

Successful Investing



Issue 4 - 2009

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Economic Update

As the global economic recovery gets underway, the balance of economic data is surprising on the upside, as is typical at this stage of the cycle. While the recovery is uneven at the moment, the positive trend spans broadly across almost all countries, with Asia leading the way.

The US manufacturing sector appears to have moved into an expansion phase in September. This positive trend was helped by the 'cash-for-clunkers' policy – a scheme designed to boost auto sales. That policy also drove a surge in retail sales in August of 2.7% mom. Job losses are diminishing, but the unemployment rate still rose to 9.7% in August, a 26 year high.

Europe's business surveys continued to steadily improve and suggested a recovery in September quarter GDP while positive economic trends continued in Asia.

The global economic recovery is expected to broaden and intensify over the next six months. However, we will need to see a more meaningful pick-up in final demand, otherwise the inventory re building driven recovery we are seeing at present will not be sustained.

In NZ, GDP increased by 0.1% in the June quarter and leading indicators point towards a further expansion in the September quarter.

Consumer confidence indicators rose further, with the Roy Morgan index at its highest level since early 2008 in September. Business confidence continues to rocket ahead with the National Bank survey up to net +49%, a 10-year high.

New Zealand's external position has improved considerably over the past year, with a current account deficit of 'only' 5.9% of GDP for the year to June. This improving trend, however, highlights economic weakness as imports have collapsed more than exports and weak profitability of foreign owned companies operating in New Zealand have driven the significant improvement.

As widely expected the RBNZ left the official cash rate at 2.5%. The Bank was more confident that the economy will expand in coming quarters but it also expects the recovery to be sluggish.

We expect to see 'harder' economic data like GDP and retail sales improve over the next 6 to 12 months, with the stimulatory policy environment and better global backdrop supporting this trend.

Source | AMP Capital Investors



The party ends

Towards the end of 2007 we witnessed one of the greatest bull markets of all time. Investors in the Australian sharemarket had been riding a euphoric wave of double digit equity market returns over the preceding five-year period, as can be seen in the table at the top of the next page. Then 2008 arrived and the party was over.

In the last few years, many 'emotional investors' who traditionally invested in more defensive assets (such as bonds and cash), transferred money over to equities, blindly attracted to the apparent returns without considering the associated risks. When equity markets collapsed this year, these emotional investors started to realise that markets could go down as well as up.

Similarly, over-attention to risk during the current market downturn has focused investor attention on minimising losses, rather than waiting to participate in the recovery. As a result, 'emotional investors' have oversold equities and transferred the proceeds into bonds and cash.

Many investors have also held back from investing in equity markets in recent months, due mainly to the uncertainty and a seemingly never ending run of negative news of corporate failures and bailouts.

Be warned – when equity markets recover, these emotional investors will be left with a portfolio of defensive assets, and a truckload of regret.

Although the current market volatility – triggered by the US housing slump and subprime mortgage crisis – has been a painful experience, investors can take some comfort in putting the recent downturn into perspective. If we step back and look at the performance of the Australian market over the past five or six years, it is easy to appreciate the value of long-term investing and quite clear that there will be another party. We just don't know when.

In 1983 the market bounced 66.8%

The current bear market's intensity has been compared to the Great Depression and the bear market of 1973-1974. The deep bear market of 1973-1974 created many jumpy equity investors. However, those who maintained equity positions were well

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rewarded in the second half of 1974 and the first quarter of 1975.

Markets can't go down forever. Although sometimes, in the middle of a strong downturn, it is hard to believe that markets will one day recover. While nobody can accurately predict when the bottom of this trough will be reached – or indeed if it has already – everybody knows that it will (sooner or later) arrive and when it does, it will pay to be invested. Some of the highest returns are experienced suddenly in an oversold, overshot market.

The Australian sharemarket experienced consecutive negative returns in 1981 and 1982. However, in 1983, the market bounced back in a big way climbing 66.8%. In 2003 we also saw evidence of this bounce back phenomenon in action with the Australia market climbing 19% and the US sharemarket rallying 26% from their lows in March 2003.

While it may be tempting to simply convert equities into cash and bonds and watch from the sidelines, history tells us that investors selling to cash during falling markets can expect to see significant under performance when equity markets return to health.

Patience and discipline are rewarded?

In extreme market conditions such as these, it is easy to let emotions override discipline. Investors who tilt their portfolios to favour one asset over another, such as bonds over equities, are attempting to time the market and adding risk to their portfolios.

Investors often believe that there is value in action. To sit back and watch investments post negative returns is simply unbearable for many. The truth is – there may be more value in 'inaction' for the smart and disciplined long-term investor.

It is important to understand the role that investor sentiment and emotion plays in the cyclical nature of equity markets. Experience tells us that decisions made about money under highly emotional circumstances rarely turn out to be good ones.

Investor sentiment in extreme market conditions is dangerous in that it often turns out to be 'self fulfilling'. This means that during a strong market upswing (rising equity prices), investors will buy 'so as not to be left out of the gains'. Conversely, during a strong downswing (falling equity prices), investors will sell 'so as not to be left wearing the losses'.

