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### Oak trees from Acorns

Saving your tax cuts could be the way to go. Over time \$15 per week could become an overseas holiday or a university education. If a couple save \$15 a week, between them that would be \$1560 every year. If put in to a bank deposit earning 2.5 per cent per year after tax and inflation, they would have \$19,712 in 11 years. Alternatively, in five years, those small weekly savings would become \$8,300, which would pay for a nice overseas holiday. Saving is the key and compounding interest is the secret.

## The Intelligent Asset Allocator

For many of us the world seems in a mess and we are feeling panicky. It certainly can be justified. The market has fallen further than at any time since the Great Depression, banks have failed, and the world's largest insurer is effectively bankrupt. It is difficult to isolate yourself from the doom and gloom the media are so enjoying.

Governments are mostly doing the right thing; protecting the financial system and helping banks. Even so there is a chance, minuscule in any opinion, that the centre will not hold, everything will fall apart.

So is a major depression coming? Well if we knew this for a fact we would know exactly what to do – buy government stock. Problem with this is we aren't sure the world economy is going to collapse in a pile of dust. Despite rumours to the contrary large chunks of the world economy are doing well. Governments worldwide are printing money and the results of this? Inflation.

And there's the rub; the only asset class which out performs inflation is shares. And here you are, in a fit of caution invested exclusively in

government stock which after tax and inflation will give you a return of 0-1%.

Foolhardy to say the least. You need to isolate yourself and not look at the markets – in fact follow Warren Buffet's philosophy; he said that he would be perfectly happy if the stock market closed for years. He sees the daily gyrations of the markets as unimportant in the long run.

So you don't want to be uber conservative and be left holding government stock when the markets recover. How much should I invest in the shares you cry? Follow the excellent advice given by William Bernstein's *The*

*Intelligent Asset Allocator*:

I can tolerate losing _____% of my portfolio in the course of earning higher returns.	Recommended % of portfolio invested in stocks.
35%	80%
30%	70%
25%	60%
20%	50%
15%	40%
10%	30%
5%	20%
0%	10%

# ECONOMIC FORECASTING

While some people pay astrologers to foretell the future, and others pay stock analysts for stock tips, we, as a society, spend billions of dollars on economic forecasts. A number of government agencies and hundreds of private organisations sell economic forecasts. How good are they?

## Get out of cash now

The safest investment of all will haemorrhage value in the coming months – inflation and tax will evaporate your wealth.

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A review of twelve studies on forecasting accuracy, covering the periods 1970 to 1995, concluded that economists can't even predict the major turning points in the US economy. Forty-six of forty-eight forecasts did not predict the economy's turning points.

This data indicates that the major economic forecasting organisations can't predict whether there'll be a major turning point in our economy. As William Sherden notes, "Economic forecasters have routinely failed to foresee turning points in the economy: the coming of severe recessions, the start of recoveries, and periods of rapid increases or decreases in inflation...In fact, they have failed to predict the past four most severe recessions, and most of them predicted growth instead for these periods."

Most economists were forecasting a severe downturn after the stock market crashed in October 1987, and yet the economy expanded vigorously during the last quarter of 1987. The bottom line is, most economic forecasts are no better than just predicting that next year will be all about the same as this year. In fact, they can actually be worse, because if change is predicted, there's a good chance the direction will be wrong. In addition, the expertise of economic models does not improve forecast accuracy. Predictions based upon large models having over one thousand equations are no better than predictions from simple models with only a few equations. No matter how sophisticated the models are, they still can't reliably predict the future. A particularly telling test was revealed in 1995, when the magazine the *Economist* published the results of a contest held in 1985. They asked people with different backgrounds to accurately predict the British economy ten years in to the future. Who won? A group of sanitation workers tied for first place with a panel of four chairman of multinational firms.

Also, no specific economic ideology does a better job than the others in predicting the economy's future. Forecasts are typically influenced by the particular beliefs and assumptions that an economist holds, and those assumptions can lead to vastly different predictions about our economic future. In fact, economics seems to be the only discipline where two people can receive a Nobel prize for saying the exact opposite thing. This has led to a belief in the "First Law of Economics: For every economist, there's an equal and opposite economist." When different economists predict very different things, it's difficult to place much credence in those predictions.

## WOMEN'S TOUCH

What I love about finance is that it is relational.



And women do take a different approach to men in financial matters. Research has shown that frequent trading and profit taking increases the testosterone level in men. Male values are about risk taking, short term gain and a focus on the individual; female values are more about risk awareness, consideration of long term goals and team work. Women will typically also take much longer to research an investment choice than men. Read more about this in Money, Money, Money Ain't it Funny.

## NEW STRATEGIC ALLIANCE

WFS are pleased to announce that we have formed a strategic alliance with First Financial Solutions Ltd.

The principal, Douglas McKeown, has been investing successfully in property for many years. We therefore now have access to specialist advice on investing in a property or properties. Douglas believes that the best time to invest in property is when you can afford it; he will establish the feasibility of this for you, select a property, arrange a mortgage for you and facilitate property management. His view is that you shouldn't buy a palace or a slum, but buy in the median bracket in the right location. If you are considering property investment or you want to review your property portfolio please let us know by calling 0800 64 MONEY or email [sheryl@strategies.co.nz](mailto:sheryl@strategies.co.nz).

