

# Successful Investing



Issue 2 - 2010

## Economic update

Advice goes the extra mile

KiwiSaver - Past returns can be deceptive

Why you need an up to date Will

Health is booming

Triva

## Economic Update

**Review:** Economic indicators pointed to an ongoing recovery. In April 2010, business confidence rose to its highest level in over a decade on the own-activity indicator of the National Bank survey, with widespread increases across the key measures of investment, employment and profit expectations. The level of confidence is consistent with annual GDP growth of over 5% on our model, but this rate would not be considered sustainable for any longer than a few quarters.

Retail sales disappointed with a month-on-month fall in February, but electronic card transactions data for March were strong, suggesting a rebound in sales and consistent with improved spending growth. Consumer confidence on the Roy Morgan and Colmar Brunton measures remained above trend, consistent with a decent rebound in consumer spending.

The CPI rose by 0.4% in the March quarter, taking annual inflation to 2.0%, with moderate inflation helped by aggressive retail discounting and the relatively weak housing market. However, a rise in tobacco tax, the start to the Emissions Trading Scheme and a likely rise in GST later in the year will push headline inflation beyond 5% within the next year.

Fonterra lifted its projected current season payout by 7% to \$6.10 per kilogram of milk solids, driven by rising world dairy prices. The ANZ commodity price indices rose to new cycle highs, whether measured in New Zealand or world prices (SDR terms) in March, suggesting a very strong terms of trade boost to the New Zealand economy. New Zealand's trade balance continued to improve, with an annual deficit of just \$194 million for the year to March, the best result in seven and a half years.

The Reserve Bank of New Zealand (RBNZ) left the Official Cash Rate (OCR) unchanged at 2.5% and tweaked its policy message, leaving its options open for either a June or July start to the tightening cycle. While in March the Bank said it would begin removing policy stimulus around the middle of 2010, this was changed to "over coming months".

**Outlook:** New Zealand's economy is likely to experience a broad based economic recovery in line with the global economy through 2010. We expect GDP growth to average 3.5% over 2010 and 2011.

Source | AMP Capital Investors

## Advice goes the extra mile



Hearing that you have a terminal illness is probably the most frightening and distressing news you could hear from your doctor. It's a dreadful prospect and something that is not always discussed within families.

According to Fidelity Life's policy wordings, a terminal illness is defined as the situation where an individual has a condition that will not see them survive another 12 months. Many Fidelity Life customers have terminal illness cover as an additional benefit on their life insurance policy.

Terminal illness cover is a good option because if you are diagnosed with a terminal illness, (usually cancer), the insured amount is paid out, rather than when the person insured passes away. This can really help the person and their families in the final few months.

Anna', one of our policy holders, became one of the significant number of people who make a terminal illness claim annually with Fidelity Life. She found out late last year that she had inoperable brain cancer.

There's a lot to come to terms with like how to tell the children, what to do with the time you've got left, fear of the future, paying the bills and making the most of the unknown amount of time you've got left.

All these questions and unknowns can create a sense of panic for the ill person, their family and loved ones. Just getting your head around how to make an insurance claim will probably be the last thing you want to deal with.

Anna and her family, faced with an uncertain future, were so relieved that their financial adviser called them to facilitate their claim to ensure that it got processed as quickly as possible.

This early payment has given Anna the opportunity to go on holiday, settle outstanding debts and pay for alternative treatments, which may not have been an option without the payment.

The help and assistance their adviser provided at the critical time took the pressure off Anna and her husband to submit their claim. Their adviser took care of the claim so they could take care of themselves.

Continued on page 2

## Continued ...

For the past three years (2007-2009) Fidelity Life has paid a total of \$51 million in death and terminal illness claims.

### Honesty is the only insurance policy

It might sound obvious, but when applying for any type of life or risk insurance it is absolutely essential that you disclose everything about your medical history. When you sign up for life insurance, it is classed as a legal document.

When we are considering the risk of a new policy, our underwriting team need to take into account the medical history of the person to be insured.

The top two risk factors that underwriters look for are whether the person smokes and if they are overweight. If someone is a smoker or overweight, their premium may be more. If the person presents other risks like family history, a pre-existing condition or drug or alcohol dependency, we may decline insurance in the first place.

So, if a person doesn't honestly and fully complete an application form when it comes to claim time, it makes it very difficult for the claims team to approve. This could also result in their premiums being lost.

When Michael Stevens\* applied for life insurance with extra benefits including critical care, he completed the form, answering all of the questions. He said that he smoked and enjoyed a glass of wine with dinner.

It wasn't until Michael wanted to make a claim on the policy that the truth about his alcohol consumption was revealed. He had troubles with alcoholism that had started before his life insurance policy began, which makes the claim null in void.

### Now is the right time to get insured

Many people ask themselves, or their financial adviser, when they should purchase life insurance.

Certain events in life act as 'trigger' points. Things like getting married, buying a house, welcoming a new baby to the family and starting a business are things that should prompt people to re-evaluate their insurance.

