Financial Freedom

QUARTER 3 2014 NEWSLETTER

Simplicity Versus Complexity

"The simplest of two or more competing theories is preferable" - Occam's Razor

"Everything should be made as simple as possible but no simpler" - Einstein's Razor

Investing should be simple. But oversimplifying can be as great a risk as complexity.

To give an example: would you prefer $140 or $150? It's a simple question with a simple answer - $150, as it is the larger number.

Now let's have another simple question: would you prefer a 14% return or a 15% return (assuming you have a $1,000 deposit)? It is very similar to the one above but it can give an unexpected result. A 15% simple interest rate on $1,000 returns $150, but a daily compounded 14% interest rate for a year returns $150.24.

You may claim that this is a trick question, as the calculation methods are different, but this sort of simplification commonly exists in the investing world. Let's try another example to illustrate.

Let's assume you found an adviser with a particularly good crystal ball, and they had a choice of two funds for you to invest your life savings. The first was a fund that will have a 10 year annualised return of 8%, and the second a 10 year annualised return of 10%. The simple answer (and it may be correct in many cases) is to choose the second fund. What would your reaction be if the adviser recommended the first fund?

It may be surprising to know that this could be a very reasonable suggestion, especially if you were regularly withdrawing money from your investments (perhaps to pay for your retirement). You can get a better outcome if the first fund had high returns in the first few years (when you had a large balance), and low returns on the last few years when you had a small balance (but still providing an annualised return of 8% over the 10 years). The best result, even when you know the future, is obtained from increasing complexity (in this case, understanding your cashflow requirements over the next 10 years). You could make this even more complex by looking at your attitude to risk, your tax profile or many other variables.

Obviously this scenario is implausible - no adviser knows the future, and this fact alone adds two of the most important and complex variables when investing: what investment is safe and what investment will provide good returns?

All this necessary complexity has an interesting psychological effect: when a person is confronted by choice (and complexity), they often don't make any decision. People are unable to easily understand what the correct answer should be - and "gut feeling" can easily be wrong, so they do nothing.

Look at a simple scenario to illustrate the problem with "gut feel": What are the odds that two people on the pitch at any game at the football World Cup had the same birthday? With only 23 birthdays on the pitch (11 each side, and the referee), and 365 days in the year, you would expect it to be uncommon. However the chance is actually greater than 50% - and of the 32 teams (with 23 players in each squad) in this current World cup, there were 16 teams with players who had shared birthdays.

Complexity and unexpected results highlight the need for having an adviser who can help guide your decisions. As an investor, one of the worst choices can be not making a decision (such as leaving your money in your bank account), and that can be closely followed by making the wrong choice based on "gut feel" (choosing an investment with a high return, but not understanding the risks - a common error in failed finance company investments). Simplicity, like everything in life, is good in moderation.

Article by IOOF New Zealand Limited

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INSIDE THIS ISSUE:

	PAGE
G3 Financial Freedom editorial	2
Retire when you choose	2
The next 25 facts on the future of business	3
Retire when you choose *continued*	4

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G3 Financial Freedom Editorial from the desk of Cathy Fletcher (G3 Office Manager)

Another 3 months have just flown by. This winter has had its challenges, wet and wild, windy and cold. I am always so very thankful I live in the Bay of Plenty, we just seem to get the edges of the worst of any weather. I have a feeling I ought to touch wood now.

Jane is safely back at her desk after her big catch up with family and friends in the UK. Charlene and her family have been and returned from two weeks in Thailand. Thank heaven they managed to avoid causing or getting caught up in any military coups. And I have had a week in Hawaii with family. I am sure Tracey must have something planned for the not too distant future as well.

Speaking of Tracey, we are very proud of our Tracey for being recognised by the IFA (Institute of Financial Advisers) for the 2014 President's Award. It is awarded in recognition and appreciation for outstanding service and loyalty to the IFA and the financial services industry. Tracey received her award at a ceremony held in Auckland on 22 July. She thinks this may be the closest she gets to receiving an Oscar and making the expected thank you speech. We think there will be more to come.

Retire When You Choose

Be careful what you wish for. Most of us long for the day we are no longer a slave to the morning alarm. For most people once they retire there is no going back, at least not to their career highs. Retirement is one of, if not *the,* biggest life changing event you get to manage.

A long list of changes await, some good and others not so good. You need to spend time planning, talking with significant others and seasoned professionals understanding and preparing for those changes. Otherwise it could be a very challenging time of your life.

Retiring when you choose isn't just about having enough money to maintain a lifestyle for you and your spouse/family throughout retirement. Although financial security is essential, the ability to enjoy a fulfilling life is crucial to successful retirement. Following are some ingredients to the secret recipe for a happy retirement.

