



Financial Freedom

QUARTER 2 2013

NEWSLETTER

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Would you sooner receive your copy of our newsletter via email? If so please give me a call on 07 5715333 or let me know via email cathy@g3freedom.co.nz

The Mighty River Power Effect and Investor Psychology

Is it time to change your investment strategy?

Mighty River Power's successful debut on the New Zealand stock market earlier in May has many implications. Some of these are political, relating to the Government's asset sales program. But an almost 5% uplift in share price on day one also sent a message to investors. Rightly or wrongly that message runs something along the following lines: "Here is a big, well-regulated company where I can park my money safely and look forward to both reasonable dividends as well as capital growth. Come to think of it, why don't i invest a lot more of my core wealth in big, safe, well-regulated companies, until all global investment concerns subside?"

Investor psychology has been the subject of detailed studies in recent years, and among the most prominent findings is that the pain of losing money significantly out weighs the joy of gaining that same amount of money. Any investor who has been invested in stock markets since 2007 will have first-hand experience of this. Even though most well-diversified portfolios are above where they were at the peak of 2007, it has taken a while for them to recover, and relief of recovery, for most people, is still over-shadowed by the pain of having experienced such brutal losses during 2008 and 2009. With 'loss avoidance' uppermost in investors' minds, the appeal of big, safe, corporate harbours for our hard earned cash is entirely understandable.

Investor psychologists would also cite the 'recency effect' as a factor that comes into play when we think about reviewing our investment strategy. An example of the 'recency effect' is if you visit a favourite restaurant and are served a bad meal. Even though you have enjoyed dozens of really nice meals there over the years, the one that features most prominently in your mind is the last one, which was not at all representative of your overall experiences.

The folly of making investment decisions based on a single, atypical experience is self-evident. Yet that's exactly what investors are at risk of doing if they form the view that it's wise to shun an

extremely well-diversified portfolio of assets, including equities, in favour of a roll call of Government asset IPOs (initial public offerings).

Why might an investor do that? Apart from loss-avoidance and the recency effect, another element of investor psychology comes into play - 'confirmation bias.' This describes how we tend to seek out opinions that confirm our view of the world, perhaps a view in which we are financially quite heavily invested, and ignore or block out views contrary to our own.

It's worth saying, for the record, that we are not judging individual shares. What's being questioned here is the wisdom of investing too much in them at the expense of diversification. Concentrating your core wealth in one or even a few companies, far from offering safety, actually increases risk. The risk is that if one of those few companies fails to deliver, there will be a disproportionately negative impact on your core wealth.

Take Apple as a great example. Whether you're a fan of its devices or not, what's not in dispute is that it is one of the world's most successful companies in terms of the profits and growth. A safe harbour, surely, if ever there was one? But take a look at the share price over the past 6 months, compared to that of the S&P Index:



Instead of outstripping the index by a mile, Apple has gone steadily backwards. The notion of the company being a safe haven is purely illusory.

What does all of this mean to the wise investor? Quite simply, that loss-avoidance, the recency

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

How time marches on - it is already a year since we moved to our offices here on Wharf Street. It is that marching of time that makes me think that there is no time like now to get the important personal papers done like a will or a power of attorney. Before you know it another year has gone by. Following on from the subject of wills in the March newsletter I thought we should now take a look at powers of attorney. There is some

important information for all of us in this.

Also we are hosting a client evening on the 3rd of July in Auckland at 5.30pm with guest speakers from the new owners of Plan B Wealth Management, IOOF. If you would like to come to this please check out the details below or contact me.

Email: cathy@g3freedom.co.nz

Phone 07 5715333

**Because of our relationship with you
we would like to invite you to join us in
celebrating 4 years of service**

**Wednesday 3rd July
5.30 – 7.30pm
Plan B office - Level 5, 2 Commerce St,
Auckland**

Guest Speakers:

- **Stephen Merlicek**
Chief Investment Officer
IOOF
- **John Atkinson**
CEO
Plan B Wealth Management

**Join us for drinks, nibbles
and socialising
You are very welcome to
bring your partner, colleague
or family member if you wish**

You're Invited

Please RSVP by 21st June to
cathy@g3freedom.co.nz or
phone 07 5715333



*Life is what
happens to you
while you are busy
making other plans*
Allen Saunders

Have you Granted A Power of Attorney?

