



A Fresh Approach to Financial Planning for Women

This issue

Golden Investment Opportunity **P.1**

Overview of Global Markets **P.2**

Safe as Houses Press Article **P.3**

Scientists define Murphy's Law **P.4**

Active Managers or Passive Managers

Readers of my newsletters will be aware that I strongly favour active fund managers. Why? Well the proof as they say, is in the eating of the pudding.

In the past decade, the SPDR S&P 500 ETF (NYSE: SPY), an exchange-traded fund (ETF) designed to track the broad U.S. stock market, returned an amazing -1.4% per year. That's right, negative, as in less than zero. Including dividends.

Going global didn't help much, as the iShares MSCI EAFE Index Fund (NYSE:EFA), a proxy for the world's developed markets, has provided a total annual return of 3.5% since it was started nearly nine years ago.

And how has my favourite Global Fund performed? Over the last 5 years to 31 May an average of 11.34%, my Emerging Markets 21.09%, Asia Pacific 11.2%, and I do confess to a sad 0.51% from my European Fund—but that makes good buying.

GOLDEN INVESTMENT OPPORTUNITY



Gold has been used for thousands of years as a store of wealth for governments, central banks and individual investors alike. The precious metal has some unique characteristics that have traditionally made it very appealing as an asset class; it is both tangible and durable and it is easily traded across global markets. Gold has also been widely used as a safe haven investment option, especially when economic conditions become unstable and during times of political uncertainty and periods of high inflation.

This may explain why we have seen renewed interest in gold as an investment option over the last few years. The global financial crisis and worldwide recession of 2008/09 has been compounded by continued uncertainty in 2010 as major concerns surfaced over European sovereign debt and the potential breakup of the Euro zone.

During this time many investors have sought to protect their portfolios and hedge themselves against the possible effects of monetary destabilisation and inflation by buying gold.

What drives the price of gold?

Jewellery demand

Over the last five years the jewellery industry has accounted for around 68% of global gold demand; far more than that required by the investment sector.

Economics

All over the world governments and central banks use gold as a foreign exchange reserve, i.e. as an asset to back up their own currency.

Investment demand

Increasing worldwide demand for gold for investment purposes during the global financial crisis has recently pushed the gold price up; however, in inflation-adjusted terms, gold still has some way to go to reach the highs of 1980.

Supply

The earth has a finite supply of gold, and the increasing difficulty involved with retrieving it from the ground is making it steadily harder to keep up with demand.

Learn about gold and investment by attending our FREE presentation at 6.00pm, Thursday the 12th of August at the Christchurch Convention Centre. Limited capacity so please call 03 379-7035 or email tamyra@strategies.co.nz to register as soon as possible. Refreshments will be served. If you are unable to attend and would like an information pack sent to you, please contact us on 0800 64MONEY (08006466639).

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THE OVERVIEW OF THE WORLD AND ITS MARKETS

The world economy appears to be emerging from a recessionary set back which was as strong as any since the depression of the 1930s.

We see some more short-term uncertainty looming as all eyes now focus on the speed with which the various rescue packages are implemented and the impact the crisis will have on European demand for oil and foreign exports. Asset prices are likely to continue to reflect that uncertainty as well as the costs imposed by the various stimulus packages.

However, we also believe that this market slump represents perfect opportunity to access global markets at relatively cheap prices while the uncertainty lasts. Investors with courage and a long run view are likely to be well served by judicious entry across a significant spectrum of securities.

Our expectation that volatility will continue is reflected in the VIX

The VIX is frequently called the investor's "fear gauge" because investors tend to be more fearful when market volatility is high and less so when volatility is low. While it may be a handy nickname, the "fear" tag is a bit of a misnomer; the VIX is really all about implied volatility.

The VIX measures the market's perceived future volatility (i.e. risk and uncertainty), and is most often associated with a view that the market will drop. The reason that the VIX is important is that it is a good measure of the market's expectation of volatility. A recent check of the VIX shows that although there has been a steady downward trend since late 2008, there have been several spikes along the way; most significantly the recent spike caused by the Greek debt crisis.



There is not much we can guarantee but we can guarantee that markets will fall. Every year that they don't makes it all the more dramatic. It has been suggested that a drop of up to 50% will be seen two or three times a century. It behoves the intelligent investor therefore to structure their portfolio with this in mind. Investors should therefore aim to accept market downturns philosophically, diversify wisely and avoid leverage.

In essence the economic recovery has hit a few speed bumps, but it has not derailed

It was our belief that easier financial conditions post-Lehman (and related) crisis would translate with the usual lag into a stronger world economy. This has happened and recovery is in place.