1. Acknowledge that 65 does not have to be your retirement age

There is no rule that says you have to retire at age 65. Most people plan the timing of their retirement around the age the government makes the NZ Superannuation available and that currently is 65. Whilst this is an important financial consideration it doesn't have to be nor should it be, with proper planning, the main driving force to determine your retirement date.

2. Visualise your retirement

If you want to achieve anything you need to visualise yourself doing it. To win New Zealand's Got Talent, become the next Richie McCaw or think about retirement, you need to be able to picture yourself in that role. Visualisation requires asking important questions of yourself. What dreams do you want to achieve when you are no longer working?

What will motivate you and help you continue to grow as a person? Will you travel to all those far flung destinations, pursue those hobbies you never had time for or take up new activities? Will you start a part time business? Does doing volunteer work interest you? How will you occupy all that new found time in a typical day? Will your friends be retired too? Answering these and other important questions will help you imagine what retirement will look and feel like to you.

3. Start planning early

The most important point to make for retiring when you choose is to start planning well in advance of when you actually want to retire. There are a lot of ducks that should be in a row, both financial and non financial before you can successfully retire. When should you start? Well, given that you could be spending up to one third or more of your life retired you can never start planning too early. Retirement asset planning should begin the day you start work. Begin your KiwiSaver. And so you set in motion the accumulation of assets both financial and property. You will also need to give sufficient time to plan how those assets will transition into an income for retirement. The ability to live and enjoy retirement when you choose and on your terms is directly related to the time and effort you put into preparing for it.

4. Put it in writing

Any successful plan needs to be in writing. Such a major event as retirement is no different. This is where a financial adviser/planner comes into there own. As you're going to retire when you choose, your plan will reflect your financial and non financial goals, including your vision for your retirement. Once you have those goals decided upon, short and long-term strategies can be developed and put into your written plan. ***Continued on page 4***

We all need to take great interest in the future because we will spend the rest of our life there

Unknown

The Next 25 Facts On The Future Of Business

Continued from the previous quarter Newsletter

29. The amount of time parents spend with their children continues to go up in the US. Fathers have nearly tripled their time with children since 1965. Mothers' time with children has also increased, and today's mothers spend more time with their children than mothers did in the 1960s. *Source; Pew Research Center*

30. Top 5 risks with the highest likelihood are: Income disparity, fiscal imbalances, greenhouse gas, water supply and ageing population. *Source; World Economic Forum*

31. 884 million people lack access to fresh water. By 2040, at least 3.5 billion people will run short of water. *Source; OECD Environmental Indicators.*

32. The population living in urban areas is projected to increase from 3.6 billion in 2011 to 6.3 billion in 2050 *Source; United Nations, Department of Economic and Social Affairs*

33. On average, the world has become a little happier in the last 30 years. Health care, education and income have the biggest impact on life satisfaction. *Source; World Happiness Report , 2012*

34. In 2010, Hans Vestberg, CEO of Ericsson, predicted that by 2020, 50 billion devices would be connected to the internet. *Technology Source; GIGAom, 2013*

35. 80% of the top global internet sites are US based while 81% of the global internet population is non US. *Source; Mary Meeker's Internet Trends, 2013 Technology*

36. US based mobile phone operating systems maintain 88% share of all global mobile phones sales (up from 5% 6 years ago) *Source; Mary Meeker's Internet Trends, 2013 Technology*

37. Mobile traffic as a percentage of internet traffic is growing 1.5x per year (now still only 15%) *Source; Mary Meeker's Internet Trends, 2013 Technology*

38. There are 1.5 billion smartphone users vs. 5 billion mobile users worldwide. *Source; Mary Meeker's Internet Trends, 2013 Technology.*

39. Tablet growth is more rapid than smartphones (3x iPhone growth). *Source; Mary Meeker's Internet Trends, 2013 Technology*

40. The next wave of computing is "wearables" (or "drivables", flyables", "scannables") *Source; Mary Meeker's Internet Trends, 2013 Technology*

41. The average subscription rate of mobile Internet access in developed countries as a whole rose to 56.6% in June 2012, up from just 23.1%in 2009. *Source; OECD Communications Outlook, 2013*

42. 80% of data used on mobile devices is received via WiFi connections to fixed networks. *Source; OECD Communications Outlook, 2013*

43. 60% of US consumers agree, "Technology has made us feel more connected" while 40% agree, "Technology has made us feel more isolated from each other". *Source; Yankelovich Monitor Technology.*

44. The average US adult spends 141 minutes a day using mobile devices. *Source; Advertising Age Mobile Fact Pack 2013*

45. The projected share of world population with smartphones in 2014 is 24% *Source; Advertising Age Mobile Fact Pack, 2013*

