, food and transport.

Why does it seem that for some of us inflation appears to be much higher than the official figure? The only people who would have been subject to the official CPI rate are those whose expenses were in the exact proportion to the official index. For instance, men's clothing and shoes account for 1.02% of the index, whilst women's clothes and shoes account for 2.45%, suggesting women spend more than twice the amount on these items than men do!

A lot of people, especially those in retirement, have a greater proportion of their expenses weighted more towards items such as local body rates, insurances and electricity. In these categories, prices increased at higher rates than the official figure, leading to the feeling that the official estimate is not a reflection of what they are experiencing.

Next step

See us about the best investment options for you.

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