# THE GENERATOR

*Put all your savings on autopilot, and you won't likely notice the missing cash — Jean Chatzky.*

Q4/19


# Have term deposits *done their dash?*

TRADITIONALLY, TERM DEPOSITS HAVE BEEN A POPULAR STRATEGY FOR MANY RETIREES AND THOSE WHO NEEDED TO STORE MONEY FOR UNDER 12 MONTHS.

According to data from interest.co.nz, in November 2007 the average 1-year bank term deposit rate was 8.6% so it was a low risk and attractive way to generate income.

Fast forward to now, and in the intervening years the Reserve Bank of New Zealand (RBNZ) has cut the Official Cash Rate – it now sits at the lowest level on record, 1%. The average bank term deposit rate on 1 November 2019 was down to 2.6%. What's more, the RBNZ has indicated that interest rates are more likely to head further downward rather than upward.

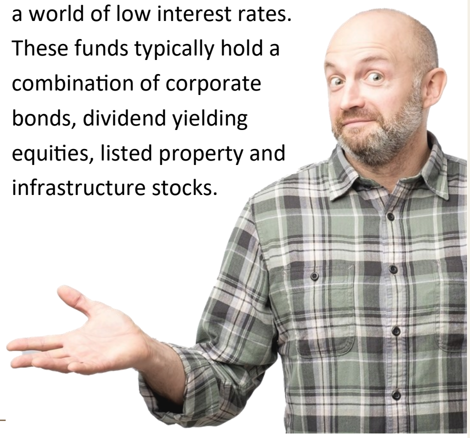
**So, what other options are there?**

There are a number of different places where investors are turning to earn some income from their investments.

One option is investing in riskier assets like shares. Many New Zealanders would be surprised to know that the New Zealand share market has returned over double what the NZ property market has over the past ten years. Yes, shares can go up and down, but throughout time they have delivered strong returns to investors.

According to a study by Credit Suisse, the New Zealand stock market has returned an average of 10% per year since 1900 – a time period which includes many ups and downs such as the Great Depression of the 1930s, the 1987 market crash and the GFC.

Diversified income funds have become increasingly popular as investors have started to consider their options in a world of low interest rates. These funds typically hold a combination of corporate bonds, dividend yielding equities, listed property and infrastructure stocks.



***The increasing complexity of investment options available means now is a great time to seek financial advice. We will listen to your goals and concerns and design an investment solution which suits your situation.***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## It's festive season again!

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 Monday 23rd December to give all our staff a well-earned break, with the office re-opening on Monday 13th January. 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


- *7 travel mistakes you can avoid.*
- *When to outsource your household.*
- *How to deal with financial uncertainty.*

# 7 travel mistakes that could blow your holiday budget

THE HOLIDAY SEASON IS APPROACHING FAST, AND MANY OF US HAVE ALREADY STARTED PLANNING TRIPS AWAY.

Keep your hard-earned money working for you by avoiding these seven holiday travel mistakes on your next trip:

**1. Using public Wi-Fi, especially for financial transactions**

Public Wi-Fi may seem like it makes travelling easier, but you could be making yourself an easy target for hackers — and putting your personal information at risk.

**2. Getting distracted by a great deal**

When making travel plans, some people think that booking the cheapest flights might save them a wad of cash, only to find that when the day of travel comes around- the budget airline they're booked on is experiencing a lot of cancellations and delays which ends up costing them a lot more.

**3. Inappropriate travel insurance, or not getting it at all**

Many Kiwis travelling overseas forget that most countries don't have New Zealand's free public health system, and even the quickest hospital visit can cost many thousands of dollars.

**4. Exchanging money at the airport**

Instead of changing money at the airport, it pays to:

- Change currency before your trip starts, and
- In addition to the exchange rates, look at any fees and commission charged by currency exchange providers.

**5. Not checking baggage allowances**

To avoid any excess charges, make sure you know the carry-on and checked baggage limits for your airline and, if needed, book extra luggage when you purchase your ticket.

**6. Failing to plan trips to and from airports**

Save yourself some serious cash by researching your destination's public transport, shuttle and taxi options before you leave.

**7. Paying inflated holiday prices**

Try and book flights and holidays for off peak times and save heaps in the process.

## Life 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*

# When to outsource your household

People sometimes say you can't put a price on your time, though this is forgetting that your time is the one thing you can't ever get back.

Spending thousands on outsourcing household chores – such as cleaning, landscaping, and dog-walking – might not seem like a wise use of your hard-earned funds, but it can be worth every cent. These are the sorts of things you could do yourself, though this may come at the expense of less time earning and less time spending quality time doing things you really want to do, such as spend time with your family or performing other activities. So, if you're stressed out because it feels like there are never enough hours in the day, here's a solution: hire a housecleaner, order takeaways, and pay the kid next door to mow the lawn.

## Summing up

••• *Avoid blowing your holiday budget on these 7 travel mistakes.*

••• *If you are finding there aren't enough hours in the day consider outsourcing some help.*

## Ask for the mortgage cash back

Mortgage cash back is an incentive that banks use to entice new business. It is now common across major New Zealand banks, and is an upfront cash payment made to you for your business. The payment could be for new lending – such as if you're a first home buyer or property investor – or existing lending should you decide to switch your existing mortgage between banks.

Cash back sums do vary, and they aren't usually advertised by the banks themselves, so most of the time you won't know what you've got until the mortgage application is processed. There are usually some conditions to be met, such as you promising to stay with the bank for three years and ensuring any salary you receive is paid into a bank account by that same bank.

