SNAPSHOT

MAXIMISE YOUR MIX

The research is clear: money leads to a better retirement. Surprised? No, neither am I. However, that is not the end of the story – having some money is one thing, but what you do with it is also essential.

The hardest thing in all of finance happens on retirement. When you stop working or sell the business, your reliable income stops. Instead of getting a pay-cheque every second Thursday, you have to take a lump sum and somehow convert that to a steady income.

The traditional Kiwi response to retirement income has been bank deposits with maybe a little fixed interest. This worked (sort of) when interest rates were high and longevity short.

However, with interest rates low and greater longevity, that old put-it-in-the-bank strategy no longer works. After tax, bank deposits barely keep up with inflation and 20 or 30 years of retirement income is not viable.

So, what to do?

To get a steady income which will continue through everything the economy will throw at you over the next few decades, you just cannot beat a diversified portfolio. No longer can you rely on only one asset class (e.g. bank deposits). Instead, you need a mix of shares, listed property, fixed interest and cash.

I have one compelling piece of advice: get your investment mix right. In the jargon, this is called asset allocation and means merely having the right proportion of shares, listed property, fixed interest and cash.

Too much in shares and listed property will mean many risks; too little will mean low returns. You need a goldilocks investment mix which is just right for you and your situation. Now would be a good time to sit down with your Investment Adviser and review what you have.

The other way to think about your investment mix is that over the long course of retirement there will be different economic events and climates: there may be inflation, deflation, boom and busts. No one single asset class will get you through every one of these kinds of events.

For example, bank deposits may seem nice safe and safe, but they may not perform well if there is deflation or a banking crisis. Similarly, shares do give better income returns through dividends, but that income may dry-up very quickly when boom turns to bust.

Each asset class has its characteristics and performs according to whatever is the prevailing economic weather. We never honestly know what is around the corner and, given the uncertainty over the long period of retirement, you need to have a bob on every horse in the race.

Have a chat with your Investment Adviser and ask some “what if?” questions – in effect, you need to stress test the portfolio to see how it will perform in different scenarios. A happy investor is one who will have some part of the portfolio performing regardless of what is happening in the markets.

Martin Hawes
Chair of the Summer Investment Committee

Martin Hawes is the Chair of the Summer Investment Committee. The Summer KiwiSaver Scheme is managed by Forsyth Barr Investment Management Ltd and a Product Disclosure statement is available on request. Martin is an Authorised Financial Adviser and a Disclosure Statements is available on request and free of charge at www.martinhawes.com. This article is general in nature and not personalised advice.