Financial Freedom

QUARTER 4 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:

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

Investing Through the Rear-View Mirror

Driving experts warn about the poor driving technique of concentrating excessively on what a driver can see in the rear-view mirror rather than focussing enough on looking through the windscreen at what's well ahead on the road.

Investors, of course, can fall into a similar rear-vision trap of focussing excessively on investment returns from the past, and hoping that past investment winners will repeat their success over the next 12 months or so.

This rear-vision investing - often termed "chasing past winners" or "performance chasing" - is fraught with hazards.

A recent Smart Investing piece, The annual review that keeps on giving, spoke about the "inevitable hit parades" of the performance of the main investment asset classes that appear around the end of each calendar and financial year.

The key message was that while such lists may be interesting, the comparisons can tempt many investors to fall into the trap of chasing past winners - despite the random nature of markets that drives them up and down

Performance chasing applies to investment asset classes as well as particular investments and managed funds, for instance. It commonly involves switching to managed share funds that outperformed their peers in the past over the short and/or longer terms.

As 2014 accelerates rapidly to a close - to risk labouring the motoring analogy - it is worthwhile revisiting research published by Vanguard analysts in the US earlier this year - that does some number-crunching on the potential cost of rear-vision investing.

Their paper, Quantifying the impact of chasing fund performance, examined whether a buy-and-hold strategy or a strategy of chasing past winners was likely to produce the highest returns for investors, given certain assumptions.

And their unambiguous conclusion: A carefully-constructed, buy-and hold strategy - based on the performance of US equity funds over the 10 years to December 2013 - was clearly the "superior approach".

The buy-and-hold strategy involved carefully selecting a share fund in the first place and then maintaining a disciplined, long-term perspective despite short-term fluctuations in a fund's performance.

What made the superior performance of the buy-and-hold strategy even more compelling is that tax and transaction costs were excluded from the calculations.

The analysts focussed for their primary analysis on the universe of active US equity managed funds, covering nine styles including large growth and value funds, mid-cap growth and mid-cap value funds, and small growth and small value funds - together with funds that blended different investment styles.

After filtering out funds that remained in existence for under three calendar years, the study focused on a sample of 3568 funds. Various trading "rules" were set for the analysis.

For the performance-chasing strategy, the trading "rules" were: initial investments were made in any fund that produced above-median annualised returns between 2004 and 2006. Funds that then produced below-median, three-year annualised returns were then sold and the proceeds immediately reinvested with the top-20 performing funds over the prior three-year period.

For the buy-and-hold strategy, the trading rules were: Initially investing in any fund, selling only if the fund is discontinued. And then the analysts allowed for reinvesting in the median-performing equity fund for the particular investment style.

In short, the researchers confirmed that maintaining a disciplined, long-term perspective to investing - despite fluctuations in performance - is a simpler and more effective approach than chasing past performance.

Article by Robin Bowerman from Vanguard

G3 Financial Freedom Editorial

from the desk of Cathy Fletcher (G3 Office Manager)

Here we are in December and this is the last newsletter for this year. The pressure starts to come on to get the Christmas shopping done. Although this is sometimes known as the silly season it is also a time we make extra effort to catch up with family and friends which, I think, is the upside of the time, effort and money spent making it an occasion to be enjoyed by all and creating some of the Christmas magic for the children.

This was another busy, exciting year for us. We are now well and truly settled into our office space here at 55 Eighth Avenue. We have put our own stamp on it, adding a client meeting room to the space. I haven't seen any lists for Santa yet to know what is on the wish list for G3 Financial Freedom for the coming year. I do love a good surprise though.

Recently Jane, Tracey and Charlene attended a couple of conferences, one in Rotorua and the other in Sydney. The Sydney one especially highlighted and confirmed to them that G3 Financial Freedom's approach and philosophy with investment is the right one. It definitely makes for a good nights sleep knowing that what we do here for our clients is the right thing when there are so many different options available.

I also have to take this last opportunity to remind anyone who has not yet done anything about their UK pension to please talk to us. As of 6 April 2015 the rules change at the UK end and then any Government worker pension i.e NHS, teachers, police, firefighters, etc will not be able to transfer them out of the UK. Because of the time it takes to get things actioned on the other side of the world things need to be underway now.

We wish you and your families a very Merry and Safe Christmas and a Happy New Year.

Christmas waves a magic wand over this world, and behold, everything is softer and more beautiful

Norman Vincent Peale

Office Hours for Christmas and New Year

Close:
4pm Friday 19th December

Reopen:
9am Monday January 5th 2015

What Financial Planners Really Do

Do people really know what Financial Planners and Advisers do? We thought we might clear up some commonly held beliefs and let you in on the reality

1. We spend all day watching the stock markets.

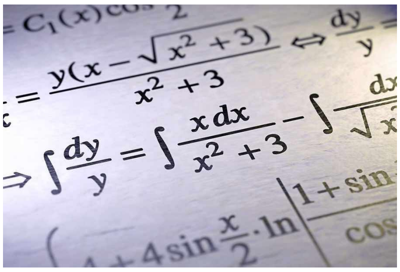
Although many of our clients have visited our offices probably not many get to see behind the scenes. You might be surprised to know that although we take a passing interest in stock market movements we do not have multi computer screens running the stock markets live from round the world . Financial planning is about the long term not about what is happening today on the markets and the associated fluctuations.

