

Successful Investing



Issue 3 - 2009

Economic Update

A long-term approach to riding out current market volatility

Kids, Grandkids & Peace (of mind)

Brilliant news for prostate cancer sufferers

Trivia and Wisdom of Great Investors

Economic Update

Economic data tended to support the view that the global economic recession was drawing to a close, with leading indicators pointing to higher levels of activity. The IMF, OECD and many analysts around the world revised up their global growth expectations, while by contrast the World Bank downgraded its economic outlook.

As at 30th June, New Zealand economic data were mixed, but timelier indicators pointed to improved activity levels. GDP fell by 1.0% in the March quarter, the fifth consecutive quarterly decline, taking the annual contraction to 2.7%. The fall in activity over the past year has been broadly based right across most sectors of the economy, with increased government spending a rare exception.

Consumer confidence on the Westpac measure rose to 106.0, the highest level in 18 months, albeit still below its long-run average of 111. The lift in confidence is consistent with the lift in consumer spending, as evidenced by electronic card transactions. These rose by 0.9% MoM in May, the fourth consecutive monthly increase.

Housing market indicators continue to improve, with signs that house prices are flattening, sales trending higher and dwelling consents now finally trending higher from a deeply depressed level. Strong net migration, running at an annualised rate of over 30,000 in May, should encourage the improving trend here.

The National Bank Business Outlook Survey showed business confidence still on a rising trend, with the own-activity indicator of a net +8% reaching a nine month high, and consistent with the economy moving out of recession in the second half.

Signs of improvement in some monthly indicators are consistent with our view that the New Zealand economy will be out of recession in the second half, but global headwinds and the recent strong recovery in the New Zealand dollar will ensure that growth will remain subdued for some time.

Source | AMP Capital Investors

A long-term approach to riding out current market volatility



The past year has been very challenging for investors, volatility increased significantly, with markets rising one week and falling back down the next.

With financial market turmoil being front-page news on almost a daily basis, you may justifiably have questions about your investment portfolio. Investment markets have always gone up and down, and while the recent pick-up in volatility is an indication of investors' uncertainty surrounding the economic issues we face today, the storm clouds had been gathering on the horizon for some time.

What has caused the volatile conditions?

The US housing slowdown resulted in a global 'credit crunch', as a number of US mortgage companies felt the pressure when borrowers began to default on their loans. As news spread that a number of financial companies were exposed to the problems resulting from this, global share market sentiment took a turn for the worse. Shares in financial companies, such as banks, were sold down sharply, as they fell out-of-favour, dragging other areas of the share market down with them. More recently, US economic growth has slowed dramatically.

Understanding and dealing with volatility

It is important, especially during times such as these, that investors understand and know how to deal with market volatility. Often, when share markets are falling sharply, there is no end in sight to the frantic selling and investors are likely to focus on the losses they are accumulating. It seems that at this point the relief of not having to endure any further pain appears to be more important to investors than the pain of selling their holdings at a loss. This may result in investors selling when prices are low - the exact opposite of what they would want. It is therefore important that investors make rational decisions regarding their investments during these times.

Markets are expected to go through periods of volatility and negative returns from time to time. However, there are some things that you, as an investor, can do to help ensure that your investments are able to 'ride out the storm'.

Revisit your investment goals and timeframes

It is important that you remember the reasons why you invested in the first instance, as well as the goals you set for your investments at that time. The timeframe you set for your investments will have helped ensure your portfolio is invested in line with these goals. Assuming that these haven't changed, it is important that you stick to these timeframes and do not alter your strategy simply because markets are going through a rough patch.

Consider your tolerance for risk

Your goals and timeframes will also have helped you to select an investment portfolio that is in line with your tolerance for volatility or risk. If your timeframes are for the long term, then it is possible that the recent falls in the value of your investments will be recouped, as share markets will inevitably regain their composure and, as history tells us, will typically trend higher over such periods. If you are invested for the short term, then it is likely

Continued on page 2

Continued from page 1...

your investments are concentrated in lower-risk assets and that you have a lower exposure to share markets.

Maintain a diversified portfolio

You should also ensure that your investment portfolio is diversified. Diversification helps to insulate your portfolio, by spreading your market exposure across a number of different asset classes and geographic regions. In particular, it insulates your portfolio against one particular market (such as shares or property) that has a negative impact on the value of your overall investments. It can also help to lower the short-term ups and downs in the value of your investments, as any strong performing areas can offset any weak performing areas within your portfolio.

