

# DecidingFactors

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## Retirement Rethink

The current world economic crisis has caused a massive destruction of wealth, and there is barely an investor who is immune. There are tentative signs of economic recovery, but using history as a guide the recovery is likely to take time, it will be patchy and there may be further volatility to come in some asset classes.

For many of us, our asset base will not recover immediately to pre-crisis levels. Some assets may rebound and grow nicely. Other assets may never fully recover. It is time for us to face the reality of what has happened and look to how we are going to adapt in order to ensure a financially secure retirement.

Some options to consider are:

- Could you accept a lower standard of living in retirement?
- If you are not already retired, could you continue to work to an older age, giving yourself extra time to rebuild wealth and less time to consume it once retired?
- If you are retired, are you willing to get a part-time job? You will be surprised just how employable retirees are in comparison to school leavers.
- Are you willing to take a higher risk with your remaining investments in order to theoretically get a higher total portfolio return? This option should only be contemplated once you have fully discussed the risks with us.
- Are you prepared to spend your capital in retirement? There is no point taking the money to your grave. Enjoy it in retirement, especially while you are fit and active.

- Would you prefer to take a low-risk approach with a well diversified portfolio? The day-to-day income flow from investments may be less than you are used to, but this is compensated for by the regular cashing up of the asset base.
- Are you open to eventually selling your home and using the proceeds to generate additional retirement income to spend on your family, pay for rent, purchase a lower-value smaller house or build something at one of your children's homes to live in?
- Are you willing to use other vehicles to grant access to the equity in your home to fund retirement? This can be achieved via reverse annuity mortgage facilities from a small number of specialist lending institutions or via innovative financial arrangements within your family. We can talk through how this works and discuss whether these are viable options for you.

You may cringe at some of the options, but in the new reality we now face, a review of your retirement planning may be the biggest favour you will ever do for your future self.

*Contact us for a detailed document on this retirement rethink.*

*Once you have read it, we can get together to discuss which option or combination of options best suits you.*



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## DecisionMakers

The best financial decision you'll ever make



# Lessons learnt (and forgotten) from harder times

The current financial crisis has not only highlighted a number of weaknesses in the global markets, but also in the habits of individual investors. It seems many of us have forgotten or ignored the lessons learnt by those who experienced events such as the Great Depression or World Wars. Consider the following perspectives and suggestions of old in the context of your own approach to your finances:

## 1. Frugality is not a bad word

There was a time when a person who was frugal was looked upon with esteem rather than someone without the means to buy more. Nowadays, many seem to equate frugality with "being 'mean'," but that could not be further from the truth. Being frugal is simply getting the most out of what you have or purchase, and not purchasing things that you really don't need. The discipline of frugality was most noticeably exhibited in response to World War II, when many items were rationed. Many people continued to practice it even when times eventually got better, which helped them build wealth (for their baby boomer children to subsequently spend!). Learning to be frugal could help a lot of people who do not currently live within their means.

## 2. Use what you have

We now live in a consumer driven society where, if something breaks, you can go out and buy a new one. If something is not exactly right, you can go and buy something that is. However, it was not that long ago that, when something broke, you would first take a look to see if it could be

fixed. If it could not be fixed, you would consider whether it could still be useful for something else before throwing it away. There is no reason to go out and spend money on something new, if you can get the same thing accomplished with the things that you already have.

## 3. Doing it yourself is the way to go

In a society where we now hire people to do many basic repairs and maintenance, it is important to remember that most repairs are not nearly as difficult as they may appear and that you can do some of it on your own with a how-to book and patience.

## 4. Things have more than one use

Many people often make a purchase with a specific purpose in mind and use it exclusively for that intended purpose. However, most things can have multiple uses throughout their useful life. For example, a T-shirt can become a night shirt when the collar gets worn and is no longer suitable for wearing out, and then a painting shirt when it starts to get holes and eventually rags when the holes get too big.

## 5. Some debt is to be avoided

Rather than incurring high interest credit card debt, consider making-do with what you already have. Alternatively you could save the required money or borrow it from a friend or family members.