### *Life tips/2*

*"You can be young without money, but you can't be old without it."*

*– Tennessee Williams*

# How to deal with financial uncertainty

A WISE MAN ONCE SAID: 'THE ONLY CONSTANT IN LIFE IS CHANGE'. OF COURSE, A PART OF CHANGE IS UNCERTAINTY.

While you may not be able to protect yourself from all forms of uncertainty, you can surely prepare well in advance for any kind of financial uncertainty that may occur in the future.

The top five ways to deal with financial uncertainty are:

1. Establish an 'uncertainty fund': This is a sum set aside to meet life's unexpected events.
2. Appropriately insure yourself, your things, and your income: This is often best done by using suitable insurances.
3. Factor uncertainty into your plans: If saving for a goal, add on a buffer to allow for prices to increase. If the prices do not increase, then you have a surplus to apply to your next goal.
4. Spread your risk: Diversify your overall investment portfolio by geography and asset class.
5. Define what you can and can't change, then focus on what you can influence: Knowing the difference between the things you can control and the things you can't is critical to manage financial uncertainty. To get the best results in anything, your focus needs to remain on what you can influence, which is usually the 'input', such as how much you contribute to investments.

***CONTACT US IF YOU WOULD LIKE TO DISCUSS HOW TO DEAL WITH FINANCIAL UNCERTAINTY***

## *Summing up*

*••• Ask your mortgage adviser if you can get the mortgage cash back incentive.*

*••• Prepare in advance for any kind of financial uncertainty that may occur.*

# DECISION REGRET

ONE OF THE HARDEST PARTS OF THE DECISION-MAKING PROCESS IN ANY ENDEAVOUR STEMS FROM THE FACT THAT THERE ARE NO COUNTERFACTUALS. YOU CAN'T SIMPLY RUN A SIMULATION AND CREATE A DECISION TREE TO SHOW HOW DIFFERENT DECISIONS AND VARIABLES WOULD AFFECT THE OUTCOMES OF EACH AND EVERY BIG DECISION YOU MAKE.

This leads to what psychologist David Bell calls decision regret. In terms of our finances, this occurs when we focus on what might have been if we would have made a different decision with our money.

Bell performed a study where he offered two choices for a lottery. One would pay out $10,000 if you won or nothing if you lost. The other would give you a certain gain of $4,000. They found the subjects who chose to play and lost told themselves they were being too greedy while those who accepted the $4,000 wished they never would have known about the potential to win $10,000.

The money is always greener on the other side (or words to that effect).

Basically, there is always going to be something you can look back on with regret in regard to your money decisions. Sometimes you sell an investment that continues to rise. Other times you hold on and watch it come crashing down. Then there are all of those investments you failed to make which saw crazy gains.

This same decision regret permeates investor minds during almost all market environments:

*What if I had sold right before stocks fell?*

*Maybe I should hold off on contributions for a while until the dust settles?*

*What if I sell too early or hold on for too long?*

*How will I know if my strategy is just out of style or broken for good?*

*Maybe I'm taking too much risk…or maybe it's not enough?*

There are always what-ifs in the investing game because there's no such thing as a perfect portfolio, optimised asset allocation, market equilibrium, or best time to make purchases or sales.

This second-guessing can really ramp up during market corrections as well. The biggest problem for investors in these instances is the dreaded hindsight bias, where we start to play the I-knew-it-all-along game.

My favourite anecdote on this issue comes from an old Warren Buffett investor letter from 1966. Following a huge bull market in the 1950s and early-1960s, stocks experienced a minor bear market from February through October of 1966, falling more than 22%.

Following this swift decline, some of Buffett's investors in his fund called to tell him they were nervous the market was going to continue its downward trajectory. Buffett's response to these worries was a great way to think through these market downturns:

(1) if they knew in February that the Dow was going to 865 in May, why didn't they let me in on it then; and, (2) if they didn't know what was going to happen during the ensuing three months back in February, how do they know in May?

Let me again suggest that the future has never been clear to me (give us a call when the next few months are obvious to you — or, for that matter, the next few hours).

When losses begin to pile up in the markets investors invariably talk themselves into opinions and ideas that make no sense. We're pattern-seeking creatures who grasp for certainty, especially during those times when uncertainty seems highest.

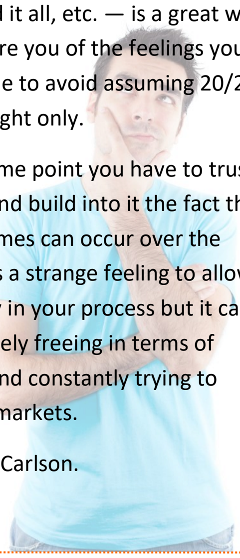
But you don't know any more about the future when markets are falling as you do when they're rising. A few thoughts on how to get over this idea of decision regret:

Diversification gives you a better chance of owning the top performers. Concentration can allow you to hit it big but diversification all but guarantees that you won't miss out on the biggest gainers.

Write it down. Keeping a log of your investment decisions — why you're making them, how you'll measure the success or failure of said decision, the process behind it all, etc. — is a great way to remind future you of the feelings you had at that time to avoid assuming 20/20 vision in hindsight only.

Let it go. At some point you have to trust your process and build into it the fact that random outcomes can occur over the short-term. It's a strange feeling to allow for uncertainty in your process but it can also be extremely freeing in terms of stressing out and constantly trying to overthink the markets.

Posted by Ben Carlson.







*Next step*

*See us about the best investment options for you.*

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