THE GENERATOR

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

Joseph Addison

Q2_2023

A Hike to the Trust Tax Rate

Funnelling income through trusts has become a lot harder

Trusts have been a recurring topic in news headlines in recent months. First an IRD report showed the uber-wealthy in the country were earning a large majority of their income through trusts. IRD information found the amount of money going through trusts had risen from $11.4 billion in the 2020 tax year, to $17.1 billion in the 2021 tax year.

It's thought this spike was a reaction to the introduction of the 39% personal income tax rate, as people reallocated income through trusts to avoid parting ways with more money.

Unfortunately, this manoeuvre was too good to be true, as soon after the government announced a hike of the trust tax rate from 33% to 39%.

When explaining the decision, Revenue Minister David Parker said "The report also shows that a substantial number of the super-wealthy funnel their income through trusts which minimises their tax bill. This change remedies that."

Yet this news hasn't been received gladly by many, as Deloitte tax partner Robyn Walker notes, it could have significant financial ramifications for many Kiwi families. In fact, she goes so far as to call the families who do not earn significant wealth from trusts, "the collateral damage" of these legal changes.

The fact is many ordinary Kiwis will have a house or rental property in a family trust or a bank account that's earning some interest. That income will now be taxed at the 39% trust rate, when in fact the personal tax rate of those individuals may be below 33%. Businesses that run income through trusts could also face problems for those who paid tax at the company level.

If you fall into that category, it might be time to talk to your lawyer or trust professional, as well as a good accountant and financial adviser to determine if any trust you're associated with is still a good idea.

GENERATION WEALTH MANAGEMENT

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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.

Did you know...

It's estimated there are currently between 300,000-500,000 trusts in NZ

Inside

- *IRD Scams*
- *Why you should stay the course*
- *Millionaires Migrating*

Don't Be Fooled by the latest IRD SCAMS

INCOME TAX ASSESSMENTS COMING - BEWARE SCAMMERS

Released by the IRD - May 2023

Inland Revenue is warning customers to be wary of scammers during the 2023 'tax season'. This year Inland Revenue will send around 3.5 million tax assessments, mainly using customer's myIR accounts as well as the post. These will be sent out from late May to the end of July.

The assessments show whether there is a refund due, a bill to pay or whether the right amount was paid for the 2022/23 tax year.

Tax is vital to New Zealand life, but it can be complicated. That's why Inland Revenue has the information campaign running to tell people what to expect, and when, based on their situation. Inland Revenue also has a warning about scammers who try to take advantage of people, particularly during tax season.

Scammers know when it is tax season and target this time of the tax year to try to rip people off and gain access to bank accounts and other personal information.

- Inland Revenue will only pay funds directly into the bank account they have on record and they will ask people to **log in to their myIR account** from www.ird.govt.nz
- Do not click on any links you receive in emails or text messages, it is always safer to type in the address directly to your web browser and navigate from there.
- Inland Revenue will ask for **bank account details** if they don't have them, but importantly, they will always ask people to provide these **in a secure way** – using their **myIR** account or through their Call Centre (0800 257 777).
- Inland Revenue will also give people until February next year to pay an income tax bill. A bill won't have to be paid immediately (scammers often try to create a sense of urgency).
- Inland Revenue will **never put the dollar amount** of a refund in an e-mail or text message and will not ask for your credit or debit card details in order to pay a refund.
- They will also never ask you to reply to an email or text message to provide your bank account details.
- Inland Revenue will also never speak to customers threateningly.

Anyone can get caught out. Scammers may call, text or email promising a tax refund if people provide personal details. *If it seems too good to be true, it's probably a scam.*

To provide an additional layer of protection, they strongly recommend you enable two-factor authentication – more details can be found at: https://www.ird.govt.nz and search for "two-step verification".

For more information about scams visit:
https://www.ird.govt.nz/managing-my-tax/scams

If you think you have received a scam forward it to
phishing@ird.govt.nz

Inland Revenue
Te Tari Taake

Phone 0800 257 777 Monday to Friday, 8am to 6pm
Saturday, 9am to 1pm

Summing up

- *STOP—Don't give money or personal information to anyone if unsure*
- *THINK—Ask yourself could the the message or call be fake?*
- *PROTECT—Act quickly if something feels wrong*

Why you should

STAY THE COURSE

By Ben Carlson

THE THING ABOUT BIG LOSSES IN THE STOCK MARKET IS SOMETIMES THEY ARE FOLLOWED BIG LOSSES… BUT SOMETIMES THEY'RE FOLLOWED BY BIG GAINS

By Ben Carlson

Last year was one of the worst years ever for financial markets. Call it recency or loss aversion or some other behavioural bias but for some reason, our brains are hard-wired to assume big losses will be followed by additional losses (just like we assume big gains will be followed by additional gains).

