NZ FUNDS
PRIVATE WEALTH

U3A Dunedin Resource Pack

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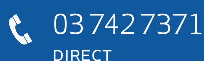

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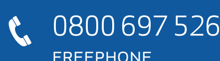

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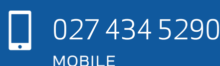

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Think about what sort of relationship you need with your financial adviser

MANAGING FUNDS
PETER ASHWORTH

LAST month I had the privilege of speaking at a friend's funeral. Thankfully, in this case, it was the celebration of a full and highly successful life. As I reflected on the life of my friend it occurred to me that much of his success in life was related to his ability to forge strong relationships.

Like a great many effective and self-aware people, he knew what he was good at and he knew how to use the skills and talents of others in areas he was not experienced in.

In my role as a financial adviser I frequently meet people who find themselves at a junction in life that requires experience and knowledge they do not have. Typically at this point, they have come into some money, perhaps from an inheritance, or they acknowledge they need to start putting money aside for their retirement. These people need the expertise of a financial adviser, but financial advice comes in different shapes and sizes. Giving thought to what sort of a financial advice relationship best suits you is a wise thing to do before going in search of expertise.

As a starting point financial advice can be broadly described as falling within three categories:

Execution Only. In this case you already have a strong view on what investment you want and you are looking for someone to help you purchase it. Your primary driver may be lowest cost. To use an analogy, I liken this service with that provided by your local butcher. You know what you want, say steak, and he or she will be able to sell it to you at a given price. You do not expect, or pay for, dietary advice from your butcher.

Investment Advice. Perhaps you have a specific sum to invest. You may have a defined timeframe and some thoughts on how much risk (variability of return) you will be comfortable with. You may want advice about the initial investment and you may, or may not, want to receive ongoing advice about the management of that capital and whether that investment continues to remain appropriate for your needs. This investment is likely to be just a subset of your total wealth. To take the culinary analogy one step further: you have gone to an Indian restaurant and ordered a mild vindaloo.

Financial Planning Advice. In this case you are most interested in understanding if you are on track to achieve your financial goals; at what rate can you safely spend your savings, or how much do you need to save to retire in style? The adviser will collect more detailed information about your current situation, assets and liabilities, risk profile, income, cashflow and future aspirations — anticipated retirement date and desired standard of living. Based on this information they will produce you a personalised plan that is likely to include cashflow projections and supporting investment recommendations. The analogy is not perfect, but the advice of a dietitian that has developed a meal plan and an exercise programme is probably closest to this service.

The classification system I have described contains many generalisations, but I hope you can see the three forms of advice are very different in their composition. Of course, they are likely to vary in cost too in line with the time and level of expertise involved. In some cases clients may transition from one service to another. For instance, a client may initially just want investment advice but, as their situation becomes more complex, they may seek out financial planning advice.

I started this column by reflecting on the value of successful relationships. I am not suggesting that any one service is necessarily better than another, but I do think that putting thought into what service best suits you before going in search of it is likely to lead to a more successful and long-standing relationship with your financial adviser.

Peter Ashworth is a principal of New Zealand Funds Management Limited, and is an authorised financial adviser based in Dunedin. The opinions expressed in this column are his own and not necessarily that of his employer. His disclosure statements are available on request and free of charge.

Seven questions you should ask your financial adviser

MANAGING FUNDS
PETER ASHWORTH

I HAVE been writing this column for more than three years now and at times I have worried that finding topics that are relevant and of interest may become more difficult as time goes on.

However, "the world" always seems to deliver up new topics. This month's subject is a matter that I would rather not be commenting on, but given recent newspaper headlines, the topic of trust is very much the elephant in the room.

I suspect that it is one of life's truisms, that in any profession where trust is given, that trust will sometimes be abused.

Sadly, my profession is no different.

Given that this is a reality, I thought it would be helpful to consider what questions you should ask a prospective adviser (or your existing adviser) about their money handling and organisational procedures.

Who holds the ownership of the investments?

The separation of roles and responsibilities plays an important part in protecting your money against fraud. In pooled investments like managed funds and KiwiSaver the underlying investments are not held in your name, but they are held by an independent custodian (e.g. The New Zealand Guardian Trust Company Ltd) who also acts as the supervisor, or who is appointed by the supervisor.

