



Every Cloud has a silver lining?

And silver is not good enough for toxic wives! The Telegraph reports that as the recession deepens, many wealthy men are finding their gold digging wives are donning their Jimmy Choo's and heading off for the next spouse on their chosen career path. It appears that lawyers and financial advisers have reported a 50 per cent increase in the number of divorce enquiries since September 2008, one significant law firm specialising in matrimonial law have reported 300% more enquiries. However, men are fighting back. Susie Ambrose, CEO of an upmarket introduction company, has a waiting list for her life coaching sessions between £10,000 and £60,000 – on how to distinguish a gold-digger from a genuine woman.

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Exploring investment decisions?

Many investors will be doing this post 2008 for various reasons – it may be in relation to investing in finance companies or that string of rental properties which instead of turning a tidy profit are sucking up disposable income. Stephen Greenspan, a psychologist and Clinical Professor of Psychiatry at the University of Colorado, invested a good chunk of his retirement savings in the Madoff Ponzi scheme (ironically he has just written a book on the subject of human gullibility), has put forward a theory as to why we can be fooled – even the so called intelligentsia. Greenspan suggests that there are fear factors relating to “foolish” acts. Gullibility he writes is a sub type of a foolish action, an “induced social” action, induced because it always occurs in the presence of pressure or deception. The factors he focuses on are situation, cognition, personality and emotion.

Situations

When you are making a financial decision you must decide whether or not to accept an investment presented to you as benign, but which may be inherently risky. You are more likely to accept the investment if social and other situational pressures are strong and not balanced by opposing advice. In the case of two well known finance companies, Hanover and Provincial, we were presented with Richard Long and Colin Meads as respected referees for the finance companies. Another non-social but situational aspect was inherent in the interest rates offered, 2-3% above standard bank or secured rates. Not high enough to ring alarm bells, but high enough to be attractive.

Many investors invest in a social context (read Money, Money, Money Ain't it Funny for more on this) where friends and family members tell each other of the excellent returns on their investments thus encouraging others to join them.

Cognition

Many otherwise intelligent and highly competent people simply don't fully apply their analytical skills to making everyday decisions. Irrationality, the use of intuition and impulse is driven by emotional response.

Greenspan writes in his case, his decision to invest in the Madoff scheme reflected his profound ignorance of finance and his lazy unwillingness to remedy that ignorance.

Personality

When making a financial decision, it is extremely difficult to know when to trust and when not to. If you happen to be a highly trusting person who does not like to say “no” you are more likely to go along with a sales pitch.

Emotion

There is no doubt that the desire to grow ones wealth is emotional – as is greed which I am sure figures in many investment decisions.

Knowing that these factors will figure, some to a greater degree than others should help you consider your next financial decision, and of course, if **you have a written financial plan the effect of these factors will be greatly minimised.**



HOW DID I DO IT?

I am frequently asked why I did not recommend those finance companies or property offers which have caused so much grief. The assessment process is not rocket science. I have a simple series of questions, starting from the premise that the safe return of capital is more important than the interest rate...

Ethics are Important

Many of the investments WFS offer have an ethical overlay; it is good to see the New Zealand Superannuation Fund will divest from seven companies involved in cluster munitions and nuclear explosive devices. It already has excluded companies involved in land mines, whaling and tobacco.

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It is essential that we are not seduced by return without looking at how that return is derived.

To follow are some of the key points which I examine;

- The current funds under management, the reinvestment rate, the current balance of loans, the average loan size, the number of loans, the average loan to value ratio.
- Are the loans and deposit maturities matching both short and long term?
- What is the liquidity of the portfolio? How much is cash and how much is equity?
- What is the loss recovery and provisioning as a percentage of loans, how often is this reviewed?
- What is the sector analysis? What is the geographic analysis?
- How is the lending secured?
- Are loans made against second or third mortgages, cars, boats and so on?
- What are the funds top 5 largest exposures?
- Are there any impaired loans, if so what proportion of the total loan book does this represent?
- Does the fund have a credit rating?

Then I apply what I call the common sense test; a couple of examples, Petrovic of Bridgecorp already lost investors over \$250 million in the 80's, Hanover had a large exposure to property developers, great in bull markets but not so reliable in recessions. Provincial funded cars and whiteware, the frozen ING funds used derivatives and CDO's to prop up returns. Canterbury Mortgage Fund made the typical mistake of borrowing short (investors could pull out with 90 days notice) and borrowing long!

So if you consider using a finance company or a fixed interest managed fund ask these questions. Footnote: Do not invest purely on the basis of the current government guarantee – space precluded the reasons for this but call us on 0800 64MONEY for further information.



THE PERFECT STORM

The four most overused and incorrect words in investing are "this time is different."

