Newsletter: Autumn 2012

STUART + CARLYON

Financial advisers for your lifetime goals

Theme tunes from one of the best, exotic movies in ages

Many of our clients have enjoyed the movie The Best Exotic Marigold Hotel which features a stellar ensemble cast and captures the luxuriant, spice and silk colours of Jaipur, India. The movie is a gorgeous, entertaining marvel with different characters facing - or escaping – old age in a variety of ways. As a review in the UK Telegraph sums up: "old age is a condition imposed upon people as much by circumstances and attitude as time."

Here are three retirement themes explored in the film

Theme 1: Don't put your retirement savings at risk
Douglas (Bill Nighy), and Jean (Penelope Wilton), are the bickering couple who put their retirement funds into their daughter's internet start-up company. With this company going nowhere, Jean is staring past the coming straits of hardship and into an abyss of social failure.

Entering the retirement zone is hugely risky because the moment your main working income stream ceases, your investments are carried by other market tides.

Douglas and Jean made two mistakes really. One: Douglas made his rather rash investment decision right on the cusp of retirement. There was no strategy here. Two: he put all their eggs in a very risky basket. The couple face financial ruin.

What should they have done? The key is to start lining things up before you reach retirement.

- Plan ahead to keep up with trends. Your working life may be slowing down, but the world isn't. There may be opportunities that are worth taking so you can lock-in some gains before adopting a more conservative stance. But have a plan.
- If you own a farm or business get a succession plan prepared a few years before the hand-over or sale. This may involve divesting some ownership and reinvesting this money into other avenues to give yourself a more diversified mix of assets.
- Focus on income-generating investments. Pre-retirement is no time to speculate, rather, it is a time to build up a future income stream which can either be reinvested for capital growth or, if the time comes, be used for your day to day retirement lifestyle.

For us the Douglas and Jean storyline was one we've unfortunately seen played out in New Zealand. If you're in your late 50s, now is the time to start planning, and we're here to help. We've had years of experience guiding clients to prepare for retirement.

Theme 2: Medical costs or delays can be crippling in retirement
Muriel (Maggie Smith in fine form,) requires a hip operation, but in Britain this will involve a lengthy wait under the National Health Service. Despite her distaste for all things foreign, Muriel reluctantly journeys to India for her hip operation.

The storyline here, is not too far-fetched. So-called Medical Tourism is a booming business as aging populations in western countries seek out hospital treatments in cheaper countries. A recent article in The New Yorker magazine, aptly titled "Club Med", says Malaysia has almost 600,000 medical tourists per annum. In Bangkok, the Bumrungrad Hospital treats 400,000 foreign patients annually.

> "If you're in your late 50s, now is the time to start planning, and we're here to help. We've had years of experience guiding clients to prepare for retirement."

This trend looks likely to become more prevalent with people living longer and requiring more medical 'upkeep' which will get more expensive.

One pattern we see: governments are starting to tighten up on who gets private hospital subsidies for long term care, so expect to use up your assets before calling on the Government for help.

- We do suggest medical insurance that covers expensive hospital or specialist costs. The risks here are otherwise potentially crippling in a financial sense.
- And just remember if you are planning to have surgery overseas, travel insurance, health insurance and ACC does not cover you if something goes wrong as a result of that overseas procedure.
- By the way, ACC does not cover injuries related mainly to ageing. So there is no cover for injuries to teeth from normal use, or heart (cardio-vascular) disease or brain (cerebro-vascular) disease, unless it stems from medical treatment or a work injury involving abnormal or excessively intense effort.

- Our advice: work out your worst case scenarios and develop a plan for these. This might involve rearrangement of your assets, calling on community resources and downsizing your lifestyle. Yes, we know: not a fun Sunday afternoon discussion – but you'll sleep easier if you know what to do in a medical emergency.

- Last but not least: look after your health. Eat a balanced diet and commit to regular exercise.

Theme 3: Adapting to retirement as a way of life

The Evelyn storyline (featuring Judi Dench) was very touching. Her husband, who had always taken care of everything, dies, leaving Evelyn facing debt and the forced sale of their home. She must learn to be self-reliant. Retirement can produce many quite different crises but of similar emotional magnitude.

A big one is the identity crisis caused by the sudden loss of an acknowledged work related role. The end of a working career can bring with it the tarnished gold watches of isolation and depression. Couples can also suddenly discover new tensions in their marriage simply because they're under the same roof for the full 24 hours of the day.

Even though the main theme here is one of change and the emotional adjustments of retirement, a financial plan can assist in this area simply by opening up your options. Having a passive income stream may allow you to take holidays or get involved in activities that bring new zest and direction to your life.

In the movie Evelyn proceeds to start a new and somewhat invigorating life. And here, the story makes a true observation: how we handle a crisis or a change depends very much on our own strength of character.

Australia slowing down

The last quarter's financial news was dominated by the crisis in Greece. Austerity measures on the Continent continue to cause social and political unrest plus low growth. Yet for all the anger in Southern Europe and the flight of investors into safe-haven currencies other than the Euro, client portfolios have had a good start to 2012 over the March quarter. Positive factors are:

- A welcome reduction in share market volatility and a rebound from the October gloom
- Crisis management measures in Europe appear to be on track
- US economic data is good with vehicle sales, gross domestic production, employment, manufacturing and business surveys all coming-in better than expected.

President Obama must be hoping this continues. After three years of massive stimulus spending to create jobs in the US, belt-tightening measures are on the horizon though surely not until after the Presidential election in November.

The consensus is that global growth will pick up over 2012. Nevertheless, this view is qualified by a number of global risks:

- Renewed Euro-zone tensions
- US fiscal tightening in 2013
- A serious housing market slowdown in China
- Higher oil prices above US$150 per barrel.

Some of these twitch factors have been affecting our neighbours in Australia. Theirs is described as a two speed economy. Set on *fast* is the mining sector, but faltering on *slow-speed* are several other sectors (retail, manufacturing, services) which are struggling and have trimmed back their workforces. Some of the blame can be put at the feet of the high Aussie dollar, but much of the downturn reflects the slowing demand for resources from China.

So how is this affecting our client portfolios? Many of our clients have funds we placed in the massive Australian Foundation Investment Company, a A$4.2 billion listed fund that owns shares in around 75 of the top 200 Australian companies. It's objective is to seek sustainable cash flows in sound industries. Last year they used market dips to increase holdings. Good move.

“Theirs is described as a two speed economy. Set on *fast* is the mining sector, but faltering on *slow-speed* are several other sectors (retail, manufacturing, services).”

In its shareholder meetings last December they reported how they are:

- Positive about diversified resource firms such as BHP and RIO.
- Retaining exposure to companies servicing the resources and agriculture sectors.
- Taking advantage of strong dividends from the major banks.
- Expanding exposure to the energy sector
- Limiting their retail exposure only to large and diversified companies such as Wesfarmers and Woolworths.

In essence they are investing in sectors that actually deliver things that people need. But don't expect Australian investments to glitter too brightly in the short-term. Put it this way: while the US share market returned +6% for the past year, the Australian market dropped by 10%. The key messages remain:

- Diversify across all markets to smooth out returns
- Reweight into sectors for future growth through buying good companies at cheaper prices.

155 Parnell Road, PO Box 137-154, Parnell, Auckland 1151, New Zealand Phone: 64 9 307 2331 Fax: 64 9 307 2330 www.stuartcarlyon.co.nz