THE GENERATOR

> *"Reading is to the mind what exercise is to the body"*
>
> *Joseph Addison*

Q4_2023

The gap between NZ Super and cost of living continues to grow, guidelines show…

NZ Super continues to not meet the financial needs of the retired population, and retirees will have to supplement their budgets regardless of whether they are seeking a no-frills lifestyle or one where they have more choices.

That's the main finding of the latest '*Retirement Expenditure Guidelines*'. They show the importance of saving and investing for your retirement. Analysis of expenditure for even a basic standard of living in retirement shows a gap between NZ Super and weekly expenditure costs. The recent increases in inflation have shown that retirement planning is not static, and people need to review their financial plan to ensure they are not disappointed in retirement. The guidelines use two levels of expenditure: No Frills, which is a basic standard of living that includes few, if any, luxuries, and Choices, which is a more comfortable standard of living, which includes some luxuries or treats.

They show a two-person household in a main city in 2023 would need to have saved $831,000 ($755,000 in 2022) to fund a Choices lifestyle, while a couple living in the provinces would need to have saved $539,000 ($480,000).

The lump sums required for a Choices lifestyle for a one-person household is $610,000 ($561,000) and $697,000 ($658,000) for metropolitan and provincial areas respectively.

Only two-person provincial households living a No Frills lifestyle come close to being funded by NZ Super, though they would still need savings of $120,000 ($77,000 in 2022).

A metropolitan two-person household with a No Frills lifestyle would require $235,000 ($191,000 in 2022) savings at retirement in addition to NZ Super.

Big increases in the cost of food were impacting retirees because, as a percentage, they spend between 12% and 22% of their income on food, and the increase in the cost of food was 12.3% - more than twice the CPI of 6%. In addition to this, the biggest expenditure category for retirees is housing and household utilities (except for Choices provincial one-person households) of between 17% and 31% of total expenditure. This class of expenditure represented an average of 8.9% of the total increase in expenditure – well above the rate of inflation.

The key is to have a plan, be disciplined and stick to it. It starts with knowing where you want to be, how you want to spend your money, and the choices you want to give yourself. Once you identify your goals you can then budget and manage your cashflow to invest regularly. This report assumes that you invest rather than save and that's an important difference in growing wealth.

Seeking out professional financial advice should be something everyone considers. Financial advice is especially important when preparing for a comfortable retirement. It can take some of the key findings in this report, personalise them and show pre-retirees how to put these insights into action. And perhaps most importantly, can help keep the plan on track through the inevitable ups and downs of markets, and life in general.

Most Kiwis put 3% into KiwiSaver to maximise the employer contribution, but they could invest more – 4%, 6%, 8% and 10% are also options. The impact of those rates on the portfolio value at age 65 are significant.

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Best wishes for the festive season

All of us at Generation Wealth Management would like to wish you and your family a very Merry Christmas and prosperous New Year.

CHRISTMAS OFFICE HOURS:

We will be closing our offices on Thursday 21st December to give all of our staff a well-earned break and will be re-opening on Monday 8th January 2024.

If you need to contact us, please leave a message on our answerphone or email – we'll be checking these periodically and will respond as soon as we can.

Inside

24 Things I Believe About Investing

1 I believe simple beats complex. The problem is 'simple' is much harder to implement because complex will always sound more intelligent and appealing.

2 I believe the timing of buy or sell decisions matters less than your holding period. Picking tops and bottoms is for the lucky and the liars. Patiently holding onto your investments is more important for most investors than timing.

3 I believe you should ignore what billionaires and legendary investors think about the markets. These people don't share your circumstances, time horizon or risk profile. Why should you take investing advice from them?

4 I believe self-control can make you far more money than just about any other trait as an investor. I know plenty of high IQ people who are terrible investors because they don't have the right temperament.

5 I believe every investor in risk assets should be comfortable seeing their money incinerated on occasion. During bear markets and corrections some of your money simply vanishes. That's just part of investing.