The supervisor's role is to hold the assets on trust and to supervise the manager's performance of its functions and its obligations as issuer. The important point here is that there is clear separation between the assets that the investor owns and the person or organisation that is providing investment management services.

The investment manager could fail financially but they cannot call on client assets to support themselves, as they are held by the custodian and, as such, they are out of reach.

Where are you depositing your investment capital?

The key matter here is to always make sure that your investment capital is being deposited to a trust account. A trust account operates under strict reconciliation and audit requirements.

Funds within a trust account are held separately from the operational bank account of a business. It is entirely appropriate that any fees that you are paying are paid into the advisory firm's business bank account, but never any investment capital.

How can I be sure that the price that is applied to my units reflects their current value?

All licensed managed investment scheme managers are required to have in place documented valuation and pricing methodologies, and processes and controls to minimise the risk of pricing errors and non-compliance with those methodologies. In addition, all managed investment schemes (e.g. KiwiSaver schemes) are required to prepare financial statements which must be audited by an independent auditor every year.

Numbers game . . . Ask financial advisers handling your portfolio key investment questions. PHOTO: GETTY IMAGES

Does the firm operate a consistent advice process and how is this reviewed?

Few clients want to receive advice that is based on a "one size fits all" approach. The provision of personalised advice is quite the opposite of this. However, at the other extreme, a highly complicated portfolio with investments that are difficult to understand can make it more susceptible to fraudulent activity. I believe that there is a lot to be said for applying a consistent approach to how each portfolio is constructed and the type of assets that can be held.

A formal peer review system within the business will also reduce the chance that wildly different advice recommendations can exist.

Does the organisation require staff to take compliance leave?

It turns out that the majority of fraud is not detected by audit processes but is discovered when a staff member is on annual leave. As a result of this, some organisations require that their staff take regular compliance leave. During a period of compliance leave, the staff member must be disconnected from all organisational management and email systems and their role must be undertaken by another person.

Do you receive third-party verification of your investment holdings?

By a third party, I just mean someone else other than the adviser that you deal with regularly. It can be frustrating for clients but if, in addition to the regular reports you receive directly from your adviser, you also receive a statement of holdings from a third party, this provides a further safety check.

Do you have the ability to check your investment online?

Yes, sophisticated fraudsters have created online platforms with false reporting, but this is unusual. The transparency required to allow online, real-time reporting is usually a step too far for New Zealand-based fraudsters.

As mentioned in the introduction, sadly, where trust is given, trust will sometimes be abused.

The questions listed above are not definitive and the inability of your adviser to answer "yes" to all these questions does not necessarily mean that your capital is at risk.

However, risk management is a numbers game and the more ticks, the better.

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NZ FUNDS

Are you a rational investor?

A client's guide to risk and risk profiling

Issued by New Zealand Funds Management Limited
July 2020

This document replaces the previous dated Feburary 2018.

We would all like to find an investment which provides good returns with no risk. Something that will keep pace with inflation and perhaps grow our wealth – just a little faster than our neighbours – without losing money along the way.

When investors have found what they believe to be a medium to high returning asset with little or no risk, the experience has more often than not ended badly. Unfortunately, while these expectations are common, they present a dilemma as returns and risk run in opposite directions. We propose a compromise: a level of risk clients feel comfortable with, in return for the opportunity, but no guarantee, of a rewarding return.

JUST WHAT IS RISK?

This guide discusses risk and the process NZ Funds has developed to measure the level of risk clients feel comfortable with, which is also known as a 'risk profile'. A client's risk profile can be used to provide them with an investment portfolio customised in a way that accurately reflects their personal risk, return compromise.

Risk can be perceived in a number of ways. Typically clients view risk as the chance of getting back less money than they originally invested. But risk manifests itself in other, equally important ways. For example, the risk of being unable to sell an investment when it is needed, or the risk of failing to mitigate the effect of inflation over time.

A FRAMEWORK FOR MANAGING RISK

NZ Funds has developed a framework that helps clients address risk in a systematic way using three concepts: risk compartmentalisation, risk capacity and risk tolerance.

1. Risk Compartmentalisation

Research suggests that clients have not just one, but multiple attitudes towards risk. For some goals their risk tolerance may be low, while for others risk tolerance may be high.

