THE GENERATOR

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

Joseph Addison

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When Headlines Worry You

BANK ON INVESTMENT PRINCIPALS

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

On Friday, March 10, regulators took control of Silicon Valley Bank as a run on the bank unfolded. Two days later, regulators took control of a second lender, Signature Bank. Then attention swung to the troubles with European banking giant Credit Suisse. With increasing anxiety, many investors are eyeing their portfolios for exposure to these and other regional banks in the US and the banking sector generally.

Rather than rummaging through your portfolio looking for trouble when headlines make you anxious, turn instead to your investment plan. Hopefully, your plan is designed with your long-term goals in mind and is based on principles that you can stick with, given your personal risk tolerances.

While every investor's plan is a bit different, ignoring headlines and focusing on the following time-tested principles may help you avoid making short-sighted missteps.

1 Uncertainty Is Unavoidable

Remember that uncertainty is nothing new and investing comes with risks. Consider the events of the last three years alone: a global pandemic, the Russian invasion of Ukraine, spiking inflation, and ongoing recession fears. In other words, it may have seemed as if there were plenty of reasons to panic.

Despite these concerns, for the three years ending February 28, 2023, the Russell 3000 Index (a broad market-capitalization-weighted index of public US companies) returned an annualized 11.79%, slightly outpacing its average annualized returns of 11.65% since inception in January 1979. The past three years certainly make a case for weathering short-term ups and downs and sticking with your plan.

OUR OBJECTIVE

Generation Wealth Management is wholly owned by its management. All of our advisers have been in the industry for more than twenty years.

At Generation Wealth Management, clients gain access to specialist professional advice covering all areas of personal financial affairs.

All investments recommended by Generation Wealth Management have been fully researched.

Life's tips/1

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

- Robert Kiyosaki

Inside

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••• *The evolution of equity markets*

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2 Market Timing Is Futile

Inevitably, when events turn bleak and headlines warn of worse to come, some investors' thoughts turn to market timing. The idea of using short-term strategies to avoid near -term pain without missing out on long-term gains is seductive, but research repeatedly demonstrates that timing strategies are not effective. The impact of miscalculating your timing strategy can far outweigh the perceived benefits.

3 "Diversification is Your buddy"

Nobel laureate Merton Miller famously used to say, "Diversification is your buddy." Thanks to financial innovations over the last century in the form of mutual funds, and later ETFs, most investors can access broadly diversified investment strategies at very low costs. While not all risks—including a systemic risk such as an economic recession—can be diversified away (see Principle 1 overleaf), diversification is still an incredibly effective tool for reducing many risks investors face.

In particular, diversification can reduce the potential pain caused by the poor performance of a single company, industry, or country.[1] As of February 28, Silicon Valley Bank (SIVB) represented just 0.04% of the Russell 3000, while regional banks represented approximately 1.70%.[2]

For investors with globally diversified portfolios, exposure to SIVB and other US-based regional banks likely was significantly smaller. If buddying up with diversification is part of your investment plan, headline moments can help drive home the long-term benefits of your approach.

When the unexpected happens, many investors feel like they should be doing something with their portfolios. Often, headlines and pundits stoke these sentiments with predictions of more doom and gloom. For the long-term investor, however, planning for what can happen is far more powerful than trying to predict what will happen.

Life's tips/2

"The individual investor should act consistently as an investor and not as a speculator."

- Benjamin Graham

150th Plasma Donation!

Mike Jones from our Botany Office has been donating Plasma since 2011 and recently received special recognition from NZ Blood Service for his amazing support to plasma recipients.

"It can be done more often than a blood donation and is easier on the body" - says Mike. Four years ago his youngest son Ryan, in his early twenties, joined Mike and now father and son do the trip to the Donation Centre together.

Plasma can be made into essential blood products that help cancer patients, trauma and burns victims those with auto-immune diseases. Mike has received a beautiful framed artwork as gift.

If you want to know more about Plasma Donation, go to nzblood.co.nz/give-plasma/

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Summing up

- *"It's about time in the market, not timing in the market'"*
- *research repeatedly demonstrates that timing strategies are not effective*
- *investors can access broadly diversified investment strategies at very low costs*
- *diversification is still an effective tool for reducing risks*

How Safe are NEW ZEALAND BANKS?

With recent headlines featuring news of bank failures in the US we've asked a number of times about the risk to our own banking sector.

New Zealand banks are amongst the safest in the world when we look at the credit ratings provided by Standard & Poor's. The four largest domestic banks, ANZ, ASB Bank, BNZ and Westpac are among the top ranked banks out of over 2000 that are rated by Standard & Poor's, which have an AA rating or better.

