Financial Freedom

QUARTER 4 2015 NEWSLETTER

OUR SERVICES

- **Full financial planning**
- **Retirement planning**
- **Personal insurances**
- **Investments**
- **UK pension transfers**
- **Business protection insurance**

INSIDE THIS ISSUE:

Would you sooner receive your copy of our newsletter via email? If so please give me a call on 07 5715333 or let me know via email cathy@g3freedom.co.nz

The Investor's Chief Problem

Benjamin Graham was a famous investor who had strong views on investing. His investment approach was followed by many successful investors such as Warren Buffett, Peter Lynch and John Templeton.

Graham considered that investment was most intelligent when it was most businesslike. This meant that the investor is right because their facts and analysis are right, and not that others agree or disagree with them.

This suggests that investors need to have a reasonable and rational approach to investing. Most investors would agree with this proposition – investment that does not have a reasonable chance of providing a good return is speculation – or just plain guesswork.

For those who follow this investment approach, the proposition is that investing in a reasonable and rational (businesslike) manner leads to better outcomes. The assumption that investors make is that they can act rationally and therefore achieve those better outcomes. Rob Brotherton has released a book called "Suspicious Minds" that questions that assumption.

His book looks at the psychology behind conspiracy theories and explores theories that have existed throughout history, from ancient Athens and Rome to present day theories about 9/11 and who shot JFK. It also looks at the consequences such conspiracy theories can have, such as the harmless tendency to roll a pair of dice gently in order to achieve a low number, all the way to beliefs about interdimensional shape-shifting reptiles ruling the world.

His point is we all have some tendency towards superstition and belief in conspiracy theories – they are as likely to appeal to women as to men, college students as to retired professors, middle-class bloggers as to blue-collar workers, and are not reserved for simpletons or the paranoid. Why is this relevant for investors?

The reason people believe conspiracy theories is related to other natural tendencies, such as our inclination to arrange random data points into a seemingly meaningful pattern and our tendency to attribute motive and intentions to random events. Although we like to think our judgments are rationally made and based on evidence, Brotherton reveals various psychological factors come into play whenever we choose what to believe.

When we are faced with events we cannot understand, our brains are wired to look for patterns, or to weave unrelated data points into a narrative that provides us with clarity. When people feel discontent or distrustful, or desire some private or privileged knowledge, they will be more drawn to conspiracy thinking. These psychological attributes lead us to form reasons or suspect conspiracies where none actually exist. There is a great incentive for investors to time the market – the returns can be massive. This leads investors to look for hidden clues that give them that advantage, and to believe investment propositions that would not be considered reasonable. In short, we are wired to act irrationally.

Returning to Benjamin Graham, one of his quotes is "the investor's chief problem and even his worst enemy is likely to be himself." He realised that investors may consider they are being rational, but their actions suggest otherwise. A financial adviser assists investors by providing another viewpoint on their investments. This helps avoid the tendency to make decisions that appear rational, but in fact are against the investor's interests. By avoiding these poor decisions, investors can make the businesslike decisions that Benjamin Graham recommends.

Article by IOOF New Zealand Ltd

G3 Financial Freedom Editorial
from the desk of Cathy Fletcher (G3 Office Manager)

Oh my goodness!! Is it December already? Once again the year has flown by. It seems that more and more is squeezed into 24 hour days.

We have done something a little different with this newsletter in that we have included an insert about residential property, - holiday reading perhaps. Property is the hot topic at the moment with the media giving plenty of attention to house prices in Auckland. The Reserve Bank is telling us that the Auckland housing boom is not good for the economy or the financial stability of New Zealand Inc. This insert gives well researched information on property as an investment and what the long term returns have been and then compares it to what the S&P 500 Index did over the same period. Interesting reading if you are contemplating property as part of your investment portfolio or as a lot of kiwis do, think that it will be the only investment they need in retirement to provide some extra income.

Over the past year G3 Financial Freedom has had a busy and eventful year. Tracey left us to go back to the big smoke of Wellington. The business just gets busier and busier. Jane and Charlene have both been away at conferences in November. Jane is heading off to England mid December for a cold outside, fireside warm inside traditional English Christmas and a catch up with family and friends. We will see her back here in time for the start of the new work year. Charlene has sent her daughter off to Spain on a student exchange programme. There has been some challenges there not the least of which was the time difference and therefore a slight lack of sleep some nights for Charlene..

What will next year bring? Would we really want to know in advance? One thing you can know in advance is the events we are having for you to come to. See the invite on the facing page. Save the date now and let me know if you can make it to either event. We would love to see you there.

Have a wonderful Christmas and a safe and happy New Year.

May you have the gladness of Christmas which is hope;
The spirit of Christmas which is peace;
The heart of Christmas which is love.

