

Successful Investing



Issue 1 - 2010

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Economic Update

With the global economic recovery well underway, focus has turned to the sustainability of the recovery. Policy support will not remain indefinitely and authorities are clearly signaling the winding down of emergency lending programs. In the US, the labour market continues to improve, consumer confidence is rising along with improved retail sales data. Housing data was mixed, with builders' confidence low and a further modest gain in house prices.

Euro area data remained mixed with readings for employment, construction and industrial production soft, but business confidence improved. Asian economic data tends to remain strong. China lead the way, with industrial production growth of 19.2% year on year in November 2009. With the global economy recovering, export data in the region continues to show improvement.

The global economic recovery is expected to broaden and intensify over the next six months. However, a more meaningful pick-up in final demand is required, otherwise the recovery so far – driven by temporary fiscal stimulus and changes in inventories – will not be sustained.

In NZ, data released suggests that a modest recovery continues with GDP rising 0.2% quarter on quarter for both the June 2009 and September 2009 quarters. Indicators suggest a further economic expansion in the December 2009 quarter. The Reserve Bank of New Zealand left the official cash rate unchanged at 2.5%, but brought forward the timing of the first rate hike to the middle of 2010.

In the December Economic and Fiscal Update, the Government indicated they will keep a tight reign on spending with new spending initiatives of only \$1.1 billion budgeted for 2010. Focus will turn to the structure of New Zealand's tax system following the Tax Working Group's final report in early 2010.

Expect to see GDP and retail sales data improve further over the next six months as currently suggested by survey evidence. The stimulatory policy environment and better global backdrop should support this trend.

Source | AMP Capital Investors

Now what?

Top tips for 2010:
Investment strategies
for a new decade



Following the events of 2008 and 2009, many investors have understandably shied away from the sharemarket. However, don't let the experience of the past eighteen months keep you from achieving your goal of financial security; you can move forward following the worst of the crisis.

After the storm

By most accounts, this generation's nastiest financial storm has passed. That doesn't mean skies will be forever blue again, as we may yet see another good drenching or two. Such is the nature of sharemarkets. What it does mean is that, in our view, we see glimmers of a brighter tomorrow on the horizon.

Now is the time to start thinking about rebuilding your portfolio to make sure it's well positioned for the recovery and fortified against any future downturns.

Taking baby steps to rebuild your portfolio

If you sold shares over the past year and are trying to decide how and when to reinvest, we recommend you speak with your adviser about dollar cost averaging, an investment strategy that eases you back into the market.

Dollar cost averaging is a technique designed to reduce timing risk by investing a set amount at predetermined intervals regardless of fluctuating price levels. More shares are purchased when prices are low and fewer shares are bought when prices are high. The goal is to lessen the risk of investing a large amount in a single investment at the wrong time or missing significant market rises.

Fortifying your investment

Nobody knows where the markets will be tomorrow, let alone in a year. What we are certain of is that suitable asset allocation and regular portfolio rebalancing remain two important techniques to help manage risk and enhance your returns.

▪ Asset allocation

It's important to have the right mix of shares, bonds and other assets for your age, objectives and expectations for returns.

As an investor, one of the most important questions to ask is: will my asset allocation provide me with the income to support the standard of living I'm hoping for in retirement? While it may be tempting to change your asset allocation due to recent market events (either increasing or decreasing shares exposure), it's unwise to do so outside of extreme circumstances.

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Portfolio rebalancing

When investment markets perform as they have over the past year, one result is that your balance of shares and bonds have probably deviated dramatically from their intended target, becoming underweighted in shares and overweighted in bonds.

The purpose of rebalancing is to ensure that your portfolio maintains its long-term asset allocation. This is done by periodically eliminating deviations from the target allocation caused by the movements of the investment markets.

With the recent decrease in market volatility, now may be a good time to rebalance your portfolio in order to re-establish your optimal asset allocation mix.

The aftermath: can you afford not to invest?

In the aftermath of the greatest financial storm since the Great Depression, investors will need to understand that just as past performance was no guarantee of future results in good times, the same holds true in bad. Don't make the mistake of relying too heavily on what happened in the recent past when it comes to predicting the future.

Speak with your financial adviser today and make the most of 2010's investment opportunities.

Source | Ventura Investment Management Limited

Top tips for successful investing:

- 1. Invest with your head; not your heart** - Investing can be an emotional experience and rash decisions based on emotions like fear, generally result in losses. We believe that 2010 will be dominated by a range of macro themes that cause spikes in asset return volatility against the back drop of an improving economy and generally positive market outcomes. This means it will be just as important to be patient in 2010 as it was in 2009 – perhaps even more so.
- 2. Stick to your guns** - Establish a long-term investment plan and stick to it. It's difficult to reap the rewards if you're continually changing your investment focus by chasing last year's best performing asset class. 2010 is unlikely to offer the same distinct opportunities as 2009, yet a valuable lesson can be observed in the importance of discipline and process in investment decision making. Successful investors were distinguished by their rebalancing discipline and the use of rigorous decision making processes to take advantage of opportunities.
- 3. Branch out** - Make sure your investment is adequately diversified across a range of areas. Asia's strong sharemarket rebound from the Global Financial Crisis and robust economic performance is attracting a lot of investor interest. Think about how you can best take advantage of opportunities in emerging markets such as Asia.
- 4. Diversification remains the key** - We expect that a well-diversified portfolio should generate a reasonable, but not spectacular, return in 2010. Most asset classes appear priced for moderate economic growth, which seems the most likely outcome. As the global economy transitions from initial recovery to still uncertain longer term trend, there is plenty of scope for renewed volatility as expectations shift. Investors will be well served by heeding the lessons of 2009.