The widespread concern is that any contagion of the debt crisis in Europe could have a major impact on that region and impact on global growth. Reuters reports that economists widely believe that efforts to cut government spending in countries including Greece, Portugal, Italy and Spain will drag down European growth but should only put a small dent in global demand. We note that Greece contributes less to global GDP than Bangladesh and believe that it is not the issue at the core of global market concerns, it centres more on the impact of international financial reform.

Investors shouldn't lose sight of opportunities in developed markets. While opportunities remain in emerging markets, there are also opportunities in developed markets, for example, the manufacturing recovery in the US.

Meanwhile, growth predictions are starting to pick up. The UN has recently reported that it expects global GDP to grow by 3% this year and 3.2% in 2011, while the OECD reported that it forecasts growth of 2.7% in 2010, and 2.8% next year for its member countries, with the US growing at a rate of 3.2% pa over the next two years.

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- Risk Management
- Mortgages
- Options for over 60's
- UK Pension Transfers
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- Professional Speaking

Call to make your appointment on 0800 64 MONEY.

SAFE AS HOUSES—AS FEATURED IN THE PRESS 24/6/10

Kiwis tend to regard property as the bedrock of financial security, but times are changing. In our latest MoneyMakeover, we look at the case of two sisters who decided to pool their money in housing in hopes of a sizeable return.

Lucy and Chloe, 30 and 29 respectively, are sisters. Lucy lives in New Zealand while her sister lives in Australia. Three years ago they pooled their savings to buy a joint property investment. They bought the house for \$369,000 and its GV is now \$350,000. They have \$308,000 remaining on the mortgage. Together they have saved another \$40,000, which they are looking at using to buy a second property. They have pre-approval for a mortgage up to \$400,000. At the moment they both rent, but their goal is to sell their properties in 10 to 15 years and walk away with enough in the bank to buy their own homes, or at least put down sizeable deposits. Lucy says the financial partnership has worked well in the past and neither foresees any problems. Still, they wonder whether investing in a second property is the best way to grow their money given their respective incomes and shared debt. They approached MoneyMakeover for advice on how to set up a better financial structure. Here's how their situations break down individually.

For an expert opinion, MoneyMakeover consulted Sheryl Sutherland, a women's financial planner based in Christchurch and Martz Witty, a business consultant and chartered accountant. Here's what they had to say:

Lucy and Chloe's situation is not an uncommon one. Their goals are to have two properties with a view to selling in 15 years and buying their own homes individually. Travel is a very real part of their lives and they want to ear-tag \$10,000 a year for such pursuits. The question asked is how best to spend their money in order to gain financial security for the future (10-15 years). Neither has a current focus on retirement savings.

LUCY:	CHLOE:
Assets	Assets
Cash \$20,000	House (jointly owned) \$350,000
KiwiSaver \$2092.29	Pension: \$10,750
Superannuation \$10,195	Income
House (jointly owned) \$350,000	Gross income: A\$61,000
Car \$6500	(NZ\$75,000)
Income	Weekly rental income (shared)
Gross annual \$90,000	\$400
Weekly rental income (shared) \$400	Outgoings
Outgoings	Household expenses (monthly)
Mortgage (shared) \$310,000	\$1688
Household expenses monthly (including food, rent and holiday savings): \$2260	Power (monthly) \$60
Power (monthly) \$180	Insurance monthly \$52
Transport (monthly) \$184	

The first thing to look at is their need to heavily subsidise the first property.

Rent received is \$400/week and the mortgage repayment is \$1241 a fortnight. There is a very real cash out-flow on the property just to keep up with the mortgage repayment, let alone rates, insurance and repairs and maintenance. Salaries are not guaranteed for life and each really should consider taking out an appropriate income protection policy (which is tax deductible, thankfully). This will give some assurance in case of accident or illness. An average income earner will typically earn over \$1.4m through their working life. ACC does not pay in every circumstance and, interestingly, about one in 20 disabilities lasting six months or more is related to

accidental causes. Here's the frightening part, two out of every five people are likely to be unable to work for six months or more during their lifetime due to a sickness or accident as reported in the ACC BERL Report, November 1996.

In addition to income protection Lucy should look at some additional life insurance (she currently holds about \$52,000 of cover), while Chloe has \$584,000 life cover. Each should explore a trauma component to give peace of mind in the event of suffering one of the four main critical illnesses (heart attack, heart disease, cancer or stroke).

The recent Budget announcements will have a relatively minor impact on Lucy and Chloe by disallowing depreciation on the rental property. The biggest challenge to them both is the heavy debt gearing they have. At a rental income of \$400/week they are enjoying a modest 5.9 per cent gross return on the investment (before any expenses). The current interest rate is 5.5 per cent with the bank. They are relying on a significant capital gain at some time in the future, and statistically they can probably sit fairly confident that this will eventuate.