## 6. Save for rainy days

As many people are now finding out for the first time, rainy days eventually come. Many who lived through World War II were well aware of this and subsequently put money aside for these rainy days. It is now what is commonly referred to as an "emergency fund" and something that comes in quite handy when your financial plans do not go exactly as you imagined they would.

## 7. Used can be just as good as new

This concept is not completely foreign to us today. It is common to buy a quality

second-hand car. Just because an item has been pre-owned does not make it something to be dismissed as unworthy. This concept does not stop with cars and can be expanded to almost any other area where a second-hand market is available.

## 8. Functional trumps fashion

There was a time when a purchase was not based on aesthetics, but on what it could do. It was much more important to buy something that did what was needed to be done, regardless of what it actually looked like. That expensive European watch may look great, but it does not tell time any better than a standard watch bought at the local discount store. Learning to buy for function, rather than looks is a great way to save money.

## 9. Bargains are to be sought-after

When it is time to make a purchase, resist going out and getting it the very same day. Take the time to look for a bargain. Make sure you have done your research and wait until the price is right, rather than pulling out a credit card and buying it when you may not yet have the money. Bargains take planning and time to find, but when they are found, you know you have got a great deal.

## 10. Homemade cookies are delicious

In a society where so much is pre-made and sold for convenience, it may be hard to remember the last time you had a meal made from scratch. Meanwhile, cooking yourself is not only less expensive, but the meal is invariably a lot more delicious (once you have become adept in the kitchen!). Think of it this way; would you ever consider trading in a plate of your grandmother's homemade cookies for any store-bought brand?

While the way that older generations handled money may seem unsophisticated with all the financial tools that are available today, the basics of living within their means, saving for a rainy day, getting an education and investing in their future are values that a lot of people could financially benefit from. It is ironic that these values have been forgotten by the majority over relative good times, yet are exactly what are needed in response to the current financial crisis.

*Please feel free to call us to discuss ways to improve your own financial situation and how to minimise the impact of the current and any future crisis on your portfolio.*

### life's tip #1

*"The trouble with retirement is that you never get a day off."  
- Abe Lemons*



## KNOW WHERE YOU ARE GOING IN LIFE

Following a successful outing, a Mexican fisherman docked his boat in his tiny village. An American tourist complimented the Mexican fisherman on the quality of his fish and asked how long it took him to catch them.

"Not very long," answered the Mexican.

"But then, why didn't you stay out longer and catch more?" asked the American.

The Mexican explained that his small catch was sufficient to meet his needs and those of his family.

The American asked, "But what do you do with the rest of your time?"

"I sleep late, fish a little, play with my children, and take a siesta with my wife. In the evenings, I go into the village to see my friends, have a few drinks, play the guitar, and sing a few songs. I have a full life."

The American interrupted, "I have an MBA from Harvard and I can help you!

You should start by fishing longer every day. You can then sell the extra fish you catch. With the extra revenue, you can buy a bigger boat."

"And after that?" asked the Mexican.

"With the extra money the larger boat will bring, you can buy a second one and a third one and so on until you have an entire fleet of trawlers. Instead of selling your fish to a middle man, you can then negotiate directly with the processing plants and maybe even open your own plant. You can then leave this little village and move to Mexico City, Los Angeles, or even New York City! From there you can direct your huge new enterprise."

"How long would that take?" asked the Mexican.

"Twenty, perhaps twenty-five years," replied the American.

"And after that?"

"Afterwards? Well my friend, that's when it gets really interesting," answered the American, laughing.

"When your business gets really big, you can start buying and selling stocks and make millions!"

"Millions? Really? And after that?" asked the Mexican.

"After that you'll be able to retire, live in a tiny village near the coast, sleep late, play with your children, catch a few fish, take a siesta with your wife and spend your evenings drinking and enjoying your friends."

And the moral of this story: know where you're going in life... you may already be there.



## Insure to ensure

Paying insurance premiums may seem like an unrewarding use of your hard-earned dollars, especially in tougher financial times.

Think for a moment though about how much tougher it would be financially for you and your family if you suffered an unexpected illness or accident?