Source | Ventura Investment Management Limited

Inheritance trusts

Keeping it in the family

Imagine if your child or grandchild was unable to benefit completely from their inheritance because it ended up in the wrong hands? Without proper planning, your hard earned assets could go straight to a loved one's future partner, be lost in a divorce settlement, be open to creditors, bankruptcy or taxation claims. An inheritance trust helps protect your family's inheritance no matter what the future holds.

What is an Inheritance Trust?

Under your will, you can leave your assets to individuals, a trust, or a charitable entity. A useful alternative is an inheritance trust. An inheritance trust is established to become the beneficiary in your will rather than your individual family member. Each inheritance trust is specific to each individual you wish to provide for in your will and you can have several if you wish.

This type of trust allows you to keep your assets in your own name during your lifetime, then after death, the assets are gifted to the respective inheritance trust(s) in accordance with your will and a trust structure is put into effect to protect family interests.

What are the advantages of an Inheritance Trust?

The prospect of a large inheritance can put pressure on the family member benefiting, especially when, for example, a partner might think the inheritance can be better spent paying off the joint mortgage. With an inheritance trust, you get to protect your children from being pressured into a decision with which they may not be comfortable, as you get to appoint the trustee(s) of the inheritance trust.

An inheritance trust is also flexible and can be customised to the needs of an individual when the time comes. Further, other family members such as aunts, uncles and grandparents can also gift assets to them. Another advantage is that, unlike a family trust set up during your life time, the transfer is undertaken



as part of distributing your estate, and as such, no gifting program is required under current law.

How is an Inheritance Trust established?

You get to decide what happens to your assets by way of a carefully drafted will and trust deed.

In the trust deed you choose:

- The individual that is to benefit from the trust
- The assets that are to be included
- Any special conditions of the trust
- The trustees who will act for the trust

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Although you cannot fully control how the trust is managed after your death, you can write a memorandum of wishes which gives direction to the trustees about how you would like the assets managed after you are gone. Therefore, your

choice of trustee is crucial.

Choosing a Trustee

A trustee's role is to make sure the assets are used in the way you want and enjoyed by the people you wish. It makes sense to appoint a specialist as a trustee or co-trustee who is independent, removed from the pressures of family conflict,

and will always be available to make decisions impartially and act in the best interests of everyone involved.

For more information about how you can help secure your family's inheritance, talk to a Professional Investment Services (PIS NZ) financial adviser.

Source | Trustees Executors



Sickness doesn't discriminate, so why should insurance?

Anyone can get sick or injured but when it comes to protecting their lifestyle with insurance, it seems females have some catching up to do.

Historically speaking, insurance was sold to the main breadwinner. More often than not, that was the husband. Today men still earn more, on average, than women however the gap is closing fast. Kiwi women now earn more than 80% of male incomes in full-time work, with many women now out-earning their husbands.

For this reason, you would expect more women to be taking out insurance to protect their income and their lifestyle. This is not the case. Despite women making up 51% of the workforce, they still represent only 25% of all insured incomes.

It's not just about income

Protecting your income is obviously important however, the fact that female incomes are increasing only tells part of the story. Women are often more financially vulnerable than men, mainly because

they typically spend less time in the workforce.

This is partly because of children and also because women are more likely to retire early. Women are often the ones who take time off to look after children or elderly relatives.

Less time in the workforce means fewer savings, less superannuation and a decreased ability to recover from financial setbacks. Since women live longer than men, these setbacks can be even more financially damaging over time.

What types of insurance should women have?

Income protection typically covers up to 75% of your income if you cannot work temporarily because of sickness or injury, making it extremely valuable for working women. To protect yourself against diseases like cancer, you can take out trauma cover. It can pay a lump sum on diagnosis, helping you replace your income and assist in covering the costs associated with treatment.

Life and/or Total and Permanent Disability (TPD) insurance can provide a lump sum to you or your

beneficiaries if you die or are seriously disabled. This can be vital if you have a family and/or a mortgage to look after. If you are self-employed or run a business you can also cover your fixed business expenses if you can't work temporarily because of sickness or injury.

Strategies to make insurance more affordable

It is worth talking to a financial adviser before you take out insurance as there are often a number of ways you can reduce the effective cost of your premiums. For example, income protection and business expenses insurance premiums are often tax-deductible.