In a crisis, we often see a flight to safety. People run from the smaller, 'riskier' banks and into the larger, well run banks meaning that the Australian parents of our banks could be viewed as 'safe havens'.

What Happens if a New Zealand Bank Goes Bust?

New Zealand doesn't have deposit insurance or bank guarantees, but the Reserve Bank has an established system called Open Banking Resolution (OBR).

Under OBR, the Reserve Bank will undertake an initial assessment of the health of a troubled bank.

Following this assessment, the procedure is:

- The Reserve Bank may make a recommendation to the Minister of Finance that the bank be placed under statutory management
- If the Minister of Finance decides to go down the OBR path, then a proportion of the bank's funds, including individual deposits, are frozen to cover the estimated losses. The bank opens for business the next day, with depositors able to get access to their unfrozen funds, although individuals with term deposits will have to wait until these mature
- These unfrozen funds are subject to a government guarantee

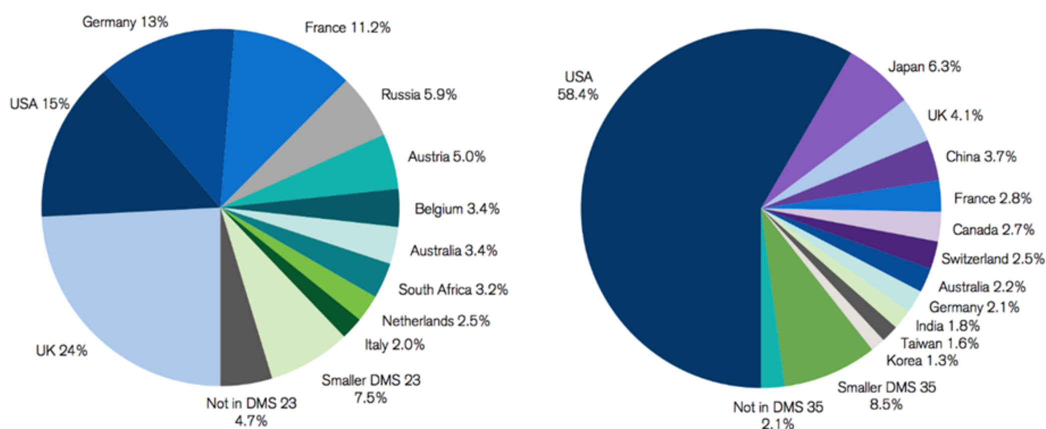
Frozen funds are determined on the following basis:

- The OBR has been designed to ensure the owners and shareholders bear 100 percent of the initial loss due to a bank failure
- Subordinated creditors also take 100 percent of their cut after that
- The remaining frozen funds are allocated proportionally among unsecured creditors, mainly domestic sourced deposits and wholesale deposits from large international financial institutions.

The Evolution of Equity Markets

The chart below shows the relative sizes of equity markets around the globe and how it has evolved since 1899. "*The US stock market accounts for 58% of total world value (on a free-float, investible basis), which is over nine times as large as Japan, its closest rival.*"

Figure 2: Relative sizes of world stock markets, end-1899 (left) versus start-2023 (right)



Sources: Elroy Dimson, Paul Marsh and Mike Staunton, DMS Database 2023, Morningstar

Summing up

- *Focus on time in the market, not market timing*
- *The best approach to your portfolio is to arm yourself with all the necessary information, and then take your questions to a financial professional to help you with the final decision making*

Generation Wealth Management

Our Investment Philosophy

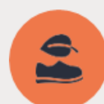
Our approach to building portfolios is based on widely accepted finance theory and practice. It is e vidence based, is informed by our own experience, and is tailored for New Zealand investors.

Our main working principles for our portfolio designs, include:

To earn higher returns, more risk must be taken. We ensure our asset allocations match the spectrum of risk profiles of our investors.

Diversifying improves the risk and return trade-off. Our portfolios are well diversified across asset classes, securities, and risk factors.

Some markets are inefficient. Low cost passive funds play a role in our portfolios, but we also believe skilled managers can earn excess returns in some markets. We consider market efficiency and evidence of manager value-added as part of our portfolio design process.



Responsible Investing. We believe Responsible investors who manage environmental, social, governance and cultural (ESGC) factors do better over the long term. We consider ESGC as part of the Manager selection and monitoring process

Conflicts of Interest. We believe investment advice should be ethical and conflict free when recommending solutions and should be in the best interest of our clients, not the adviser. We believe we should **only** be paid by our clients so our advice aligns with our philosophy.

Our portfolios also try and capture value factors and tilt towards small companies, 'value' companies and other sub-asset classes. We believe that over time, this will lead to superior performance than a traditional market-cap index.

We aim to operate portfolios in a way that allows clients to have the quiet enjoyment of their savings.

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

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