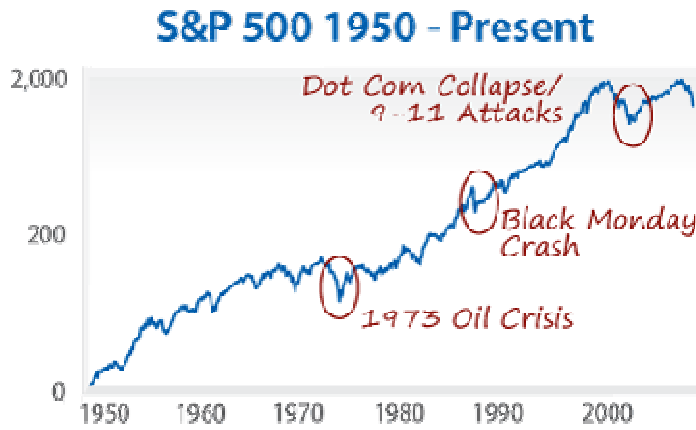
Here are some snapshots of previous bear markets.

In Jan 1973, OPEC announced an oil embargo on the US, the S&P (the S&P 500 is a market-weighted index that provides a broad snapshot of the overall U.S. equity market) fell 48.2% over the next 19 months but those who bought locked in 38% gains after one year and 67% after two.

In October 1987, worldwide markets went into free fall – the S&P shed 20.4% in one session but was up 23% one year later and 54% after 2.

In October 2002 after the dot.com collapse and 9/11 we saw a brutal bear market.

The first year the S&P was up 34% and 44% after two years. Have a look at the chart below.



Source: Motley Fool, December 2008

There is no doubt we have undergone a "Perfect Storm," all economies have been affected and trillions of dollars of personal wealth have been eroded. And, there is no guarantee that there is not worse to come with volatility continuing.

The markets are only for those who are prepared to invest for at least 5 years, or, like Warren Buffet, have a holding period of forever.
The point is we have been here before, remain calm and take advantage of this once in a lifetime buying opportunity.

MONEY QUOTES

"Money is like a sixth sense without which you cannot make a complete use of the other five."

W. Somerset Maugham

"Pennies do not come from heaven. They have to be earned here on earth."

Margaret Thatcher

"The two most beautiful words in the English language are 'cheque enclosed.'"

Dorothy Parker

"Money doesn't make you happy. I now have \$50 million, but I was just as happy when I had \$48 million."

Arnold Schwarzenegger

"The only thing money gives you is the freedom of not worrying about money."

Johnny Carson

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 or email tamyra@strategies.co.nz.

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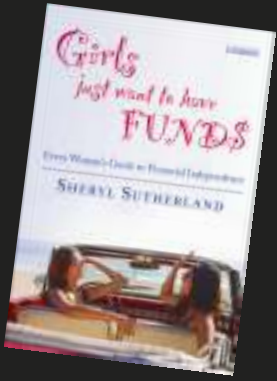
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Our blog is updated regularly with interesting and informative topics such as: Musings and Amusing, Everyday Money, Who's Counting? Finance and Investments, and Womenomics. Visit at <http://moneyaintifunny.blogspot.com/>



RECOMMENDED READING...



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.

GOOD SENSE IS NOT ALWAYS COMMON

Most of us can't focus on anything other than the constant stream of bad financial news threatening our retirement savings, there are however other threats to retirement planning. A recent 10 year study identified that 7 out of 10 adults aged 51-61 experienced one of following: divorce, the death of a spouse, a major medical condition like cancer, diabetes, stroke, a psychiatric condition or heart problems, health problems that force you to curtail work, and redundancy. I suggest therefore while the markets recover prepare yourself to ensure that should one of these traumas descend upon you, your nest egg won't get scrambled. **Invest in trauma and disability insurance.** One study suggests that we have a 30% chance of becoming disabled before retirement. That's twice the number of workers who die before 65. **Diversify your skills.** Continue to study, additional qualifications on your CV improve your marketability and your status with your current employer. **Ask yourself,** how can I utilise my skills and experience from home? Not only would a plan of action be useful should you have to work from home due to curtailing work through a medical condition, it could be part of your retirement package. **Examine your life insurance.** We do tend to reassess our cover when we have dependents but don't always upgrade as our incomes increase. **Save early, save a lot** or at the very least join KiwiSaver. **Get healthy.** Exercise and eating well won't ensure you don't experience health problems but the numerous benefits include enhanced well-being, weight control, strengthened heart and lungs, reduced risk of chronic disease and better quality sleep. **Attend to your marriage.** This is not only good for your emotional well being but it's good for finances. Divorce is always punitive to women, particularly later in life.

All this is common sense of course – but remember good sense is not always common.



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