Just look at every double-digit down year for the S&P 500 going back to 1928 along with the ensuing returns in the following year:

S&P 500 Worst Years		
Year	**Bad year**	**Next Year**
1930	-25.1%	-43.8%
1931	-43.8%	-8.6%
1937	-35.3%	29.30%
1940	-10.7%	-12.8%
1941	-12.8%	19.20%
1957	-10.5%	43.70%
1973	-14.3%	-25.9%
1974	-25.9%	37.00%
2001	-11.9%	-22.0%
2002	-22.0%	28.40%
2008	-36.6%	28.90%
2022	-18.0%	?

Data: Returns 2.0

Historically after a bad year you're looking at feast or famine. You either got a huge rally or further soul-crushing losses.

It was not a foregone conclusion that stocks would rally this year as much as they have — the S&P 500 is up almost 14% while the Nasdaq 100 has gained nearly 27% this year.
It could have gotten worse if inflation stayed high or the Fed broke something or we went into a recession or some other risk came out of left field. Regardless of the outcome, this is a good lesson in the power of staying the course as an investor. And I believe staying the course was the right move whether stocks cratered even more or took off like a rocket ship.

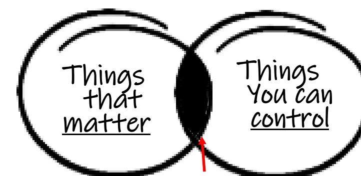
Why? What's the alternative? Guess what will happen next? Good luck with that. Even the pros have no idea what will happen next in the market.

Heading into the year, Sam Ro published a list of S&P 500 year-end price targets from 16 of the biggest Wall Street firms:

Wall Street Firm	S&P 500 Estimate
Barclays	3,675
SocGen	3,800
Capital Economics	3,800
Morgan Stanley	3,900
UBS	3,900
Citigroup	3,900
Bank of America	4,000
Goldman Sachs	4,000
HSBC	4,000
Credit Suisse	4,050
RBC	4,100
JP Morgan	4,200
Jeffries	4,200
BMO	4,300
Wells Fargo	4,300
Deutsche Bank	4,500

Source TKer

The S&P 500 ended 2022 at around 3,840 so there were a handful of strategists who expected mild losses in 2023 while most were expecting mild gains. It makes sense that Wall Street was tepid coming into the year considering the stock market fell almost 20% in 2022.



WHAT YOU SHOULD FOCUS ON

We're only halfway through the year so it's still a little early to offer a full report card for these predictions but the stock market has outperformed expectations based on where we sit today. As of this writing the S&P 500 is trading at roughly 4,370.

So the stock market has already gone up more than any of these strategists, save for Deutsche Bank, predicted for the whole year. But they're not waiting around to see if those original forecasts could come true. Now that stocks are up double-digits for the year many Wall Street strategists are revising their forecasts higher.

Wall Street strategists get pessimistic when stocks are falling and optimistic when stocks are rising. I don't share this with you to poke fun at Wall Street. The point of this exercise is to prove how difficult it is to make predictions about the future, especially as it relates to short-term movements in the stock market.

When stocks fall, our emotions make us think they will fall even further. And when stock rise, our emotions make us believe they are going to rise even more. This is why I'm such a big proponent of having an investment plan that you can stick with through a wide range of market and economic environments.

Continued on page 4

Summing up

- *Back-to-back years of stock declines are rare*
- *Declines across stocks and bonds in the same calendar year are very infrequent*
- *Over longer periods, stocks, bonds, and gold outperform inflation*
- *Time in the market beats market timing*

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Unfortunately, doing nothing is hard work because markets are constantly tempting you to make changes to your portfolio.

There's an old parable about a locksmith who had a tough time picking locks when he was just a lowly apprentice learning on the job. He would have to use all sorts of tools and it took him a long time to open doors when people locked themselves out of their cars or homes. But people saw him sweating it out and the effort was evident so they tipped him quite well.