What is a Power of Attorney?

A power of attorney is an authority that a person (the donor) gives to another person (the attorney) to act on their behalf.

There are two types of power of attorney:

- Ordinary power of attorney
- Enduring power of attorney

Ordinary power of attorney

An ordinary power of attorney is the authority given by one person (the donor) to one or more others to act on the donor's behalf, either in all matters or only on specific issues stated in the power of attorney (POA), for example to manage a rental property and a bank account while the donor is overseas.

If you choose to have more than one attorney you need to specify whether they must act

together (jointly), separately (severally) or jointly and severally. An ordinary POA is valid until it expires (if it is for a fixed time) or is cancelled (revoked). In addition, an ordinary POA is only valid whilst the donor has the mental capacity to make decisions. If the donor loses this capacity (for example through illness or accident), the ordinary POA is cancelled. This is because under an ordinary POA, the attorney cannot have more power than the donor.

To grant an ordinary POA you need to complete a form (available from lawyers and elsewhere) stating the extent of the powers that you (as donor) are granting. You need to sign the form and have your signature witnessed by another person.

You can revoke, amend or extend the power at any time. This should be done in writing with the document properly signed and witnessed. Also,

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Have you Granted A Power of Attorney? *continued*

people who have been relying on its authority (the attorney, banks, etc) need to be informed as they are entitled to continue acting on it until they have been advised otherwise.

Giving someone the ability to deal with your property gives them an important power, so think carefully about to whom and how much power you give them. They can act without consulting you and you are bound by decisions they make on your behalf, so choosing someone you can trust is critical. Your attorney can be called to account for misusing the power and acting contrary to your directions, but you are still bound by any action they have taken that affects 3rd parties. You should consult a lawyer about the granting of a general power of attorney.

There are two types of enduring power of attorney (EPA)

- Enduring power of attorney for personal care and welfare - this can only come into effect when the donor loses mental capacity
- Enduring power of attorney for property - the donor can specify whether this comes into effect immediately, or only when the donor loses mental capacity

An EPA for property

You can have more than one attorney for your property EPA. You can nominate them to act jointly or severally. You might also want to appoint a substitute attorney in case your original attorney dies or loses capacity themselves. If you do not, the EPA ceases to apply and an application may need to be made to the court to appoint a property manager or welfare guardian.

An EPA for property gives the attorney the power to act on your behalf with respect to property you own. Property includes not only land and houses but also businesses, bank accounts, shares and all other possessions and debts - that is, everything you own or owe. This is a big commitment so you might wish to choose more than one attorney. Attorneys should be trustworthy and good at record keeping and you can also require your attorneys to prove, on request to people you name, specified information about their actions. This enables the named people to monitor your attorneys' actions.

A property attorney must keep records of each financial transaction entered into under the EPA while the donor is mentally incapable. An attorney who fails without reasonable excuse to do this commits an offence and is liable to a fine of up to \$1,000.

If you decide to appoint attorneys to act jointly to manage your property, then they must act together and anything requiring a signature will require the

signatures of all attorneys. This could be difficult if they do not live in the same town. Advantages are that the attorneys can act as a check on one another and share the weight of what can be a very responsible role. You can give your attorney a general authority or it can be limited to specific circumstances or specific property.

Your attorney should know what property you have, where you keep relevant documents and what your wishes would be in certain circumstances.

For instance, you may want them to buy birthday or Christmas gifts for family members, or offer support to dependents, or make donations to charity. They cannot do any of these things, or do any other thing for the benefit of others or themselves, unless their authority to do so is clearly specified in the EPA.