## POSITIVE SIGNS SEEN BY BARCLAYS

For a further in depth look please turn to the back page

- The banking system continues to function and liquidity in debt markets is improving.
- A significant amount of counter-cyclical stimulus has been put in place.
- Consumer demand is showing signs of stability.
- Some indicators show that economic activity in China has already started to lift.
- There are cautious signs of a recovery underway in emerging Asia.
- Investor risk appetite seems to be improving.
- An improvement in the US would have a dramatic impact on global sentiment.

## RISK FACTORS SEEN BY BARCLAYS

- Euro area slow to adjust and policy support has been less aggressive than the US.
- Several European economies have had their sovereign debt ratings downgraded.
- Stability of consumption may not be sustained due to the weak labour market.
- The massive stimulus packages and easings could lead to an inflation shock.

## WOMEN'S FINANCIAL STRATEGIES WEBSITE AND BLOG

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Refer a friend to receive our email newsletters.

Email [tamyra@strategies.co.nz](mailto:tamyra@strategies.co.nz).



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://moneyaintitfunny.blogspot.com/>

## MONEY QUOTES

"If you think nobody cares if you're alive, try missing a couple of car payments."

**Anonymous**

"If you would know the value of money try to borrow some."

**Benjamin Franklin**

"The only reason I made a commercial for American Express was to pay for my American Express bill."

**Peter Ustinov**

"When I was young I used to think that money was the most important thing in life. Now that I am old, I know it is."

**Oscar Wilde**

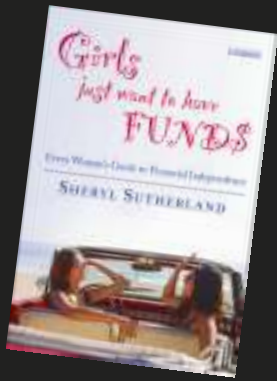
"I have never been in a situation where having money made it worse."

**Clinton Jones**

## 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](mailto:tamyra@strategies.co.nz).

## 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.

# A SUSTAINABLE RALLY OR FALSE START

**Barclays Bank has announced that there are some reasons to be optimistic about global markets.**

The investment banking division of Barclays Bank, Barclays Capital, has just released its quarterly research publication, 'Global Outlook: Green Shoots Have Arrived'. In it, head of research Larry Kantor says, "We believe that the recent rally in financial markets signifies an inflection point. Expectations have been driven down to extremes, and the beginnings of a global economic recovery are evident. As a result, we are recommending that investors become more aggressive and take risk over a broader range of assets." Are Barclays really calling the bottom of the market?

### **Not like previous rallies**

The tentative rally that was underway towards the end of 2008 was quickly and decisively reversed as almost all equity markets (outside of Asia) plunged to new lows at the start of 2009. According to Barclays, this setback did not reflect a significant further worsening in financial conditions; in fact, many components of the credit market actually improved since the start of the year, with liquidity conditions generally getting better. What killed off that rally was unrelentingly bad economic news, general disappointment in policy developments, and increasingly negative market sentiment toward banks.

### **It's a recession (not a depression) - and there will be a recovery, eventually...**

As the end of Q1 now approaches, markets are once again attempting a rally and the question is whether this improvement will be another painful false start. The view from Barclays Capital is that the current rally is likely to have stronger legs than the last one. This view is based on two key judgments: the first is that current market pricing reflects an extremely pessimistic set of economic assumptions that will not be hard to beat; the second is that the global recession is starting to bottom out and, although the turn could take some time, the economic news will go from all bad, to somewhat mixed, to better over the next three months.

### **Policy risk**

Barclays note a key risk to their forecasts. "Policymakers' zeal to prevent the recipients of government aid from benefiting excessively may end up undermining their ultimate objective by motivating banks to return Troubled Asset Relief Program (TARP) money too quickly – thus depleting bank capital – or by dissuading potential investors from participating in the Term Asset-Backed Securities Loan Facility (TALF) or the just announced Public Private Investment Program (PPIP)."

Barclays believe, however, that at the end of the day policymakers will try to avoid undermining the effectiveness of their ongoing and extensive efforts to revive the financial system. In fact, they expect that recent policy actions in the US (where this policy risk seems most acute) will go a long way towards restoring financial market health.

Are we any nearer to seeing global markets trough? Barclays seem to think we are close to a real turning point in market sentiment, and there are certainly some optimistic signs that the US stimulus package has helped to change the momentum.

## **Sheryl Sutherland**

Financial Advisor and Author

Web: [www.strategies.co.nz](http://www.strategies.co.nz)

Blog: <http://moneyaintitfunny.blogspot.com/>

Freephone: 0800 64 MONEY

Email: [sheryl@strategies.co.nz](mailto:sheryl@strategies.co.nz)

Women's Financial Strategies, 153 Hereford Street, Level Five, P O Box 4263, Christchurch