46. January to June 2013, global demand for smartphones rose by 66% compared with the same period in the previous year, while the market for conventional mobile phones shrank by 25%. *Source; GfK Roper WW, 2013*

47. 85% - the share of smartphones as a proportion of all mobile devices is also the highest in China. *Source; Advertising Age Mobile Fact Pack 2013*

48. Smartphone adoption worldwide is creating more demand for mobile bandwidth, but it won't be a mobile bandwidth majority world until 2016. *Source; Mintel Technology*

49. There will be a 50 fold aggregate growth in smartphone gigabyte traffic between 2011 and 2016, with China emerging with a 10% share of this market. *Source; Mintel Technology*

50. A study by the UN found that nearly 200,000 text messages were sent every second in 2010, totalling up to 6.1 trillion texts for the year. *Source; Mintel Technology*

51. GPS provider TomTom adds five billion measurement points every day. *Source; OECD Exploring Data-Driven Innovation as a New Source of Growth.*

52. In 2012, TomTom navigation hardware and software had more than 5,000 trillion data points in its databases, describing time, location, direction and speed of travel of individual anonymised users, *Source; OECD Exploring Data-Driven Innovation as a New Source of Growth*

53. The connected home segment will grow at a compound annual growth rate of 50% between 2012 and 2017 to reach 10.7 million shipments in five years. *Source; GIGAom*

More interesting facts next quarter.

The best way to predict the future is to create it

Peter F Drucker

Retire When You Choose *continued from page 2*

These strategies need to include specific steps for growing, managing and protecting your retirement assets.

You will then have your blueprint to retire when you choose.

5. Make your plan flexible

There are some things that are not within your control like inflation, markets and taxes so your plan will need to have some flexibility to it.

Another area of the plan that needs to have flexibility built in is the choice of retirement age. Rather than choosing a specific age your financial adviser can model different scenarios for you e.g. retiring at 60, 65 or 68. Do this even if you don't think there is the remotest chance that you will still be working at 68. The modelling will show you the likely outcome of how your retirement assets will now provide an income to live that retirement visualisation within those different scenarios. You will be able to see what changes you would need to make within each scenario that will help you decide which age will meet your retirement choice.

6. Monitor and review your plan

You should not think that having done your plan that it is then done and dusted. It needs to be reviewed at least annually to check on progress and performance. Your financial adviser can revisit the modelling to reflect any changes to personal financial circumstances, goals and health situations as well as changes to the economic environment, tax law and other government regulation.

7. Share your plan

Don't keep your plan a secret. If you want to achieve your goals you need to be accountable.

Your plan should have at least been developed with your spouse or significant other. It will reflect each of your individual goals as well as your shared goals and the modelling can reflect different retirement dates for you both..

8. Work with a team of professionals

Retirement planning is complex with a lot of moving parts that need to be researched and analysed. Mistakes can be costly and could affect the long term viability of your plan. Your team of professionals should include your Authorised Financial Adviser (AFA) standard financial adviser/planner, your solicitor and possibly an accountant. Your retirement assets and income should be planned, managed, grown and protected by a great team including you every step of the way.

Working with a team of professionals will enhance accountability and the probability of retiring when and how you choose.

9. Welcome change

Retirement asset accumulation i.e. your retirement planning is different to retirement income planning.

You may need to open your mind to new ideas and strategies. Whilst your team of professionals won't make you do things you don't want to they will be able to point out what may be the outcome of not doing them. At the end of the day it will always be up to you to achieve your plan.

10. Retirement planning should not retire

It's a life long commitment, for all the reasons back in number six.

A couple of other things to remember before you actually retire, have a health check up, go to the dentist, update your glasses, ensure all short term debt is cleared, home maintenance is up to date and maybe update your car. These can all be big ticket items that you can pay for before it has to come out of your retirement income in the short term.

So there you have it some of the ingredients to a recipe for retiring when you choose. What are you waiting for? Get your plan started now.

It does not do to leave a live dragon out of your calculation, if you live near him.

J R R Tolkien, The Hobbit

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G3 Financial Freedom Ltd - We Make Every Day Count

We are the financial advice company that can help you create the financial future you desire with peace of mind, security and confidence. We operate under the rules of the Financial Markets Authority and abide by the Financial Advisers Act 2008. We are voluntary members of the New Zealand Institute of Financial Advisers.
We are a group of Certified Financial Planners, Chartered Life Underwriters, Accredited Investment Fiduciaries and we are all Authorised Financial Advisers. Talk to us about your financial future now. It is never too late to begin.

A Disclosure statement relating to the financial advisers associated with this newsletter is available on request and free of charge.