However, there is no 'right time' to buy life insurance, just like there is no 'right time' to get sick.

*\*Names and personal details changed to protect privacy. Talk to your independent financial adviser about your options and what's right for you.*

*Source | Fidelity Life*



# KiwiSaver - Past returns can be deceptive

During May 2010, managed fund researcher, Morningstar released its KiwiSaver Performance Survey for the quarter ending March 2010. These tables are available online to the public and provide a useful guide to historical returns and fees charged by nearly all the KiwiSaver providers.

However, past returns can be deceptive. Fund managers and advisers often add the disclaimer that past returns are not necessarily an indication of future returns – or words to that effect. But many investors ignore such lines at their peril. High historical returns are not a good indicator of fund manager expertise or skill. More often such returns simply reflect the fortunes of the particular markets in which the manager has invested your savings and any performance that exceeds the market can also be as a result of good luck!

Be aware that fund manager declared returns will almost certainly not be the same returns that you experience, even if you are in the same fund. First, to be consistent, KiwiSaver returns are stated without tax deducted but after fees are deducted. Your returns will be net of the tax the manager has deducted on your behalf at your prescribed tax rate (PTR). Further, you are unlikely to have been in the fund for the precise period over which the stated returns have been measured. Also, most KiwiSavers are making regular savings into their fund. This can make returns either greater or less than the stated historical return. Of course, there are also the Government "freebies" which one should not consider when making an assessment about a particular KiwiSaver product, as

these are the same for all providers.

Two years is a very short period of time to draw any kind of conclusion about fund manager skill, but alas, the urge to invest in last year's best performing fund manager is overwhelming for unsophisticated investors.

At Professional Investment Services, we put much greater emphasis on other factors such as:

- Who are the key people making the investment decisions and how long have they been managing investment funds?
- What organisations have they worked for and what is their track record?
- What are the risks if key people leave?
- Where is the fund able to invest and what are the restrictions, if any?
- What is the fund manager's philosophy in respect to investment management?
- What are the fees? Are they comparable to other funds in the same category? An active fund manager may be able to justify higher fees over an index tracker but what value are they really adding especially on a risk adjusted basis?
- What are their investment and compliance procedures, documentation of risk management and disaster recovery process? eg. How are their records backed up and where?

*Continued on page 3*

## Continued ...

There are many other questions that we ask, and most of the answers cannot be found in the investment statement or even in the prospectus. We also examine the statutory accounts to check on what the real costs and charges are, among other things.

Before you make a decision about choosing a KiwiSaver fund or switching, ask your Professional Investment Services authorised adviser for guidance on which KiwiSaver is best for you.

To access the Morningstar Survey, go to [http://www.morningstar.com.au/s/documents/kiwisaver\\_survey100510.pdf](http://www.morningstar.com.au/s/documents/kiwisaver_survey100510.pdf)

*Source | John Commins | Research and Compliance Manager | Professional Investment Services (NZ)*

## What does green mean?

As one of the 'Many Colours of Professional Investment Services', green was chosen for its psychology of representing solid thinking, a detail orientated nature and an analytical outlook. Professional Investment Services' advisers strive to continuously set the industry benchmark by taking the time to carefully understand any changes that are occurring in the financial landscape and communicate the emerging opportunities with their clients.

## Why you need an up to date Will



Your will is a valuable legal document which ensures your assets are distributed according to your wishes after you are gone. Therefore, it is important that your Will remains up to date and valid for your circumstances.

It's not enough to simply make a Will and forget about it. Time and circumstances may drastically change what you own, to whom you wish to make bequests and how you wish to make them. By making sure your Will and other important documents such as your Enduring Powers of Attorney are in order, you will ensure your wishes are carried out, safeguard your beneficiaries and add to your own peace of mind.

Look back over the last year and ask yourself if there have been any major changes in your life that could affect your Will.

### Your Will needs to be reviewed if:

- Your relationship or financial situation has changed
- You have had a child or grandchild
- You wish to change who will benefit under your current Will
- Your assets have changed significantly (for example your house or investments)
- You have children whose marital status or personal situation has changed
- Your executor is no longer appropriate
- You have received an inheritance or another sum of money

It's only right that you get to decide what happens to your assets when you pass away. If you don't have a Will or your Will is not up to date, you lose that power.

If you pass away without making a Will, then the law determines what happens to your money, property and any people who depend on you.

Sadly, many people in New Zealand die without making a Will which often results in problems for those left behind as it can take considerable time and money to sort things out.

*Source | Trustees Executors Limited*



When Dr Robyn Toomath embarked on her career as a diabetologist in the mid-1980s, she had no way of knowing that circumstances would lead her into health activism and the media spotlight.

Eight years have flown by since Robyn Toomath took the advice of Boyd Swinburn, the former head of the Heart Foundation, to found an advocacy group to deal with obesity. It's a juggling act: as well as being the public face and voice of that group, Fight the Obesity Epidemic (FOE), Toomath serves as a clinical leader at Wellington Hospital. In both roles she is on the frontline of public health, observing and sparring with the increasing rate of obesity and its effects.

