

THE GENERATOR

"The biggest risk of all is not taking one"

- Melody Hobson

Q4_2020

2020

JANUARY

Sun	Mon	Tue	Wed	Thu	Fri	Sat
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5	6	7	8	9	10	11
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FEBRUARY

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Q U A R A N T I N E



DECEMBER

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Festive wishes to all

The team at Generation Wealth Management would like to wish you and your families a great Xmas and a healthy and prosperous new year.

Office closing and reopening times

Like everyone, our staff have had a very busy and, at times, difficult year, so we're all looking forward to a well earned break to recharge our batteries for the new year.

Last Day—Tuesday 22nd

Reopening— Wednesday 13th

We will be checking our phone messages regularly so please request a callback if you need us.

Inside

- Random thoughts from 2020:
- Climate risk top priority for global investment managers
- What happens when investors see people dumber than they are getting rich

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RANDOM THOUGHTS FROM 2020

A YEAR WE'LL NEVER FORGET

On 7th January, a **new type of coronavirus** is identified and isolated by Chinese authorities. Is this like previous regional outbreaks we've seen?

Rapid Spread—by March 8th, more than 100 counties have reported cases of Covid19, the name given to new virus.

Fastest 30% plus fall in history—after what was a positive start to the year, with the US markets hitting an all time high on 19th February, we witnessed a period of fear and panic overtake investors as the S&P500 index fell 33.8% by 23 March.

It's Official—on 11th March, the WHO declares an official pandemic.

NZ Closes its Borders—on 19th March, for the first time in its history, our borders are closed to all but NZ citizens and permanent residents.

Markets respond to stimulus— an unprecedented level of support from governments to workers and business, along with co-ordinated action from central bankers in slashing interest rates and pumping liquidity into the banking system saw markets turn around and begin to climb from late March

Lock Down—on 25th March, a state of emergency is declared in NZ , and the country prepares to go into a level 4 lockdown at 11:59pm, for a minimum of four weeks. Eventually return to the "normality" of Level One 11:59pm on 8th June, with borders still closed.

Negative crude oil prices— In April, the price of US crude oil fell from \$20 to negative \$38 a barrel, if only for a couple of days. This was caused by the rapid drop in demand as economies came to a lockdown halt and storage facilities filled.

Airlines Grounded— In April, the number of kilometres travelled by passengers on Air New Zealand planes was only 2% of what it was in the prior year. Even in October, this number remains at just 15% of what it was in October last year .

Big tech companies lead the way— the five largest US technology companies cumulatively added US\$2.2 trillion to their market capitalisation. They were big beneficiaries of the work from home, shop from home theme.

Auckland locked down again—on 12th August the greater Auckland region is moved back to level 3— the rest of the country is at level 2—after a community outbreak. On 31 August, Auckland moves down to level 2 plus. The rest of NZ moves down to level 1 on 22 September, with Auckland joining them on 8th October.

Kiwi's continue to buy homes— Predictions of falls in property prices made by economists in April showed how hard it is to predict the future, with the sharp rise in

prices causing concern at a political level.

Biggest Stock Market Reversal in history— at 30 November, the US sharemarket is up 12.4% in quite an amazing and unprecedented turnaround. The only other year where the US markets had a positive return after suffering a 30% plus drop was 1987.

Vaccine Development records— It is rare for a vaccine to be developed in less than five years. When the first immunisations take place in the UK in mid-December, it will mark the most rapid vaccine development in history and has boosted investor confidence of a rebound in economic growth.

A feeling of sadness— through no fault of their own, people have lost their jobs, their business's and for some their hopes for the future.

Remarkable resilience— a big thank you to our staff and our clients for dealing exceptionally well with whatever was thrown at us and just getting on and dealing with it.