For example, many people have a household budget for food and a household budget for travel, and they regard each quite differently.

Behavioural finance professor Meir Statman observed that, historically, "many people kept their money for rent, furniture, groceries and so on, in separate jars".

He referred to this behaviour as mental accounting, or risk compartmentalisation. NZ Funds, together with the financial advisers we partner with, wish to enable clients to adopt a similar mental accounting approach when thinking about their investment portfolio. It often helps to think differently about short-term and long-term investments.

To achieve this, NZ Funds has built an investment platform which matches each client's investment portfolio to one of four fundamental goals: Cash, Income, Inflation or Growth. These are known as investment categories. Each investment category has one or more sub-portfolio. Each sub-portfolio's risk profile is designed to reflect the level of risk needed to achieve the goal of the category it sits in.

By allocating a portion of clients' capital to the portfolios within the Cash and/or Income investment category, we seek to ensure clients' cash flow and liquidity needs can be readily met from assets invested with less volatility and risk.

For the bulk of clients' capital, where their goal is to mitigate the impact of inflation on their wealth, investments are chosen with a little more volatility and risk in order to increase the chances of offsetting inflation.

Finally, we take into account the combination of clients' risk capacity and risk tolerance when recommending an appropriate allocation to the Growth investment category as this category is most likely to exhibit high volatility and risk on a regular basis.

Compartmentalisation of risk provides clients with a series of investment portfolios with risk profiles which range from low to high. What the right mix of these portfolios is depends on each client's personal circumstances and in particular the combination of risk capacity and risk tolerance that is unique to them.

Advised Portfolio Service investment categories:

CATEGORY	OBJECTIVE	MINIMUM SUGGESTED TIMEFRAME	PORTFOLIO
Cash	To provide a source of capital.	1 month+	Core Cash Portfolio
Income	To provide exposure to income assets.	2 years+	Core Income Portfolio Global Income Portfolio
Inflation	To mitigate the impact of inflation on your investment over the medium and/or long term.	5 years+	Core Inflation Portfolio Equity Inflation Portfolio Property Inflation Portfolio
Growth	To grow your investment over the long term.	10 years+	Core Growth Portfolio Global Equity Growth Portfolio Dividend and Growth Portfolio

2. Risk Capacity

Risk capacity assesses a client's ability to recover from a period of negative returns. NZ Funds uses age as the prime determinant of risk capacity.

In general, the younger a client, the greater their risk capacity. For example, following a sharp fall in the value of an investment a 40-year old has more time to add to their investment or wait until it recovers before drawing down on it, than a 75-year old.

In practice, a client's age is only used as the starting point for determining a sensible split between the Defensive Portfolio Service (made up of the Portfolios in the Cash, Income and Inflation investment categories) and the Growth Portfolio Service (made up of the portfolios in the Growth investment category).

If a client's investment portfolio is over allocated to the Growth Portfolio Service, it is likely to prove more volatile than they will feel comfortable with given the number of years they have available to recover any drop in value. This increases the risk that they withdraw from the portfolio to 'save' the capital they have, which often occurs at the worst possible time. On the other hand, if a client takes too little risk in their portfolio then they may not be able to achieve their personal goals over the long term.

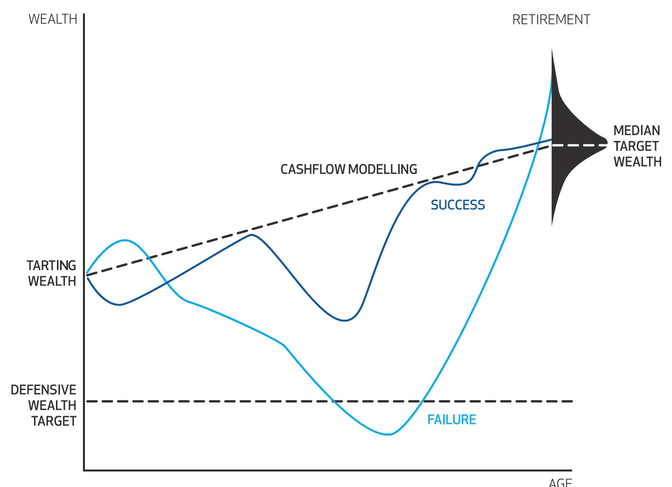
Either way, ensuring clients' investment portfolios have an allocation to growth orientated assets which matches their age-determined risk capacity is an important step toward maximising their investment outcome. But to ensure clients are able to invest for a long enough period of time to realise the benefit of owning growth assets, we need to take their emotions into account as well.

