accordia

the advantage

Spring 2017

The Behaviour Gap. What is it, and how can it affect me?

Human nature is a complex thing, and we all react in different ways to situations and circumstances that we are confronted with.

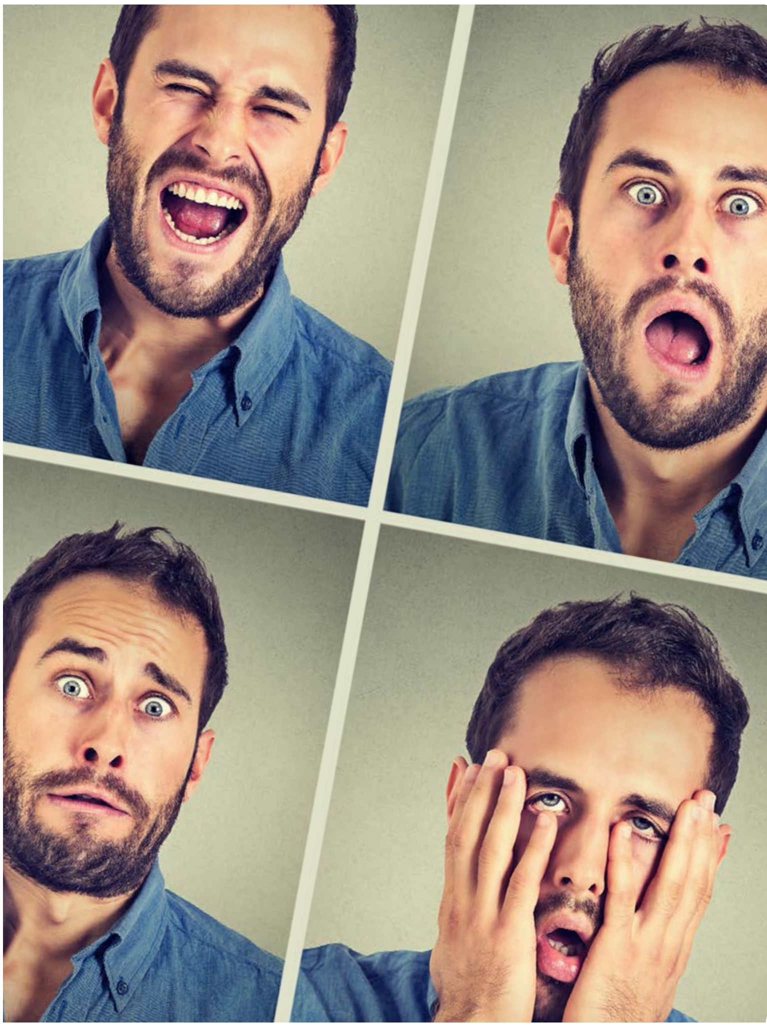
This is certainly true regarding our behaviour around financial markets information. Every day, we awake to radio, T.V or online news from markets around the world.

How relevant is this news to us? Well you may ask.

At a recent adviser conference in Auckland this year, there was a presentation from Carl Richards, a US based adviser. He is the author of many books on financial planning and behavioural finance, including his book, titled "The Behaviour Gap." Carl has become a frequent keynote speaker at financial planning conferences and visual learning events around the world.

In his book, Carl Richards talks about the gap between investment returns, and investor returns. The difference between these two reflects where our actions and emotions come into play. He discusses the importance of having the correct perspective on our finances as a prerequisite to being able to implement specific ideas correctly.

Continued over page



This view is supported by numerous industry statistics showing that the average U.S Share fund manager gained 173% from 1997 to 2011; In contrast, the average US share fund investor earned only 110%. This is because investors let their emotions control their investment decisions. This is the Behaviour Gap.

There were a number of key issues to address where managing money is concerned that came out of Carl's presentation.

Being honest with yourself

We must be able to admit which emotion we succumb to more, fear or greed. If you experience nervousness when the share market corrects, it's fear. If in contrast, you can't stand to sit out a rising share market, and you are an aggressive investor, it's greed. It is important to know which one affects you more when deciding and developing an investment strategy, as both of these emotions can cause you to sell at the bottom when you are nervous or scared, and buy at the top when you are greedy.

There is also the need to understand that there are countless unknowns in markets and economies that you invest in, and as such there are many factors that are out of your personal control, regardless of what and where you invest. Knowing your long term strategy is critical. The ongoing planning process will also help you make adjustments to your strategy, and adapt if and when your circumstances change.

The beauty of simplicity

We've all heard the phrase that less is more. But sometimes the simple choice almost seems too simple.

Here are some great lines from his book about keeping things simple:

> *Being slow and steady means you're willing to exchange the opportunity of making a killing for the assurance of never getting killed.*
>
> *Slow and steady capital is short-term boring. But it's long-term exciting.*
>
> *We often resist simple solutions because they require us to change our behaviour.*

Most people look for the complex investments or solutions to their problems because it is easier than making meaningful behavioural choices. That's why there are new fad diets and infomercial exercise equipment available every year that offer to solve our health problems without mentioning that eating correctly and consistent exercise is the simple way to go about being fitter and healthier.