Get the cover you need

The best way to find out what cover you need is to speak to a PIS NZ financial adviser. They can help you get the right cover and make sure it's structured in a way that makes it as cost-effective as possible.

Source | Asteron Life Limited.

What does pink mean?

The first of the 'Many Colours of Professional Investment Services' to feature this year is Pink. With its red energy and touch of white light, it is an enlightening colour which relates to a vibrant celebration of success, thus the saying that 'everything is rosy'. Pink also signifies sharing and loyalty - key facets of the unique PIS NZ culture.

An introduction to Capital Protected Investments

When it comes to investing money, we all want more 'bang for our buck'. And ideally we want it without losing any sleep at night. But can you get equity-like returns without worrying about whether you will suffer losses on the capital you have invested? It may sound too good to be true, however, there is an investment strategy that can deliver the best of both worlds.

Capital protected investments* are becoming increasingly popular with people seeking to preserve their capital but who also want to access the potential growth of volatile assets like shares or commodities. The basic concept works like this:

1. You invest your money for a fixed period of time, usually four to six years.

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2. Instead of receiving a rate of interest, the returns are generated from asset classes that offer more exciting potential. For example, the returns could be linked to global or regional sharemarkets, or to commodities such as oil, natural gas, copper or gold.
3. The value of your initial investment is protected at maturity, even if the assets go down in value. So long as you stay invested for the full term, you won't suffer the losses.

The advantage of capital protection means investors will receive back at least their original investment amount at maturity (full capital protection). Sometimes these funds offer the option of partial protection at maturity (for example 90% protection), but this will be clearly pointed out and investors can sometimes choose between full or partial protection.

When it comes to making a return for investors, the fund will offer what is known as a 'participation rate' – this is just the jargon used to explain how exposed the fund is to the sharemarket (or other risky asset). Here are three examples which will help you understand this concept:

1. A fund may offer 100% participation in any sharemarket rise. This means your returns will mirror those of the sharemarket i.e. a 20% rise in the sharemarket will give a 20% return on your investment.
2. A fund offers 80% participation in any sharemarket rise. You multiply the increase by 0.80 (80%). So, a 20% rise in the sharemarket would result in a 16% return for the fund.
3. In some market conditions, it is even possible to offer boosted exposure, such as 120%. In this situation, you multiply the increase by 1.20 (120%). So, a 20% rise in the sharemarket multiplied by 1.20 would give a 24% return.

When considering a capital protected product, it's important to make sure the bank providing the protection is financially strong and has a good credit rating from an agency such as Standard and Poors or Moodys.

As most people know, investing is all about weighing up the potential upside, against the possible downside (risks and returns). The bonus with capital protected investments is they provide you with a win-win on both counts. They aim to generate some very good returns and, at the same time, ensure that you are not exposed to any losses. To find out more about investing capital protected funds, when available, talk to your PIS NZ financial adviser.

Source | Liontamer Investments

*Full details are contained in the Investment Statement and registered Prospectus (when available), provided by Liontamer Investment Management Pty Ltd (ABN 23 104 174 325). *Capital protection at maturity, means you will receive back either 90% or 100% (depending on the unit type) of the combined amount invested and early bird interest (earned during the offer period) less any entry fee charged (3%) and any exit fee. There is a more detailed description of capital protection in the relevant Investment Statement and the limited circumstances when capital protection may not be available.*

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True or False?

- In Tokyo, a bicycle is faster than a car for most trips under 50 minutes.
- The human body creates and kills 15 million red blood cells per second.
- When a glass breaks, the cracks move at over 3,000 mph.
- In 2009, New Zealand life insurance companies paid out approximately \$3.7 million in claims every working day.
- The tin opener wasn't invented until decades after the tin can.
- 2,000 year old honey found in the tombs of Egyptian pharaohs was still edible.
- The longest recorded flight for a chicken is 13 seconds.
- Applying for life insurance can take just 30 minutes - the same time it takes to watch the news each night.
- Filtered coffee has more caffeine than an espresso.
- Children laugh 20 times more often than adults.
- Camels have three sets of eyelids.
- Life and income protection can cost less than \$2.50 a day.

THEY ARE ALL TRUE!

Source | Asteron Life Limited

Become money savvy

The super saver

- Take baby steps. Find one saving tactic and focus on making it a habit, then focus on the next one.
- Automate your savings. Set up a savings account and a direct credit each payday.
- Track your spending for a month. Money can just vanish before we know it, so tracking makes you more conscious of where it goes and what it goes on.
- Spend less than you earn. It's a no brainer, but if you spend less than you earn you'll actually have money to save.
- Create a realistic spending plan. Be exact with your figures. You need to know exactly how much comes in and goes out.
- Follow the \$100/24 hour rule. If it costs more than \$100, wait 24 hours to buy it.
- When it comes to big ticket items, follow the 30 day rule. If you wait 30 days before buying an item, you'll either change your mind or find a better deal.
- Track your progress. It's exciting watching your savings grow.
- Talk about your money with your partner. Support each other and share ideas and advice on financial choices.

Source | The Sunday Mail

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A disclosure statement is available on request and free of charge.