If you are married to or in a civil union or a defacto relationship with your property attorney, and live together and share your incomes, your attorney will be able to benefit others and themselves in dealing with property that you jointly own unless you specify otherwise in the EPA. This will not apply to property that you and your attorney own as tenants in common (that is, in which you both have separate shares).

If you choose for your EPA to only take effect if you become mentally incapable, your attorney cannot act under it unless a relevant doctor certifies, or the Family court determines, you are mentally incapable.

An EPA for personal care and welfare

An EPA for your personal care and welfare enables your attorney to make legal decisions about your personal care in the event of your mental incapacity. For instance, your attorney can decide if you need to go into care, what home or hospital you will go to, what sort of medical treatment you should have etc.

You can authorise your attorney to act on your behalf either generally or limit it to specific matters. However, even if you give a general authority, the law restricts some of the decisions that your attorney can make. They cannot make decisions in relation to marriage or civil union or the adoption of children. They cannot refuse medical treatment intended to save your life or prevent serious damage to your health, or consent to certain medical treatment (some brain surgery, medical experiments or electroconvulsive treatment). The attorney must always promote and protect the donor's welfare and best interests. At the same time, the donor must always seek to encourage the donor to exercise their own capacity. The attorney must encourage the donor to be self-reliant (to act on their own behalf). The attorney must also assist a donor to be a part of their community as much as possible.

The personal care and welfare attorney must

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I don't know the key to success, but the key to failure is trying to please everyone

Bill Cosby



Have You Granted a Power of Attorney *continued from page 3*

consider the financial implication on the donor's property of any decision they make. The attorney must, as far as is practicable, consult the donor and any person specified in the EPA. If a donor has appointed different attorneys for personal care and welfare and for property, both attorneys must consult each other regularly to ensure that the donor's best interests are not harmed through any breakdown in communication between them.

You can only appoint **one person to act as your attorney in relation to personal care and welfare at any one time**, but you can nominate a substitute or successor attorney to act if the first person is no longer able to. Like the EPA for property, if you do not have a substitute attorney nominated the EPA would cease if the nominated attorney died, was sent bankrupt, loses mental capacity or the court revokes the appointment. You cannot appoint a trustee corporation (e.g. Public Trust) as your attorney for personal care and welfare.

Who should have an EPA

Anyone over the age of 18. A good time to arrange an EPA is when you make your will. Like a will, an EPA can be revoked, replaced or varied by you at any time before you become mentally incapable. You should always seek legal advice when setting up or making changes. After you

have become mentally incapable, only the court can change the terms of an EPA.

What happens on death?

A power of attorney (general or enduring) ceases to have effect immediately the donor dies. The person holding the power can no longer act. For instance, they would be unable to sign a cheque to pay the funeral expenses. The power transfers to whoever is named as executor in the will or appointed as administrator of the donor's estate.

A few things to think about

Assuming control of an elderly parents financial affairs can be time consuming and emotionally draining - and a true test of sibling relations. Forward planning can mean fewer problems later. Encourage parents to have a power of attorney in place and to make their plans and wishes known to all children, not just the one who has been put in charge. Keep clear records of all dealings on the parents' behalf and be prepared to share them. The donors interests come first. If push comes to shove, their well-being should take precedence over sibling harmony.

Information sourced from:

New Zealand Law Society publication Powers of Attorney

www.communitylaw.org.nz



*The worst choice
you can make, is no
choice at all*

Nicholas Stoller

The Mighty River Power Effect *continued from front page*

effect and confirmation bias - to mention just a few elements of investor psychology - can easily lead us astray. Our most effective safeguard is a properly qualified financial adviser who can keep us on course, no matter the latest up or down of the investment roller-coaster. Having an open line of communication with someone who understands

not just investment, but also investor psychology, is the best way to ensure you meet your long term financial goals with greater certainty and less risk

Article by Plan B Wealth Management



**G3 FINANCIAL
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Goals + Guidance = Growth

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.

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