Interestingly if we look at statistics, stocks and shares – when invested knowledgeably and prudently – consistently out-perform residential rentals. The trick, as always, is knowing what to invest in.

If the true goal is financial security in the future then adding a second property to an already debt-laden portfolio is not the answer in our opinion. There is good debt and there's bad debt. Good debt is that debt which gets paid off by others (such as tenants) while bad debt is subsidised from other personal sources as we see is happening with Lucy and Chloe. To load up a second property right now will further add to the risks and stress levels for them both. Ideally, the existing rental property would be at worst cash neutral, that is, the inflows equal the outflows. This then enables a concerted savings scheme by the two sisters towards a second property, or a portfolio of shares and other investments. A second property should be attained when there is sufficient deposit to have it also cash neutral.

Another big decision is current lifestyle over future financial security. To spend \$10,000 a year on travel that could be used to increase a capital base is a personal decision, it just means that the ultimate financial goal will be prolonged somewhat. That's a valid decision, it just needs to be a conscious and deliberate one.

The quickest way to create wealth is to only have good debt that is paid off by others and to retire all other debt, especially the likes of credit card or discretionary spending like hire purchase agreements. Given the circumstances as presented to us by Lucy and Chloe, we would use the \$40,000 currently in savings to either reduce the debt on the existing property to a more manageable level or assuming they are comfortable with the cash top-up they require each and every week then alternatively diversify the investments for retirement by using a suitable investment coach and explore shares and the like. Protecting their biggest investment (their ability to earn sizeable incomes) is an essential step in moving forward also.

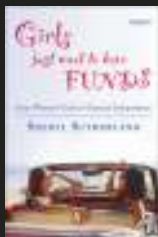
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BRAND NEW!



**Smart Money -
released March 2010**

**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**

KNOWING WHEN AND WHEN NOT TO ACT

The Taoist concept of *wu wei* is about natural action -- knowing when to act and when *not* to act. It can also teach us a lot about investing.

Literally "non-doing," the principle of *wu wei* is found in the martial arts disciplines of aikido and judo, where the goal is to use an attacker's force to the defender's advantage. The ancient Chinese military strategist Sun Tzu preached this discipline in *The Art of War*, advising men and one would assume women, "to avoid what is strong and to strike at what is weak."

While we might not be engaging in hand-to-hand combat when investing, we should learn how to use the market's emotions to our advantage. Warren Buffett's famous quote, "Be fearful when others are greedy and be greedy only when others are fearful," whether intentional or not, is quite Taoist in principle. In essence, the Oracle of Omaha is saying that the key to long-term investing success is to avoid what is temporarily strong and buy what is temporarily weak.

SCIENTISTS DEFINE MURPHYS LAW

A mathematician, a psychologist and an economist commissioned by British Gas have finally put into mathematical terms what we all knew: that things don't just go wrong, they do so at the most annoying moment. The formula, $((U+C+I) \times (10-S))/20 \times A \times 1/(1-\sin(F/10))$, indicates that to beat Murphy's Law (a.k.a. Sod's Law) you need to change one of the parameter: U for urgency, C for complexity, I for importance, S for skill, F for frequency and A for aggravation.

Or in the researchers' own words: "If you haven't got the skill to do something important, leave it alone. If something is urgent or complex, find a simple way to do it. If something going wrong will particularly aggravate you, make certain you know how to do it." Don't you like it when maths back up common sense?

WOMEN AND HEART DISEASE

The Australian Institute of Health and Welfare: AIHW - they do some great research work - has just published (1st June) "Women and heart disease: Cardiovascular profile of women in Australia". It's some 250 pages of great and pretty scary stuff. Some highlights: CVD = cardiovascular disease

- CVD caused more than a quarter of premature deaths in women in 2006 and covers the 3 leading causes of all female deaths (breast cancer is only at # 6 - there's an argument for 'living' insurance!).
- In particular this was down to heart disease and stroke.
- 2 million Australian women have heart disease (out of 10.4 million). Surprised? We were.
- CVD ranks second in women's costs to the health system.
- 91% of women have at least one modifiable risk factor for cardiovascular disease, and half of all women have two or three.
- There is a demonstrable gender imbalance in diagnostic tests! (Women are "significantly less likely" to have the same/as many tests.) Fascinating!
- And a really shocking one: 93% of women do not eat the recommended quantity of fruit and vegetables!

To discuss your current risk management cover contact me by emailing sheryl@strategies.co.nz or call 0800 64MONEY for a full analysis.

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