The reality is this sentiment works against the oldest investment principal in the book "buy low and sell high". While extended bear markets inevitably induce fear in investors, professionals and individuals alike, a disciplined approach can help minimise losses during the downswing and ensure readiness for the upswing.

Source | Russell Investments

Stress, working it out



Work may be stressful at the best of times, but when job security is less than optimal, the physiological ramifications can be serious. Dr Frances Pitsilis explains how work-related stress can manifest itself, and suggests a variety of solutions.

1. Signs of Stress

When people are under stress or in any sort of crisis, the first thing to happen is that they start sleeping poorly, tiredness sets in, and the brain simply doesn't work as well. Concentration and memory deteriorate – things need to be read over and over again to be absorbed.

From a behavioral point of view, once people are stressed and suffering these effects, they may start not coming in to work, complaining a lot, and displaying a general loss of morale. They're much more likely to suffer illnesses, and their work performance will drop off.

Those experiencing stress will typically withdraw – they will arrive late for work or leave early, have long lunches or other unexplained absences. They will become passive and less committed to their work, and less engaged with their employer and colleagues. They will be more prone to behaving unprofessionally or immaturity. Others will become aggressive. They may start bullying and shouting, and being belligerent, argumentative and defiant. Some people will become increasingly cynical and start malicious gossip about others. A few people, when under stress, will vandalise or

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steal because they think it's justified.

Stress can cause illnesses such as depression, anxiety, back pain, hypertension, migraine and irritable bowel syndrome, and it can worsen existing health issues.

2. How we Think

We all have a natural resistance to change – some of us more than others. In a recessionary environment, when business owners are making alterations, workers under stress will be even more averse to change than usual.

The simple fact is that different people view things differently. Any uncertainty or difficulty in the workplace is ultimately about a lack of control, and some people cope well with this, while others may see it as a catastrophe.

Those who cope better are able to see and accept that they can't do anything about a given situation, and they ask the right questions - how can I benefit from this, and how can I motivate myself? They tell themselves to take it one day at a time, because whatever is due to happen, they can't change, control or influence it.

3. Ways to Manage

When there's a crisis, get support. Draw on family, friends, and social networks to help get you through it. Often another person's perspective can make all the difference.

A great deal of what we fear or spend energy worrying about doesn't ever happen, so don't cross the bridge mentally before you come to it. In the workplace (as in life), "go with the flow", "roll with the punches", be flexible, and be prepared to be open-minded and to look for opportunities.

Think practically about the situation, to put things in perspective – focus on what you have, rather than on what you think you're going to lose.

What does yellow mean?

Yellow is the primary colour of joy and brings out creativity, expressiveness and social strengths. Yellow produces a warming effect, arouses cheerfulness, stimulates mental activity and generates muscle energy. Yellow is often associated with food and bright, pure yellow is an attention getter. A sacred colour of the Chinese, yellow also symbolises wisdom and power.

A good technique is to do a vivid daydream of the worse-case scenario, the thing you fear the most. Work through it: feel it, smell it, taste it, imagine it from all angles. Ask yourself: Can I survive this? Okay, then – get on with life.

Be practical. Look at where you can reduce your day-to-day hassles. A lot of people have stresses in everyday life that aren't necessary, and that increase their overall stress levels. Have a critical look at every aspect of your life, including where your priorities lie. When all your emotional energy and time is invested in work, if something goes wrong, the rug is pulled out from under you and it's harder to regroup. For this reason (among many), balance is extremely important.

Self-employed people can legitimately tax-deduct counselling as a professional development activity. Some people may be resistant to this, but going to a counsellor is very important if you have your own company, and particularly if a number of people depend on the business. Business owners need an outlet and support as much as employees do.

Source | Reproduced with kind permission from AIA New Zealand

A Days Work Turns into Tragedy



Many New Zealanders have jobs involving an element of risk. Occupations including building, construction, transport and farming come with some dangers, which could be anything from machinery to weather conditions.

About a year ago, farmer Simon Franklin* was fatally injured in a freak accident at work on the farm. The accident involved farm machinery. If coping with the loss of her husband wasn't enough, his wife Amy* had two school-aged children to care for. She also was forced to consider how to provide for herself and the children when she knew she wouldn't be able to keep the business operating on her own. "Suddenly you have to find someone to run the farm, or you have to sell," says Amy*.

During the months it took to sell the property, their life insurance provider paid out Simon's* life insurance policy to Amy*, giving her much needed time and space to carefully plan how to re-build her family's life without Simon*.

"It's been very hard at times, and I know that without the life insurance money, the remainder of our lives would've been a very different story". Accidents at work are a common occurrence as the below statistics indicate.

