

# THE GENERATOR

"Reading is to the mind what exercise is to the body"

Joseph Addison

Q3/23

## CURRENCY HEDGING

- An explanation

**CURRENCY HEDGING IS A FINANCIAL STRATEGY USED TO PROTECT AGAINST FLUCTUATIONS IN FOREIGN EXCHANGE RATES.**

Imagine if you're a New Zealand investor holding an Exchange Traded Fund (ETF) that represents the companies in the US S&P 500 index.

Let's say that the NZ dollar strengthens against the US dollar. Even if the value of the company remains the same, when you convert your investment back to NZ dollars, you'd receive less money because the currency conversion has devalued the US dollar.

Hedging strategies can minimise this currency risk when dealing with ETFs and other products exposed to currency movements.

### Life's tips/1

"Many an optimist has become rich simply by buying out a pessimist."

~ Laurence J. Peter



Broadly speaking, there are two types of international Funds or ETF's, Hedged and Unhedged Funds.

**Hedged Funds** make use of various financial instruments (like futures or options) to offset potential losses from currency movements.

The goal here is to remove the impact of foreign exchange movements, so that the Funds' return is driven purely by the performance of the underlying assets.

As an investor in a Fund, you don't have to do anything to 'make this happen' - it's all handled within the Fund itself.

If you believe that the NZ dollar will appreciate against the currency of the

**GENERATION**  
WEALTH MANAGEMENT

#### Albany Office

PO Box 64001, Botany, Auckland 2163

TEL. 09 272 9030

EMAIL. botany@generationwealth.co.nz

#### Botany Office

PO Box 64001, Botany, Auckland 2163

TEL. 09 272 9030

EMAIL. botany@generationwealth.co.nz

#### Pukekohe Office

PO Box 66, Pukekohe 2340

TEL. 09 238 3322

EMAIL. pukekohe@generationwealth.co.nz

underlying investment, a hedged Fund could be beneficial.

Hedging isn't free. The costs involved in maintaining hedging strategies can reduce your returns.

**Unhedged Funds**, on the other hand, do not employ such measures. As such, they expose investors to both the performance of the underlying assets and foreign exchange rate movements. Of course, this could have beneficial results.

If the US dollar outperforms the NZ dollar, that could juice your returns.

This can be a form of insurance, as in a risk-off environment there is often a flight to safety and the NZ dollar may fall.

So, which is better?

It largely depends on your outlook on the currencies involved and your risk tolerance.

### Inside

- *Practicing Healthy Habits, Pursuing Wealthy Outcomes*
- *Some things I've learned about money*
- *Global diversification can make a world of difference*
- *How to protect yourself against an investment scam*

|   |   |
|---|---|
| 4 | 1 |
| 3 | 2 |

# Practicing Healthy Habits, Pursuing Wealthy Outcomes

Investing and health can be two of the most important things in life, but sometimes they also can be the most confusing.

There's so much data and advice, so many articles ...And unfortunately, they often don't agree.

So, I wasn't surprised to see that one of the bestselling books of the year is physician Peter Attia's *Outlive: The Science & Art of Longevity*, which looks at recent scientific research on aging to explore strategies for not only living *longer* but also living *healthier*.

I was struck by the parallels between how he talks about health and how we think about investing. Here are some of his main observations about health:

- There's no one-size-fits-all solution.
- There are no quick fixes.
- It is better to prevent problems than find yourself in the position of having to fix them.



I've been making similar points about investing for decades. Specifically: There's no one-size-fits-all investment solution because different investors have different goals and risk tolerances. I believe that the best investment plan is the one a person can stick with.

There are no quick fixes in investing. This is for two reasons:

- First, although the US market has returned, on average, about 10% a year, it rarely does that in any given year. (Usually, it's much higher or much lower.)
- Second, to take advantage of the miracle of compounding, an investor needs time. Good investing, like good health, requires long-term discipline and commitment.

Investors can be proactive about how

they approach investing by making peace with uncertainty, building smart portfolios, and developing a plan that accounts for a wide range of outcomes.

I'm also struck by the way Attia describes his role as a physician, which feels similar to the way good financial advisors approach their work.

He sees himself as a "translator" who wants to help people understand what medical advances mean to them as individuals.