3. Risk Tolerance

Risk tolerance is a measure of clients' ability to tolerate investment market volatility. Risk tolerance is important because clients tend to invest with the rational side of the brain and withdraw with the emotional side. Most decisions to invest are grounded in reason based on what the investment may be worth in ten or twenty year's time. However, once an investment is made, clients tend to 'keep score' along the way. If progress is not linear, they become either disappointed or outright fearful, both of which are emotions that lead them to break with the original plan and redeem. As a result the journey that a client's portfolio takes is as important as their initial return objective.

Figure 1 suggests that although the investment choice shown on one line (light blue) generates a higher return, the journey did not match the client's tolerance for risk and so the potential return was never realised. The second investment portfolio, which followed a smoother path (dark blue), proved to be more aligned with the client's risk tolerance, and consequently led to a better final result, even though it did not 'optimise' the client's potential level of return.

Figure 1: Why the journey matters



While straightforward enough on paper, dealing with even a modest downturn can prove challenging for clients, especially when changes in their personal circumstances are overlaid on top. This is where a financial adviser can make all the difference.

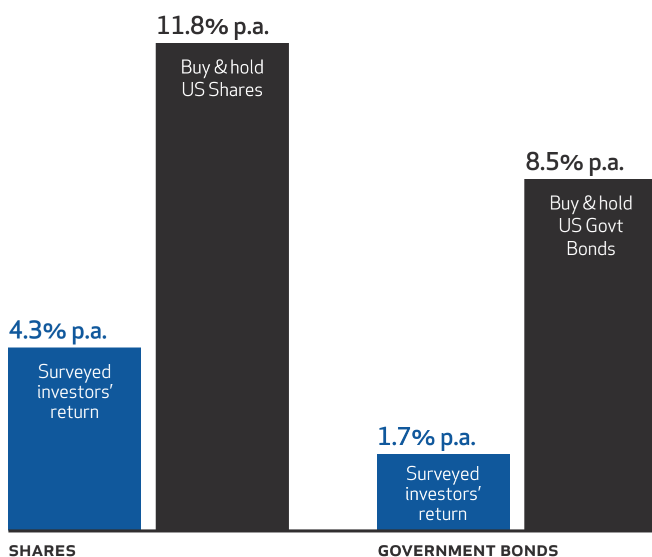
HOW YOUR FINANCIAL ADVISER CAN HELP

Left to make investment decisions alone, clients often make choices that negatively impact their investment returns, or reduce the likelihood that they will achieve their long-term investment objective. For example, in an effort to avoid losing money, clients frequently invest after a period of strong returns. While the strong historic returns may make clients feel better about the decision to invest, ultimately their investment experience will be determined by what happens next. Such behaviour may ironically increase the risk that clients will lose money. By waiting for a rise in investment markets, clients end up purchasing assets which are more expensive, and therefore more vulnerable to a fall in value.

This tendency to buy high and sell low is one of the reasons why, globally, individual investors on average only receive a very modest proportion of the overall return of the asset class they invest in, as the figure 2 graph attests.

However, there is another way to build the confidence necessary to invest, irrespective of the current mood of investment markets. That is through working with a financial adviser. By working with a financial adviser, clients are more likely to build an appropriately diversified investment portfolio early on. This in itself should help reduce the pressure clients feel during periods of investment market volatility. Perhaps just as importantly, an experienced financial adviser can help make difficult investment decisions along the way, in a more reasoned (and less emotional) manner. For example, if a change in investment markets – or personal circumstances – means a client has to access their investments, there are a number of different ways this can be done and a number of different timeframes over which to do it. While each client's circumstances will be unique to them, talking with someone who might have met with an average of three or four clients a day for the last ten or twenty years can be helpful in identifying what options are available. The best option will often depend on how clients' responded in their risk profiling questionnaire.