As we review 2020, we are pleased that we have achieved our goal of protecting our clients hard earned capital, and indeed producing very solid returns

Summing up

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- *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*

CLIMATE RISK TOP PRIORITY FOR GLOBAL ASSET OWNERS AND MANAGERS SAYS BLACKROCK



In January, BlackRock’s CEO Larry Fink wrote about a fundamental reshaping of finance as investors significantly reallocate capital toward sustainable strategies. To understand their clients evolving preferences and outlook for sustainable investing – including the effect of the pandemic on these preferences – BlackRock recently conducted a Global Sustainable Investing Survey.

BlackRock, the worlds largest asset manager, heard from 425 investors in 27 countries representing an estimated US\$25 trillion in assets under management. The results reveal several key themes:

- ◆ **54%** of global respondents consider sustainable investing to be fundamental to their investment

processes and outcomes.

- ◆ **88%** of respondents ranked the environment as their top priority when comparing focus on Environmental, Social, and Governance factors. Over the next 3-5 years, Social issues are likely to grow the most in terms of client concerns.
- ◆ Respondents, representing US\$25 trillion in assets, **plan to double their sustainable assets** under management in the next five years.
- ◆ **53%** of global respondents cited concerns around the poor quality or availability of ESG data and analytics as the biggest barrier to broader implementation of sustainable investing.



FORT KNOX

At the end of March 2020, Fort Knox held more than 4500 metric tons of gold. Fort Knox contains around 50% of the United States’ gold reserves. It’s believed that Fort Knox holds about 2% of the world’s gold supply. Fort Knox has never been robbed. In fact, no one has even attempted carrying out such an operation. With 30,000 soldiers, a surrounding minefield, Predator drones doing routine surveillance, and 20-ton vault doors (which no single person has a combination to), it’s an impossible undertaking.

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*

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WHAT HAPPENS WHEN INVESTORS SEE PEOPLE DUMBER THAN THEY ARE GETTING RICH?

This headline explains more about how markets function than all of my finance textbooks from college!



MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV WATCHLIST PRO

BACK FROM THE BRINK: 10 YEARS ON

Warren Buffett on why bubbles happen: People see neighbors 'dumber than they are' getting rich

This story from [CNBC](#) is from a few years ago. Here's the entire quote from Buffett:

"People start being interested in something because it's going up, not because they understand it or anything else. But the guy next door, who they know is dumber than they are, is getting rich and they aren't," he said. "And their spouse is saying can't you figure it out, too? It is so contagious. So that's a permanent part of the system."

The reason I got into finance in the first place is because I was interested in the analytical nature of the business. The reason I stayed in finance is because I became fascinated with the behavioural nature of the markets.

That contagious, permanent part of the system Buffett mentioned is one of the reasons it's so difficult to predict the path of the stock market.

You could make a compelling case right now that the U.S. stock market

is overvalued and set up to offer investors subpar returns from current levels for some time into the future.

The analytical side of my brain completely understands this argument. Admittedly, it's an argument many intelligent people have been making for some time now and the market hasn't agreed.

But the behavioural side of my brain wouldn't be surprised if the stock market continued to charge higher despite high valuations and strong returns since 2009.

Consider the housing market, which is on fire right now despite the pandemic. I have had multiple conversations with people over the past few months who have put their house up for sale simply because they learned they could get a higher price than they could have last year.

I understand the temptation to sell high when you can get a much better price for your house (or share) than what you bought it for. But what

about the other side of this equation? Unless you're downsizing or moving to a lower cost of living area (or leaving the sharemarket), you'll end up paying a higher price for the new home (or share) you move into.

Yet this is just how markets work.

You see your neighbour sell their house for a higher price than you thought it was worth so you have to put yours up for sale too, right? You can't watch someone else earn a premium price without taking part because the fear of missing out (FOMO) is so enticing. You feel like you *have* to sell. One of the biggest reasons FOMO exists is because it doesn't seem fair.

The same is true when it comes to buying stocks. Buffett is right that bubbles are a permanent part of the system in which we invest.

By Ben Carlson— Ritholtz Wealth Management

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Next step

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

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