



September 2020



From Pete's Desk

There's a number of things happening so we thought it timely that we send out another newsletter.

We are all pleased to be back at Covid-19 Level One, long may it continue. However, we still have our QR Code on the door and on the wall inside and would urge you all to use this, just in case we slide back up the levels again. Globally it seems a Covid-19 second wave is underway so we can't get too complacent.

We advised you back in our December newsletter that ASB had sold Aegis to MMC. MMC has now changed the name from Aegis to **MMC Wealth Administration** and for those of you who use the client portal you may have noticed an update to the new logo on the website.

Cyber Security Awareness Week begins on the 19th October so we thought this an opportune time to just remind you all that it is important to protect yourselves when on the net.

You will note that we have included a Cyber Security poster with your newsletter. You may have seen/heard in the news recently the cyber attacks occurring on the NZX. We have also been advised by our IT provider that Palmerston North is having issues with Trojans (and probably other

areas of New Zealand) . These come as attachments to emails that purport to be from someone you know, but if you look closely at the email address it is not correct. It is important therefore that **before** you open any attachments you ensure that the sender's address is correct. **You can do this by hovering your cursor over the sender's name and the actual email address should show.** As our emails generally have attachments please ensure you check that our email address is correctly shown before opening. If in any doubt call us to confirm that we have emailed you something.

Stephen and I are heading to Millbrook for our company group (TIAA) Conference in November. It is always good to catch up with our peers. TIAA is a smaller group than the PIA group we were previously part of. We found that as the PIA group expanded there were less and less like minded participants. It was decided therefore to split away. We are now a group of six independent planner groups who are fairly well aligned in their approach. When we gather we use this time to review and consolidate our systems and processes but also to take time to look at changing trends and particularly client needs. Cyber security and licencing will be discussed this time and we are also hoping to catch up with MMC Wealth to bring us up-to-date with administration changes and where to from here.

I have learned that middle-age is always five years older than me!

“Aegis has changed it's name to MMC Wealth...”

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As interest rates have continued to travel south over the last decade toward zero investors have increasingly searched for alternative sources of income/cashflow. We have been busy with enquiries from investors who are not getting enough from their bank term deposits now to cover their needs. A variety of offerings have been appearing but on analysis additional return promised is always accompanied by extra risk, including chance of capital losses.

The problem now evident for all investors is that the defensive part of their investment portfolio which traditionally delivered the greater proportion of cashflow no longer does. By default the riskier investments, such as property and shares, are looked to more and more for income than in the past where capital growth used to be the primary focus. If we consider a typical conservative/balanced portfolio with say 60% in defensive investments and 40% held for growth, the effect on net cashflow coming from the 60% holding is that it has halved in recent time and is continuing to worsen. Whilst the income from the 40% growth portion of the portfolio (despite Covid-19) has remained relatively stable, it should not be considered an option to simply decrease defensive assets and increase growth assets. The whole point of an asset allocation is about capital preservation and controlling volatility. As mentioned above adding potentially higher earning, but poorer quality, investments to the 60% component is also fraught (as return of your money as well as a return on your money is required). We have always considered that it is appropriate to look at total net performance of a portfolio as a measure and consider for review regularly as to how much of this is required to meet today's needs versus retaining and/or increasing capital to counter the effects of inflation over time. Whilst it is a bit of a generalisation, shares traditionally have delivered around 1/3 of their total return as income.

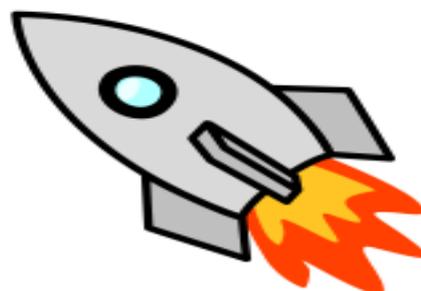
Every individual (or couple) has their own unique requirements and asset plus investment base to work from. Obviously the greater the position of wealth the lower the performance hurdle required. For most people there is an inherent in-built resistance to consider utilising capital for living needs, let alone lifestyle wants, but in fact this is perfectly valid. We don't need to be the richest person in the cemetery or necessarily leave a legacy for our children which has been at the expense of a restriction on ourselves.

We don't see an easy solution to this present market situation with close to zero interest rates remaining in place for the next year or two likely. This does not mean forever and future inflation is likely to be the determining factor for change. Please be aware that when the Reserve Bank refers to negative interest rates they are referring to loans to the bank, retail customers (you) will unlikely receive negative interest, though you will likely receive a nil return in real/absolute terms i.e. after tax, costs and inflation.

There are a number of strategies to consider and employ to maintain and have some surety of cashflow. Periods of capital utilisation or a long-term strategy of doing this where necessary is okay. Running out of money is most peoples fear but with ongoing monitoring, management and control this fear can be allayed. As stated; everyone has their own unique set of circumstances and as part of our on-going review service we have always included these considerations. If you have any concerns around income and sustainability going forward please contact Stephen or Peter (354 7900) to make an appointment.

As I hurtled through space, one thought kept crossing my mind— every part of this rocket was supplied by the lowest bidder!

John Glenn



Stephen's Ponderings



Both Karen and I have been down with bugs over the last month, having Covid-19 tests and self-isolating until the results came back (negative – don't panic if you've been into the office!). I found the test more unpleasant than she did, but then I'm convinced that 'man flu' is a real thing and (strangely) she doesn't believe it.