2. **We are all old men in suits**

Okay, so the average age of an Independent Financial Adviser is probably somewhere in their 50's, Yes, there are a lot of men in the profession but here at G3 we are all women and the average age of our advisers is much younger. A lady never reveals her age. We don't always wear suits either.

3. We are really, really good at maths

If you think we are a group of maths geeks, pouring over detailed pages of figures and applying complex formulas to find elusive answers, sorry, you would be wrong. Our computerised probability modelling does most of the number crunching for us. Whilst we do have an eye for the numbers our main interest lies in helping our clients realise their retirement dreams supported by the right finances. This is much more of a motivator for us.



Life is a dream for the wise, a game for the fool, a comedy for the rich, a tragedy for the poor

Sholom Aleichem

4. We spend every Friday on the golf course

Whilst networking with other professional people is an important part of growing our business, here at G3 none of us play golf. Our networking is generally within the office environment, conferences and occasionally at a bar! We usually spend our Fridays here in the office or meeting with clients.

5. We all drive a Porsche

Whilst some of us here might like to give it a go none of us owns one. You might think a poor Financial Adviser is a poor Financial Adviser. Clearly though, you would want an adviser who can manage their own personal finances to the same high standards they recommend for their clients. A new one of these often comes saddled with a lot of debt.

6. We can predict the future

There are no crystal balls here. We do not predict market returns. What we do with a high level of success, is apply financial modelling and proven research to long term Financial Plans. We review them regularly to keep things on track. A bit dull compared to guessing the high/low of the DOW Jones for the year. We also give investment advice along with UK Pensions, KiwiSaver and insurance.

7. We only care about financial products

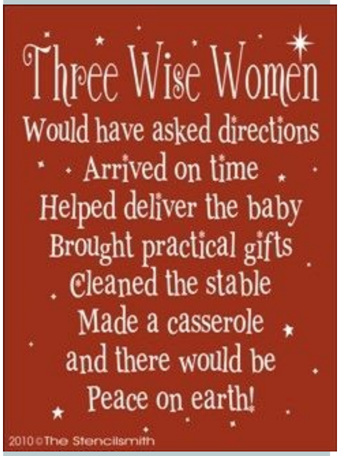
Financial Planning is all about goals, aspirations and life ambitions of individuals and families and how the financial aspect of affairs are structured to support that.

Our fee structure means there is no incentive to recommend a particular financial product or service. We have your best interests at heart.

If you want to quantify your goals in life and make sure you can afford to achieve them, then see us.

We make a good cup of tea or coffee. First meetings are all about introducing ourselves to you and you getting to know us without obligation. You find out if what we do is right for you.

Fun Things To know About Christmas



In A.D. 350, Pope Julius I, bishop of Rome, proclaimed December 25 the official celebration date for the birthday of Christ.

The custom of sending Christmas cards was started in the UK in 1843 by Sir Henry Cole. He was a civil servant who was very interested in the new 'Public Post Office' and wondered how it could be used more by ordinary people.

Sir Henry had the idea of Christmas cards with his friend John Horsley, who was an artist. They designed the first card and sold them for 1 shilling each. (10 cents today!), The card had three panels. The outer two panels showed people caring for the poor and in the centre panel was a family having a large Christmas dinner! Some people didn't like the card because it showed a child being given a glass of wine! Approximately 1000 were printed and sold. Cards become even more popular in the UK when they could be posted in an unsealed envelope for one half penny - half the price of an ordinary letter. Ah, yes those were the days!

The total number of gifts in the Twelve Days of Christmas song equals 364. If you were to buy all 364 for your true love it would cost you in excess of $100,000 according PNC Wealth Management who do an annual tally up of the gift costs in an index to monitor the " cost of gift giving" at Christmas. In 1984 when they began doing this just one set of the gifts (78 presents) was worth $12,673 compared with being worth $24,263 in 2011 and these are US dollars. It is the seven swans a swimming that are the expensive item, evidently.

Where did Christmas crackers come from? Around 1847 Tom Smith of London, a sweet maker, had seen how the French wrapped their bonbons in paper twisted at each end. He thought he would wrap his sweets like that for Christmas but Tom included a little love message in his because many of them were bought by men to give to women. They weren't very popular outside of Christmas so he tried to come up with another idea to improve sales. He was putting a log on his fire one night and noticed how the wood crackled and sparked and he thought that he would replicate that with his sweets. Of course the size of the wrapper had to be increased to incorporate the banger. Because his crackers were copied by others he again wanted to differentiate his and eventually the sweet was left out and a little gift was included instead. When Tom died his sons took over the business and wanted to expand and develop Tom's ideas. They took out the love poems and added the joke/limerick in about 1930 and the paper hats. They merged with Caley Crackers in 1953 and many more since. Today Tom Smith Group, a subsidiary of Napier Industries, is the largest manufacturer of crackers for all occasions in the world.

Jingle Bells was originally written as a song for the American holiday of Thanksgiving in 1857 with the name One Horse Open Sleigh. Now it is one of the most commonly sung of the American Christmas songs.

The first reference to a Christmas tree was in 1531 in Germany.

The first Christmas postage stamp was issued in Austria in 1937.

This might all be useful information if you are a quiz whizz.

Merry Christmas.

G3 Financial Freedom Ltd
55 Eighth Avenue
PO Box 13563
TAURANGA 3141

Phone: 07 571 5333
Fax: 07 571 5339
Email: admin@g3freedom.co.nz