Figure 2: Why manage risk: 20-year returns from 1987 to 2006



Source: 2007 dalbar qaib report

YOUR RISK PROFILING QUESTIONNAIRE

NZ Funds' risk profiling process includes a number of insights gained from the study of behavioural finance. In particular, it includes questions to determine clients' emotional composure. This is then combined with clients' cognitive or 'thinking' assessment of their risk profile. The combination of both assessments has the potential to lead to a more realistic assessment of how clients might react during periods of weak investment market returns.

NZ Funds' risk profiling questionnaire stretches to 21 questions. Although it may take five minutes to complete, research indicates that an increased number of questions can improve the questionnaire's reliability.

The risk profile questionnaire is made up of a mix of thinking (cognitive) and feeling (emotional) questions. The cognitive questions have been chosen from categories that are most likely to be relevant (or correlate with) clients' risk profiles. The final questions ask clients about actual investment choices they have made in the past, including tradeoffs, positive and negative experiences, levels of personal investment knowledge and self assessments. We believe the inclusion of an assessment of a client's emotional composure greatly improves the accuracy of the process.

From the answers to these questions, a two dimensional risk profile can be assembled. This shows how much risk clients think they should take to meet their goals against how much risk they are capable of taking before changes in their investment portfolio value begins to impact on their emotional wellbeing.

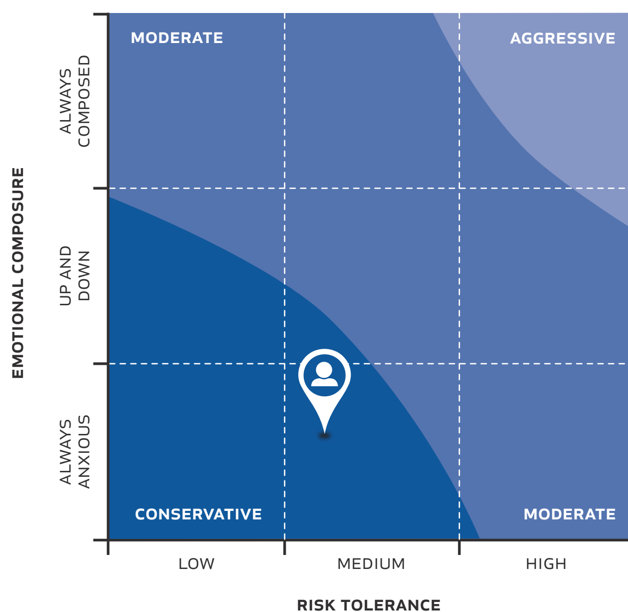
CLIENT FEEDBACK

Prior to launching the risk profiling process, a number of existing clients completed the questionnaire. This enabled us to establish that the questions were understandable, took no more than five minutes to complete and were capable of resulting in a wide dispersion of risk profiles from conservative to aggressive.

Over time, as clients' knowledge of investing and risk increases and their experiences in life and investing evolve, it is likely that their risk tolerance and emotional composure will change. To address this, financial advisers should re-assess clients' risk profiles every 12 to 18 months.

The risk profiling questionnaire is available for clients to use online. As clients complete the questionnaire, we will be able to show them how they compare with other clients who have already completed the questionnaire.

Figure 3: Risk profile output



This client outcome shows a client who wishes to assume a medium level of risk in order to meet their goals. However, their relatively anxious emotional composure would result in them being better suited to an investment portfolio constructed with a conservative risk profile in mind.

SUMMARY

Our aim is to continually improve the risk assessment tools that clients and their financial advisers have available. The more accurate the risk profiling process is, and the richer the risk conversations between clients and their advisers, the more likely clients are to have an investment portfolio which accurately reflects their desired trade off between risk and return.

If you would like to update your risk profile, or discuss your investment portfolio in further detail, please contact your financial adviser or NZ Funds' client service team.

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BUSINESS & MONEY

MANAGING FUNDS

PETER ASHWORTH

Investors should be conscious of three types of risk

AS we approach the festive season and look forward to spending time in the company of family and friends, the events caused by the eruption of Whakaari-White Island seem all the more tragic.

For those caught up in this event, what should have been an interesting and exciting end to 2019 has ended in suffering and grief.

To me it is a salient reminder that in life we run risks all the time. Sometimes we take these risks knowingly and at other times we do this through ignorance.

The reality is when we don't experience a negative consequence personally, we can easily become complacent; we end up discounting the true risk that we are taking.

