Financial Freedom

QUARTER 2 2014 NEWSLETTER

OUR SERVICES

- **Full financial planning**
- **Retirement planning**
- **Personal insurances**
- **Investments**
- **Employer group insurance schemes**
- **Health insurance**
- **UK pension transfers**
- **Business protection insurance**

INSIDE THIS ISSUE:

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A Day In The Life Of A Financial Adviser

You have a financial adviser - but what are they there for? If you spend a bit of time researching the topic, you may come away thinking that your adviser will make you money. The adviser's skills and knowledge will mysteriously transform your pile of savings into an even greater pile

This sounds like a great deal - your investment return increases by 3% more than the market, you pay 1% to your adviser and everyone is happy. It's a pity that this doesn't occur.

One of an adviser's key roles is to educate investors. The markets are tricky and not intuitive. When you are learning the ropes, it pays not to play with your life savings. You may well assume that signing up to a few courses and learning the ropes means you can invest on your own. Without having to pay an adviser, it must be easier to get the average return of the market at least, and with some luck and/or skill, aim to beat it.

Research firm Dalbar has released the 20th Quantitative Analysis of Investor Behaviour (QAIB) report with two interesting conclusions. Regular readers will be aware of the first conclusion: investors routinely underperform the stock market by a large margin. As an example,

"Going back 30 years from the Dalbar survey's inception to the 2013 market close - a period encompassing the crash of 1987 and subsequent market booms and busts - U.S. stock market fund investors earned an average annual return of 3.69% compared with the S&P 500's 11.11% return."

This would suggest that investors are regularly having trouble meeting the market, let alone beating it.

The second conclusion is on the education of investors, where Dalbar states:

"Attempts to correct irrational investor behaviour through education have proved to be futile. The belief that investors will make prudent decisions after education and disclosure has been totally discredited. Instead of teaching, financial professionals should look to implement practices that influence the investor's focus and expectations in ways that lead to more prudent investment decisions."

This is important for advisers and investors. Education is important, but it is only part of a long term relationship.

What advisers should focus on include:

1. **Focus on your goals.** They can be hard to define, and even worse, can change rapidly. Just ask any new parent and you will find that life is not certain. However you still need to know your goals and move towards them, because your personal circumstances are often the only things that you can actually change. You can't make the markets improve, but you could aim to earn more, work longer or spend less.
2. **Focus on long-term performance and not short-term returns.** No-one knows how shares will move over the short term, but you can model long term outcomes for investors.
3. **Have a plan and be disciplined!** This sounds easy, but one of the worst outcomes for investors is to leave when markets fall. This is shown in the results of the Dalbar report above - most investors pitifully underperform the markets. This is also where advisers can truly add value - by helping you understand the markets and providing that much needed discipline.

There are many matters that advisers can help you with, ranging from tax guidance, insurances, budgeting and structuring your affairs. At the end of the day, what matters is achieving your goals. In life, you don't always get everything you want, but you should always try to get as close as you can. On life's ups and downs, your adviser should be helping you achieve those goals, whatever they may be, and that requires a long term relationship.

Article by IOOF New Zealand Limited

G3 Financial Freedom Editorial

from the desk of Cathy Fletcher (G3 Office Manager)

Where does the year go, it is hard to believe that we are half way through 2014. The shortest day is now past and we can say summer is coming. As much as I prefer the warmer weather I look at the colours in the leaves and the magnificent sunrise and sunsets and I really think this is one of the most beautiful times of the year.

We have been very busy processing the transfer of UK pensions for clients. Most of them now are at the point where the paperwork is in the UK and we are just waiting for confirmation of the funds arriving in NZ. Some of these can take two months plus. It is these slow timeframes we work with at the UK end as to why it is so important for anyone who is thinking that they should do something about their UK pension to act sooner rather than later. By the time we add the time on for obtaining the information about a pension and for the transfer paperwork to be sent here and then analyse it and provide our clients with our recommendations it all adds another couple of months on to the whole timeframe so a transfer can take as much as four to six months from go to whoa. Even longer if there is something out of the ordinary.

Important! Check out the enclosed information sheet on the latest changes taking place with UK pensions this time at the UK end. The next few months could be the last opportunity for those with final salary schemes to move them to NZ if that is what they wish to do.

Our Jane is holidaying in the UK catching up with her family and friends . I am sure she will arrive back here with plenty of stories to tell. Hopefully she will have satisfied any cravings she was going through with things missed from her homeland. We expect she will come back knowing that moving to New Zealand was one of the best things she ever did. New Zealanders are a great bunch of people (and so are her co-workers), and she lives and works in the beautiful Bay of Plenty. Captain Cook sure knew what he was doing when he gave this region its name.