Have patience

Most importantly, have patience. The one (and possibly only) good thing about a 'down' market is that history has shown us an 'up' market will usually follow. So, you should sit tight and wait for share markets to pass through the current volatile period. If your timeframes and risk tolerance for investing are consistent with your goals and you are sufficiently diversified, you should be able to ride out this storm quite comfortably.

However, if following the recent market events you feel your goals or timeframes have changed, or you are uncomfortable about the volatility for your portfolio, we recommend that you revisit these with a financial adviser.

Source: AMP Financial Services

Future-proofing your business with succession planning

Establishing a business succession agreement together with comprehensive insurance can help prevent future complications.

Business succession agreements play an important role in ensuring that a business and its owners are protected in the event of the voluntary departure of an owner, or an unexpected event.

Consider what happened to Helen and Sarah, a pair of talented young graphic designers.

A cautionary tale

After graduating from university in 1998, Helen and Sarah took a big risk and established a graphic design company together, each holding a 50% shareholding.

By 2005 they were making a good living and had developed strong relationships with their customers and employees.

Helen's only concern is Sarah's new husband, James, who is starting to interfere in the business with grandiose and inappropriate schemes. Sarah knows how Helen feels and keeps James at arm's length.

As their business thrives, Helen and Sarah consult a financial adviser about how they can minimise their tax and invest surplus cash. Their financial adviser recommends they both draw up Wills and also consider setting up a separate Will for their business – in other words, a business succession agreement.

Their adviser also suggests they both take out life, total and permanent disability (TPD) and trauma insurance as part of their business succession agreement so if one of them were forced to leave the business because of an insurable condition, funds would be available to buy out that person's share.

Both Helen and Sarah establish Wills shortly after the meeting with their adviser. But as they are still young and very happy working together they decide there is no need to establish a buy/sell agreement at this stage or take out insurance.

Tragedy strikes

One day in 2007 Sarah collapses in the office. An ambulance is called, but the paramedics cannot revive her and she dies in front of Helen and her staff. The cause of death is later established as a brain aneurism.

Helen is deeply affected by Sarah's death, initially closing the business. After her initial grief subsides, Helen decides to go back to work.

On the day of the office reopening, Helen is reasonably upbeat until she meets her new business partner – James. As the sole beneficiary of Sarah's Will, James has inherited all her assets, including the 50% shareholding in the graphic design company.

Continued on page 3



Over the next month, James makes Helen's life very difficult. He insists on being involved with all business decisions, even though he has limited business acumen and no understanding of graphic design. Furthermore, one of Helen's staff members is becoming increasingly uncomfortable around James and wants to resign.

One day while out for lunch Helen bumps into her financial adviser. She immediately remembers her adviser's recommendation about setting up a business succession agreement, and wishes she had entered into a buy/sell agreement prior to Sarah's death.

A business succession plan would have:

- provided Helen with a greater level of control over who will replace Sarah

- funded buying out Sarah's share of the business via additional insurance covering events such as death, TPD or serious medical illnesses
- prevented James' involvement in the business as he is unsuitable and cannot work constructively with Helen and her staff, and
- offered greater peace of mind for everyone involved in the business, including customers, suppliers and employees.

Had Helen taken out the recommended insurance policies, she would have the funds readily available to exercise an option under the buy/sell agreement to buy Sarah's shares from her estate for a set price.

This is just an example of what can happen. If you would like any information or help establishing a business succession agreement, speak to your financial adviser.

Source | AXA

Kids, Grandkids & Peace (of mind)



While children, grandchildren and peace are sometimes an infrequent mix, in these more strained times there is another kind of peace in which parents and grandparents can become involved in. That is, the management of financial risk that impacts a family when disability or premature death of a parent occurs.

Couples with dependent children and a mortgage usually need every penny they earn just for the basics; food, mortgage, education and childcare.

If one income disappears because of accident, sickness or injury, financial consequences can be dire.

For families in these situations, adequate life insurance is as essential as insurance covering a residence or vehicle.

Basic life insurance is reasonably priced and couples should have enough to cover the repayment of a mortgage and other debts plus have enough left over to replace an income for their obligations to dependents.

Protection to cover disability and trauma is an important aspect that needs to be considered. However, the cost for wider cover may be more than some couples can realistically afford.

Enter parents and grandparents. These unaffordable premiums could be funded partially or fully by you. If the unpredictable happens, money will be available to relieve stress and fund the needs of a growing family.

Who controls the money?