6 I believe being bullish or bearish matters less than progress towards your goals. Your personal financial circumstances should dictate how you invest far more than what you think will happen in the markets. You don't need to have an opinion on whether markets are going higher or lower in the short-run.

7 I believe risk management is important but you have to take risk to make money. Managing risk is a major component of portfolio management but you can't avoid risk altogether. You have to invest in something.

8 I believe process is more important than outcomes but at some point performance matters. A successful investment process requires making good decisions over and over again. But you have to understand the difference between discipline and delusion if your process isn't working.

9 I believe a good strategy you can stick with is vastly superior to a great one you can't stick with. Perfect is often the enemy of good when it comes to investment behaviour.

10 I believe it's basically impossible to forecast the economy. Even the Fed can't figure out the path of interest rates, inflation and economic growth and it's part of their job. If we're being honest, no one truly understands how the economy works.

11 I believe it's much easier to explain what just happened than predict what will happen next. The only constants in finance are human nature and moving the goalposts when you're wrong. Pundits are very good at telling you why something unexpected was obvious in hindsight even when all of their predictions about the future have been wrong.

12 I believe defining what you won't invest in is more important than what you will invest in. Investors have never had it better but the paradox of choice can be paralyzing. You can find liberation by limiting yourself to certain types of investments and ignoring everything else.

13 I believe there are many different paths to being a successful investor but only a handful of ways to fail. There is no one-size-fits-all when it comes to investing the right way. But unsuccessful investors typically exhibit the same poor investment behavior — market timing, overtrading, trying to outsmart the market being overconfident in your investment abilities, investing based on political beliefs, etc.

Life's tips/1

"What I needed to get ahead was to compete against idiots. And luckily, there's a large supply."

- Charlie Munger

Summing up

- *It's OK to build wealth slowly*
- *Managing risk is a major component of portfolio management but you can't avoid risk altogether*

14 I believe markets are right most of the time but not all the time. Markets are kind of, sort of efficient. But just because markets can be crazy at times doesn't mean it's easy to beat them.

15 I believe fighting the last war can get you into trouble. The next risk is rarely like the last risk.

16 I believe every investor has their own behavioural blind spots. Knowing yourself is more important than worrying about what other investors are up to.

17 I believe a long time horizon is the ultimate equalizer in the markets. A long enough time horizon is the best hedge against most market risks.

18 I believe useful investment advice is nearly impossible to accept during booms and busts. No one wants to hear about being responsible during a rip-roaring bull market just like no one wants to hear about the virtues of buy and hold during a soul-crushing bear market.

19 I believe long-term returns are the only ones that matter but you have to survive the short-term. As Daniel Kahneman once said, "The long-term is not where life is lived."

20 I believe most disagreements about markets come down to differences in time horizon and risk tolerance. Markets are full of people with different goals, opinions, time horizons and appetite for risk. That's what makes a market. It's also what causes arguments and why there is always a buyer for every seller.

21 I believe nothing about investing is ever easy, but we still make it harder than it has to be. There are no points awarded for the degree of difficulty when it comes to making money in the markets.

22 I believe optimists are better investors than pessimists. They say hope is not an investment strategy, but it kind of is in a way. If you don't think things will be better in the future than they are today, what's the point of investing in the first place?

23 I believe doing nothing is the best investment decision most of the time. As long as you have a plan in place, doing nothing is perfectly rational investment behavior.

