THE GENERATOR

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

Joseph Addison

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Everything Compounds

GENERATION WEALTH MANAGEMENT

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I'VE ALWAYS BEEN fascinated by compounding. I discovered the concept at a young age. The idea of money making money was earth-shattering to me. Do you mean to tell me I don't do any physical work and the money just grows? Yes, and—with enough time and interest—it can grow at lightspeed.

I was all in. I searched for everything I could on the subject. This is where my love for financial planning began. I wanted to follow all the rules of compounding: save early, save often and never interrupt compounding unnecessarily.

In case you aren't sold on just how amazing compounding is, let me give you an example: the wheat and chessboard problem. Imagine a chessboard. Picture one grain of wheat on the first square. Now, imagine that grain doubled with each subsequent square as you moved through the board.

You'd have two grains on square two, four grains on square three, eight grains on square four and so on, until the entire chessboard was covered with grain. How many grains of wheat would be on the board? I have no idea what number you have in your mind. All I know for certain is that it's incorrect.

The answer is 18,446,744,073,709,551,615 or, phonetically, eighteen quintillion, four hundred forty-six quadrillion, seven hundred forty-four trillion, seventy-three billion, seven hundred nine million, five hundred fifty-one thousand, six hundred and fifteen.

When it comes to financial planning, compounding has obvious benefits. The more money you save early and often, the more time it gets to grow. After lots of time, it grows exponentially. Conversely, high-interest debt—notably credit card balances—will hurt you over time. Indeed, given enough time, it can hurt you exponentially.

I don't think compounding is limited to money. I believe everything compounds.

Take your diet. If you eat one donut, are you unhealthy? (cont p2)

Goodbye Frances & welcome to Hilanie!

After providing great service looking after our advisers and clients for the last six years, Frances left our Botany office at the end of June to move into a well-earned retirement. We wish her well but are a little jealous of the two overseas trips Frances has already taken!

Those of you who've been in touch with the Botany office in the last 3-months would have had the pleasure of dealing with Hilanie.

Hilanie brings a wealth of administrative experience and a big smile to her role and I'm sure you'll all enjoy meeting her just as she looks forward to helping you!

Inside

Everything Compounds……….

If you eat one salad, are you healthy? Of course not. But with enough repetition over time, either of these meals will change your health for better or worse. In fact, after a long time, you could be *extremely* unhealthy or *extremely* healthy. By committing to the daily habit of eating right, you can supercharge your health over the years.

Relationships work the same way. You and I will not become best friends from our first encounter. We may not even be best friends after our fourth meeting. But if we spend lunch together once a month for the next five years, we're going to be intimate confidants by the end.

Similarly, if I choose not to speak to a family member except on holidays, our relationship will deteriorate. Not the first year. Maybe not even the second year. But the odds are, we'll both look up in 30 years and wonder what happened. Compounding is what happened.

An old saying sums it up nicely: "Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it."

Your habits *will* compound. The only question is, are you earning compounded gains—or paying a hefty price?

Luke Smith—humbledollar.com

"We cannot suppress the powerful intuition that what makes sense in hindsight today was predictable yesterday. The illusion that we understand the past fosters overconfidence in our ability to predict the future."

Daniel Kahneman - Nobel Prize Winner

Summing up

- *markets are volatile and can deliver unexpected results*
- *maintain your disciplined investment strategy*
- *think of your long term goals and how they are best achieved*
- *always talk to your adviser if you are worried*

How to invest in a VUCA world

I have never been a fan of social media. I believe social media has a lot to answer for around how our general wellbeing is today. I see it impacting not only my generation but also my children's generation, which I believe has caused, in part, the epidemic of anxiety we have today.

For example, imagine living in New Zealand during the Second World War. Instead of getting the highly censored news reels at the movie theatres and radio news bulletins, you were instead being bombarded via all the social media channels we have today, on a minute-by-minute basis, about what was happening in Europe and the Pacific conflicts. Imagine the fake news as well! I suspect that the levels of anxiety would have been far greater than they were back then, notwithstanding the terrible loss families suffered during both of those conflicts.

The 'always on' nature of life today can have a damaging impact on your finances too, if you're not careful. Which brings me to VUCA.

The term VUCA has been used since the mid-1980s and is an acronym for:

Volatility - refers to the speed of change in an industry, market or the world in general. The more volatile the world is, the more and faster things change.

Uncertainty - refers to the extent to which we can confidently predict the future. The more uncertain the world is, the harder it is to predict

Complexity - refers to the number of factors that we need to take into account, their variety and the relationships between them. The more complex the world is, the harder it is to analyse

Ambiguity - Ambiguity refers to a lack of clarity about how to interpret something. The more ambiguous the world is, the harder it is to interpret

My simple premise is that over time there have been many VUCA moments in the world's history, the difference today is we are being made more aware of them due to the technological advances in getting information out to distribution channels more quickly.