I was recently talking with a client who works as a chemical engineer in petroleum exploration. He explained in that industry there are some potential outcomes so horrendous merely reducing their probability is not enough. The goal has to be the practical elimination of those risks.

As an adviser, I encourage my clients to think about the risks they face when investing under three headings: volatility risk, liquidity risk and the risk of permanent capital loss.

Volatility risk relates to the variability of returns. This risk is the one most clients intuitively understand; you can accept a low return with low volatility, or you can seek a higher but more variable return. Your ability to profit from this risk is generally governed by your investment timeframe (i.e. how long you can wait to achieve the desired return) and your investment temperament (i.e. are you emotionally capable of continuing to hold an investment during a negative period?).

The risk questionnaires advisers often have their clients complete before making investment recommendations seek to understand the clients' response to volatility.

Once this parameter is understood, an adviser can create a portfolio blended from cash, fixed interest, property and share investments.

There are good statistics to help guide both the client and the adviser in the discussion about the trade-off between the average rate of return they may receive and the risk they are taking.

However, it is important to understand investors can transform volatility risk into permanent capital loss if they lose their nerve and exit at the bottom of a market cycle.

The second risk is liquidity risk. This is the risk that you might not be able to access your investment when you need to, or you may need to sell at a discount to access it.

Direct property investment is an example in which liquidity risk can exist. The difficulty is that quantifying this risk in advance is problematic.

Whether you can find a buyer at the price you want at some future point in time is generally unknown. If you are going to accept liquidity risk, then what additional return should you be paid as compensation? In my view, many investors tend to discount this risk.

The third risk relates to the possibility of permanent capital loss. For most clients, this risk is not too dissimilar to the extreme risk described by my chemical engineer. The impact of permanent capital loss can be catastrophic. Holding several separate investments can help manage this risk. However, the experience of investors in finance companies during the Global Financial Crisis showed it is possible for an entire sector to come under pressure and experience permanent capital loss. Fraud is another potential source of this risk.

The reality is humans have short memories. When investment markets have performed well for an extended period (as has generally been the case of late) we often underestimate the risk we are taking.

Investment risk can never be completely eliminated and, in fact, it is the acceptance of risk that helps drive return. However, as mentioned in introduction, it is the risks we are taking through ignorance that tend to blindside us. The role of an experienced adviser can help you identify and manage the range of investment risks you face.

Wishing you and your family a risk-reduced festive season.

Peter Ashworth is a principal of New Zealand Funds Management Limited, and is an authorised financial adviser in Dunedin.

Retirees' guide to surviving a falling market

MANAGING FUNDS
PETER ASHWORTH

IN last month's column I discussed the impact that falling markets can have on those clients who are in the saving phase of their lives. I concluded, somewhat surprisingly, that for those clients who are disciplined and invest in a certain way that negative markets can help build wealth.

Although this conclusion is valid for half of the population (i.e those in the wealth accumulation phase of their lives), what about those clients who are retired, and are looking to receive a sustainable level of drawings to help fund their living costs?

The simple answer is, that for retired people, a falling market environment has to be endured rather than benefited from. It is a time when the way that the portfolio is "engineered" will become a critical determinant of whether the strategy will be able to sustain the same level of drawings when markets turn negative.

Don't cut down half-grown trees. For retired clients the way in which the portfolio is constructed has a lot in common with a diversified farming operation. Within a farm there will generally be a number of different crops grown. Each crop represents a different future income stream and will often have a different maturity timeframe. The same logic can be applied to the construction of a retiree's investment portfolio.

The cash component of a client's portfolio is the short rotation, low yield, but stable return crop. It is the part that will meet a client's income needs over the short term, however, it will need to be "re seeded" from other capital from within the portfolio as it will be consumed over time. Fixed interest and bonds are your midterm crops. These will tend to have longer rotations but will also generate higher returns than cash.

These midterm crops are complemented and supported by longer rotation crops. In an investment context, this is your property and share exposure. In negative market conditions it is critical that you are not forced to sell undervalued assets to buy the weekly groceries.

This would be as absurd as a farmer cutting down a half-grown radiata pine plantation to provide short-term cashflow. If you had to do it you would, but it is only going to generate a fraction of the value in comparison to holding that crop to maturity. In the investment world this approach to the construction of a portfolio is known as goals-based investment and it is an approach that I advocate for most of my retirees.