The Covid-19 pandemic this year and some health issues in my family have highlighted to me the importance of a strong healthcare system and the potential for investors - both for investment returns and in supporting medical research. There are good structural reasons why the health sector is a good place to invest, even before Covid-19 struck. The 'developed' world is seeing an aging population, and in Asia there is a growing middle class who are able to demand and afford better healthcare than in the past. In New Zealand, Fisher & Paykel Healthcare have done an incredible job in producing ventilation products and have increased production in response to Covid-19. The company is a huge New Zealand success story and should be celebrated more than it is (almost all of you will be shareholders through your portfolios).

There are lots of new developments and technology in healthcare globally. I've recently been reading some fund research on genome tracing (which is being used to track different strains of Covid-19) and "Next Generation DNA Sequencing". Although I don't understand half of it, I can see that the potential is huge. Since 2003 the cost to sequence a human genome has fallen from nearly \$3 billion to under \$1,000. This can be used in oncology for diagnosis and to create personalised treatments based on your own genetic makeup.

I do think that our health system needs much greater investment, and there needs to be more support for the vulnerable and elderly. Let's hope that whoever wins in the upcoming election, they don't put healthcare into the "too hard/expensive basket". Redirecting the money wasted in the political system could do a lot of good in health.



Technology (excerpts from an ARK Investments presentation)

The other day we watched a fund manager "webinar" (isn't that an overused phrase now) on the advances of technology and the prospects for this as an investment theme. It was certainly thought provoking. There's a term out there now called "Deep Learning" - 'software that is not written but trained' this means that the artificial intelligence (AI) systems can see, hear, and understand natural language at near human level accuracy. (Think—self-driving cars, conversational computers, consumer apps—health apps). The Internet created roughly \$10 trillion in global equity market capitalisation in 20 years. It is believed that "deep learning" will have 3 times that impact! Streaming technology is delivering more and more content over the internet. Historically companies sold either content or distribution—think MTV, Warner Bros. now YouTube, Netflix etc. Although there has been a drop in total auto sales worldwide, electric vehicle sales are expected to grow significantly over the next five years, with a prediction that battery cell costs will fall by about 18%. Automation includes; industrial robots, service robots and automation systems. Demand for robots flattened in 2019 during the USA/China trade conflict but sales are expected to quadruple over the next five years. Whilst it is feared that robots will replace humans it is reported that Amazon has increased their robots by roughly 200,000 units in its fulfilment centres but they have also increased their total employment by 7 times! 3D printing is expected to revolutionize manufacturing, shifting power to designers and creating products with less waste at a fraction of the cost of traditional manufacturing. General Electric in 2015 produced the first 3D printed fuel nozzle, combining 20 parts into one! "Autonomous Ridehailing" (AR), now there's a new phrase. It is believed that it will become the norm and personal car ownership the exception. Imagine:- dialling a taxi that turns up driverless and knows exactly where to go! Tesla supposedly are already uploading driver habits in their cars with a view to moving to AR. Imagine if you need an ambulance (road or air) and you find it has no driver/pilot! Soon you will dial in your fast food order and a drone will bring it to your door. Imagine; coming your way instead of a bank you will have a "Digital Wallet". They are expected to reduce the amount of revolving credit card debt sitting on bank balance sheets. Instead of Dollars and Cents you could be using "Bitcoin" There is a global battle amongst monetary systems, both sovereign and non-sovereign. Bitcoin is gaining credibility in the Financial Community already.

So are you "feeling like a fossil" or are you ready to embrace the future? Opportunity and profits await.

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.



Medicinal Cannabis

With the cannabis referendum being in the media we have had a number of enquiries from clients on how they could invest into this area. There are currently two high profile New Zealand based **medicinal cannabis** producers;- Cannasouth, who listed on the NZX in June 2019 and Rua Bioscience Limited, who are looking to start trading on the NZX 22nd October 2020.

Cannasouth is based in Waikato, where they have established laboratories, research, and cultivation facilities. Cannasouth is a biopharmaceutical company dedicated to medicinal cannabis product development and research for prescribers and patients in New Zealand. They promote their cannabinoid extracts as coming from high quality, medical-grade cannabis cultivars. Phyto-cannabinoids are compounds which interact with the human and animal endocannabinoid system and by doing so can provide improved health and wellbeing outcomes for patients. Cannasouth Cultivation is a 50/50 Joint venture with Aaron Craig and family interests. Through the joint venture they have entered an agreement with Vera Cultivation which guarantees Cannasouth a supply of high-quality raw material, produced in their Waikato greenhouse.

Rua Bioscience is a pharmaceutical company that was established in 2017 in part to support local economic development in Te Tairāwhiti (East Coast) region and is a pioneer in the New Zealand medicinal cannabis sector. Rua operates only in the medicinal part of the cannabis sector and has no plans to enter the recreational cannabis market in New Zealand or in any other country. Rua is currently a loss-making business that is reliant on raising capital to fund its operations. Rua expects that it will continue to be loss-making for at least the next two years. Rua has secured a sales agreement of exports of pharmaceutical grade dried flower with leading German wholesale importer and distributor Nimbus Health GmbH (Nimbus). They have developed two commercial-scale facilities: a controlled cultivation facility in Ruatorea and an extraction and manufacturing facility in Gisborne.

We are sure that there will be further opportunities coming to the market in time in this area.



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