

accelerate

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Risks increase but NEW ZEALAND STILL STRONG

THE PAST QUARTER HAS GENERALLY BEEN GOOD FOR INVESTMENT RETURNS AND HAS RESULTED IN THE LOSSES INVESTORS SUSTAINED IN LATE 2015/EARLY 2016 BEING REVERSED. THIS IS GOOD NEWS FOR INVESTORS. UNFORTUNATELY, GOOD TIMES DO NOT CONTINUE FOR EVER.

The recently published Reserve Bank of New Zealand Financial Stability Report indicates that the risks to the global economy are increasing with slowing economic growth in many of the countries we trade with, extraordinarily low interest rates, and low commodity prices. Many dairy farmers are now facing a third season of losses and there will be an increasing level of problem loans in coming months. Add to this Auckland housing prices continuing to escalate out of reach of the average New Zealander, and things start to sound pretty dire.

However, the Reserve Bank is closely monitoring developments and believes

our financial system remains strong.

We have record inflows of tourists and this helps to boost our economy. Our banks are profitable, well-funded and secure, and this will enable them to handle the inevitable pressures that come from the negatives listed earlier.

Mark Twain (1835-1910) once said "Plan for the future because that is where you are going to spend the rest of your life." This makes incredibly good sense as many investors make decisions using the rear view mirror (ie: investing based upon events that have already been) rather than realising that we are unable to predict the future with any sense of accuracy so the best way to

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- Chasing better returns is like a dog chasing cars. You're going to get hurt.
- 280,000 waiting for surgery. Can you afford to cut out health insurance?



TO SUM UP

At Britannia, we try to focus only on the things that matter and ignore those we can't control. Markets will always go up and down but understanding what we want to achieve combined with good advice lets us live our life today knowing that we have made the best provision we can for the future. Whilst this is true for our finances, it's also true for other aspects of our lives. Ensuring we are physically and mentally active and engaged with friends and family is critical to planning our future wellbeing.



BRITANNIA
Financial Services Ltd

Britannia Financial Services Ltd
Unit 4, 106 Bush Rd, Albany, Auckland
Tel: +64 9 414 4215
Fax: +64 9 414 4219
Toll Free: 0800 500 811
Email: team@opt-ltd.co.nz
www.britanniaonline.com

prepare is to diversify our investments so we do not have "all our eggs in the one basket." By this we mean creating investment portfolios where your savings are invested into different asset classes such as cash, fixed interest, property and shares plus these are invested both locally and also overseas. These portfolios usually include managed funds where we use the skills and experience of top rated fund managers to enable investors to smooth out the inevitable ups and downs in the market and obtain better returns over time than leaving money in the bank.

Please give us a call if you have any queries regarding your investment portfolio.

Procrastination

I hesitate to make a list
Of all the countless deals I've missed;
Bonanzas that were in my grip
I watched them through my fingers slip;
The windfalls that I should have bought
Were lost because I overthought;
I thought of this, I thought of that,
I could have sworn I smelled a rat,
And while I thought things over twice
Another grabbed them at the price.

It seems I always hesitate,
Then make my mind up much too late.
A very cautious man am I
And that is why I never buy.

A corner here, ten acres there,
Compounding values year by year,
I chose to think and as I thought, they
bought the deals I should have bought.

The golden chances I had then
Are lost and will not come again.
Today I cannot be enticed
For everything's so overpriced.
The deals of yesteryear are dead;
The markets soft – and so's my head.

At times a teardrop drowns my eye
For deals I had, but did not buy;
And now life's saddest words I pen –

"If only I'd invested then!"

– Written 1917

LATEST RESEARCH SHOWS THAT CHASING RETURNS DOES NOT ALWAYS MAKE MORE MONEY

MORNINGSTAR
(A GLOBAL RESEARCH
COMPANY) HAS
JUST PUBLISHED
A REPORT SHOWING THAT
INVESTMENT RETURNS
ACHIEVED BY NEW ZEALAND
RETAIL INVESTORS
GENERALLY FALL BELOW
PUBLISHED FUND
PERFORMANCE FIGURES

They attribute this to the "fear and greed" behavioural cycle where people tend to buy and sell on recent fund performance results. What happens is investors are swayed by competing fund manager advertising promoting how well their fund has performed in recent times and as a result, they switch to the higher performing fund. However, they usually do that once the fund they are exiting from has fallen in value and the one they are investing into has gained in relative value. It often takes time to recover from this hasty move.

As professional financial advisers we work closely with our clients to help them determine their long-term

risk profile then encourage them to 'hang in there' when the markets go down. In fact, we encourage clients to invest more in these dips as investing during these times is like buying on special at the supermarket.

We like to recommend stable, long-term good performing fund managers rather than the number one manager today who has fizzled out a few years down the track. Consistency of performance over time is usually less costly for investors than chasing last month's or last year's best performer. We invest into high quality research to identify the consistently good performing fund managers.

Please give us a call if you have any questions around how your portfolio is created and the quality of investments within it.



Life's tips #1

"Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard."

– WARREN BUFFET

summing
up

- KiwiSaver isn't KiwiGambler, and don't make your managed funds damaged funds.
- No-one ever built a fortune by procrastinating.

WHY AM I NOT WEALTHY?

Many people ask this question of themselves. Often they are hard-working, well-educated, high-income people. Why, then, are so few of them 'affluent'? Some of the answers to this intriguing question are contained in the book *The Millionaire Next Door* by Stanley and Danko. We recommend this book for those who are serious about increasing their net worth.

