

# Investment Planning Presentation

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## Contingency Planning for 2019

How we can protect against s\*\*\* that might not even happen

*Strategy and discipline –  
A formula for success*

- Diversification is necessary to maximise the risk/return trade off. How do we go about it?
- Firstly, consider your own personal risk tolerance level, objectives, time frame, age and income requirements.
- Then develop an asset allocation that meets these criteria – this is your strategy.

## *The discipline ....*

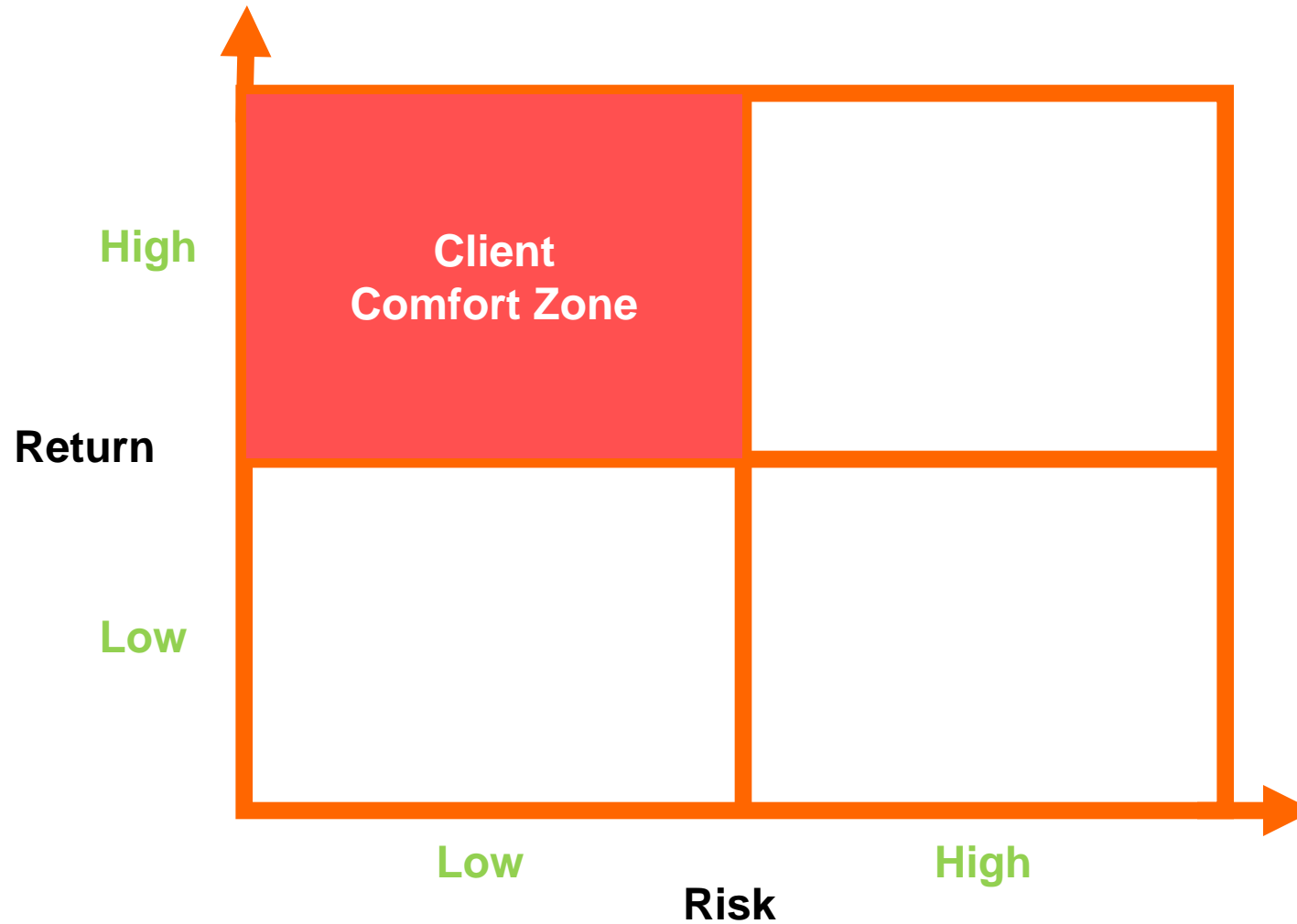


The discipline is to stay with this strategy over time.

