phwealth Summer Update

October – December 2021

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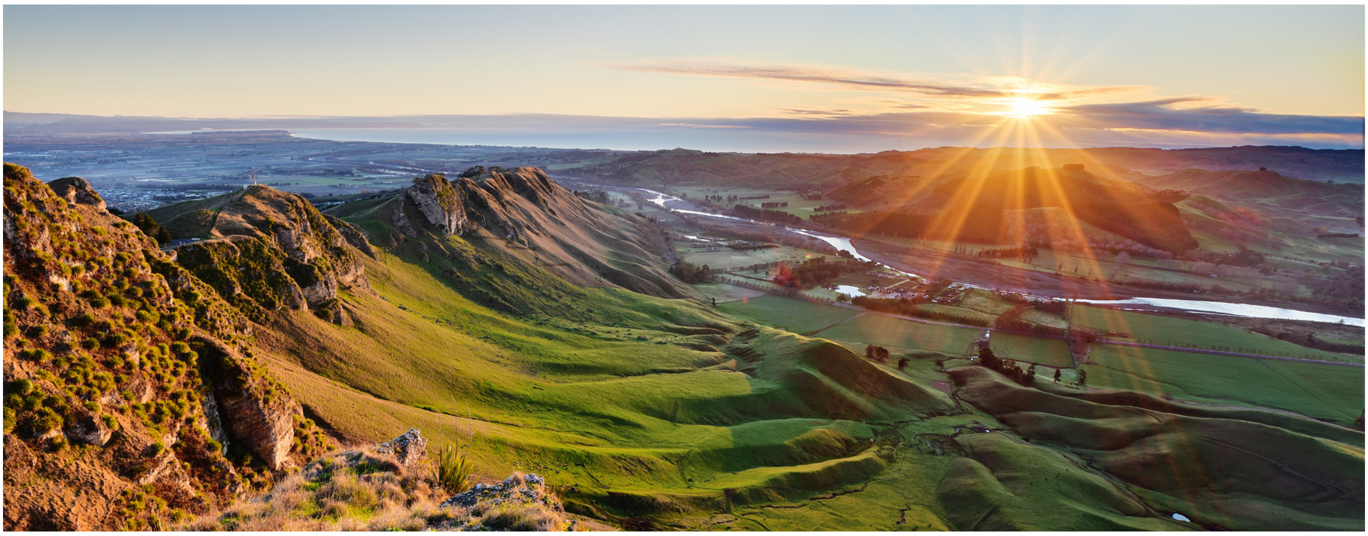


While the late 2021 rise of Omicron seemed to cast renewed uncertainty over the outlook for 2022 (in much the same way Delta did a year earlier), the markets overall were relatively unaffected.

The fourth quarter of 2021 rounded out another year when developed share markets posted strong returns, despite ongoing uncertainties relating to global supply chains, inflation, interest rates and, of course, emerging variants of Covid-19.

Market performance continued to be driven more by supportive economic and financial data such as positive economic growth, low interest rates, and good corporate earnings.

While many uncertainties remain, we need to remember that all current information, even in matters where the outcome is uncertain, is already factored into prevailing market prices.

This attribute of market pricing is always useful to keep in mind because it helps explain the apparent paradox of how markets can still go up when bad news is announced. It can often occur when the market was expecting something even worse to happen! If the confirmed bad news turns out to be better than the news the market had priced in, then prices will often have room to adjust upwards.

It also provides some explanation for how markets have behaved as new Covid variants have emerged. While the late 2021 rise of Omicron seemed to cast renewed uncertainty over the outlook for 2022 (in much the same way Delta did a year earlier), the markets overall were relatively unaffected.

This suggests the markets did not view the threat of Omicron to be anything out-of-the-ordinary; at least not when compared to our experience over the prior 21 months.

2021 recap

Following a quite extraordinary year in 2020, which saw the unwelcome arrival of Covid-19, 2021 was a year of transition mixed with hope for a return to normalcy. It was also a year that showed, yet again, the difficulty of making investment decisions based on predictions of where markets will go.

Coming out of a volatile 2020, investors sought signals as to which way the global economy was headed. The distribution of vaccines and the easing of lockdowns helped foster an economic rebound, but the emergence of new Covid variants was a constant reminder that we weren't in a post-Covid world just yet.

Despite these challenges, global gross domestic product grew strongly, completing the transition from recovery to expansion and eventually surpassing its pre-pandemic peak.

While at the nadir of the crisis in 2020, high unemployment looked set to be a long-term issue. However, as the economic recovery progressed in 2021 it was increasingly accompanied by labour shortages, supply chain issues, and fears of rising inflation.

Prices increased rapidly in essential areas such as food and energy, and the media was filled with speculation about where inflation would go, what was causing it, how long it might last, and what could, or should, be done in response.

Supply chain update

It's too early to be definitive, but the significant supply chain disruptions in 2021, largely linked to Covid-19-related production constraints and transportation bottlenecks, may already have peaked. Although, if true, it may still take some time for this to eventually filter through to the prices we pay for many goods and services.

