



This issue

Commodities; the other asset class **P.1**

Oil and Water Outlook **P.2**

Coffee Can Approach **P.3**

Christchurch Earthquake Stress **P.4**

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Commodities; the other asset class

We view commodities as a distinct asset class; one that is just as important as cash, fixed interest, property and equities in a well-diversified long-term investment portfolio.

Despite a number of obvious headwinds, including the earthquake in Japan, Europe's ongoing debt crisis and political strife in the Middle East, there is a general sense that the global economic environment is slowly improving. In recent months there have been signs of improvement in the US (where GDP growth is on track to reach 3.5% pa this year) tending to offset some signs of deceleration in Asia (for example both Indian industrial production and Chinese retail sales are down). According to Barclays Bank research, the global recovery can survive these negative shocks as they currently stand, but the geopolitical situation in the Middle East and North Africa, and what this could imply for the global energy supply, constitutes a growing risk.

In light of this global environment, there remain a number of important global themes supporting maintaining an exposure to commodity markets, including:

- Further political contagion in the Middle East could have a significant impact on oil and gasoline prices.
- The industrialisation of developing economies, especially China and India, continues more or less unabated.
- There is a wall of infrastructure and energy spending as global demand (and Japan) rebuilds.
- Growing wealth in the emerging markets means there are an increasing number of

middle class consumers eating meat, grains and dairy products.

- The bio-fuel industry and extreme weather events in Australia and Russia are adding pressure to key agricultural commodity prices.
- There is a long-term trend of relentless population growth.

The inflation factor

Lessons have been learnt from the Seventies and inflation in most developed economies is now quite rigorously controlled. However, inflationary pressures are starting to build, especially in Latin America, where Argentina already has rampant inflation of around 26% pa, India (8.3%) and China (4.7%). Economic stimulus packages of spending and tax cuts, combined with extended periods of loose monetary policy by most central banks, have clearly had a positive effect on growth but eventually there will need to be a return to monetary tightening in order to control inflation, which takes time to be effective.

Investors have few options in order to hedge against inflation. Financial assets like cash and equities don't tend to benefit from rising inflation, but commodities usually do. Commodities are physical goods and have a tendency to rise in value with inflation. As demand for goods and services continue to build, prices typically rise too, as does the price of the commodities used to produce those goods and services.

(Source: Liontamer Investments)



OIL OUTLOOK

Just as the world economy was starting to recover, political strife in Libya has caused oil prices to soar.

As the Economist simply put it recently, "Oil markets don't like surprises." The sudden ousting of Mr Mubarak in Egypt and the unrest in Libya, Bahrain, Yemen, Iran and Algeria (which between them supply a tenth of the world's oil) had added to oil prices. The main concern now is that spreading unrest will culminate in another shock similar to the oil embargo of 1973, the Iranian revolution or Iraq's invasion of Kuwait.

According to The Economist, if Libya's oil stopped flowing due to the increasing civil unrest importers would look to Saudi Arabia to make up the shortfall. The oil could probably flow to fill the gap in Europe, Libya's main market, in a matter of weeks. OPEC claims that it has 6m barrels per day available on tap but analysts think the true number is nearer 4m-5m b/d, with 3m-3.5m b/d coming from Saudi Arabia. The fear is that if OPEC were to call on that spare capacity, supply would get very tight indeed. Analysts at Nomura have been quoted as saying that, "it would only take a halt of exports from Algeria as well to absorb all the slack and propel oil to a terrifying US\$220 a barrel".

The worst-case scenario for oil prices might be some kind of disruption to Saudi Arabian supply itself. The kingdom has many of the characteristics that have fuelled unrest elsewhere in the Middle East, including a large population of disillusioned youths. King Abdullah has announced an extra US\$36 billion to be spent on welfare and public services; however even a whiff of instability in that country would spread panic in the oil market.



WORLD WATER DAY

World Water Day brought a global focus to the issue of fresh water management.

International World Water Day is held annually on 22 March as a means of focusing attention on the importance of fresh water and advocating for the sustainable management of water resources. This year the focus was on water use in urban areas.

According to the UN World Water Day website, 93% of urbanisation occurs in poor or developing countries, and nearly 40% of the world's urban expansion is growing slums. Between 1990 and 2001 the world's slums increased at a rate of 18 million people a year, and is projected to increase to 27 million new slum citizens per year between 2005 and 2020. Investments in general infrastructure have not kept up with the rate of urbanisation, while water and waste services in particular show significant underinvestment. However, the big opportunity is increased recycling and reuse of water and wastes, and the adoption of more efficient water treatment technologies to help minimise water pollution.



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MONEY QUOTATIONS

"People are living longer than ever before, a phenomenon undoubtedly made necessary by the 30-year mortgage."
Doug Larson

"It is better to have a permanent income than to be fascinating."
Oscar Wilde



THE COFFEE CAN APPROACH

Why doing less can leave you with more.

On a continuum of skill and luck, with pure skill on one side and pure luck on the other, investing sits a lot closer to the luck side than the skill side. This should not be too surprising considering



investing is a very competitive business that employs substantial resources and has relatively low barriers to entry. Still, there is evidence of skilful investment managers, even if they do not represent one-tenth of the population. A reasonable interpretation of the deleterious effect of activity is that it reflects costly randomness chasing. There are three main lessons for long-term investors:

Watch out for reversion to the mean. Nearly all professional investors believe they are familiar with the concept of reversion to the mean, but the aggregate results show that they don't behave as if they do. Reversion to the mean says that an extreme outcome will be followed by an outcome that has an expected value closer to the mean. For example, if returns from the stock market over a few years have been substantially below the historical average, it is reasonable to expect that future returns will be closer to the average. Yet this is in contrast to how investors behave. Above-average returns attract more capital and poor returns lead to withdrawals. Consider carefully the distribution of outcomes for the system you are dealing with and make sure you explicitly consider reversion to the mean in your decisions. More on this in my book "Money, Money, Money Ain't it Funny."