Toomath freely admits that her standpoint on the causes of and solutions to obesity are often viewed as controversial, even within the medical fraternity. Her years of experience in treating people with obesity have taught her, that advocating personal responsibility for weight is not the answer.

*"I have learned that it is extremely unhelpful to tell people to lose weight. Even if you try to help them with ideas and advice, I believe you are setting them up to fail. Then they feel terrible and don't come back to the clinic, and the problem is worse than before."*

*Continued on page 4*

# Health is booming

## Continued ...

Solving the obesity problem will require major economic policy and international agricultural policy changes, in Toomath's view.

*"Everything will flow down from that. A good example is after World War II, when the UK government looked at their spindly menfolk compared with the strapping Kiwi and Australian men they'd just been fighting alongside, and decided they were too dependent on the colonies for food. They decided to invest enormously in subsidies for sugar, meat and butter production."*

The population grew collectively stronger; the downside was that heart disease began to appear for the first time.

This is evidence, in Toomath's view, that government intervention can put a stop to the obesity epidemic – in fact, she says it is required if the crisis is to be solved. She has special knowledge of the causes of obesity gleaned from more than two decades' work in endocrinology, and sees the failure of the 'personal responsibility' solution to obesity first-hand.

*"When I started as a diabetologist in 1985 obesity wasn't a problem, but then began a trickle, followed by a flood, of people with type-2 diabetes. After 15 years of doing the conventional thing, consulting with people and treating them, it seemed negligent to take that approach when there was a growing problem in the wider world that people weren't addressing."*

FOE, which is run as a charitable trust, is designed to draw attention and propose solutions to the obesity crisis. Latterly it has received Ministry of Health funding to employ administration staff and support its website ([www.foe.org.nz](http://www.foe.org.nz)).

*"I didn't appreciate when we started how interesting a subject obesity and related issues would be to the media. I found quickly that I could form an alliance with journalists, and that responsiveness was part of the deal."*

Wiping out obesity, in Toomath's view, depends on it being a serious goal.

*"We could, if we wanted, have wide, sweeping policies to protect people from obesity – dealing with advertising and the way in which food is sold. We can use financial instruments and legislative changes to alter the external environment – why are we not subsidising milk, for instance? There are many studies showing how sensitive people are to changes in price."*

She points to France as a Western nation which manages the environment well.

*"They have really high standards about food, and package it differently. A bottle of Orangina [a popular soft drink] is about 150mls, while a bottle of Coke in this country can be up to 2.5 litres in size. The obesity problem is clearly connected to food."*

A big step, she says, would be someone from the food industry making a genuine effort to tackle the problem.

*"New World, for instance, introduced the 'vegetables are your friend' campaign and invited me to the launch. I asked them, 'Why don't you support parents and do it properly? Take all the sweets and confectionery out of the exit aisles and check-outs, and put them in one aisle that parents can avoid when shopping with children. Put your discount promotions into healthier food.'"*

*"Supermarkets, to my mind, have the flexibility to modify their practices, and I look to the Government to stop pretending to do something and introduce legislation. Community activity can also be effective – for example, a group of citizens rebelling against a fast-food outlet positioned next to a school. We can demand a healthier environment."*

Source | AIA



## Triva

The largest potato was grown in Lebanon by Khalil Semhat near Tyre. The spud was 11.3 kilos (24.9 pounds)

Earthworms have five hearts

The lion costume in the film Wizard of Oz was made from real lions

Donald Rumsfeld was both the youngest and the oldest defense secretary in US history

The Mona Lisa used to hang on the wall of Napoleon's bedroom

Barbie's full name is Barbara Millicent Roberts

Watching television can act as a natural painkiller for children

The brain is soft and gelatinous - its consistency is something between jelly and cooked pasta

The Himalayas cover one-tenth of the Earth's surface

Walt Disney was afraid of mice

Happy Birthday (the song) is copyrighted

In some (maybe all) Asian countries, the family name is written first and the individual name written second

Alfred Hitchcock had no belly button. It was removed during surgery

Neil Armstrong stepped on the moon with his left foot first

Source | [www.berro.com](http://www.berro.com)

Contact your local office for further information:

Head Office:  
Level 14, 7 City Road, PO Box 8463 Symonds Street Auckland  
Ph: 09 307 1190 Fax: 09 307 9155  
Email: [info@profinvest.co.nz](mailto:info@profinvest.co.nz) Web: [www.profinvest.co.nz](http://www.profinvest.co.nz)

### Your Privacy

Your privacy is important to us. If you do not wish to receive information of this kind in the future, please contact your local office located adjacent.

### DISCLAIMER

The information contained in this document is of a general nature only and does not take into account your particular objectives, financial situation or needs. Accordingly the information should not be used, relied upon or treated as a substitute for specific financial advice. While all care has been taken in the preparation of this material, no warranty is given in respect of the information provided and accordingly neither Professional Investment Services nor its employees or agents shall be liable on any ground whatsoever with respect to decisions or actions taken as a result of you acting upon such information.

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