Don't be tempted into over-investing in one asset class. The rate of technical disruption that we are facing in our society is staggering. At the moment we are seeing the impact that the internet is having on high street retailers and this is just one example. Who the winners and losers of any given technology might be and what the impact that will have on asset prices is incredibly difficult to gauge. Yes, there will be new exciting investment opportunities but are you the best person to pick these? On the "flip side" there will also be investments, that are currently considered "rock solid" which will turn out to be less valuable and in some cases next to worthless. It might sound a little boring, but in the face of such change, holding a well-diversified, highly liquid portfolio of cash, bonds, property and shares is your best defence.

Retirement is not the time to take a "double or quits" approach to your investment strategy by investing in a single asset class or, even worse, a single asset within that asset class.

There is much more that can be said about this topic, but in summary, my retiree's guide as to how to cope with a negative market environment has three elements :

Make sure your portfolio is well engineered so that your living costs can be drawn from capital stable investments for an extended period if need be. This will allow growth assets to recover their value before they are "harvested".

Avoid the temptation to oversimplify matters by investing in a single asset class. The world is changing: the "thoroughbred" you were sold today just might turn out to be tomorrows "nag".

And finally, don't listen to market news too much. Get on and enjoy your retirement. After all, you have worked hard for it.

• ***Peter Ashworth** is a principal of New Zealand Funds Management Ltd, and an authorised financial adviser based in Dunedin. The opinions expressed in this column are his own and not necessarily those of his employer. His disclosure statements are available on request and free of charge.*

Either or . . . The transition to retirement is a time when the habits and behaviours previously established (both money and health) either start to pay "dividends" or the reality that we have not done enough looms large. PHOTO: GETTY IMAGES

Signposts of financial success post 65

MANAGING FUNDS

PETER ASHWORTH

IT was back in September that I started this column series to identify the behaviours of financially successful people.

I started with those clients in their 20s and then moved through the subsequent decades considering the various "markers" at each point.

If we assume that you have now made it to age 65, then you are entering what I term the active post-paid-work phase. You will notice that I have avoided the use of the "r" word.

Today the concept of a traditional retirement, complete with a gold watch, is largely a thing of the past. I now more often see a phased transition from full-time employment to an active retirement which includes a mix of paid and voluntary work. This phased transition from full employment to full retirement allows for both economic and emotional adjustment.

This is a time when the habits and behaviours previously established (both money and health) either start to pay "dividends" or the reality that we have not done enough looms large. If you are female and aged 65 then (on average) you can expect to live until age 89. Take three years off that if you're male. This means that on average your retirement will span three market cycles, so expect and be prepared for some economic uncertainty during your retirement years.

My observations of those who navigate this phase well, is that they manage to understand both the psychological challenges as well as investment matters. There are of course entire books dedicated to this subject but in summary some of the psychological aspects are:

- What is my purpose in life now? For a number of people this transition can trigger a mini identity crisis. If you can, try to manage this phase so that you are retiring to something rather than retiring from something.
- You may need to rethink your investment persona. There are two potential traps here. There is an old saying in wealth management: "Concentrated risk can build wealth but it is diversified risk that protects wealth". If you have made your money by being highly successful in one particular area, e.g. manufacturing or farming, it is tempting to carry this mindset into retirement by investing in just one thing (so-called single-asset risk).

This approach may continue to work well for you, but is this the time to double down on investment risk?

Diversification means that your portfolio will never perform at the level of the current "hot" investment but it also means that the chance of permanent capital loss is almost eliminated. When you stop paid work, you may have just added the last dollar to your investment portfolio. For some people this experience causes them to become overly conservative and leads them to overinvest in term deposits. If you become too risk averse, then your capital might not last for the 30-plus years that it could be needed.

- Who are you trying to please; where do your needs and wants sit relative to others? At times it is hard to stop being a parent, but what are the implications of being overly generous to children and others?

In addition to the psychological there are also some financial markers that identify successful people.