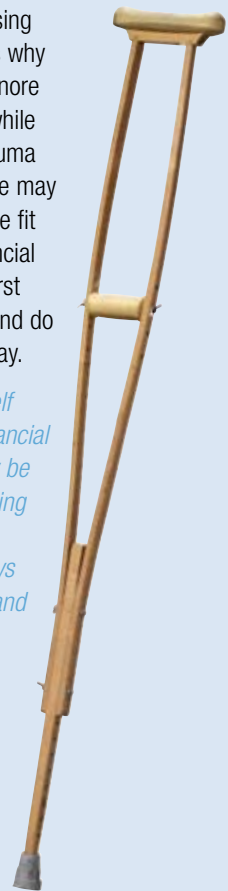
You might feel as fit as a fiddle, but did you know that an average of 20 unsuspecting New Zealanders suffer a stroke every day. What's more, 25% of these New Zealanders are below retirement age. Not only is stroke the third biggest killer in New Zealand, but it is also this country's greatest cause of major disability.

What would the financial implications be for you and your family if you were actually one of the one in eight people who suffer a stroke in their lifetime?

This is certainly a depressing thought, which is perhaps why many choose to simply ignore the possibility. However, while the benefits of health, trauma or total disability insurance may be intangible while you are fit and well, it can offer financial protection against the worst case scenarios that can and do happen to people every day.

*Do not risk putting yourself and your family under financial strain at what will already be a stressful time if something were to happen to you. Contact us to discuss ways you can protect yourself and your family.*

(Statistics sourced from The Stroke Foundation of New Zealand)



life's tip  
#2

*"Unless commitment is made, there are only promises and hopes; but no plans."  
- Peter F Drucker*

summing  
up

- Now is not the time to cut back on your insurance.

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# It isn't all bad news

It was Winston Churchill who once said "Pessimists see problems in every opportunity. Optimists see opportunities in every problem."

You could certainly be forgiven for being a pessimist in your view of global financial markets when all we are hearing is negativity in the media. However, for those optimists out there, it is not all bad news and the following positives are worth remembering:

## 1. The impact of lower oil prices

The dramatic drop in oil prices has put many more dollars in the pockets of businesses and individual consumers. No matter how dire economic prospects might appear, they would be much worse if oil was still at \$150 per barrel (unless of course you worked in the oil industry).

## 2. A return to the old virtues among banks

At one time, banks stood for prudence, risk management, oversight and transparency. It is clear that too many banks got away from these principles - and also clear that we are seeing a return to these traditional virtues that will ultimately leave the banking system stronger.

## 3. Strong political leadership around the world

The challenges we are facing today will test the leadership of all of the major economies. The good news is that it is difficult to remember a time when we had leadership that was stronger and more collaborative and open to new directions than we see today with Gordon Brown, Angela Merkel, Nicolas Sarkozy and Jean-Claude Trichet of the European Central Bank in Europe; Barack Obama, Ben Bernanke Tim Geithner, Paul Volcker and Larry Summers in the US; Hu Jintao in China; and, Manmohan Singh in India.

## 4. Catching up on infrastructure

Increasingly, consensus is forming on the need for governments to spend in order to get their economies going again. This presents an opportunity to upgrade our infrastructure, just as happened in the 1930s. These investments are badly needed - providing this money is targeted correctly on upgraded transit, roads, bridges

and airports that will ease congestion and improve productivity. We could see the payoff from this for decades to come.

### life's tip #3

*"I hope that while so many people are out smelling the flowers, someone is taking the time to plant some."*  
- Herbert Rappaport

## 5. A reality check on spending and saving

Over the past 20 years, many Western countries have seen a huge increase in indebtedness along with a dramatic drop in saving rates. Part of this stemmed from today's "I want it all and I want it now" mindset - and part from the view that appreciation in houses and stocks would offset the failure to save.

People are already moving back to more prudent, income-based lifestyles. While a painful adjustment for some in the short term, over time this will be a significant positive, as personal finances move to a more stable and sustainable footing. This will result in an increased capacity of individuals to absorb unanticipated setbacks related to health issues or employment, and a reduced reliance on public funding of retirement.

We continue to have real issues ahead of us and the unwinding of the excesses of the recent past will continue to be painful. When thinking about investment prospects, it is important to understand that we are in that part of the market cycle where the problems seem overwhelming, and any positive signs are ignored. Historically, exactly these kinds of environments represent the best times to invest.



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