

Investing in Knowledge

An impassioned plea!

The world (and its investment markets) is not a perfect place, and investing is not a precise science. We are being increasingly bombarded with investment information - most of which is negative. Unfortunately, human nature appears to be such that we absorb and retain negative information for longer

investors is "managed funds let me down in 2001 and 2002 and I don't want to lose money again. Fixed interest is safe and that's where my money is going". Let's explore where the above comment is wrong. Firstly, it was world sharemarkets "not the managed funds" that caused investment values to



periods than positive information. No wonder some investors are still wary of managed share funds, even though some funds have been performing extremely well since March 2003. The downturn in world sharemarkets from 2000 to early 2003 was the most severe since the great depression. Many investment portfolios suffered and it was a great test of investor fortitude. Those who stuck with it survived and, in fact, fared far better than those who endured the great depression. However, a disconcerting phenomenon now appearing among some New Zealand investors (just as their portfolios recover to break-even) is the transfer of money from equity-based managed funds to fixed interest products. In my view, this is an ill-informed action based on fear rather than logic. When questioned, the standard reply from these

fall. Managed funds are simply a convenient and cost-effective method of accessing those markets. Second, we should be thinking portfolios, not individual funds. Some managed funds invested in assets other than international equities made positive returns during those years. Third, our individual risk profile determines asset allocation, and asset allocation largely determines investment performance. Many investors had inadvertently become overly aggressive as a result of the bull market of the 1990s. When the downturn came in 2000, they were over-exposed to equities. Finally, many of these investors are now reinvesting into property-based debenture products, many of which are not independently rated. A so-called 'secured' debenture does not mean it is guaranteed. Investors should be very careful before exiting top-

quality, good-performing managed share funds and leaping into debentures whose risk profiles they do not fully understand. I implore investors who are considering 'jumping ship' to think about this very carefully. If you are dissatisfied with managed funds, talk to your financial adviser. He or she has the expertise and research to show you why you should remain invested. If you are worried about further capital losses in the future, ask your financial planner to do the following:

- Redo your risk assessment questionnaire
- Explain the new breed of managed funds called 'absolute return' funds. These funds have the potential to maximise the upside and minimise losses. They are managed with the intention of outperforming cash by a significant percentage. Remember; stay invested, seek advice - but don't jump ship!

David Greenslade

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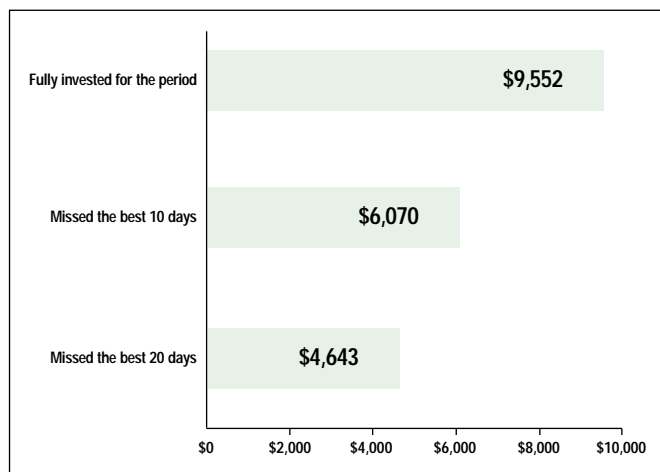
life's tips : Time

"These trying times are the good old days we'll be longing for in later years." – Jose Ferrer

Time, not timing

Patience is its own reward. But patience also rewards investors. Most of the long-term gains on sharemarkets are made or lost in just a few trading days each year. Take away those 'best' days and the returns are more like those you would expect from a defensive investment. Investors who lose patience and quit the market run the risk of being absent when the really significant gains are made.

Australian shares 1984-2003



Source: Morningstar. Based on the All Ordinaries Accumulation Index
Past performance is not necessarily an indicator of future performance.

If you had invested \$1,000 in Australian shares in December 1983, 20 years later it would have grown to \$9,552 (making an annualised return of 11.9 percent). If you had invested the same amount over the same period – except for the 10 best days in the market – it would have grown to \$6,070 (an annualised return of 9.4 percent). And if you missed the 20 best days, you would have just \$4,643 (an annualised return of 8.0 percent).

