



September 2018



From Pete's Desk

Well it has been a busy few months; both with the business and personally. It was great to see so many clients turn up to our concerts, particularly to the Feilding concert, to hear the Jeanne Purdy Choir—we certainly got good feed back. I enjoy my singing (scratching a mid-life itch), great way to relax. The choir is in training again for a concert at Christmas time but this one will have a Celtic theme not a Christmas one—times etc. are on the back of newsletter.

Stephen has been on a very steep learning curve over the last three months and is coming up to all expectations. He sat and passed his “Code Set B” exam (not that we had any doubts about this). Stephen has achieved very strong academic results but is finding that whilst that is a great base there is more to consider at the coal-face and I think he is enjoying that aspect. He is now an Authorised Financial Adviser (this will be his title for the present; we await a further update to the legislation which we think may change it all again!).

Stephen is now fully qualified to help you if I am out of the office for any length of time. As an AFA he is now fully qualified and authorised to work with his own clients directly; so if you know anyone that could benefit from

working with a Financial Adviser we would be pleased to receive the referral.

We are doing well at shifting clients across to the Institutional Administration Model Contract but we are noticing that some of you are missing that we still need confirmation to go ahead with investment. Under this system we do not need a signed form, just an email or text confirmation will do it. So don't assume that if there is no form with your review reports that there is nothing to do.

Stephen and I will be attending the inaugural Financial Advice New Zealand Conference in Rotorua in September. Financial Advice NZ has come about through the combination of IFA, PAA & NZFAA and has a membership of between 1500 –1600. We are hopeful that by pulling together we will have more clout when lobbying the regulators and politicians on changes to the legislation.

Lynne and I, now that we have Stephen in the office, have booked ourselves a week in Rarotonga in October. We are looking forward to swimming in the sea in warm waters and having a nice short break away.

“No matter how great the talents or efforts, some-things just take time. You can't produce a baby in one month by getting nine women pregnant.”
Warren Buffett

“...Stephen is now an Authorised Financial Adviser...”

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How Active Management can help protect capital when markets go down

David Vickery AFA Milford Asset Management

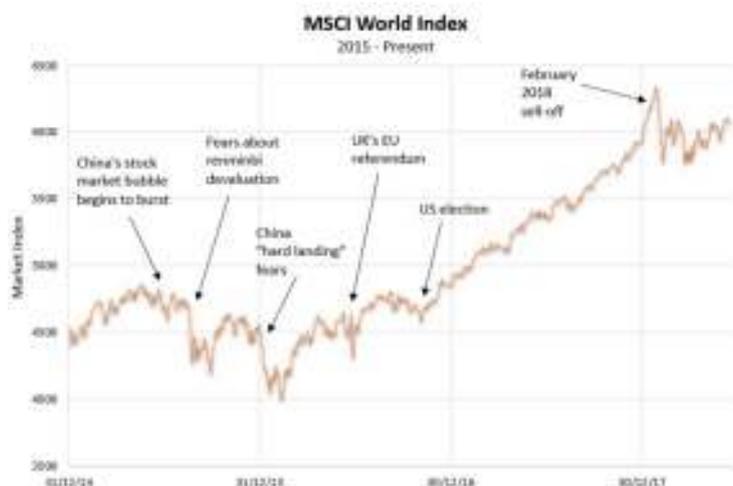
We all like the value of our investments to rise. But there are times when market volatility makes it difficult for even the most skilled fund manager to prevent our investments from falling in value.

This article explores what investors need to do to reach their long-term goals and how skilled active managers can reduce market volatility along the way.

Market volatility is part of investing – are you prepared?

A key determinant on how much a fund manager focuses on protection of capital, will be the ‘mandate’ or the specific purpose (i.e. benchmark) the fund will be managed to.

Managers with an ‘absolute’ benchmark will put more emphasis on generating positive returns over the business cycle ‘whatever the weather’. Whereas ‘relative’ managers are benchmarking their success on beating a specific market index, which will sometimes be a positive return and sometimes a negative return. A typical benchmark for a ‘relative’ NZ share fund would be a market index such as the NZX50.



Source: Bloomberg and Capital Economics Research

Because of their focus on producing positive returns, a manager with an absolute benchmark, will be more focussed on protection of capital in times of market stress.