But as he slowly but surely learned the tricks of the trade he was able to pick locks quicker which much less effort. The problem is his tips went down because he got people into their vehicles or houses much faster. He made it look too easy. There is a good investing lesson in this story.

Intelligent investors realize effort is often inversely related to results in the market. Just because you do more or try harder doesn't guarantee better results. In fact, doing more is more often than not damaging to your investment performance.

Doing less or doing nothing at all most of the time is the right way forward for the majority of investors. This is why you stay the course.

Staying the course means

* GOING AGAINST YOUR OWN EMOTIONS AT TIMES.
* THINKING AND ACTING FOR THE LONG TERM EVEN WHEN IT DOESN'T FEEL RIGHT IN THE SHORT-TERM.
* PREPARING NOT PREDICTING.
* DOING NOTHING WHEN THAT'S WHAT YOUR PLAN CALLS FOR.

MILLIONAIRES MIGRATING

CHINA IS EXPECTED TO SEE THE BIGGEST NET LOSS OF MILLIONAIRES GLOBALLY THIS YEAR AS ITS ECONOMY CONTINUES TO CONTRACT, A NEW REPORT SUGGESTS.

The country will lose 13,500 high-net-worth individuals (HNWI) with investable wealth exceeding $1 million in 2023, according to the report compiled by Henley & Partners released in June. The country expected to see the second most departures of HNWIs was India, with an anticipated exodus of 6,500, followed by the U.K. in third with 3,200.

President Xi Jinping's recent "common prosperity" crackdowns may be the motivation behind the expatriation of entrepreneurs in China.

The forecast principal beneficiary of this migration is Australia, with a gain of 5,200, following by UAE with 4,500 and Singapore attracting 3,200.

According to the new wealth migration report, America's draw for the wealthy is also weakening. It is less popular to migrating millionaires than it was before Covid due to potential higher taxes. The U.S. is set to maintain a net gain of HNWIs, with an influx of 2,100 this year, putting it in fourth place.

Though that's a net plus, it's a significantly smaller figure than in 2019, when the country saw an influx of 10,800 HNWIs.

New Zealand continue to attract affluent families and is forecast to receive a net inflow of 700 high-net-worth individuals—making the Top 10 list for net HNWI inflows this year.

Summing up

- *New York City is home to 340,000 individuals worth over $1 million*
- *Tokyo, Japan has a population of 290,300 high-net-worth individuals*
- *The Bay Area California, which includes San Francisco and Silicon Valley, is home to 285,000 high-net-worth individuals*

MENTAL LIQUIDITY

I RECENTLY HEARD A PHRASE I LOVE: MENTAL LIQUIDITY. IT'S THE ABILITY TO QUICKLY ABANDON PREVIOUS BELIEFS WHEN THE WORLD CHANGES OR WHEN YOU COME ACROSS NEW INFORMATION

By Morgan Housel

It shouldn't be controversial. But mental liquidity is so rare. Changing your mind is hard because it's easier to fool yourself into believing a falsehood than admit a mistake.

Albert Einstein hated the idea of quantum physics.

His own brand of physics was an extension of classic Newtonian physics, which viewed the universe as working in clean, rational, ways that could be measured with precision.

Then quantum theory came along with the wild idea that some parts of the physical world could not be measured, because the very act of measuring a subatomic particle changed its movement. The best we could do when trying to measure parts of the world was to come up with probabilities and likelihoods.

That was practically heresy to Einstein, who let his quantum theory peers know how he felt. "One cannot make a theory out of a lot of 'maybes,'" he once told a group of physicists in 1927. God, he said, "does not play dice."

Even when he remained professional about his misgivings, Einstein stood firm. "I admire to the highest degree the achievements of the younger generation of physicists that goes by the name quantum mechanics," he once told an interviewer, "But I believe that the restriction to statistical laws will be a passing one."

His peers were disappointed. "Einstein, I'm ashamed of you," said quantum physicist Paul Ehrenfest, who felt the great physicist was being as stubborn as those who once doubted Einstein's theory of relativity.

Within five years, a group of quantum physicists would win the Nobel Prize, solidifying their contributions and validating quantum theory. Left unmentioned during the award ceremony was that the group was nominated by Einstein himself.