That process is rooted in science, but there's an art to applying it differently for each individual patient.

There's an art to implementing financial science, as well. Financial professionals help translate financial science.

*Continued on page 3*

|   |   |
|---|---|
| 4 | 1 |
| 3 | 2 |

## Summing up

- *The best investment plan is the one a person can stick with*
- *Good investing, like good health, requires long-term discipline and commitment*

## Life's tips/2

*"It's not how much money you keep, but how hard it works for you and how many generations you keep it for."*

~ Robert Kiyosaki

Investors benefit from understanding their investment decisions and what they should expect over their **L.I.F.E.** (Lifetime Integrated Financial Experience). We should want to make the best-informed decisions about our health while recognizing that outcomes are uncertain.

It's the same with investing. Attia sees the goal of medicine as prolonging not only our life span but also our "health span" so that we're in the best shape to enjoy doing what matters most to us. We want investors to have a good investment experience so they can use their savings to lead the lives they want to live while feeling safe along the way.

Having a healthy "wealth span" is about more than accumulating money—it's about maximising **L.I.F.E.**

Attia calls his approach "Medicine 3.0." Medicine 3.0 emphasizes prevention over treatment, treats each patient as a unique individual, and focuses not just on surviving but thriving.

Medicine 3.0 represents an evolution over Medicine 1.0, which centres on crisis management and Medicine 2.0, which incorporates scientific advances but not enough emphasis on holistic, personalized care.

Borrowing that framework, you can

think of your portfolio as Investing 3.0. Investing 1.0 is active management. Investing 2.0 is indexing. And Investing 3.0 draws on both and improves on each: using flexible implementation to lower costs, tilting portfolios to emphasize historical drivers of higher expected returns, and offering clients tailored solutions to help them pursue their financial goals.

Helping people change how they approach their health is important work,

but to your Advisor, the work we do is just as important.

In a sense, we're pursuing a common goal: empowering individuals to make informed choices so that they can lead healthier, wealthier lives. By recognizing the importance of prevention and individually tailored strategies, we can help lay the foundation for a future where individuals not only survive but thrive—in all aspects of life.