- They have established a dollar-wealth target in advance so they feel more in control of their situation. They are relaxed because they have known for some time that they are on track.
- They know what it costs them to live. It sounds simple, but two years out from retirement successful people have already identified their expenses as they relate to basic living costs, recurring capital expenses and special activities such as travel. They then live on this amount in advance of retirement and save the rest.
- If capital is sufficient, they will often establish two portfolios. The first portfolio is organised in such a way to provide for their ongoing living costs throughout their retirement years. It may be managed conservatively but it will generally contain some growth assets (shares and property) to ensure that it can last the journey. A second portfolio will often contain the funds not required for the first purpose. Because it is unlikely that it will be required to fund living costs it can follow a more growth-focused strategy. We hope that this account will ultimately fund inheritances or, at the very least, an expensive funeral. This two-fund approach also allows people to see the implications of bringing forward any advances to children.

As I have said in previous columns I don't believe that accumulation of money is an end in itself. However, this is one of the key times in life where having sufficient money provides choice. That choice could be as ambitious as a European holiday every year, or as modest as being able to pay for the petrol to get to your favourite fishing hole on opening day.

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Signposts of financial success for those aged over 80

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LAST year this column ran a series of articles which focused on various age groups and the types of financial decisions that influenced their overall wealth.

I found it interesting that many of those "markers" of success were not related to earning capacity, but due to learned behaviours. In December's column I considered the 65-plus age group and I thought my article series had come to a natural conclusion. However, a recent client meeting reminded me that there is a further age group worthy of specific mention: the 80-plus group.

Not too many years ago this group would only have been mentioned as a footnote. Today this group makes up 12% of the population over 65 and statisticians tell us this number is likely to double over the next 30 years.

One of the realities of this age group is that it is generally a period when we can expect to experience some cognitive decline. Overseas studies have shown that at age 80 about 15% of the population will have some form of dementia and the rate doubles every five years as age increases.

The reason for including these statistics is not to cause a bout of depression, but to highlight that if success in one's early years is driven by learned rational behaviours, then we cannot necessarily rely on these same behaviours to continue in our twilight years.

This is a time when prudent behaviour needs to be "hard-wired" by good systems, trusted relationships and legal structures.

So what behaviours need to be hard-wired to protect this group?

Trusted Relationships: Longstanding relationships are important, but it is critical to avoid conduct behind closed doors. Regardless of whether it is a trusted neighbour, or the client's financial adviser, one way to stay safe from potential abuse is to maximise the visibility of advice and transactions. I encourage my clients of this age to bring a family member to their review meetings. If the client does not want to involve their family directly then I like to receive agreement to allow copies of any recommendations to be sent to another trusted adviser (perhaps their accountant or solicitor). If a trusted neighbour or family member is helping with finances, copies of bank statements need to be accessible (and reviewed) by another person.

No mere foot note . . . Over-80s now make up 12% of the population over 65 and are likely to double during the next 30 years. PHOTO: GETTY IMAGES.

Enduring Powers of Attorney (EPAs): I encourage all clients to see their solicitors and have current EPAs in place in relation to both Property and Personal Care & Welfare (these are separate documents).

Wills: Your ability to make and update a will is dependent on whether you have "legal capacity". Part of that legal capacity test relates to your state of mind. This is yet another reason for ensuring that your will is kept up to date.

This 80-plus phase can often involve significant financial decisions relating to the retention or sale of assets.

This can sometimes lead to conflicting views within the family and a parent who is confused about what to do. Having an independent person sitting at the table to assist with such decisions will have a short-term cost but it often generates a greater range of options and a more reasoned conclusion. In short, be prepared to pay for advice.

From my observation it is not all doom and gloom. To take the "glass half full approach", at age 80, 85% of the population will NOT have dementia. For most people their basic cost of living reduces in this phase of their life. However, this cost reduction can sometimes be more than offset by rest-home charges or increased medical costs.

For some clients, investment matters become simpler as their capital is drawn down over their remaining years. For others, the reality that they will most likely leave a considerable estate becomes evident.

This is a time when some clients choose to distribute capital to family and/or charities because they would like to see the benefits of their philanthropy while they are alive.

During this phase of our lives there are some issues many of us would rather not think about. But by putting some relatively simple systems and structures in place you can ensure your finances are not one of those worrying issues.

●*Peter Ashworth is a Principal of New Zealand Funds Management Limited, and is an Authorised Financial Adviser based in Dunedin. The opinions expressed in this column are his own and not necessarily that of his employer. His disclosure statements are available on request, free of charge.*