Markets are unpredictable, so picking those 'big' days is impossible. However, staying invested means you capture the full benefits of the sharemarket. Your returns might be down one month, but by withdrawing from the market you run the risk of missing out on the recovery.

Preoccupied with income?

Currently, many New Zealand investors seem to be preoccupied with deriving income from their portfolios. Academic and economic theory shows that over time equities is the best asset class for long-term growth and income. This is aptly summarised by Nick Murray as follows:

- Americans wildly overestimate the long-term risk of holding equities, which is historically nonexistent, and they totally underestimate the long-term risk of not holding them, which is historically fatal.
- In a properly diversified portfolio, the only way to turn temporary decline into permanent loss is precipitously to withdraw the capital, either due to poor planning or to panic.
- The only sane long-term definition of 'money' isn't currency but purchasing power. Those investments are 'safe' that accrete purchasing power, even after the current dividend income is spent. Those investments are 'risky' that deplete purchasing power, especially after the current interest income is spent. "The safest long-term investment for the preservation of purchasing power has clearly been stocks, not bonds." – Jeremy Siegel
- Current yield is no way to judge an asset class; long-term total return is. The two are inversely related.
- An investor needing current income is best advised, on the evidence of the last three-quarters of a century, to ask one question: Do I want to try to recover six percent a year from an asset class whose total return has historically been six percent a year? Or do I want to try to recover six percent a year from an asset class whose total return has historically been 11 percent a year?

Nick Murray, The New Financial Adviser, 2001

summing up

• STAY INVESTED

• IF YOU WANT LONG TERM INCOME, THEN INVEST IN EQUITIES

life's tips : Attitude

“Take the attitude of a student. Never be too big to ask questions. Never know too much to learn something new.” – Og Mandino



We learn just by living

I would like to submit the following thoughts and observations of things that I have learned:

- It is better to own money than to owe money
- I learned 27 years ago that 94 out of every hundred men aged 65 were broke. Today, 94 out of every hundred men aged 65 are still broke
- The definition of luck is ‘when preparation meets opportunity’
- The harder I worked, the luckier I got
- Very little – if anything – that glitters is gold
- If the local newspapers were around at the birth of the light bulb, they would have focused on the death of the candle
- Risk surrounds almost everything worth having
- A ship in port is safe, but that is not what ships are built for
- Interest charged on credit cards is a scheme designed by banks for the benefit of banks
- The greater the promised return on an investment, the more an investor wants to believe it and the less he will question its basis
- A term deposit is a safe way to go broke
- I never met a widow who thought her husband carried too much life insurance
- Want to give an 18-year-old person the secret to financial success? Tell him to save \$1 per day. It will take 17,155 days to reach age 65, and assuming a growth rate of 7% after tax, he would have \$134,707
- I know of an investment that has grown over 10% per year over the last 20 years (DOW JONES)
- People are not rolling over term deposits today – term deposits are rolling over them
- I know how to pay off a 30 year mortgage in 21 years – painlessly
- I learned the only thing in the world that guarantees to create money where no money existed before is life insurance
- Using fundamentals is the only sure way I know of to achieve financial independence

Saving and investing tips

Make sure your hard-earned dollars go as far as they can. Try the following:

- Take a cut lunch to work
- Negotiate a 10% discount on everything you buy
- Buy healthy food and avoid expensive junk food such as takeaways, chips and soft drink
- Grow your own vegetables
- Live in a cheaper house and invest the balance so that it grows and makes money for you
- Stop smoking, or even better, don't start. If, at the age of 25 you save the equivalent of half a packet of cigarettes a day, and invest it at a six percent return (after tax), this would compound to approximately \$200,000 by age 65
- Don't buy a brand new car. Instead, buy one several years old as they depreciate less
- Avoid the temptation of using Eftpos all the time. Transaction costs are expensive
- Pay your credit card off every month. Credit card interest rates are usually over 19% per annum
- Don't use hire purchase contracts. Save up your money then pay cash for the item and negotiate a good discount.

summing
up

- IF YOU WANT TO SAVE MONEY,
THEN PENNY PINCHING IS THE WAY TO GO

We do listen and act!