"I am convinced that this [quantum] theory undoubtedly contains a part of the ultimate truth," he wrote in his nomination. He had come around.

So much of what people call "conviction" is actually a wilful disregard for facts that might change their minds. It's dangerous because conviction feels like a good attribute, while its opposite – being wishy-washy – makes you feel and sound like an idiot.

There's this thing in psychology called the end of history illusion, which is the idea that people are aware of how much their personality has changed in the past, but they assume it will be stable in the future. I laugh at who I was at age 20, but I assume that by age 60 I'll roughly be the same person I am today. Part of the reason it occurs is because it's too painful to accept that the beliefs I hold today might be wrong, temporary, or subjective.

Beliefs take effort and investment, and it hurts to realize that there may be limited return on investment on your hard-fought convictions. For a lot of things in life – particularly politics, investing, and relationships – people don't necessarily want the truth; they want certainty. Changing your mind is hard because it's an admission that the certainty you once thought you held was an illusion. The path of least resistance is to cling to beliefs for dear life.

A question I love to ask people is, "What have you changed your mind about in the last decade?" I use "decade" because it pushes you into thinking about big things, not who you think will win the Super Bowl.

I am always so suspicious of people who say, "nothing." They act like it's a sign of intelligence – that their beliefs are so accurate that they couldn't possibly need to change. But I think it's the surest sign of ignorance and stubbornness.

> *"We really can't forecast all that well, and yet we pretend we can, but we really can't".*
>
> ***Alan Greenspan***
>
> **Former Chair of the Federal Reserve**

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Summing up

- *People with high mental liquidity are not afraid to be wrong.*
- *Mental liquidity requires an open mind, curiosity, and humility.*
- *"It is the mark of an educated mind to be able to entertain a thought without accepting it." - Aristotle*

Continued from page 5

Visa founder Dee Hock had a great saying: “A belief is not dangerous until it turns absolute.” That’s when you start ignoring information that might require you to update your beliefs. It might sound crazy, but I think a good rule of thumb is that your strongest convictions have the highest chance of being wrong or incomplete, if only because they are the hardest beliefs to challenge, update, and abandon when necessary.

Two critical things to keep in mind here:

Be careful what beliefs you let become part of your identity.

Religion and politics are contentious because almost by definition your beliefs are part of your identity – you’re not just dealing with ideas and philosophies, but tribes and belonging.

Another Dee Hock quote applies here: “We are built with an almost infinite capacity to believe things because the beliefs are advantageous for us to hold, rather than because they are even remotely related to the truth.” Things get dangerous when people let their investing and economic beliefs fall into the same category.

Most fields have lots of rules, theories, ideas, and hunches.

But laws – things that are unimpeachable and cannot ever change – are extremely rare. Some fields only have a handful. A big problem arises when you try to force rules and theories to become laws. The few laws tend to be the most important things in any field.

But everything else, like Einstein said, is just a theory of maybes.

> *History never repeats itself. Man always does.”*
>
> ***Voltaire***
>
> **French Writer**

When in Doubt Zoom Out!

INVESTING DOESN’T HAVE TO BE COMPLICATED. IN FACT, YOU DON’T NEED ANYTHING MORE THAN A FEW KEY PRINCIPLES

By Keith Fitz-Gerald

That’s hard for many people to fathom, and I get why they’d feel that way. We live in an information-addled world dominated by a click-driven, 24x7 sensationalist-motivated news cycle where the pressure to be connected is intense. The temptation is to focus on the minutiae. Learning to “zoom out” is far more critical.

Most investors fail, despite having the best intentions, for one simple reason... because they lack the long-term perspective needed to navigate short-term market disruptions. Learning to build a framework of your own can make all the difference.

I know.

It did for me.

Years ago, I was a newbie investor trying to make sense of the markets. Like many people in the early ‘80s, I found it hard to come to grips with the collapse of the Soviet Union, inflation, a recession, oil deregulation, etc. when it came to my money.

Continued on page 7

Summing up

- *The investor's mindset is key to financial success*
- *“If owning stocks is a long-term project for you,” warns psychologist Daniel Kahneman, “following their changes constantly is a very, very bad idea. It’s the worst possible thing you can do, because people are so sensitive to short-term losses. If you count your money every day, you’ll be miserable.”*

Continued from page 7

The devastating headlines led some very smart people to conclude that the economic woes were insurmountable, and investing was not worth the risk.