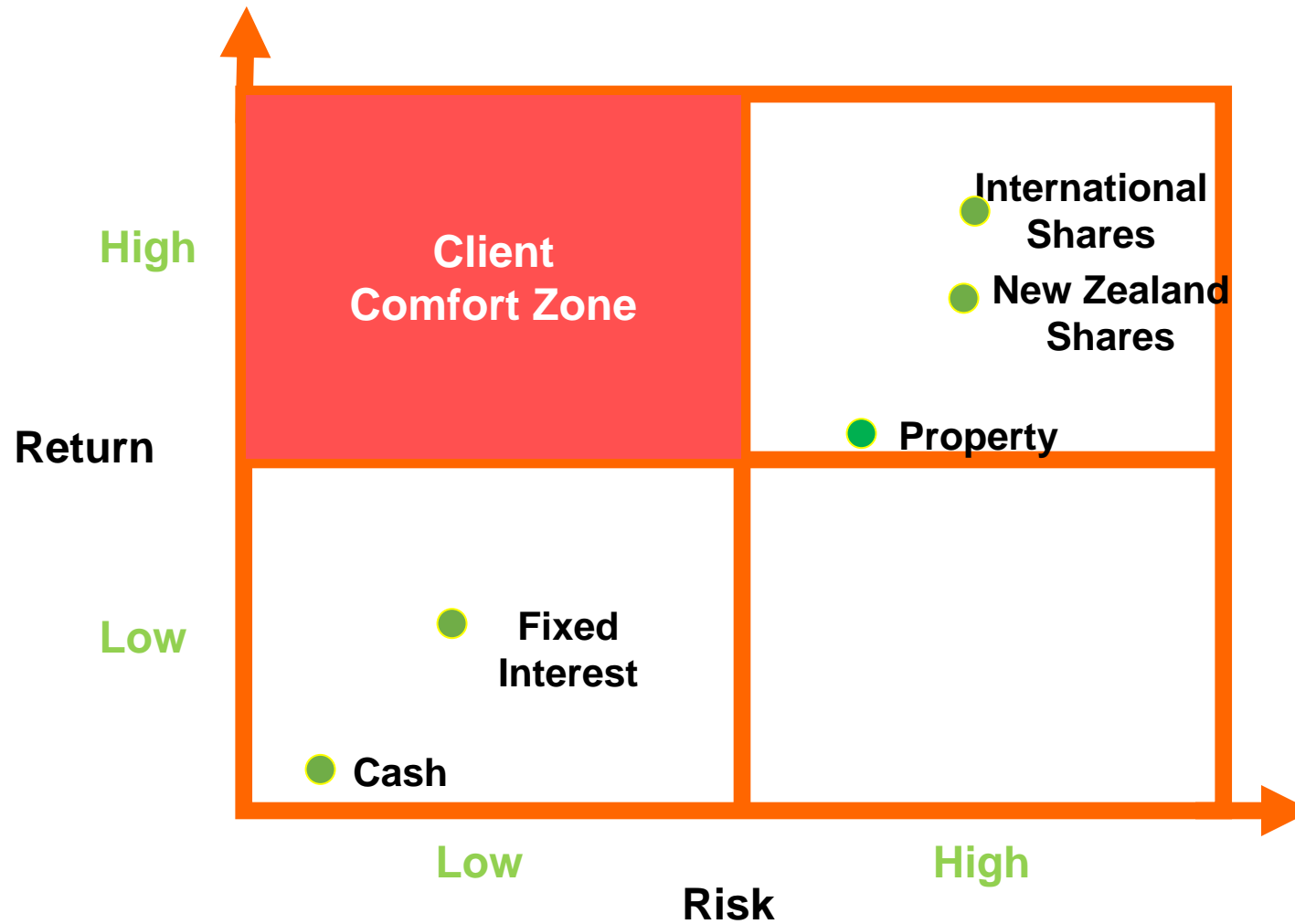


This requires constant re-balancing of your portfolio back to the pre determined allocations. This discipline goes against your emotions and consequently it is very easy to stray from the strategy.