That's all from me today. Stay warm.

What Do You Do When Your Portfolio Loses Value?

In order to succeed, your desire for success should be greater than your fear of failure

Bill Cosby

Have you ever taken a ride on a roller coaster? There is a thrill and expectation with the ride up to the high point. The adrenalin gets pumping and the grip tightens on the safety bars. You know what is coming next but close your eyes to it. And then you get to the summit and look down and before you have time to yell "let me off" the whole thing is hurtling down the mighty big slope ahead. Your stomach is left somewhere behind you and at this moment you are very thankful that you have not yet had lunch. Some would call this exhilarating others would call it heart attack material.

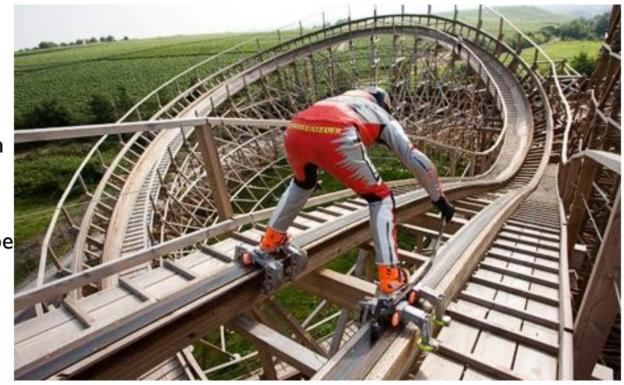
Investing can be like this - thrills and spills. The thing is to minimise the spills and not have a heart attack.

Every time you receive your portfolio report do you open it with the expectation of a movement up? You probably know what the top value was/is that your investment portfolio has ever reached. When you receive an update of the current value do you mentally work out the difference? Am I making money? Am I losing money? If you are invested in a few high growth stocks e.g Xero you will have had big ups and downs. The high on 20th March 2014 was $45.10, on 22 May 2014 it was trading at $32.44 - a 28% fall. The differences between the high and lows of stocks like this can be big and ugly. Are you scared? What should you do? Do you sell now,....... maybe it will go even lower........ maybe it will recover and go even higher? Who knows! If you are following our investment philosophy of a very diversified portfolio of passively invested shares your ups and downs will be nothing like this. You wouldn't need to feel scared. This is riding the rollercoaster with safety gear on.

We don't waste time or energy worrying about short term volatility. It is what happens over the long term, that is where we focus our energies. Your rollercoaster will be smoother with the gradient up steady and any fall down much less terrifying. We all know that there are positive and negative fluctuations with investing.

What do you do when your portfolio looses value? The last thing you should do is panic. If you feel uncomfortable then talk to us. Depending on what sort of a portfolio you have we can possibly shed some light as to the whys and wherefores.

See Charlene's article on Investing For Success on page 4 for more reasons to talk to us about diversifying your retirement savings.



The First 28 Facts On The Future Of Business

You can't stop the future. You can't rewind the past. The only way to learn the secret...is to press play