My grandmother, Virginia “Mimi” Gruner, didn’t see things that way.

A self-taught investor, widowed at a young age and left with a tiny life insurance settlement, she was making thousands of dollars a month at a time when that was inconceivable, and her portfolio was doing exceptionally well.

I asked Mimi how she was doing that. What was she buying? She told me, and my understanding of how markets worked changed overnight.

What did Mimi say? Was it about which companies to buy? Cutting risk? Finding undiscovered stocks?

No.

Psychology.

Looking across the dining room table, Mimi simply said, “People want to believe the world is going to hell in a handbasket.”

That was a major “A-ha!” moment for me.

Suddenly, I understood why most investors can’t buy low and sell high, why they try to time the markets (even though that almost never works), and why they can’t remove emotion from the equation, which is the single biggest thing standing between them and the profits they crave.

I also understood how to find the biggest, most profitable opportunities where others saw only chaos. Granted, it’s easier to believe pessimists. Especially in this day and age, being optimistic feels almost reckless. When it comes to your money, a bearish view just sounds, well... smarter.

The unspoken message is that pessimists have dug deeper and developed a nuanced view of what’s around the corner. Much like conspiracy theorists, they’ve got an explanation for everything, even if it’s half-baked.

But here’s the kicker: The data shows beyond any shadow of a doubt that staying the course is the far more profitable course of action.

Here are 5 simple principles that can help you up your game immediately:

1. Capital is a creative force and the foundation of wealth

It is constantly growing—and has been since the dawn of time. Sometimes growth slows, but it has never, ever stopped. What’s more, barring something unpleasant—like the end of humanity—it probably never will.

2. The markets have an upward bias over time

Many people find this hard to believe because they are focused on moments in time, but true investing success comes from learning how to focus on what happens over time.

Yes, the markets go up and down. But that doesn’t change the fact that the general direction is UP as a function of ever-larger amounts of money chasing fewer quality stocks. The only question is how you handle the swings, a process I call “buy and manage,” which is very different from “buy and hope”... err, hold.

3. Technology increases total market size every time, in every industry

Many pessimists base their argument on extrapolation. For example, they assume the markets will go to zero because of what happened at the turn of the century and the Internet Bubble burst, or 2009 when the bottom fell out, or COVID hit.

In all three cases, millions of investors believed the end of the financial universe was upon us, but that’s a lot like saying we’ll have 18 feet of snow on the ground in July based on three inches falling in November... and about as accurate.

Technology is the ONE constant capable of increasing market size everywhere it occurs. That means a constantly expanding stream of ideas that translate into earnings and, in turn, higher stock prices over time.

4. Profits follow innovation

Pessimists take doom and gloom personally and view it as a form of ultimatum because they want to be right. Optimists view doom and gloom as an opportunity to try something different because they want to be profitable. Anything negative is only temporary; keep in mind that innovation has never failed to produce profits. Ever.

5. Disruption crosses all economic strata

Pessimists want everybody to fail whereas optimists want even pessimists to succeed. That’s why disruption—and disruptive technology, in particular—is so powerful and able to overcome even the worst pessimism. Especially now that AI is on the loose.

The Bottom Line

Let’s finish with a simple, hard truth. The world we live in today isn’t the one we used to live in; the relentless news cycle has hardened our outlook and, in the process, probably made all of us more skeptical than we’d like to admit.

Learning to flip that around can be a source of tremendous strength—both in life and in the financial markets.

Did you know...

Berkshire Hathaway, founded by Warren Buffett, has the most expensive stock in the world, with Class A stock trading at over 500,000USD each.

Summing up

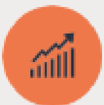
- *Bear markets tend to be short-lived.*
- *A bull market is characterised by rising prices, whereas a bear market is characterised by falling prices*
- *Investing is a long-term game (it’s not for getting rich quickly) so it’s a good idea to get strategic before you commit your cash. You’ll want to invest wisely and stick with your plan.*

Generation Wealth Management

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:

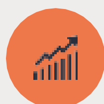
To earn higher returns, more risk must be taken. We ensure our asset allocations match the spectrum of risk profiles of our investors.



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

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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GENERATION WEALTH MANAGEMENT