# Clients - what they want!

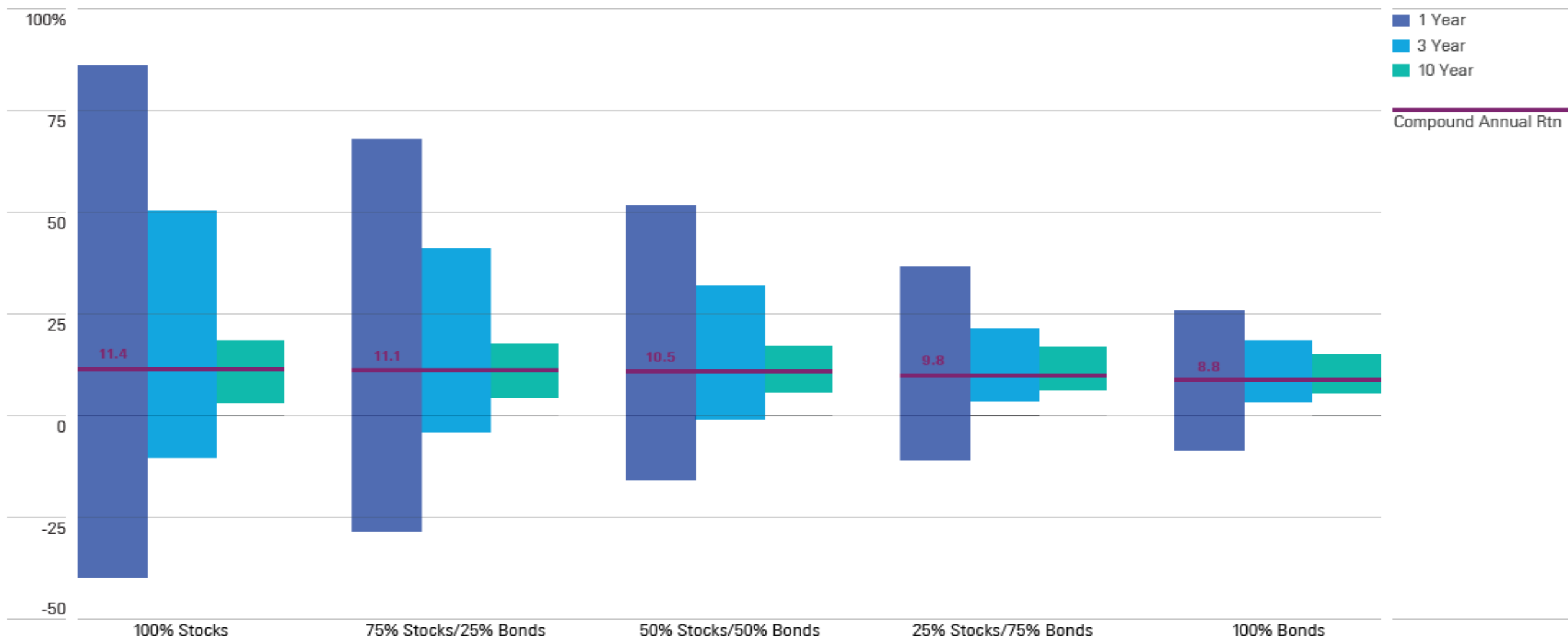


# Clients - what they want!



# Portfolio Risk Changes with Composition and Time 1980–2017

This chart shows the range of returns for five portfolios with differing proportions of stocks and bonds. The bars, from darkest to lightest, show the difference between the best and worst 1-, 3- and 10-year returns over the past 37 years. The purple line shows the total compound annual return for each type of portfolio over the entire period.



Source: Morningstar Direct

# *There are two types of Risk - Market and Unique*

## ➤ **Market Risk**

- Interest Rate
- Inflation
- Economic Risk
- Exchange Rate
- Political
- Monetary Conditions
- Fiscal Policy

## ➤ **Unique Risk**

- Default
- Management
- Financial (Use of Debt)
- Business (Industry)
- Liquidity