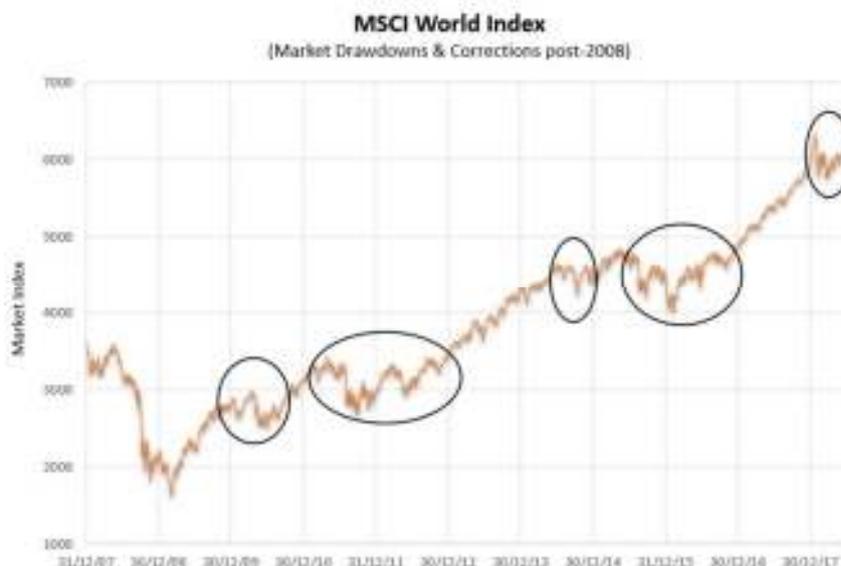
A key potential benefit to many active managers, irrespective of their benchmark, is their ability to use certain tools to help protect capital or minimise loss in portfolio value during times of market stress.

What are these tools?

Outside of making sure the actual security selection is robust, allocating more of the fund to cash is a traditional move an active manager makes if they sense gloom on the horizon. This can be done by selling shares and moving the proceeds into cash or by selling index futures. Selling index futures offsets physical share holdings and essentially creates ‘synthetic cash’ to reduce risk across the fund. An index future is a financial

market instrument to buy/sell a specific market index at an agreed price at some future date. Selling index futures allows the fund to make offsetting gains, even when the value of the securities in the portfolio are falling. An active manager may also buy put options (i.e. the option to sell a certain number of shares at an agreed price at or before some future date). These act similar to insurance contracts, helping to protect the fund’s capital if a certain market index or share price falls – by giving the ability to profit when this specific index or share price goes down. The difficult part as always, is being positioned correctly beforehand. Market corrections happen, and can happen regularly. While these tools can aid an active manager in reducing possible losses, it’s best to accept there is no magic formula to fully limit volatility. A fund manager will generally only have a portion of their fund positioned for protection from these perceived risks in a normal market environment. At the end of the day, when seeking higher long-term returns, you need to maintain exposure to riskier assets, such as shares and property.

There have been five instances of significant falls in the MSCI World Net Total Return index since the low of the Global Financial Crisis (see below). We believe the best protection is to hold a globally diversified portfolio and get the right advice. An investor should have a plan in place and more importantly stick with it despite changing market situations. Events come and go, but taking a long-term view is a more prudent course. Staying invested makes sense, with the assistance of a skilled fund manager to help reduce volatility along the way.



Source: Bloomberg

Stephen's Ponderings



It has been an interesting and productive few months since I started in May. Although I have been on a learning curve, I have enjoyed every day. I now have a much greater understanding of the “Anti-Money Laundering/Countering Financing of Terrorism Act” than I ever thought possible – there is a lot of paperwork to cover! Most especially, though, it has been great to meet so many of you.

After several years of study, I am very excited to have now been given approval as an Authorised Financial Adviser. I completed the Massey diploma part-time while working full-time (with the two kids at home this was enough!). Prior to this I ran a business for 10 years and spent a number of years in the insurance industry. I have been interested in investment and finance for a long time, following markets and researching stocks for my own investment ideas. I am very fortunate to be able to learn from Peter and Lynne’s experience and knowledge. As an AFA, I am also now able to work directly with clients to provide financial and investment advice and am looking forward to this—quite different to follow someone through their life-cycle than to read it in printed format as I did when studying.

I was also lucky enough to have a holiday in August, going to Fiji with my partner Karen, her family, and a whole bunch of children. We had planned the trip for a year and had a great time, swimming, relaxing and seeing a bit of the country. I had never been to the Islands before and it was interesting to learn a bit about the ‘real’ Fiji. It did make me even more aware of how important trade is – after tourism, the second largest earning industry is apparently sugar, and 80% of this is exported to the European Union. We live in a global world! The Fijian people were incredibly friendly and welcoming.

At the end of September, Peter and I will be heading to Rotorua for the Financial Advice NZ conference, which I am looking forward to. The financial advice industry is unique and very broad, ranging from bank advisers/salespeople who promote company products to independent, comprehensive financial planners. Smaller, non-aligned adviser practices can provide truly personalised service which is genuinely tailored to the client’s needs, and this is a major advantage we can offer.

Spring is officially here, let’s hope that the weather changes with it. I am hoping to get back out on the golf course soon, and to get the kids away from their technology and out in the fresh air!

Investment Scams *From an article in Juno Magazine*

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Every year, thousands of Kiwis fall victim to online or phone scams.

Kiwis are losing their life savings and retirement money to investment scams. Bronwyn Groot, Fraud Education Manager at the Commission for Financial Capability, says one of the more popular scams is where scammers call on a number from the UK offering investment opportunities.

