THE GENERATOR

Put all of your savings on autopilot, and you won't likely notice the missing cash — Jean Chatzky

Q4/17

How much further can investment portfolios rise?

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We have seen a substantial rise in investment portfolios over the past 12 months. However, a new government is now in place and it intends to make a number of sweeping changes to the social structure of New Zealand.

We know from past experience that there is a long-term trend line with investment values for different assets and if markets rise or fall too dramatically, then they will correct and ultimately come back to their long-term average performance. Some pessimistic commentators are predicting a crash in market value while the more optimistic believe there is still more upside growth to be obtained. We sit in between these contrasting views and provide three reasons why we should be cautiously optimistic from a New Zealand investor perspective.

The New Zealand dollar

The NZ$ weakened with political uncertainty and ANZ predicts that our dollar will continue to weaken against the US$ over the next 18 months. This is great news for those already invested in international investments as it means the value of those investments rise when reported in NZ$. However, it is not too late for those just contemplating investing into offshore assets as there could be further currency gains over the next 18 months. Additionally, economists feel that share markets around the world still have some growth left in them.

Good active management can protect against the downside

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Christmas best wishes

With the year rapidly drawing to a close, all of us at Generation Wealth Management would like to wish you and your family a very Merry Christmas and prosperous 2018.

Christmas office hours

Our offices will be closing for the Christmas Break on Thursday 21st December, and will reopen on Monday 15th January.

Once our staff have had a well-earned rest and a chance to enjoy their families, we'll be ready for another successful year together in 2018.

Inside

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Active management is where the investment manager uses its skills to select the most appropriate investments for the fund risk profile. When markets are booming, as in recent years, the difference between active and passive management is minimal. However, as the market becomes choppy and more risky (as it is now), then investing via a diversified portfolio of high-quality active managers can provide a degree of protection. If a major fall in stock market value was to occur, then active managers cannot avoid some reduction in fund value but through careful stock selection and prudent use of hedging and other techniques, they can certainly reduce the size of the fall. Many managers are now moving to higher quality stocks; having more cash within their funds and reducing their exposure to regions and sectors most likely to suffer in a fall. They are re-allocating the money to areas that have sustainable growth ahead of them.

NZ still in good heart

Our economy is transitioning in terms of its growth drivers and dealing with headwinds from difficulty in finding staff and a soft housing market. When you add a new government with big future plans into the equation, then it does create a sense of apprehension for some investors. However, there are many positives. Inflation is predicted to stay low around the 1.5-2%; interest rates, as measured by the Official Cash Rate (OCR), are expected to stay under 2%; commodity prices are holding up and could benefit further from a weaker dollar; the government is likely to pump billions of dollars into the market to implement its election promises, and overall economic growth is expected by ANZ to be in the 2.5-3% range.

OUR ECONOMY IS TRANSITIONING IN TERMS OF ITS GROWTH DRIVERS AND DEALING WITH HEADWINDS FROM DIFFICULTY IN FINDING STAFF AND A SOFT HOUSING MARKET.

Nothing is guaranteed and we should all be dubious of anyone who predicts either doom or sustainable growth without risk. Markets move in cycles and what goes up typically goes down until it averages out at the long-term trend line. The key is to have a diversified portfolio of high-quality investments that are regularly being reviewed and tweaked to meet the changing economic environment in which we live.

Give us a call to discuss how the market changes are impacting on your ability to fund your financial goals.

Savings require us to not get things now SO THAT WE CAN GET BIGGER ONES LATER

The need for instant gratification is real and it gets a lot of people in hot water. People with spending problems unknowingly rob themselves of the opportunity to acquire better things in the future. Think about it. You can't buy a home without a down payment, and you can't save a down payment unless you're willing to curb your spending and make sacrifices. So whenever you feel the urge to spend, think about your future plans and decide whether the purchase is worth delaying your goal—Jean Chatzy.

GIVE YOUR FINANCES A PRE-CHRISTMAS MAKEOVER

Now is the time to take a fresh look at your finances to ensure you are on track to achieve your financial goals. Talk with us about your financial plan but before doing so, consider the following:

- Are you getting the best from your mortgage? Interest rates are likely to start slowly rising so do you fix a low rate or continue to float? Are you interest-only or interest and principle, and how many years will it be before the mortgage is paid off?
- Power and telecommunication costs. Have you reviewed these in the past 12 months to ensure you are getting the best deal possible - based on price, service and functionality? Can you bundle your phone, cell phone and data plans to maximise discounts?
- Do you need all the credit cards you currently own? If you are paying an annual fee for these cards, then can you rationalise to only one or two cards?
- Calculate how much your car(s) cost to operate per km driven over a 12 month period. The IRD 2017-2018 mileage rate is 73 cents per km and factors in all of these things. Multiply this rate by the number of kms you do to estimate what it costs to run your car. Consider catching the bus, carpooling, combining tasks when you go out, etc.
- Do you have the ability to save more money so it can compound for future goals? If so, how much? What is your current investment risk profile and are you aware of the implications that has on your investment performance?
- How much are you spending on your insurances each year? Do you have enough cover and of the right type? Can you bundle insurances to achieve added discounts?
- How much are you spending on the kids or grandkids? Is this absolutely necessary and can it in some way be reduced?