~ by David Booth

## Some things I've learned

# ABOUT MONEY

~ by Daniel Crosby

THE JONESES AREN'T AS RICH OR HAPPY AS YOU THINK THEY ARE

THE MORE COMPLICATED THE INVESTMENT ADVICE THE LESS USEFUL IT IS

GET RICH QUICK AND GET POOR QUICK ARE 2 SIDES OF THE SAME COIN

TIME IS A SCARCER RESOURCE THAN MONEY

ASK ABOUT ANYTHING YOU DON'T UNDERSTAND

A HOUSE IS A PLACE TO LIVE, NOT AN INVESTMENT

ADMIRE PEOPLE WHO EARN MORE MONEY THAN YOU, NOT PEOPLE WHO SPEND MORE MONEY THAN YOU

YOUR MORTGAGE BROKER IS LYING TO YOU ABOUT HOW MUCH HOUSE YOU CAN AFFORD

YOU DON'T NEED TO BE A MATH WHIZ TO MAKE GOOD MONEY DECISIONS; FINANCIAL SUCCESS IS 5% INTELLIGENCE AND 95% DISCIPLINE

A RAISE IN INCOME SHOULDN'T MEAN A RAISE IN LIFESTYLE

FORECASTING IS FOR THE WEATHER

NEVER REACH FOR YIELD

FEES ERODE PERFORMANCE

THERE IS AN INVERSE RELATIONSHIP BETWEEN INVESTMENT PERFORMANCE AND TIME SPENT WATCHING FINANCIAL NEWS

DON'T PAY INTEREST TO ACQUIRE SOMETHING THAT LOSES VALUE

YOUR LIFE IS A BETTER BENCHMARK THAN THE S&P 500

YOU DON'T HAVE TO BE RICH TO INVEST, BUT YOU HAVE TO INVEST TO BE RICH

COMPOUND INTEREST IS THE EIGHTH WONDER OF THE WORLD. SET YOURSELF UP TO BENEFIT FROM IT RATHER THAN BATTLE AGAINST IT

A PENNY SAVED IS MORE THAN A PENNY EARNED

INVEST IN YOUR MIND AND YOUR SKILLS FIRST

INFREQUENT SPLURGES BRING THE GREATEST HAPPINESS

IF YOU'RE EXCITED ABOUT AN INVESTMENT, IT'S PROBABLY A BAD IDEA

MARKET CORRECTIONS COME MORE REGULARLY THAN BIRTHDAYS - EXPECT THEM

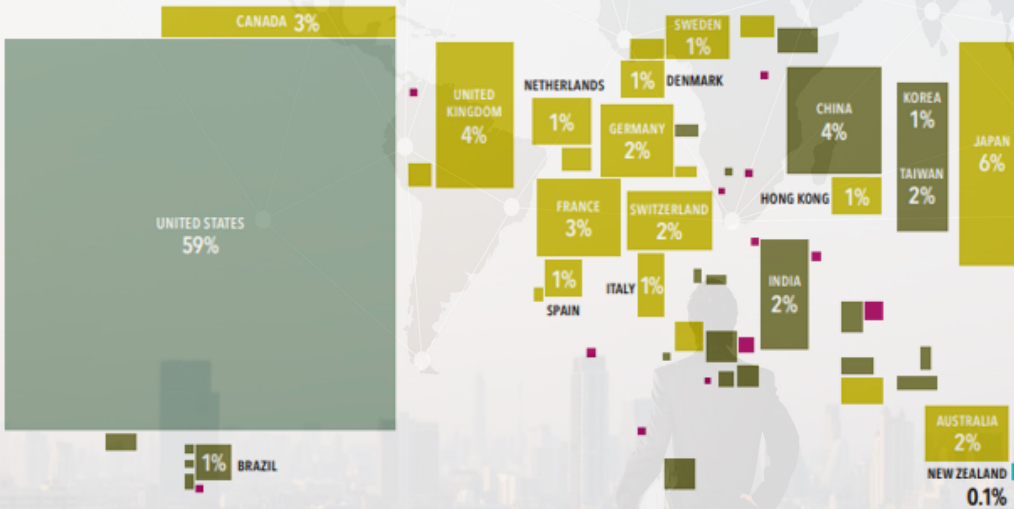
## Summing up

- There's no one-size-fits-all investment solution because different investors have different goals and risk tolerances
- To take advantage of the miracle of compounding, an investor needs time

|   |   |
|---|---|
| 4 | 1 |
| 3 | 2 |

# GLOBAL DIVERSIFICATION... can make a world of difference

PERCENT OF WORLD EQUITY MARKET CAPITALISATION  
As of 31 December 2022



The US stock market is the biggest in the world, but investors who ignore other global markets may miss out on a wealth of opportunity.

- Stocks of the roughly 16,500 companies trading outside the US represent more than 40% of the world's \$109 trillion equity market.
- When determining where to invest, a country's size may not be a primary consideration. Japan, for instance, is relatively small but accounts for 6% of the world's equity market value.
- Global diversification captures returns from companies around the world and can potentially offset a weak market with stronger returns elsewhere.

*Investing globally can deliver more reliable outcomes over time.*

| New Zealand                | United States             | Developed ex NZ/US        | Emerging                  | Other                      |
|----------------------------|---------------------------|---------------------------|---------------------------|----------------------------|
| - 45 companies             | - 3,609 companies         | - 6,383 companies         | - 8,618 companies         | - 1,498 companies          |
| - \$110 billion            | - \$64 trillion           | - \$30 trillion           | - \$13 trillion           | - \$656 billion            |
| - 0.1% of world market cap | - 59% of world market cap | - 28% of world market cap | - 12% of world market cap | - 0.6% of world market cap |

## HOW TO PROTECT YOURSELF AGAINST AN INVESTMENT SCAM

~ Financial Markets Authority (FMA)



- Always use a licensed provider. This provides some protection and minimum standards of service.
- Do not invest via offshore, online businesses. If you do, we can't help you if things go wrong.
- Ignore unsolicited offers. It's OK to hang up, or ignore an email from someone you don't know.

For more information on how to spot an investment scam visit the [FMA website](#)

|   |   |
|---|---|
| 4 | 1 |
| 3 | 2 |

*Next step*

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

**GENERATION**  
WEALTH MANAGEMENT