Jay Asher

1. Over 40% of the companies that were at the top of the Fortune 500 in 2000 were no longer there in 2010. *Source; Brian Solis' Future of Business, 2013*
2. There are now more mobile connected devices than there are people on earth. *Source; Cisco Technology*
3. Facebook has more than 1 billion network users. *Source; Facebook*
4. By 2030, 5 billion - nearly two thirds of the global population - could be middle class. *Source; OBCD "An Emerging Middle Class'.*
5. Typical mobile users check their phone 150 times per day. *Source; Mary Meeker's Internet Trends, 2013 Technology*
6. Only 7% of Gen Yers work for a Fortune 500 company as start-ups dominate the workforce for this demographic. *Employment Source; Brian Solis' Future of Business, 2013*
7. Millennials (Gen Yers) are 3 times as likely to follow brands over a family member on social networks. *Customers Source; Brian Solis' Future of Business, 2013*
8. 90% of all internet traffic in 2017 will be video. *Customers Source; Cisco*
9. The amount of data stored is doubling every 18 months. *Networks Source; IDC*
10. 1.2 billion people are still living on less than $1.25 a day in 2010, a decrease of 100 million since 2008. *Source; World Bank*
11. 73% of people surveyed wouldn't care if the brands they use disappeared from their life. *Customers Source; Co. Exist*
12. The half-life of a piece of content shared on top social networks Twitter and Facebook is 3 hours (Half-life is the amount of time it takes content to reach 50% of the clicks it will ever receive). *Source; Bit.*
13. The global rate of extreme poverty fell to 20.6%, less than half the 1990 rate of 43.1%. *Source; World Bank*
14. Globally more people trust regular employees to tell the truth than CEO's(50% vs 43%) *Source; Edelman Trust Barometer*
15. Newspapers have lost $40 Billion in advertising revenue since 2000. *Source; Newspaper Association of America*
16. The average number of sources of content consumed by a shopper in a purchase doubled from 2010 to 2011 going from 5 to 10 pieces of content consumed. *Source; Google*
17. Worldwide, more than 3 billion people are working, but nearly half work in farming, small household enterprises, or in casual or season jobs. *Source; World Bank Jobs Report 2012*
18. More than 70% of customers surveyed believe small businesses understand their customers better than large companies, know their business/products better, provide a more personal customer service experience and are more concerned about customer needs than larger companies . *Source; American Express Global Customer Service Barometer*
19. Gen Y will form 75% of the workforce by 2025 and are actively shaping corporate culture and expectations. Only 11% define having a lot of money as a definition of success. *Source; Brian Solis' Future of Business, 2013*
20. 29% of Milennials find love through Facebook while 33% are dumped via wall posts or text messages *Customers Source: Brian Solis' Future of Business, 2013*
21. It is 6 - 7 times more expensive to acquire new customers than it is to keep a current one. *Source; White House Office of Consumer Affairs.*
22. Goglobe & Gmee content on the internet tripled between 2010 and 2013. *Networks Source*
23. Wearable devices have grown by 2x month over month since October 2012. *Source; Mary Meeker's Internet Trends, 2013 Technology*
24. Social Media sharing has doubled between 2011 and 2013, with Snapchat taking a large share after only 1 year. *Networks Source*
25. It takes 12 positive experiences to make up for one unresolved negative experience. *Customers source; HelpScout*
26. The world population has more than doubled over the past 50 years and it will exceed 9 billion people by the 2040s. *Change Source; Rand Corporation, 2011*
27. The number of pieces of mail delivered by the US postal services dropped from 250 million in 2006 to 50 million in 2012. *Source: USPS*
28. The percentage of companies new to the Fortune 1000 has grown from 35% (1973-1983) to 45% (1984-1993) to 60% (1994-2003) to over 70% (2004-2013) in each of the last four decades. *Source: Brian Solis' Future of Business*

More interesting facts next quarter.

Investing For Success

A recent article I read reminded me of the importance of investors understanding the crucial factors they need to be aware of when investing money in shares and bonds.

The writer was Robin Bowerman of Vanguard Australia and he reiterated what we here at G3 believe, in that the research behind investing is critical when building an investment portfolio that is going to last.

Many, if not most investors, ask "what return will I get"? and although this is a valid question, this purely focuses the investor on the return. Many look at the fund manager ratings, the performance of a particular fund or strategy and how well they know the name of the fund manager in the media. Unfortunately they overlook some fundamentals such as the risks they are taking unnecessarily and the costs they are paying in their portfolios.

Year after year, research has shown that the significance of a portfolio's asset allocation is vital i.e. the proportion of its total assets that are invested in different asset classes of mainly local shares, international shares, property, fixed interest and cash.

Everyone knows that they should be diversified when it comes to investing however, many portfolios we see are diversified to the extent of having a mixture of New Zealand shares and Bonds, a few securities in Australasian markets and if they are really lucky, a few may have some exposure to international markets. This is not diversification at its best – this is quite concentrated and means the investor has a higher exposure than others who are diversified worldwide. Australia and New Zealand combined, account for approximately 3% of the world capital markets, which is low, and if you consider New Zealand is approximately 14 times smaller than the company Apple, this is concentration risk which an investor does not have to take if they diversify on an international scale.

As an example of research, a landmark paper in 1986 "Determinants of portfolio performance" by Gary Brinson, Randolph Hood and Gilbert Beebower, confirmed that a diversified portfolio's target or strategic allocation is responsible for the vast majority of its return over time i.e. the types of assets you are invested in – NOT the fund manager ratings, focusing on returns only, the picking 'hot stock's or 'timing the market' approach taken by many active fund managers and advisers.

Trying to time the market has led many investors to sell at a loss when the market was at a low, only to buy back at higher prices when the market has risen. This goes against buyer behaviours in other areas, such as buying bulk from the supermarket when a product is on special, or buying property when prices are deflated.

The only free lunch you get with investing is diversification! Worldwide diversification, investing long term to meet your goals, including a mix of all the different asset classes and keeping costs and trading fees low, means looking to the research for how best to invest rather than trying to be a clairvoyant looking into a crystal ball.

As an investor, instead of looking at the things you think you have power over (and really you don't), focus on what you can control.

Article by Charlene Overell,
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The way to get started is to quit talking and get doing

The Walt Disney Company

G3 FINANCIAL FREEDOM
Goals + Guidance = Growth

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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.