# *Are These Risks Avoidable?*

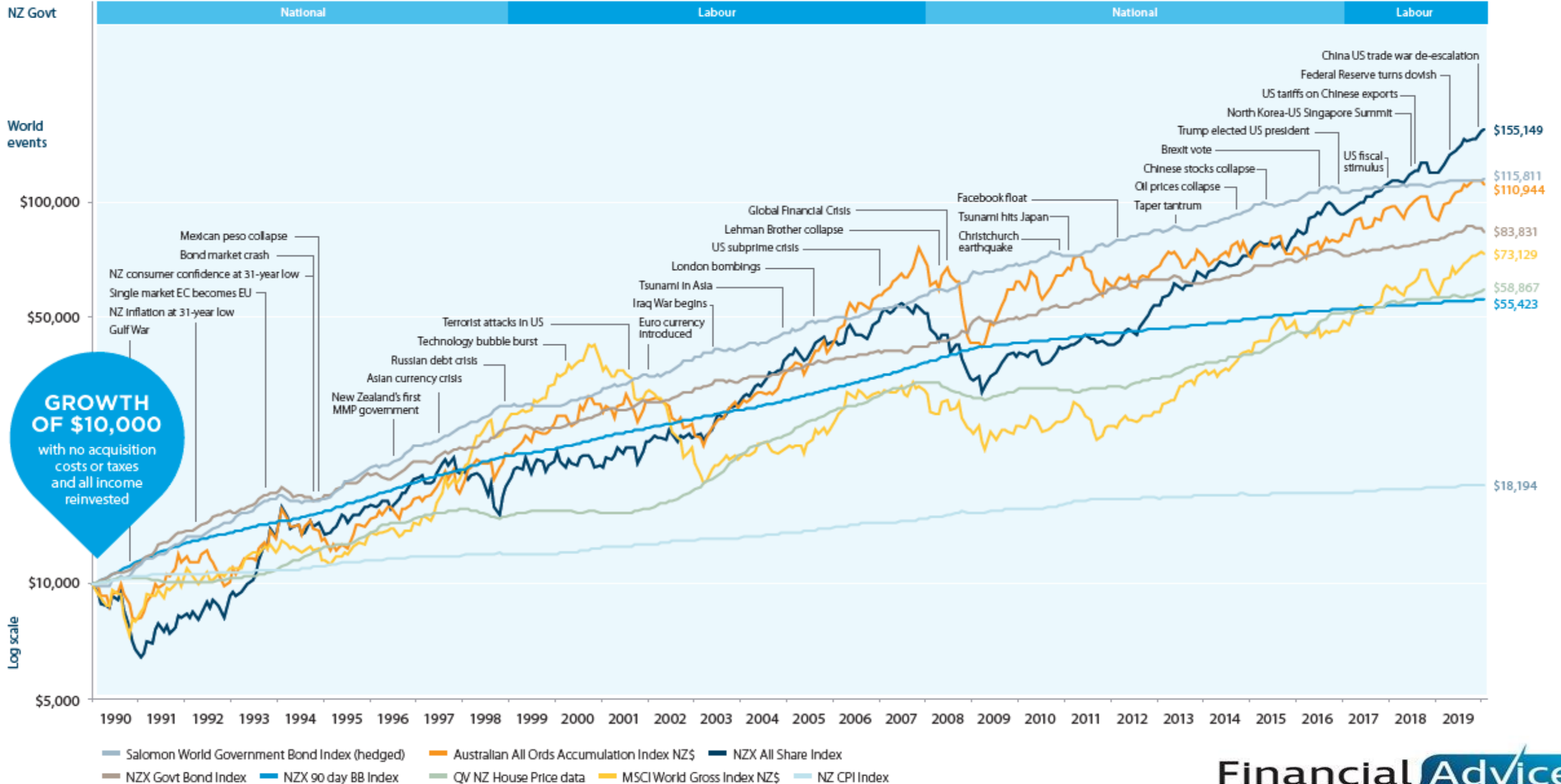
- No – but they can be considerably reduced through diversification.
- Four main investment sectors:
  - Cash
  - Fixed Interest
  - Property
  - Shares.
- Returns on these four sectors are ranked in the same order.
- Diversify across asset classes and geographic boundaries.

# *Risk*

- Risk is certain with any investment – it is unavoidable.
- Return is not so certain.
- If you manage the risk, the returns will result.