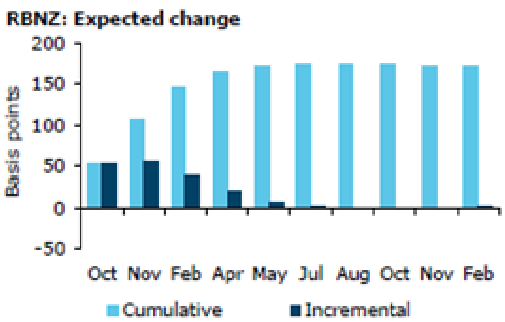
VUCA has come to mind recently because of the current investment market fluctuations we have had, which have impacted Kiwis' retirement saving nest eggs. The main contributors have been higher than expected inflation on a global basis, rising mortgage rates, the conflict in the Ukraine, supply of goods not meeting demand, the ripple effect of COVID and let's not forget global warming.

The funny thing is VUCA is nothing new when it comes to our economic cycle. You don't have to look that far back to remember the impact of the credit crisis in 2008, the share market crashes in 2001 and 1987, and the oil crisis in the 1970s to name just a few.

The difference is the speed at which that information is shared and digested and how quickly the (to page 4)

Current market pricing for changes to the Overnight Cash Rate

New Zealand	Rate	Change from current
Current Rate¶	*3.00*	
Wed 5 Oct 22	3.52	*0.52*
Wed 23 Nov 22	4.07	*1.07*
Wed 22 Feb 23	4.46	*1.46*
Wed 5 Apr 23	4.65	*1.65*
Wed 24 May 23	4.72	*1.72*
Wed 12 Jul 23	4.74	*1.74*
Wed 16 Aug 23	4.74	*1.74*
Wed 4 Oct 23	4.73	*1.73*
Wed 29 Nov 23	4.71	*1.71*
Wed 21 Feb 24	4.72	*1.72*



Summing up

- *sometimes what you see as a safe strategy can in fact be a risky one, because it won't deliver on your goals*
- *Seek sound advice about setting up a multi-asset, multi strategy portfolio of assets*

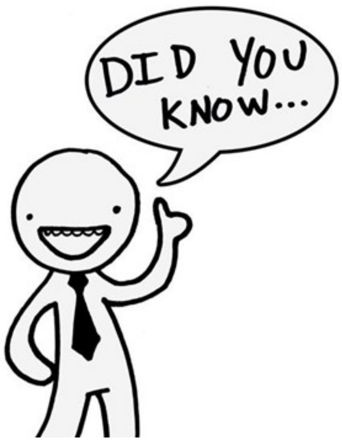
market has priced it in valuations of companies and the bond market. By the time you get to read about these impacts and start thinking whether it's a good time to invest or pull your money out of the market the opportunity has already gone.

What we have today is the explosion of what many are now calling the 4th industrial revolution and it's just getting started. From the articles I have read recently it seems that we are just at the front door of this new revolution. For many, the challenge will be even greater to keep up with what is happening, let alone how it might impact your retirement outcomes.

So, how do you navigate this new world and avoid adding to any anxiety over money, especially when thinking about your savings and investments today? Well, here are some ideas to get you started, especially if you are in KiwiSaver:

- Don't stop saving even if you think things are going to get worse, not better. Saving regularly from your salary or wages is the best way to maximise the process of dollar cost averaging
- Try not to change your fund or move to a more conservative option. This may realise an actual loss on your investments at a time that you can least afford to do so
- If you are not sure what fund is right for you, talk to your KiwiSaver provider or financial adviser
- Have a plan and stick with it.
- Remember your long-term goals and try not to time the market, let the key elements of VUCA work for you, do not try to outsmart them
- If you don't have an emergency fund look to start one. A good rule of thumb is three months' salary or wages. Having that buffer in case the unexpected happens can't be underestimated in helping to reduce your short-term worries
- Try to limit your intake of investment news and social media white noise. Try not to worry about the things that you can't control. Bad news sells but, in most cases, they are things that are well beyond your control. Work on the areas that you can control and seek some good advice before making any significant changes to your investment strategy

David Boyle—Mint Asset Management



Active Investing – an asset allocation strategy with high relative frictions that attempts to "beat the market" return on a risk adjusted basis.

Passive Investing – an asset allocation strategy with low relative frictions that attempts to take the market return on a risk adjusted basis.

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

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