REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Rede’s 7 Tips to Financial Understanding

1. You can’t start saving too early

Albert Einstein is attributed with the quote that compound interest is the 8th wonder of the world, and it probably is. If you start saving at 20, you need to only contribute half as much money a month as would be the case if you start at age 30. Even using a low 5% a year return, money doubles in 14 years, quadruples in 28 years, and rises eightfold in 42 years.

2. Dollar-cost-averaging works

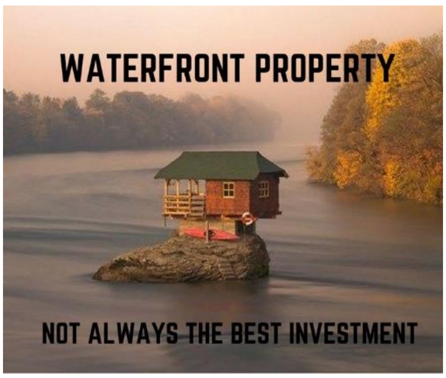
If you are going to save regularly for a long period (KiwiSaver or private superannuation) then save into volatile assets that rise and fall with markets. You will not only earn the higher return that the more market related assets produce, you will also earn an added premium by buying assets when they are cheaper. Evidence clearly shows an increased return, around 2% on average, above the market return, and the investor lowers their risk by taking advantage of lower prices.

3. Risk and reward are related but not guaranteed

Financial theory academics like Harry Markowitz and William Sharp have developed sophisticated explanations linking risk and return. These models assume if you hold risky assets long enough you will eventually get rewarded with a higher return. This is normal but not guaranteed. If you buy assets at the peak of their inflated prices, it may take decades to recover your losses. Modern portfolio theory measures risk using Standard Deviation (volatility). Risk is not only related to volatility, it is also about loss of capital. That is why investors should always hold cash in their portfolios, and if they have a plan in place they should never be concerned if markets go down tomorrow – that’s just volatility!

4. Property investments should be leveraged

Using other people’s money to own real estate is a proven successful recipe. Having a bank advance you a mortgage, and then having the tenant pay the mortgage off over time is logical. What makes this equation even better is that the tax man allows you to claim the interest paid as a deductible expense and to off-set any paper losses against other income. In simple terms, leveraging your investment property to prudent levels can significantly increase your return on your capital investment.



5. Long-term returns will be lower in the future

This is just maths. The return from equities (shares) is a "risk premium" on top of the short-term cash rate. Short term cash rates are now very low and are predicted to stay low for longer. The OCR (Official Cash Rate) in New Zealand is 1.75% and this is a good proxy for the return on cash. It has been calculated by the London Business School that the risk premium for shares is now around 3.50%. This tells us that we should expect 1.75% plus 3.50% = 5.25% as our net expected return. This is a significantly lower return than recent times where even low risk portfolios have averaged in excess of 5.25%. Bonds and Government Stocks will also follow similar lower returns expectations giving us lower portfolio returns overall.

6. Diversify globally

Diversifying your investments protects investors against currency risks and political mistakes. If New Zealanders only invested in New Zealand, then we are effectively deleting 99.80% of the worlds opportunities. The U.S. currently makes up more than half of the worlds capital markets, however economic power is always shifting. More than half the world's population lives in Asia and it is easy to see a shift of economic strength away from western economies and markets, towards Asia. What happens to New Zealand's currency if we contract Foot and Mouth, or have another major earthquake? Global diversification is the New Zealand investors insurance policy.

7. Advice is worth every cent

Perhaps I should say "**GOOD ADVICE**" is worth every cent. Having an adviser providing you with a plan has been calculated to deliver the investor 2.50% more over time than an investor with no adviser and no plan. This is called the Adviser Alpha. Advisers don't have to be gurus, they just need to know their stuff. Investors working with Rede don't expect their advisers to make them rich, that's their job. What our investors want from their advisers is to not become poor. Good advice stops investors making silly decisions and good financial plans encourage great financial outcomes.

"I retire on Friday and I haven't saved a dime. Here's your chance to become a legend!"

CALL US
(03) 964 4207

EMAIL US
office@rede.co.nz

POSTAL ADDRESS
PO Box 4160
CHRISTCHURCH 8140

STREET ADDRESS
Level 4, 123 Victoria Street
CHRISTCHURCH 8013