FINANCIAL FUNNY



CHRISTCHURCH EARTHQUAKE UPDATE

We are open for business. If you have any queries regarding your current investment portfolio or insurance cover, please contact us for a free half hour consultation by emailing sheryl@strategies.co.nz, or calling (03) 379-7035 and 0800 64 MONEY (0800 646 6639).

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Remember that our blog is also updated regularly with interesting and informative topics such as: Musings and Amusing, Everyday Money, Who's Counting? Finance and Investments, and Womenomics.

Visit at <http://moneyaintitfunny.blogspot.com/>

FREE DISCLOSURE STATEMENT ON REQUEST

A Disclosure Statement in accordance with the provisions of the Securities Markets Act 1988 and the Securities Markets (Investment Advisers and Brokers) Regulations 2007 is available free of charge by calling on 0800 64 MONEY (0800 646 6639).

QUOTATIONS

"Inactivity strikes us as intelligent behaviour."
Warren Buffett

"It is awfully hard work doing nothing."
Oscar Wilde

"It is an unfortunate human failing that a full pocketbook often groans more loudly than an empty stomach."
Franklin Roosevelt

"After a visit to the beach, it's hard to believe that we live in a material world."
Pam Shaw

"Waste your money and you're only out of money, but waste your time and you've lost a part of your life."
Michael Leboeuf

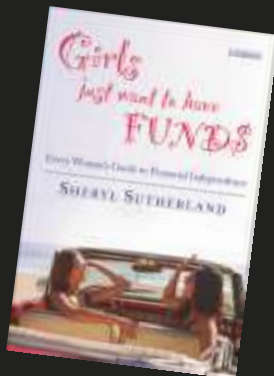
"It's good to have money and the things that money can buy, but it's good, too, to check up once in a while and make sure that you haven't lost the things that money can't buy."
George Horace Lorimer

"I'm so poor I can't even pay attention."
Ron Kittle

RECOMMENDED READING...



Smart Money—How to structure your business or investments and pay less tax



Girls Just Want to Have Fund\$ - Every Women's Guide to Financial Independence.



Money, Money, Money Ain't it Funny...How to Wire Your Brain for Wealth.

CHRISTCHURCH EARTHQUAKE STRESS

Whether you've lost a home, have damage, lost your job, or are now worried about job security, thinking too far ahead makes the problem seem insurmountable. Instead, refocus yourself on the very short term – just the next month or two. Getting back that feeling of control, in some small fashion has a calming effect.

I'm a great believer that collecting information, record keeping and being pro-active goes a long way in grabbing back that control. An organised person conquers a problem with far less stress than those who 'wing-it'.

- 1. Start a folder:** a ring-binder with dividers. If your home is your financial problem, type up a summary page – your address and contact details; EQC claim number; your insurers details and policy number; bank account details; a full list of contact details for your assessor, claims handler, engineer, builder, moving company, storage unit. Have it all in one place so you are not scrambling.
- 2. File your paperwork:** policy document, latest insurance schedule, any letters or emails from EQC, the title to your property, floor plans of your property if you have them. Start a section for photos of property damage, contents claim, correspondence with your insurer and assessor. Have a notes page for writing down the date of phone calls and what was said. Print off all emails and file them. Confirm any verbal conversations on email to your claims handler or assessor.
- 3. Don't bother ringing EQC incessantly:** you'll get more and more wound up. But if you send them anything, call and make sure it's on your file.
- 4. Talk to friends affected by the last earthquake:** find out their tips – we are our own experts.
- 5. Start collecting information.** When EQC arrive on your doorstep for a full visit, you should be fully armed. Have copies ready of any building report, building quotes, engineers report, floor plans etc. What a waste of their time, if they need to explain how a contents claim works. Every broken item should be photographed and numbered, written up on a schedule, with a quote for replacement. This is a laborious task, but the internet is a wonderful tool. Prices of TV's and crockery can all be printed off. If you can't find the exact model, something close is fine. If the shop you purchased it from is no longer around, I've found retailers in other cities very helpful.
- 6. Read your policy document:** dull as it sounds, check the definition of your 'home'. Ring your insurer and check items like your 'deck' is covered. I was told ours wasn't as we hadn't declared its size, but we managed to over-turn that.
- 7. Find out what EQC don't cover:** with fences, patios, paths, pools, driveways you won't need to deal with EQC. Go straight to your insurer to have them repaired.
- 8. "Other people have priority:"** it's negative thinking and total rubbish. Those who appear to be making more progress are usually being pro-active and spending some of their own money to get early answers so they can push their insurer into action.
- 9. Get pro-active:** don't sit around and assume your damage is under \$100,000. The 15 minute EQC visit was not carried out by engineers or builders. My own home in Redcliffs was given category 4 (minor damage, 9 month wait). Our private engineer confirmed there is easily more than \$100,000 of damage. Carrying out your own engineers report can cost \$900. Anyone living on a hill should seriously consider it. Alternatively go for a builders report as they can help identify hidden damage. Don't assume every builder is busy as specialist companies spend all day doing reports. Expect a 3-4 week wait (no biggie).
- 10. Stay proactive with your insurance assessor:** they will take photos and have a good eye, but they are not a builder or an engineer. View them as a 'go-between.' Keep asking what the next step is and what they need from you. They will bring in a proper building assessor who will price up the damage. Then they'll hand over to project managers who organise the repairs, once EQC have paid out. In the case of a total rebuild, you may be allowed to opt for a full service architect who will project manage as well as provide new plans.

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