Accidents at Work

Around 100 people die from work-related injuries in New Zealand every year:

- Just over 94% of these deaths are male
- The agriculture, forestry and fishing sector has the highest number of fatal work-related injuries
- Deaths from work-related injury are primarily due to motor vehicles, machinery-related accidents, water-transport accidents, being struck by falling objects, and falling

Each year in New Zealand over 200,000 occupational injuries result in ACC claims. This is about 12 injuries per 100 workers:

- About 74% of the work-related injuries occur in males
- The manufacturing sector has the highest number of work-related injuries
- Other main industries where injury occurs are in mining, construction, agriculture, forestry and fishing
- Sprains and strains are by far the most frequent injury (90,000 claims), followed by open wounds (37,000 claims)
- An estimated 50% of injuries result in impairment, and 6% in permanent impairment

Ensure your ability to earn an income is protected and make an appointment to see a financial adviser today.

** names have been changed to protect privacy.*

Source | Fidelity Life

Healthcare waiting lists – a hot topic at election time

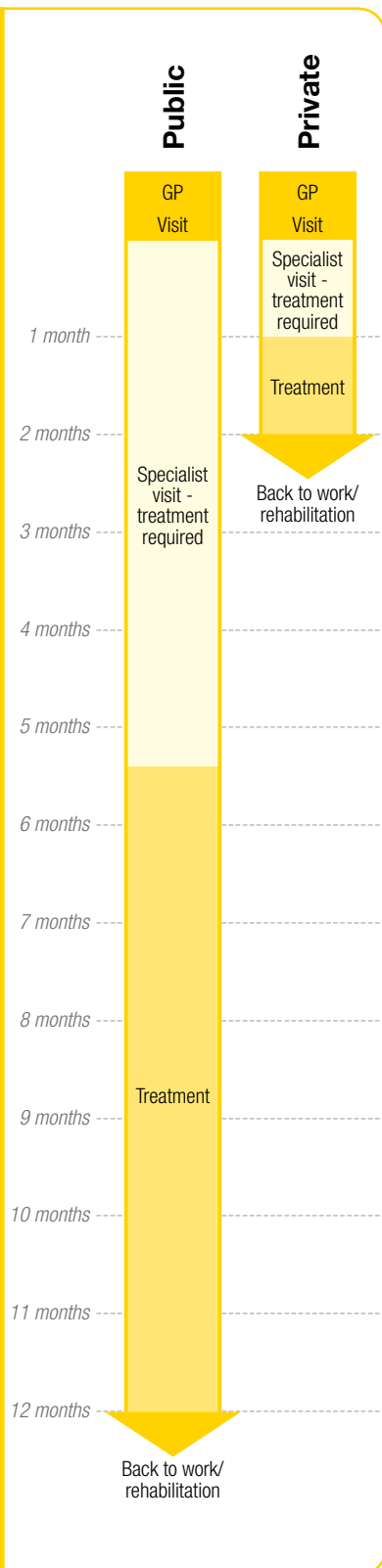
Healthcare is often a hot topic during elections. And with public healthcare waiting lists constantly in the news, the difference in total expected waiting times shouldn't be a surprise. The time from diagnosis by a GP to recovery can be greatly affected by the availability of the treatment and what you could afford if you did not have health insurance. This is where the benefit of having health insurance for private treatment is most obvious, including:

- Greater choice of when, where and how treatment is received
- No added stress and worry about how to pay for health bills
- Avoiding long delays in waiting for treatment in the public health system
- Cover now for many unknown health issues that may arise in the future
- Access to many of the latest recognised medical procedures and technology

The diagram to the right shows how having health insurance may substantially speed up the treatment process by covering the costs of private healthcare.

Please note: The waiting times shown are a general guide only and may vary depending on the symptoms, medical conditions and other variables specific to the individual cases.

Source: Information based on the Ministry of Health's elective surgery measurement targets. www.electiveservices.govt.nz



Protecting your family's greatest asset –



Most of us consider our house to be our biggest asset, yet in reality, our ability to earn an income greatly exceeds the value of our homes.

An income of \$50,000 per annum is worth over \$4 million dollars over 35 years (assuming inflation of 5%), so why do so few Kiwi's see the need to protect it? We have no problem covering the replacement of our homes with insurance should it burn down yet the chances of losing a home to death or disability of a breadwinner are much greater. On average, one in five of us will suffer a serious disablement during our working life – these are not good odds!

Many people simply don't know they can insure their incomes, a problem easily solved by a quick discussion with an adviser. Unfortunately though, we are also prone to ignoring the unpleasant and giving ourselves comfort by believing "it won't happen to me" or "we'll get by on one income" or "we'll sell our house, there is equity in it". The reality is none of these attitudes is a savior.

Selling your home is not an answer either, even if you have substantial equity in it. Can the person earning \$50,000 in our example sell their home for \$4,000,000? – unlikely. The reality is that selling your home may not be an attractive option. Firstly, the housing market might be down, as it currently is, meaning you might not get your price or any reasonable price for that matter. Secondly, even if you are able to release a few hundred thousand (which you will need to live off, possibly for decades) where will you now live?

You can remove all this worry by taking appropriate insurance to protect you and your family should you lose your ability to earn an income. Because your ability to earn an income is worth so much, it makes sense to transfer the risk of losing it to an insurance company and when you consider just how valuable you are, the premiums usually seem very reasonable. Don't put it off any longer, see your adviser about getting the protection you and your family deserve.

Source | Steve Wright Risk Products Sales Manager - ING Life.

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