

# Investing in knowledge

The four most dangerous words in investing are: 'this time it's different'.  
– John Templeton.

## Q4/14

## New Zealand... It's a GREAT PLACE TO LIVE!

IN ALL THE NOISE OF MODERN INFORMATION OVERLOAD, WE OFTEN LOSE SIGHT OF JUST WHAT A GREAT PLACE NEW ZEALAND IS. FRED DAGG SUMMED IT UP PERFECTLY IN HIS SONG LYRICS "WE JUST DON'T KNOW HOW LUCKY WE ARE..."



Our little nation survived the GFC relatively unscathed; our exporters survived when our dollar reached historical highs against the US dollar; we have a stable political system as evidenced in the September election; we are ranked third in the world for ease of doing business<sup>1</sup>; first equal in the world for lack of corruption<sup>2</sup>; and when it comes to overall quality of life, New Zealand ranks between first and 11th in the world as the best place to live<sup>3</sup>.

This all bodes well for investing into New Zealand. Our stability results in more people wanting to migrate to New Zealand and bring their capital with them.

When you invest into the stock market, either via managed funds or directly, you are buying into companies which are still subject to market vagaries and ineffectual management, but the likelihood of them winning or losing contracts due to political interference or corruption is very low. The level of company transparency is constantly improving and researchers are able to produce research and recommendations that the investing public can rely on.

For decades, New Zealand has seen many of its brightest young graduates go overseas to make their fortune. The good news is many of these talented individuals

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## WISHING YOU A MERRY CHRISTMAS

As another year rapidly draws to a close, all of us at Generation Wealth would like to wish you and your families a Merry Christmas and prosperous new year. We will be closing our offices to give everyone a well earned break to refresh and spend time with their friends and families. Our last day will be Tuesday 23rd December and we will be returning to work on Thursday 15th January.



*We look forward to enjoying  
another successful year with you  
again in 2015.*

## Inside

- ... The brain gain, not the brain drain.
- ... The 'seven year itch' is now the 'seven year switch'.
- ... Flip of a coin. Will you gamble on no insurance?

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are now returning to New Zealand with their families, their worldly experience, and their wealth. These people return for the quality of lifestyle but they also have the capability to build bigger businesses in New Zealand – thereby further improving the long-term investment outlook for our nation.

It is still important to construct a diversified portfolio, thereby reducing risk and avoiding the issue of having ‘all your eggs in the one basket’ – even when that basket is New Zealand.

*Our stability results in more people wanting to migrate to New Zealand and bring their capital with them.*

<sup>1</sup> World Bank Group 2014 survey.  
<sup>2</sup> Transparency International Dec 2013 report.  
<sup>3</sup> There are a multitude of different surveys providing different results due to different inputs.



### Life’s tips/1

“Opportunity is missed by most people because it is dressed in overalls and looks like work.”  
– Thomas Edison

# UNDERSTANDING FIRE AND GENERAL INSURANCE

INSURANCE IS FUNDAMENTAL TO OUR DAILY LIVES. IT MANAGES THE RISK OF WHAT MIGHT HAPPEN TO WHAT IS PRECIOUS OR IMPORTANT TO US IF THINGS GO WRONG. IMAGINE IF THERE WAS NO INSURANCE COVER FOR OUR HOMES, BELONGINGS, BUSINESSES, VEHICLES, BOATS, OR FOR TRAVEL.

Apart from the risk of accident, sickness, fire and theft, New Zealanders, as history has proved, are vulnerable to catastrophic events like earthquakes, floods, cyclones, volcanoes and tsunamis.

A key principle of insurance is to spread risk across as many people as possible. So the full benefits of insurance are realised when it remains affordable. A competitive and appropriately regulated industry enables insurance to be accessible to all.

Fire and general insurance includes all ‘non-life’ insurance products (i.e. non-health and non-life insurances). An insurance contract is not a guarantee of future payment, but rather a contract of indemnity by which an insurer will agree, in particular circumstances, to compensate the victim of a loss, in all or in part, by payment, repair or replacement.

An indemnity under an insurance contract is a generalised promise of protection against a specific type of insured event; whereas a guarantee is a contractual

promise to answer for debt, default or other financial liability of another.

The purpose of an insurance contract is generally to return an insured person to a position similar to the position they were in immediately prior to the event leading to an insurance claim.

In New Zealand, a number of government taxes or levies are included in the premium the insured is required to pay. Overall, government taxes can potentially add-up to around 30 to 40 percent of insurance costs. This inevitably increases the cost of insurance and affects the affordability of insurance cover for a number of households.

Example insurance premium December 2013 (Table: 1 below).

*Talk to us today about your insurance needs.*

TABLE 1: \$1,000 HOME INSURANCE POLICY PREMIUM

|  |         |      |
|--|---------|------|
| Insurance Company Premium                            | \$405   | 41%  |
| Reinsurance  | \$238   | 24%  |
| Fire Service Levy & Earthquake Commission (EQC) Levy | \$226   | 23%  |
| GST  | \$130   | 13%  |
| Total Premium  | \$1,000 | 100% |

## Summing up

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- ... The world may be investing in New Zealand, but they’re investing elsewhere too. So should you. Don’t put all your eggs in one basket.
- ... Earthquakes, floods, cyclones, volcanoes. It’s a risky life without insurance.