# HISTORY SHOWS THAT INVESTMENT MARKETS RISE OVER TIME

VALUE OF \$10,000 FROM 31 DECEMBER 1989 TO 31 DECEMBER 2019



Source: ANZ New Zealand Investments Ltd

# Periodic Table of Market Performance

Best ↑ ↓ Worst	Global Prop NZDH 20.6	NZ Bonds 12.4	NZ Equities 25.9	Global Eq NZD Hdg 31.4	Global Prop NZDH 29.1	NZ Equities 15.1	Global Eq NZD Hdg 10.6	Emerging Mkts 34.6	NZ Equities 6.0	NZ Equities 31.6	NZ Bonds 5.4
	Global Eq NZD Hdg 11.9	Global Bonds 8.2	Global Prop NZDH 20.0	Global Equites 27.0	NZ Equities 19.2	Global Equites 13.2	NZ Equities 10.1	NZ Equities 23.6	NZ Bonds 4.6	Global Equites 26.9	Global Bonds 3.8
	Emerging Mkts 10.7	Cash 3.0	Global Eq NZD Hdg 16.7	NZ Equities 17.9	Global Infra 18.1	NZ Bonds 5.4	Global Infra 9.4	Global Eq NZD Hdg 20.4	Cash 2.0	Global Eq NZD Hdg 26.9	Cash 0.6
	Global Bonds 7.6	NZ Equities 0.4	Aust Equities 15.9	Global Infra 14.3	Global Eq NZD Hdg 13.2	Global Prop NZDH 5.3	Aust Equities 9.2	Global Equites 20.0	Global Bonds 1.8	Global Prop NZDH 25.6	NZ Equities -0.1
	NZ Bonds 7.5	Global Infra -1.2	Emerging Mkts 11.8	Global Prop NZDH 5.9	Global Bonds 11.1	Global Bonds 4.5	Emerging Mkts 9.2	Aust Equities 17.6	Global Equites -3.2	Global Infra 25.0	Global Equites -1.2
	Aust Equities 7.0	Global Prop NZDH -2.8	Global Equites 9.5	Aust Equities 5.0	Global Equites 10.5	Global Eq NZD Hdg 4.0	Global Prop NZDH 7.8	Global Infra 16.7	Global Prop NZDH -3.7	Aust Equities 23.1	Emerging Mkts -5.5
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	NZ Equities 3.7	Global Equites -5.4	NZ Bonds 5.1	Global Bonds 2.2	Cash 3.3	Cash 3.5	Global Equites 5.6	NZ Bonds 5.6	Aust Equities -6.8	Global Bonds 7.5	Aust Equities -8.3
	Cash 3.0	Aust Equities -9.7	Global Infra 4.9	NZ Bonds -1.2	Emerging Mkts 3.0	Global Infra 0.3	NZ Bonds 3.6	Global Bonds 4.0	Global Eq NZD Hdg -7.3	NZ Bonds 5.0	Global Infra -15.8
	Global Infra -2.4	Emerging Mkts -18.3	Cash 2.8	Emerging Mkts -2.4	Aust Equities 2.2	Emerging Mkts -2.9	Cash 2.6	Cash 2.0	Emerging Mkts -9.4	Cash 1.6	Global Prop NZDH -17.3
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD

Source: Morningstar Direct

# What is a Share Worth?

- ABC company earns \$1 profit per share
- The ABC share price is \$16
- In this case the market pays 16 times earnings for ABC....a PE ratio of 16
- To increase the price ABC must increase it's earnings or it's PE

# Where do Returns Come From?

**Income or dividends**

**+**

**Growth in profits**

**+**

**Changes in sentiment**

# Total Returns – An Example



# Total Returns – An Example

EPS	PE	Price	Contribution	
\$1.00	16	\$16.00	4%pa	Income
				+
			+5%pa	Earnings Growth
\$1.05	16	\$16.80		+
				Sentiment
			<hr/> 9%pa	<hr/> Total



# Total Returns – An Example

EPS	PE	Price	Contribution	
\$1.00	16	\$16.00		4%pa
				+
				Earnings Growth
\$1.05	16	\$16.80		
				+
				Sentiment
\$1.05	17	\$17.90		
				16%pa
				Total