Back in March we had a special 'Client Focus Forum', facilitated by David Greenslade, our business mentor. David also mentors other firms belonging to The Portfolio Group (TPG). This is a group of 32 independent financial planning practices from all over New Zealand to which we belong. The benefits to belonging for our clients is adoption of internationally recognised Best Practice standards and a resource of other financial planners with whom we can bounce around ideas. Thanks to those clients who took part. The feedback we had was very favourable. Clients like our level of professionalism and personal care. Feedback from the Client Focus Group has resulted in us making the following changes in our practice and procedures:

- Letterhead paper: the font is now larger and the style has changed to personalise it to the adviser. This includes a photo of the writer so that it looks more like us speaking directly to you. We have purchased a colour laser printer to improve the quality of our reports and letters.
- Investment Reports: We have added our phone number to the report and an explanation page to our portfolio review letters.
- Web site: we have added a weekly joke and quote section and an explanation of investment jargon, plus additional calculators.
- Newsletter: A new look and layout.
- Annual review meetings: We have changed the format for our annual review meetings. These include a review of your goals and a check to see if you are still on track.

We have added an action item/meeting summary form.

If you have any suggestions on how we can further excel our clients' expectations, please let us know. After all, most of our business comes from referrals from satisfied clients.

Disclaimer: This publication has been prepared for your general information. While all care has been taken in the preparation of this publication, no warranty is given as to the accuracy of the information and no responsibility is taken for any errors or omission. You should seek the personal advice of your financial adviser before taking any action in relation to the matters dealt with in this publication.

next steps

- ARE YOU ADEQUATELY PROTECTED IF AN UNEXPECTED ILLNESS OCCURS? TALK TO ALISON.

Congratulations Alison!

Congratulations Alison for being highly recommended as a 'Most Inspirational Role Model' in the Her Business of the Year awards which were held in Auckland in July. Alison has worked in the financial services industry for 21 years and during this time has helped hundreds of people attain their financial goals, developed Creating Wealth and has studied extensively in both financial planning and risk management (insurance analysis). She is the first woman in New Zealand, and the third person, to be awarded both CFP and CLU designations (Certified Financial Planner and Chartered Life Underwriter). The Her Business of the Year award recognised Alison as being a successful business person while maintaining a proven balance in her life with work and family.

Events coming up this Quarter

We have the following events planned for the fourth quarter:

6 October

Informative session aimed at business owners.

This is a combined event covering:

- Business Risks Analysis presented by Creating Wealth – addresses issues that would occur in a business if a shareholder or key person died, became ill, retired, or had just had enough.
- Henry Lee, Principal of NetSecure Ltd will stress the importance of protecting computers from viruses and hackers – Cyber Terrorism – are you protected?
- Francis Consulting, Accountants on Business Succession Roadmap.

3 November

Informative Session aimed at business owners.

This combined event covers:

- The Creating Wealth presentation on Business Risks Analysis
- Demystifying Trusts – presented by Nick Miles, solicitor, Rainey Collins

- Tips in Accounting for Business Owners – presented by the BDO Spicers Team

13 October

We invite all investors and those who believe there is more to life than saving and investing. The first part of this talk is highly technical. Jim Reardon, financial analyst at ING, talks about financial engineering and new products that aim at better returns, greater security, and lower fees. A number of clients have requested a more technical presentation. We have invited

life's tips : Friends

"A man who turns his back on his friends soon finds himself facing a very small audience." – Dick Powell

Jim to talk to show that OM-Strategic funds are not the only ones we promote!!

The second part of the evening is presented by Dr Graeme Redding. His talk will focus on what is really important in your life. If we contemplate our inevitable death it is unlikely that any of us will look back on our lives and wish that we had spent more time working. Today, our society seems to be deteriorating. We have increased violence, taxes and the brain drain. We have a decrease in educational achievements, illiteracy is increasing.

A significant part of the reason is that family units are breaking down as both parents now work to provide for their families. There is less time available to focus on the family which paradoxically is our primary motivator for wealth creation.



creating *wealth*