Summing up

••• *Keep on learning. Knowledge in investing builds investor confidence.*

••• *The fastest way to lose money is to stop watching it.*

THE PROBLEM OF MENTAL INCAPACITY WHEN YOU ARE A TRUSTEE OF A FAMILY TRUST

MANY NEW ZEALANDERS HAVE ALL THEIR ASSETS IN A FAMILY TRUST. ADDITIONALLY, NEW ZEALAND, LIKE MANY OTHER COUNTRIES, HAS AN AGING POPULATION AND WE ARE SEEING AN INCREASING NUMBER OF ELDERLY PEOPLE LOSING THEIR MENTAL CAPACITY.

When a trustee of a trust loses their mental capacity, it can lead to complications with proper administration of the trust, and in some cases, administration of the trust will become impossible.

Many trust deeds provide that trustee decision-making must be on a unanimous basis, however, this becomes impossible when one trustee has lost mental capacity and is not able to participate in the trustee decision-making. When this happens, the trust will often be in limbo until such time as the trustee who has lost mental capacity is removed as a trustee of the trust.

Some trust deeds give the power to appoint and remove trustees to the settlor of the trust. However, if the trust deed does not make specific provision for the power to appoint and remove trustees, the provisions under section 43 of the Trustee Act 1956 (Act) shall apply. This section provides that the continuing trustees shall have the power to appoint a new trustee, in place of the trustee who has lost mental capacity.

If the removal and replacement of a trustee who has lost mental capacity becomes inexpedient, difficult or impracticable, the High Court will be able to alleviate the situation by exercising its powers under section 51 of the Act.

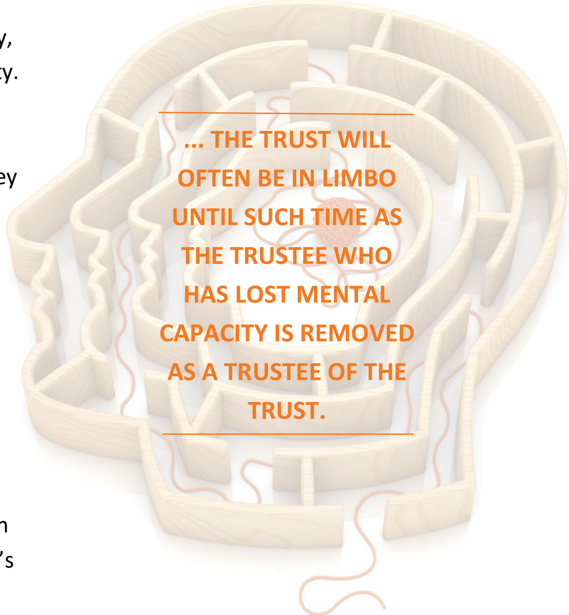
The provisions of sections 43 and 51 of the Act can only be relied on when the trustee who has lost mental capacity is being replaced with a new trustee. Nonetheless, an application can be made to the High Court for an order not to replace the trustee, who has lost mental capacity, with a new trustee.

The process to remove and replace a trustee may seem quite simple, however, this is not the case, especially when the trustee's name needs to be removed from the title to the trust's property. A trustee who has lost mental capacity cannot sign any documentation to transfer the trust's property to the continuing and new trustees.

Many of us may think that an attorney appointed under an enduring power of attorney (EPA) will be authorised to sign trust documentation on behalf of the trustee who has lost mental capacity. However, this is not the case. An attorney appointed under an EPA can only act in relation to the trustee's personal property, which is separate from the trust's property. This is also the view of Land Information New Zealand who oversees our land transfer system, and therefore, an attorney appointed under an EPA is not authorised to sign land transfer documentation on behalf of the trustee who has lost mental capacity.

This leads to the only possible way to amend the status of the trust's property: an application to the High Court for a vesting order under the provisions of section 52 of the Act. The provisions of section 52 of the Act provide that the High Court can make an order to vest the trust's property in the continuing and new trustees.

An application to the High Court is a time consuming and expensive exercise, especially when a trust has no income and only owns a family home. The Law Commission is aware of the costly and unsatisfactory mechanism of dealing with trustees who have lost mental capacity, and proposals have been put forward to rectify this issue. However, until such time as the Trusts Bill gains royal assent, trustees need to ensure that trustee meetings take place on a regular basis to ensure that all trustees are able to continue to act as trustees and that a trustee whose health is deteriorating retires before it becomes necessary for the other trustees to apply to the High Court.