Happiness is the key emotion

We often talk about fear and greed being the investor's two biggest enemies when investing.

As discussed already, these emotions can cause you to buy high and sell low. But how do you combat these two irrational decision-makers? On balance, and hearing Carl Richard's view, the key emotion seems to be happiness.

His book discusses a study that shows that having a good family life leads to more personal happiness than professional success does. Another study shows that money has a diminishing return on happiness up to around $75,000 a year in salary. So while money can buy some happiness, it only does so up to a certain point.

Carl also discussed how most financial decisions are really just life decisions. Thinking in those terms could really change the way you view your money and your life. It helps to decide what it is that you really want to accomplish to make you happy by setting goals and focusing on why you would like to achieve them.

We all make mistakes

When dealing with complex investments and markets we are bound to make mistakes. Even the best investors do so on a regular basis. His book covers some of his own personal financial and property mistakes, and the lessons that he learned from them.

But without the correct perspective on your finances and emotions, along with ongoing management of your financial planning strategy, it will be much harder to achieve objectives without committing mistakes that the majority of investors make on a regular basis. Letting fear and greed take over, making decisions based on those emotional responses, and not having a plan in place to aid in the decision-making process is a certain recipe for disappointment.

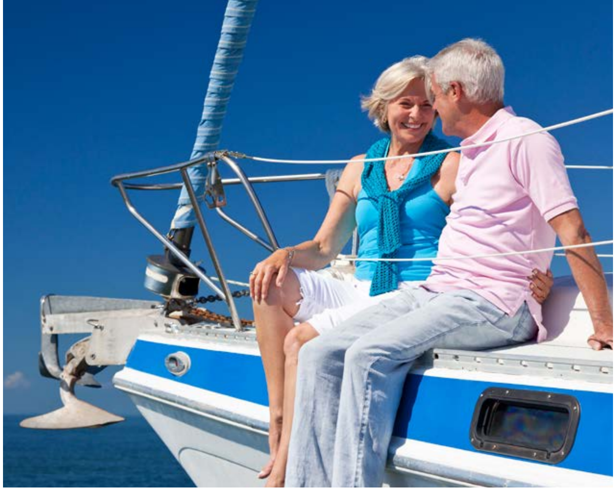
The Behaviour Gap suggests that financial plans in themselves are worthless, but **the *process* of financial *planning* is extremely important.** This is where having a trusted adviser working alongside you is essential in guiding and mentoring you objectively through the myriad of life and associated financial issues that will be encountered as you progress through life. A plan assumes you know what's going to happen in the future, which we all know is next to impossible. But consistent planning and review (Your Investment Policy Statement) assumes things can and will be unpredictable and you will need to act accordingly.

A financial crisis can be hard to predict, let alone prevent. However, we all spend countless hours worrying about the next economic or share market meltdown. We don't generally spend quite as much time preparing for a personal financial crisis that you have much more control over.

A focus on the slow and steady long-term issues that really matter and avoiding making decisions based on short-term emotions is critical. Specific financial advice could be obsolete in a matter of hours, days or weeks while the correct long term perspective can last a lifetime.

Article written from a review of the book,
" The Behaviour Gap" by Carl Richards

Life expectancy forecast to exceed 90 years in coming decades



A group of international scientists have predicted that life expectancy will soon exceed 90 years for the first time. This is overturning all previous assumptions about human longevity that were the norm at the start of the 20th century.

For example, women born in South Korea in 2030 are forecast to have a life expectancy of 90, and in other developed countries, life expectancy is not far behind. This is now raising questions about the health and social care that will be needed by large numbers of the global population living well into their 80's and beyond.

The findings are from an international team of scientists funded by the UK Medical Research Council and the US Environmental Protection Agency, and come with caveats. It is impossible to accurately forecast the natural disasters, disease outbreaks or climate changes that may take a toll on lives around the world.

But the study in the Lancet medical journal shows a significant rise in life expectancy in most of the 35 developed countries studied.

A notable exception however, is the US, where a combination of obesity, deaths of mothers and babies at birth, homicides and lack of affordable access to healthcare is predicted to cause life expectancy to rise more slowly than in most comparable countries.

The authors point out that the US is the only country in the Organisation for Economic Cooperation and Development (OECD) without universal healthcare coverage. "Not only does the US have high and rising health inequalities, but also life expectancy has stagnated or even declined in some population subgroups," write the authors.

The big winners are South Korea, some western European countries, and some emerging economies. France is second in the league table for women – as it was in 2010 – at 88.6 years, and Japan is third on 88.4 years after decades with the longest life expectancy in the world. Men born in 2030 are predicted to enjoy life expectancy of 84.1 years in South Korea and 84 years in Australia and Switzerland. Among developed nations, South Korea is likely to see the largest increase in life expectancy, with women born in 2030 averaging 90.8 years, 6.6 years longer than those born in 2010.

South Korea's league-topping performance is due to improvements in its economy and education, say the authors. Deaths among children and adults from infectious diseases have dropped and nutrition has improved, which has also led to South Koreans growing taller. Obesity, which causes chronic diseases such as diabetes, heart problems and cancer, has not become a huge issue, and fewer Korean women smoke than in most western countries.