Affluent people typically follow a lifestyle conducive to accumulating money. In the course of investigations by Stanley and Danko, they discovered seven common denominators among those who successfully build wealth:

1. They live well below their means.
2. They allocate their time, energy and money efficiently, in ways conducive to building wealth.
3. They believe financial independence is more important than displaying high social status.
4. Their parents did not provide economic 'out-patient' care.
5. Their adult children are economically self-sufficient.
6. They are proficient in targeting marketing opportunities.
7. They choose the right occupation.

Stanley and Danko discovered that building wealth takes discipline, sacrifice and hard work. If people are willing to make the necessary trade-offs in their time, energy and consumption habits, they can begin building wealth and achieving financial independence.

CAN YOU AFFORD TO WAIT?

280,000 NEW ZEALANDERS ARE WAITING FOR SURGERY. INDEPENDENT RESEARCH SHOWS THE NUMBER OF NEW ZEALANDERS WAITING FOR ELECTIVE SURGERY REMAINS AT 2013 LEVELS, DESPITE INCREASES TO BOTH PUBLIC AND PRIVATE HEALTH FUNDING.



Those having private surgery faced a 76 day wait, while those having public surgery waited 177 days.

The research by TNS New Zealand, commissioned by the Health Funds Association (HFANZ) and the Private Surgical Hospitals Association (NZPSHA), (April 2016) found 110,000 New Zealanders were on official waiting lists, but a further 170,000 had not been placed on waiting lists despite being told they required elective surgery. These numbers were consistent with the findings of a similar 2013 study, although higher than figures cited recently by the Ministry of Health. HFANZ chief executive Roger Styles said the new TNS

research gave a better picture of overall unmet surgical need because it counted both referred and un-referred need, whereas official figures don't yet count people who need surgery but haven't been referred by their GP. "Of particular concern is the increase observed in overall waiting times – particularly for those who have yet to have their surgery. These are up by 80 days to an average 304 days, with virtually all of these waiting for public surgery," he said.

For those who had had surgery, when split between public and private, there was a big difference in average wait times. Those having private surgery faced a 76 day wait, while those having public surgery waited 177 days.

Life's tips #2

"I buy on the assumption they could close the market the next day and not reopen it for five years."

– WARREN BUFFET

Are you prepared to wait for publically funded surgery? If not, talk to us about whether you are eligible for private medical insurance and what it might cost.

summing
up

- Don't ask why you're not wealthy. Ask for advice instead.
- As we live longer, the chances we will need a visit to hospital increase.

BREXIT

BY NOW, VIRTUALLY EVERYONE HAS READ ARTICLES AND LISTENED TO COMMENTARY ABOUT BREXIT. BELOW I HAVE COPIED MY KEY TAKEAWAYS OF AN ARTICLE WRITTEN BY THE CHIEF INVESTMENT OFFICER OF OUR FUND MANAGER, IOOF. BUT WHAT ARE THE IMPORTANT POINTS FOR YOU?

- If you are in the cash fund you are only in NZ\$ cash so have no exposure either to equities or overseas currency fluctuations
- If you are in the fixed interest fund (only for members of BSS12) you have effectively no exposure either to equities or overseas currency fluctuations as any overseas currencies are hedged
- If you are in the Conservative, Balanced or Global Equities Funds you have an increasing exposure both to equities and overseas currency fluctuations

Your investment is designed to perform over time and in the words of Douglas Adams in The Hitchhikers Guide to the

Galaxy "Don't Panic" despite what has occurred over the past few days.

If you are unsure how you are invested, either call your adviser or Britannia (jean@opt-ltd.co.nz or 0800 500 811 ext 814 or ask for Jean) or you can check online once you have set up your account at www.britanniaonline.com

One thing that your reaction to the events of the last few days may have told you is about your attitude to investment risk. This could range between:

- Are you really worried about a fall in the value of your investment?

- Are you really excited about a buying opportunity in the markets?

If you think you may be better suited to a different investment fund to better meet your aspirations or your tolerance to investment risk, now is the time to call your adviser.

Above all, though Britannia via IOOF offers 5 funds for people with all attitudes to risk and aspirations for the future. IOOF manages over NZ\$500m for over 5,000 Britannia members and a total of NZ\$130bn for over 600,000 clients worldwide. IOOF has been managing people's money for over 150 years.

Gavin Dixon
CEO Britannia Financial Services



BREXIT – KEY TAKEAWAYS

Firstly, all the so called experts – the political and business elite and even the bookmakers got it wrong. As such markets ran up and rallied ahead of the vote, such that even with the declines after the vote some markets were about even for the week.

Certain sectors such as banking/financial stocks were hit hard whilst other stocks which could be beneficiaries of a weaker pound fared better. Also gold stocks rallied as gold went higher, whilst the pound and euro dropped – in the case of the pound to a 30 year low against the US\$. Bonds rallied – with 10 year US treasuries rallying

to 1.5%. With the risk on trade occurring the Australian dollar also dropped around 2 cents against the US\$.

There will always be geopolitical events in markets and the above shows the importance of diversification in creating portfolios and managing assets.

In the past geopolitical events like this have been a buying opportunity – if this is a correction in a bull market – and there have been 12 plus corrections since the GFC. Due to the GFC and the monetary stimulus by central banks it could be said that asset markets are at elevated levels – thus they are in a more precarious position now.

So if UK markets get hit too hard as a result of BREXIT, it probably is a buying opportunity. London and England have a

number of comparative advantages that are hard to replicate in the rest of Europe (as reflected by the inward migration into the UK).

Also it should be remembered that markets often tend to overshoot – both on the upside and downside. There will also be opportunities in currency markets and regions as we see big movements in currencies and hence the price we pay for a whole country's assets. In other areas such as bonds and the issuance of debt – well maybe the bubble just gets bigger and bigger.

In the end analysis BREXIT has shown the benefit of being diversified, having sufficient cash levels to take advantage of opportunities and how the experts can get it wrong!

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