... THE TRUST WILL OFTEN BE IN LIMBO UNTIL SUCH TIME AS THE TRUSTEE WHO HAS LOST MENTAL CAPACITY IS REMOVED AS A TRUSTEE OF THE TRUST.

Life's tips/1

People who are passionate bout what they do reach financial comfort and wealth more often than those who are not. That argues for doing one of two things. Finding your passion and pursuing it. Or becoming passionate about what you're already pursuing"

- Jean Chatzky

Summing up

••• *Retiring trustees is easier than firing them.*
Treat every trustee meeting like a warrant of fitness.

HOW MARKETS RESPOND TO GEOPOLITICAL CRISES

INVESTORS ARE INCREASINGLY WORRIED ABOUT GEOPOLITICAL CRISES BUT VERY FEW HAVE TAKEN THE TIME TO UNDERSTAND HOW THE MARKETS TYPICALLY REACT WHEN THESE THINGS HAPPEN. THE REACTIONS TO WARS, POLITICAL MALFEASANCE, OR SCANDALS, ARE NOT ALWAYS WHAT YOU WOULD THINK BASED ON THE HEADLINES. IN THIS PIECE I LOOK BACK ON HOW THE MARKETS HAVE REACTED TO PRIOR PERIODS OF TURMOIL. THE RESULTS MAY SURPRISE YOU.

According to a survey by the CFA Institute, more than two-thirds of global investment professionals expect the geopolitical climate to affect investment returns over the next three to five years. And a full 70 percent of respondents expect these changes to negatively affect market performance.

In the past year or so, the world has seen its share of upheaval, starting last June with the Brexit vote and continuing in November with the election of Donald Trump as president. In April, another geopolitical crisis erupted as Trump ordered Tomahawk missile strikes on a Syrian air base in response to a suspected chemical attack on civilians by the regime of President Bashar al-Assad, and of course North Korea's ongoing missile testing and push to become a nuclear power is constantly in the news.

At the time of occurrence, no one knows if things will escalate or settle quickly, but investors should be aware how the markets have reacted to geopolitical events in the past.

Life's tips/2

"People with financial plans are much more likely to feel prepared, even in tumultuous times. They're more likely to feel that their dreams and goals are secure. And, oh yes, they do actually save significantly more" – Jean Chatzky.

In the six months following the onset of World War I in 1914, the Dow dropped more than 30 percent. That year, the stock market closed for six months, the longest it has ever been shut, because liquidity all but dried up. But in the following year, it rose more than 88 percent, which remains the highest annual return on record for the Dow Jones Industrial Average. In fact, from the start of the war in 1914 until it ended in late 1918, the Dow was up more than 43 percent in total, or around 8.7 percent annually.

Hitler invaded Poland on Sept. 1, 1939, which began World War II. When the market opened on Sept. 5, the Dow actually rose almost 10 percent in a single day. When the attack on the U.S. naval base at Pearl Harbour occurred in early December 1941, stocks opened up the following Monday down 2.9 percent, but it only took a month to regain those losses. From the start of WWII in 1939 until it ended in late 1945, the Dow was up a total of 50 percent, more than 7 percent per year.

The Korean War began in the summer of 1950 when North Korea invaded the South. That conflict ended in the summer of 1953. In that time, the Dow was up an annualised 16 percent, or almost 60 percent in total.

The Cuban Missile Crisis had the world on the brink of nuclear war in October of 1962. The confrontation lasted 13 days from Oct. 16, 1962, to Oct. 28. In that two-week period the Dow remained surprisingly calm, losing just 1.2 percent. For the remainder of that year the Dow would gain more than 10 percent. President John F. Kennedy was assassinated a little more than a year later in Dallas. The market opened up 4.5 percent the day after. Stocks finished up the following year, 1964, more than 15 percent.

Stocks dropped 13.3 percent in the three weeks following the Gulf War in the summer of 1990. From July of that year through October, the S&P 500 dropped 19.9 percent, but this also coincided with recession.

The attack on U.S. soil on Sept. 11, 2001, saw stocks fall sharply, down almost 15 percent in less than two weeks following the tragedy. The economy was already in the middle of a recession at that point and stocks were still falling from the technology bubble, but within a couple of months the stock market had made back all of its losses from Sept. 11.

The U.S. invaded Iraq in March 2003. Stocks rose 2.3 percent the following day and finished up the year with a gain of more than 30 percent from that point on, though this followed the end of a brutal bear market.

You can see that stocks have a mixed record when dealing with international conflicts. There's no road map to follow should things get out of hand anywhere in the coming years. Making financial decisions in the face of geopolitical uncertainty can be a scary proposition, so investors need to realise that there are certain things that are out of their control.

Predicting geopolitical events is no easy task. Predicting how markets should respond to those events may be even harder.

By Ben Carlson of 'A Wealth of Common Sense'. The opinions expressed are those of the author.

Next step

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

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