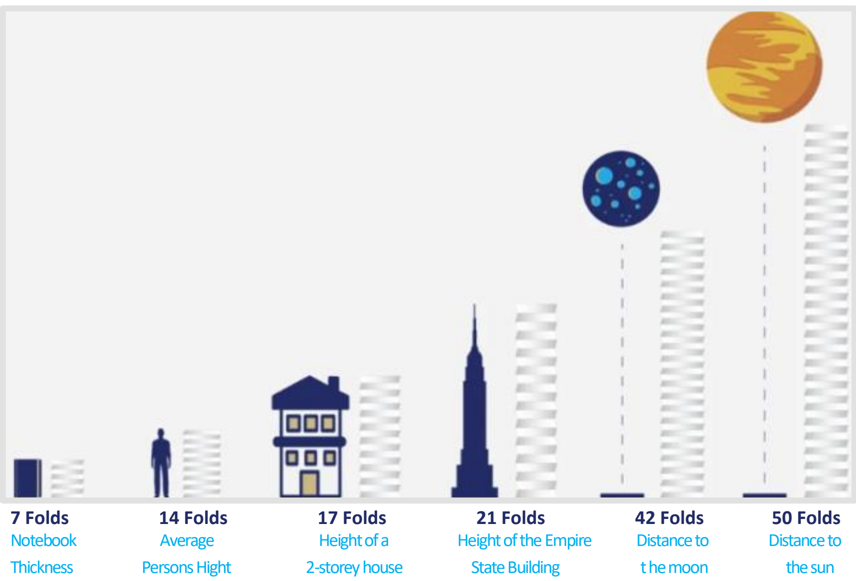
24 I believe it's OK to build wealth slowly. Someone once asked Jeff Bezos the best advice he ever received from Warren Buffett. Bezos asked Buffett if his investment ideas are so simple and he's so rich why doesn't everyone copy him? To which Buffett replied, "Because nobody wants to get rich slow."

None of us are going to be the next Buffett but this idea is more realistic than assuming you can get rich overnight.

By Ben Carlson

THE POWER OF COMPOUNDING

THIS IS PROBABLY ONE OF THE COOLEST ANALOGIES ABOUT COMPOUNDING BY PLANCORP



Imagine …
you take a sheet of standard printer paper with a thickness of 0.1mm.

Fold it over once and it gets twice as thick.

Fold it again and you've doubled the thickness of the paper again; two folds make the paper four times as thick. Fold it a third time and now the paper is eight times as thick.

If you could fold that piece of paper 50 times, the paper would stretch 95 million miles or approximately the distance from Earth to the sun.

At 100 folds….it matches the radius of the universe!

Summing up

- *Every investor has their own behavioural blind spots*
- *Doing nothing is the best investment decision most of the time*

FINANCIAL PLANNING

Advisers boost client portfolios 5.9%

The expertise of financial advisers can make a 5.9% difference in the value of client portfolios compared to those who are non-advised.

According to Russell Investments' 2023 Value of an adviser report, not only can advisers help boost client assets but they can also help navigate the practical and emotional burdens of their financial affairs. Using five key metrics, the 5.9% premium was calculated based on behavioural coaching (3.4%), asset allocation (1.2%), tax planning and investing (1.3%), choices and trade-offs (variable) and an adviser's expertise (priceless).

The fifth metric is the combination of technical skills and emotional expertise to provide a "priceless form of value to their clients". As a result, technical skills only get part of the job done - the ability to engage with and gain the trust of a client is critical to a successful relationship and achieving the best outcomes.

This is where advisers draw on their essential interpersonal skills like empathy, caring and genuine curiosity," the report shows.

This metric also looks at how advisers help clients achieve life-long goals and celebrate personal milestones, as well as help them in challenging times such as trauma, illness, financial crises, job loss, and death.

The 1.2% value add to asset allocation as an example, could see a client's retirement savings amount to $210,947 after 10 years - $21,818 more it was only invested in a default portfolio. "The potential 1.2% in value from an adviser achieved through carefully considered asset allocation can make a big difference to an investor's outcome," Russell Investments managing director and head of distribution in Australia, Neill Rogan, said.

For tax planning, Rogan said advisers can add another 1.3% in value as this is crucial to ensure clients' portfolios don't unnecessarily leak funds.

"Given that only 12% of investors list overall tax effectiveness among their top three investment considerations when making investments, there's an opportunity for advisers to further demonstrate their value," he said.

By Karren Vergara

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

GENERATION WEALTH MANAGEMENT