Unlike some other insurances, life and trauma policies can have beneficiaries (owners of the policy to whom the claim gets paid) that are different from the persons insured.

Of course, in many cases, parents will simply own each other's policy so that a claim can be paid directly to the surviving parent or to their estate.

It does not necessarily need to be paid direct to the parents, especially when grandparents are paying. There are a number of options.

For example, if cover is taken out over parents lives, grandparents could themselves be beneficiaries with the intention of meeting grandchildren's expenses from any claim.

Another frequently used arrangement is to have policies held in a family trust with children and grandchildren as beneficiaries. This could be an existing family trust or it could be a trust specially set up for this purpose. In each case, there should be written directions to trustees as to how any benefits arising from a claim are to be applied.

For parents and grandparents this is probably one of the most considerate gifts you can make. Sure, for the most part it is "invisible" but in time of need, it will be much better than a Tonka toy every Christmas or birthday.

Source | Professional Investment Services (NZ)

What does red mean?

Hydrogen and the colour that stirs the passions. Associated with power (think of the expression "roll out the red carpet") it is a representation of strength and great leadership. Red is the will to win – activity, achievement, intensity, truly living and experiencing. Professional Investment Services is constantly demonstrating it's red side through network proactivity and it's role as one of Australia's industry leaders.

Green Tips

Green tip #1

Energy usage attributes a significant component to your household's carbon emissions. Changing your energy supply to accredited GreenPower is a positive step towards the fight against climate change.

Green tip #2

Hot water heating makes up about 30% of your energy bills. Installing a solar hot water system will reduce your impact on the environment and save money on your energy bills.

Green tip #3

Replace your existing incandescent light globes with energy efficient globes. They are longer lasting and reduce your energy usage.

Green tip #4

Switch appliances off at the power point – stand by mode uses electricity, every little bit counts.

Green tip #5

Planning your meals can significantly reduce your grocery bills and food waste. Serve the right portions when cooking to minimise waste and freeze leftovers for future use.

Green tip #6

Hang your clothes on the clothes line instead of using the dryer. This will reduce your energy bill and save you money.

www.easybeinggreen.com.au



Brilliant news for prostate cancer sufferers

Robotic surgery that is revolutionising medical procedures around the world has now reached New Zealand. This is great news for New Zealand men, where prostate cancer is the most common cancer in men with about 2,500 new cases diagnosed each year*.

The standard treatment option for men with prostate cancer is surgical removal of the prostate using nerve-sparing radical prostatectomy. The primary goal of prostatectomy is removal of the cancer. A secondary goal is to preserve urinary function and erectile function. Preservation of the necessary nerves can be an extremely important goal for patients. These nerves run alongside the prostate and are often damaged when removing the prostate.

With a traditional open procedure, the surgeon uses a 15cm to 20cm incision to access the prostate. This approach often results in substantial blood loss, a lengthy uncomfortable recovery and the risk of impotence and incontinence.

A da Vinci prostatectomy, on the other hand, is a less invasive and more accurate surgical procedure. This system uses robotics to help the surgeon see vital anatomical structures more clearly and enables them to perform more precise surgery.

Though any diagnosis of cancer can be traumatic, the good news is that with robotic surgery, the likelihood of a complete recovery from prostate cancer without long-term side effects is better than it has ever been. As with any surgical procedure, da Vinci prostatectomy surgery is both patient and procedure specific.

However, for most patients, it offers numerous potential benefits over open prostatectomy, including:

- Shorter hospital stay
- Less pain
- Less risk of infection
- Less blood loss and transfusions
- Less scarring
- Faster recovery
- Quicker return to normal activities.

New Zealanders considering using this state-of-the-art technology no longer have to travel overseas. A da Vinci prostatectomy is increasingly being covered under many health insurance policies.

Currently only available privately, this surgery can cost between \$30,000 - \$35,000 per procedure, depending on individual cases and circumstances. This cost may be fully or partially covered by many health insurance policies – depending on the type of product, benefit maximums and any excess that may apply.

Article source | MercyAscot – www.surgerybyrobots.co.nz

**Sourced January 2009, Prostate Cancer Foundation of New Zealand, www.prostate.org.nz*

Wisdom of great investors...

Disregard Short-Term Forecasts and Predictions

Don't make decisions based on variables that are impossible to predict or control over the short term. Instead, focus your energy toward creating a diversified portfolio, developing a proper time horizon and setting realistic return expectations.

Source: Wisdom of great investors - Davis Advisers

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