# Kiwisaver TURNS SEVEN

KIWISAVER HAS BEEN AN OUTSTANDING SUCCESS IN ITS SEVEN YEARS OF OPERATION. BASED ON THE 2014 ANNUAL REPORTS OF THE 35 KIWISAVER PROVIDERS, THERE IS OVER \$21.4 BILLION OF FUNDS UNDER MANAGEMENT (FUM) OWNED BY 2.3 MILLION NEW ZEALANDERS. THIS FAR EXCEEDS THE EXPECTATIONS OF THE POLITICIANS WHO CREATED THE SCHEME.

You might have heard of the '7-year itch' where one changes the house, changes the spouse and cashes up one's insurance policies on a seven yearly cycle. It appears KiwiSaver is not immune to this 7-year itch. In this case, it is existing KiwiSaver members switching from one provider to another.

David Chaplin in his recent report titled 'The seven year switch' indicated that in the 12 months to June 2014, almost 150,000 KiwiSaver members switched providers (this figure excludes scheme mergers).

The overwhelming majority of these switches were to bank schemes. The Regulator published a warning earlier in the year expressing some concern that banks were exerting undue influence over KiwiSaver transfers.

THERE HAVE BEEN  
NUMEROUS REPORTS  
OF INVESTORS  
SWITCHING THEIR  
KIWISAVER WITHOUT  
BEING FULLY AWARE  
OF WHY THEY  
SHOULD DO THIS  
AND WHAT THE KEY  
BENEFITS AND RISKS  
OF DOING SO ARE.

There have been numerous reports of investors switching their KiwiSaver without being fully aware of why they should do this and what the key benefits and risks of doing so are. We urge investors to think carefully about making a KiwiSaver provider switch. Simply doing so to access information via

one online access point, or via an 'app', is probably not a sound rationale, especially if the fund you are moving to has a higher fee structure and a lower research rating than the one you are exiting.

*Talk to us before you make any KiwiSaver change. We have comprehensive research on all KiwiSaver funds and can compare the one you are in with the one you have been asked to move to.*

## Life's tips/2

"Not everything that can be counted counts, and not everything that counts can be counted."

– Albert Einstein

## Summing up

- ... The 'seven year switch'. Make sure you're doing it for the right reasons.
- ... Check fees and ratings before you move.

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# UNSUNG HEROS

of our community



## Life's tips/3

"It is our choices that show what we truly are, far more than our abilities."

– JK Rowling

Hospice is not a building, it is a philosophy of care. Their goal is to help. People make the most of their lives. They care for the whole person, not just their physical needs but also their emotional, spiritual, and social needs too. They care for families and friends as well, both before and after a death. Irrespective of where they are, this philosophy of care does not change and everything they provide is free of charge. They

ensure anyone requiring palliative care receives quality services from skilled professionals, and that family are supported during, and after, a terminal illness. They believe that hospice care should be available to anyone who needs

it, helping people make the most of every moment, in whatever way works for them.

### When support is offered

People may be referred for hospice care while they are undergoing treatments for their illness, not just at the very end of life – however, usually people are referred at a time when it is acknowledged the illness is incurable. People are living longer with incurable illnesses and in addition to care provided by GP or hospital specialist, hospice staff are able to provide specialist support in other ways e.g. controlling symptoms or providing advice and support to family and carers.

Community based care is provided by registered nurses, mainly in the patient's own home, with counselling services also given if available. They also provide and install special equipment for patients' comfort and provide transport to medical appointments for patients if they require it. They work closely with doctors, hospitals,

pharmacists, and family support staff to ensure patients and their families or care givers have all the necessary resources to cope with the stress and anxiety of a terminal illness.

### Helping Hospice

As a charitable organisation you can assist your local hospice to meet its goals in a number of ways. They rely extensively on volunteers who are willing to give up some of their time to assist in all sorts of

ways, such as assisting in their fundraising shops, providing transport, cooking or gardening help. You may want to donate some items to sell in their shops.

While they receive funding from organisations such as district health boards and charitable foundations,

they receive no direct government funding. They therefore rely heavily on local fundraising to provide the services their clients need. If you would like to make a donation we suggest you contact your local hospice for their details.

One of the directors of Generation Wealth, Jon Davies, has had an extensive association with Franklin Hospice, serving on the board of trustees over the past 12 years and having spent over 5 years as chairman. Jon is running the Tarawera Ultramarathon (85 kms) to raise funds for Franklin Hospice in February – if anyone would like to sponsor him please call our Pukekohe office on 09 238 3322 or email [pukekohe@generationwealth.co.nz](mailto:pukekohe@generationwealth.co.nz)

**You can contact Franklin Hospice on 09 238 9376 or email [contact@franklinhospice.org.nz](mailto:contact@franklinhospice.org.nz)**

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Next step

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

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