# Total Returns – Another Example

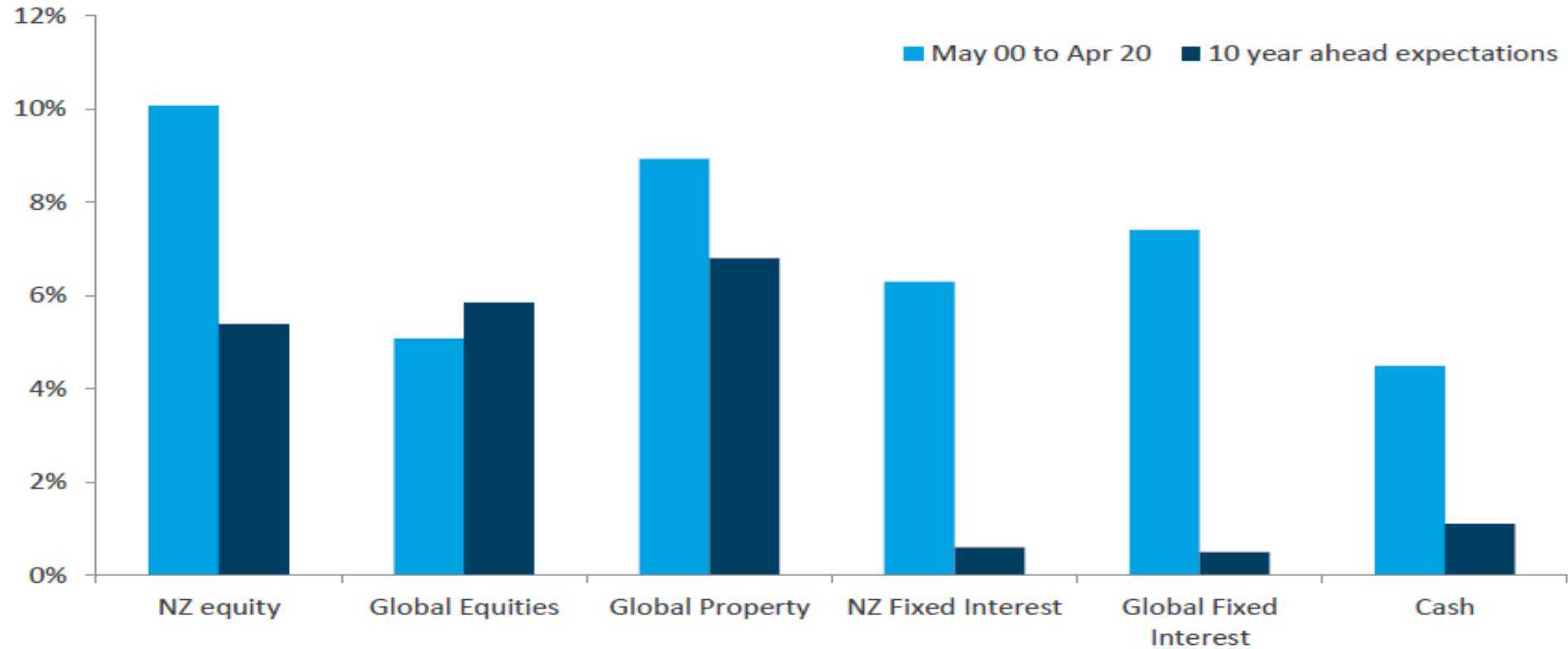
EPS	PE	Price	Contribution	
\$1.00	16	\$16.00	3.5%	Income
				+
			-5.0%	Earnings Growth
\$0.95	16	\$15.20		+
			-42%	Sentiment
\$0.95	10	\$9.50		
			-43%pa	Total

## Ten year forecast as at June 2020

Asset	Dividend Yield*	Earnings Growth	Sentiment	Central Forecast	PE
Australian Equities	5.8%	1.7%	0.9%	8.4%	15.9 x
Developed Mkt Equities	2.6%	2.0%	1.5%	6.1%	16.8 x
Emerging Mkt Equities	2.9%	3.2%	0.5%	6.6%	13.8 x
Listed property	5.4%	1.8%	1.8%	9.0%	16.7 x
Fixed Interest	1.6%	0.0%	0.0%	1.6%	61.5 x
<b>Residential Property</b>	<b>2.5%</b>	<b>2.9%</b>	<b>-1.4%</b>	<b>4.0%</b>	<b>40.0 x</b>

\*Includes expected currency gain

# ASSET CLASS RETURNS – THE PAST AND THE FUTURE?



**Important note:** The actual returns may differ from the expected returns. The actual return of any strategy will depend on many things, is not guaranteed, and may be negative as well as positive.

**Sources:** New Zealand shares - S&P/NZX All Gross Index, Global developed shares - MSCI All Countries World Index ex-Australia Net (50% Hedged to NZD), Global property - FTSE EPRA Nareit Developed Rental Net Total Return Index (100% Hedged to NZD), New Zealand fixed interest - S&P/NZX NZ Government Bond Total Return Index, Global fixed interest: Barclays Capital Global Aggregate Treasuries Total Return Index (100% Hedged to NZD); Cash: S&P/NZX Bank Bills 90-Day Gross Return Index. These sources are current as at 15 June 2020. They may have been re-named, or rebased over the prior 20 year period.

10 year ahead expectations; ANZ Wealth Capital Market Assumptions May 2020.

# Where to from here

- Personal financial planning is too complex and covers too many fields for any one person to have all the solutions.
- It needs input from others
- Seek professional advice from a properly qualified adviser from Financial Advice New Zealand <https://financialadvice.nz/find-an-adviser/>

# Disclaimer

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