Other countries with high projected life expectancy such as Australia, Canada and New Zealand have high-quality healthcare to prevent and treat cancer and heart disease, few infant deaths, and low smoking and road traffic injury rates, says the paper. In New Zealand, 65 year old men and women can expect to live to around 84, and 90 respectively.

In contrast, most African countries have a significantly lower average life expectancy, with poverty, lack of adequate diet, inadequate supply of clean water, infectious disease, high death rates of mothers and babies, and inadequate medical care taking a significant toll on both adult and child mortality statistics.

The overall global increasing lifespan will require more attention to the health and social needs of elderly people, say the authors.

In particular, we will need to both strengthen our health and social care systems and to establish alternative models of care, such as technology assisted home care."

Where to from here?

The implications for the current young working generation are profound. For taxpayers, the question around future funding of state funded superannuation entitlements, increasing costs associated with residential care subsidies, and health care for the elderly is becoming the elephant in the room. As a result, the younger global working age population can expect a higher tax burden and will be also be expected to fund a greater proportion of their own retirement funding needs. Starting a retirement savings strategy early will be key (Starting with Kiwi saver) and also getting appropriate advice around other wealth creation strategies to compliment Kiwi saver will be essential.

For New Zealanders at or near retirement, the increase in life expectancy also has profound implications. If they want their money to last as long as they are likely to live, simply leaving it stagnating in bank accounts is a poor strategy. Over the long term, bank term deposits do not keep up with inflation, taxes and living costs. This will almost certainly lead to a reduction in quality of life as money runs out, or fails to keep up with the cost of living. An active investment strategy for keeping retirement money working to maintain spending power in retirement will be essential to make sure that their retirement capital continues to work for them.

Article written from excerpts from The UK medical Research Council, the US Environmental Research Agency research paper, and the Lancet Medical Journal.

Automatic Exchange of Information initiative (AEOI)

As a financial institution, Accordia is required to meet all obligations relating to the implementation of the Common Reporting Standard (CRS) in New Zealand. The CRS provides the mechanics for the OECD's Automatic Exchange of Information (AEOI) initiative – a regime designed to increase tax transparency and the sharing of information between tax jurisdictions around the world.

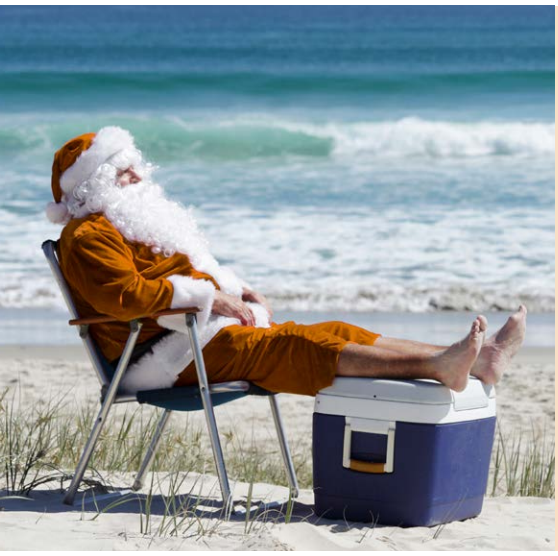
Several years ago, the US government signed bilateral agreements under Foreign Account Tax Compliance Act (FATCA) legislation, with many countries including New Zealand. Since then, the OECD crafted the Multilateral Convention and Multilateral Competent Authority Agreement, which has been signed by over 100 jurisdictions. The participating jurisdictions committed to the automatic exchange of information using the CRS.

Accordia is a Reporting New Zealand Financial Institution, and as such is responsible for collecting client tax information and reporting to Inland Revenue (IRD).

There are four types of financial institutions: custodial institutions, depository institutions, investment entities and specified insurance companies.

The new rules will affect anyone who is not a New Zealand tax resident but holds financial assets in New Zealand, as their financial information will be reported back to the jurisdictions where they are tax resident; And anyone who is a New Zealand tax resident and holds financial assets in other participating jurisdictions, will find that their financial information will be reported back to the New Zealand IRD by those other jurisdictions.

As we contact you at review time, your Accordia adviser will be checking with you to determine whether you have any offshore tax residency status, and if so, we will need to ask you for your tax Residency Number in the country concerned.



Christmas Break

Our offices will close at midday on Friday December 22nd and re-open on Monday January 15th. Emails and phone messages will be checked regularly over the break, so you can still contact us if it's urgent. Our best wishes for a relaxing break over Christmas from the whole Accordia team and our Investment Managers at Caliber.

Andrew, Selwyn, Sian, Sarah, Rodney, Mark, Michael, Jason, Kim, Trudy, Danielle, Zoe and Peter.

Accordia Freephone **0800 444 999**

Accordia Email service@accordia.co.nz

Accordia Christchurch Unit 4B, 303 Blenheim Rd

Accordia Auckland Level 7, 203 Queen St

Accordia Hamilton 22 Westminster Place

accordia

www.accordia.co.nz