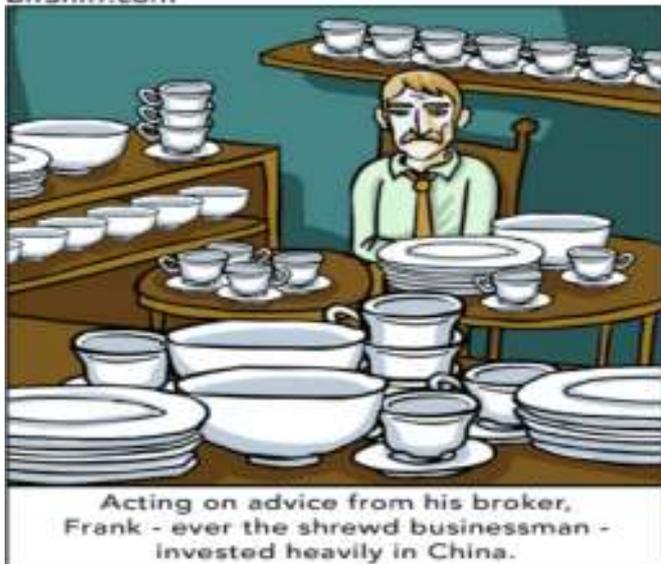
Data from Netsafe shows that 16 Kiwis reported losses to Netsafe of NZ\$1.4 million total between April and June this year. That’s well up on the previous three months, when Kiwis lost NZ\$913,000. And that figure is rising. It’s predicted there are plenty of other victims of investment scams we don’t hear about. They aren’t reporting their losses, because the victims feel embarrassed to report it. Some have to re-mortgage:- Netsafe’s chief executive Martin Cocker says: “We deal with people who have re-mortgaged their house and lost all of that. They’ve literally given away everything – some of the losses that people are suffering are extraordinary. It’s their life savings. And it’s at a point in their life where they don’t have the opportunity to rebuild that asset.”

“Investment scams have become the big earners in the scam space. When people invest, they tend to invest big, and if you can trick them into a false investment, then you win big,” Cocker says. Bronwyn Groot says one victim she worked with lost NZ\$250,000 to an investment scam. By the time he went to police, his loss had increased to \$1.1 million.

“The investment scams target a profile – normally a male over the age of 55, probably been a chief executive or an owner of his own business, a bit of a risk-taker.” Groot explains that scammers cold call people, from lists she believes they buy from old share databases. They explain there’s a new Initial Coin Offering coming out, and then they refer to real-life offerings.

Their websites are realistic and savvy and look authentic, Groot says. Usually people start investing a small amount, but can see how good the ‘returns’ are, so they’re encouraged to invest more. “They’re losing their retirement savings. Some of these people have some ability to recoup because they are still working, but not all of them.”

Some of these scam’s/scammers are sophisticated and plausible. Stay alert and informed visit the **Netsafe** site www.Netsafe.org.nz to see how you can protect yourself from these types of schemes



Personal Changes

Don't forget...

It is important that you advise us if you:

- ⇒ **Change your bank account**
- ⇒ **Change your address**
- ⇒ **Change your Will or set up POA's**
- ⇒ **Change your Trustee**
- ⇒ **Change your email address**
- ⇒ **Have any other changes in your life that may relate to ownership structure or strategy**

Bank account and address/email changes are obviously important to ensure that withdrawals and correspondence get to the right place but it is also important if you change your Will or Estate structure. This could mean that your investments may need to be set up differently e.g. if you set up a Tenants in Common structure or a Trust structure. Our recommendation would be "if in doubt—give us a call" to ensure your portfolio is in alignment.



97 Rangitikei St, Palmerston North 4410 P O Box 448, Palmerston North 4440
 Ph.: 06 354 7900 Fax: 06 354 9950 Email: admin@investcentre.co.nz

The information contained in this newsletter is of a general nature and is not intended as a substitute for professional advice. It should be used as a guide only. A Disclosure Statement is available on request at no charge.



CELTIC CONCERTS

Sunday 25th Nov @ 2pm
 St Paul's Presbyterian Church
 Cnr Church & Grey Streets, FEILDING
 Gold Coin Entry

Saturday 1st Dec @ 2pm
 Summerset Retirement Village
 180 Ruapehu Drive, Palmerston North

Sunday 2nd Dec @ 2pm
 Julia Wallace Retirement Village
 Dogwood Way, Clearview Park, Palm Nth

Come along and hear the Decibelles, Tenors & Divas, Troublesome Troubadours and some of Jeanne's young singers.

Your chance to see Peter in a different role.



Out of the Office

26th—28th September Peter & Stephen
 Financial Advice New Zealand Conference

Lynne will be running the office so if anything comes up just give her a call 354 7900

15th—23rd October Lynne & Peter

Holiday in Rarotonga

Stephen will be running the office so if anything comes up just give him a call 354 7900