Ada V. Hendricks

Office Hours Christmas and New Year

Close:
4pm Tuesday 22nd December

Re-open:
9am Monday 11th January 2016

INVITATION

AUCKLAND OR TAURANGA

It is time we had a get together over some drinks and nibbles
Please extend this to colleagues, clients and friends

Though no one can go back and make a brand new start, anyone can start from now and make a brand new ending.

Carl Bard

Where: Quality Hotel
10 - 20 Gladstone Road,
Parnell

When: 16th February 2016

Time: 4.30pm – 7.00pm

Where: Tauranga Yacht and Power Boat Club,Sulphur Point Marina

When: 18th February 2016

Time: 4.30pm – 7.00pm

Speaker: IOOF CEO, New Zealand, John Atkinson. This is a great opportunity to hear more about IOOF investment solutions, why it works for individuals and trustees, why it is different and the importance of having a robust portfolio that can stand the test of time

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Special Guest: Juliet Moses, Partner TGT Legal. Juliet will share with us an update on Topical Trust Issues, including how pivotal the presence and participation of an independent trustee is. As there have been some high profile cases over the past 12 months this will be a great insight into the importance of 'getting it right'.

Special Guest: Nicky Wilkins, Western Bay of Plenty Acorn Foundation. Find out what the Acorn Foundation is all about, how it benefits our local community and how a gift made through Acorn is the gift that keeps on giving.

Please RSVP to:
admin@g3freedom.co.nz or Tel: 07 571 5333

G3 FINANCIAL FREEDOM Goals + Guidance = Growth

TGT LEGAL

IOOF

THE ACORN FOUNDATION

Opportunities don't happen. You create them.

Chris Grosser

A lesson in listening to the so called 'experts' & 'picking hot stocks'

On April 6, 2015, CNBC host and best-selling author Jim Cramer wrote an article: "Jim Cramer's Picks — Here are 49 Stocks to Buy Right Now," published on TheStreet.com. Cramer made a strong case for the 49 stocks.

"Every single one of these companies reported excellent last quarters, and with no exceptions their charts are pretty much perfectly made for this downturn," Cramer wrote. Even if there was a correction or downturn, Cramer wrote that these stocks would do well.

David O. England, a retired finance professor from Carbondale, Ill., decided to test Cramer's stock buy list. On April 6, England bought $1,000 of each security on Cramer's list in a paper-trade account (not including commissions) at the close of the following day.

England bet Cramer a dinner at the 17th Street BBQ restaurant in Murphysboro, Ill., one of the best rib houses in the country. If Cramer's picks were profitable, England would pay. If Cramer's picks were unprofitable, Cramer would pay. But Cramer never responded to the wager after repeated email and phone calls.

Absent of Cramer's cooperation, England went ahead and tracked the portfolio's performance. England kept a weekly record of the results for the last six months. He also had the results audited by an independent third party.

The final result……..Cramer got a failing grade. Although Cramer promised his picks could survive any downturn, these stocks didn't survive during the market's brutal third quarter. Only 14 of Cramer's 49 stock picks closed higher after six months than their April trading price, a paltry 28% success rate.

Bottom line: England won the bet.

Cramer did not respond to e-mailed requests seeking comment about the recommended stocks' performance. And England points out that he is not attacking Cramer personally, but takes issue with the quality of his stock picks. "It bothered me that so many experts publish buy lists," England says, "but you never hear about the list again. I wanted readers to know that buying stocks based on a list is often a recipe for disaster."

Here are five other lessons that England shared:

1. Be careful about buying stocks based on a list. It's better if you do your own homework.

2. In a downturn or bear market, even shares of "good" companies can go down, and by a lot. Look at Apple **AAPL**; between 20/08/2015 abd 24/08/2015 this was down 8.4% and Wal-Mart **WMT** was down 6.5% for example.

3. Be cautious about following anyone, especially well-known gurus. It's okay to listen, but in the end you have to do your own research. But to blindly buy stocks based on a recommendation from a guru, a stockbroker, or a friend, usually leads to losses.

4. If you think about it, the list of 49 stocks are just 49 tips, and if there is anything you should know, never buy stocks based on tips. It's rare that a tip works out. And if you buy based on a tip, will that person tell you when to sell? For example, if you had bought those 49 stocks, when do you sell?

5. Instead of "buy" lists, market gurus should call these "watch" lists. It would save investors of lot of time and aggravation. After all, Cramer's 49 picks were supposed to protect you from a downturn. Unfortunately, these 49 stocks did no such thing.

Article by Michael Sincere

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Goals + Guidance = Growth

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G3 Financial Freedom Ltd - We Make Every Day Count

We are the financial advice company that can help you create the financial future you desire with peace of mind, security and confidence. We operate under the rules of the Financial Markets Authority and abide by the Financial Advisers Act 2008. We are voluntary members of the New Zealand Institute of Financial Advisers.
We are all Certified Financial Planners, Chartered Life Underwriters, Accredited Investment Fiduciaries and we are all Authorised Financial Advisers. Talk to us about your financial future now. It is never too late to begin.