Supply chain backlogs historically adjust quite rapidly after periods of stress, as the market responds to higher demand and rebuilds inventory.

Whilst the Covid-induced shutdown contributed to a global supply chain fracture of a magnitude rarely seen outside of a major global war, the recent indications from global shipping indices are that the seeds of a recovery may be underway.

The chart below shows recent declines in both the Baltic Dry Index (dry bulk freight costs) and in the HARPEX Shipping Index (weekly container shipping rates).

This is a positive sign that supply chain disruptions could be slowly abating and freight-related pricing pressures might begin to slowly ease.

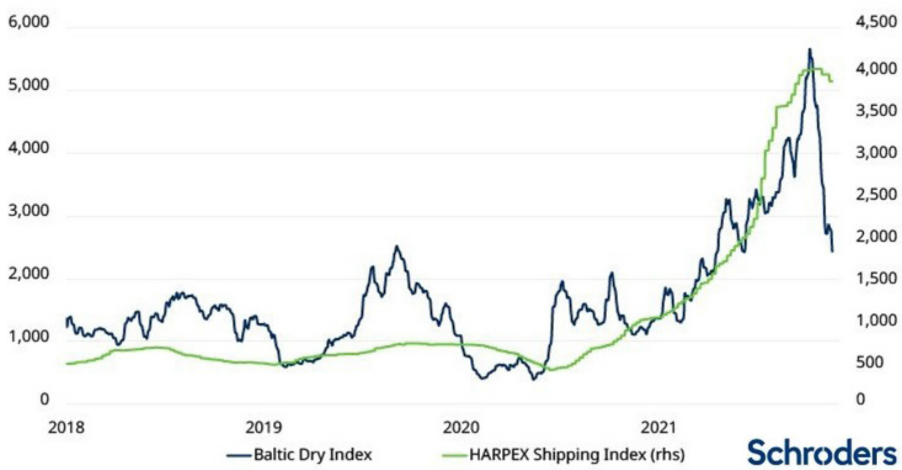
Energy prices

While the below shipping data looks encouraging, the same cannot be said for energy prices.

The global economic recovery is boosting demand for oil and gas at a time when supply growth is static. While governments have been encouraging energy companies to spend more money on renewable energy sources, this has often come at the expense of spending on traditional energy exploration and production. And, while renewables may be the long-term future, for the immediate future it is still oil and gas that powers much of the world.

This relative underinvestment on traditional energy sources means existing supplies are not only tight, but in many cases set to shrink further, particularly if reduced emissions targets are to be met. Until such time as a significant transition to renewable energy sources can be achieved, traditional energy prices look likely to stay elevated.

Global shipping indices signal easing supply pressures



Source: Schroders, Refinitiv Datastream. Data as at 17 November 2021. 603207

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Rising geopolitical tensions

As the year drew to a close there was considerable speculation that Russia could be planning an invasion of the Ukraine in early 2022 as tens of thousands of Russian troops were observed near the Ukranian border.

The roots of conflict between Russia and Ukraine have a history that dates all the way back to the Middle Ages but, at its heart, it boils down to Moscow's unwillingness to accept Ukraine's independence.

The annexation of Crimea from the Ukraine in March 2014 marked a recent turning point in relations and the beginning of what some now refer to as an 'undeclared war' between the two countries.

On the diplomatic stage, U.S. Deputy Secretary of State Wendy Sherman began negotiations on 10 January with her Russian counterpart Sergei Ryabkov, over Russia's military buildup and on Moscow's security demands from Western countries.

Disappointingly, and not at all surprisingly, even before this meeting began both sides had publicly dismissed expectations of a breakthrough.

NZ residential property

A report from independent real estate consultancy firm Knight Frank highlighted New Zealand's residential real estate prices led the world over the last five years (up 60%), although slipping to third on the index this year.

Some of the contributing factors behind this strong performance are widely acknowledged:

- New Zealanders have historically been highly enthusiastic property investors.
- New Zealand has enjoyed strong positive net migration (up to March 2021).
- There is a relative scarcity of housing stock currently available.
- The recent availability of extremely low mortgage interest rates.
- Housing has been seen as an appealing investment option for many Kiwi's unexpectedly grounded due to Covid lockdowns.

However, with interest rates in New Zealand now on the rise and pipeline building consents much higher, there are reasons to think the pace of the recent price rises could ease in 2022.

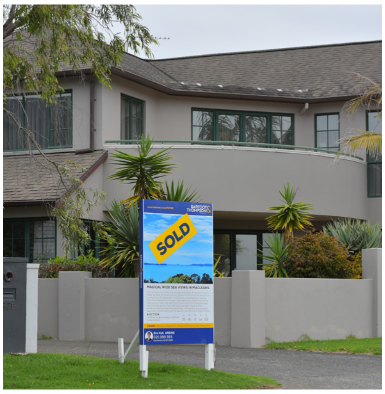
This is particularly so with net migration remaining static due to closed international borders. In the year to March 2021, the New Zealand population increased by 91,680 due to strong net migration, while in the following 12 months this figure understandably slumped to just 3,229.

It is unclear what migration trends we should expect when New Zealand's borders do finally reopen. While a return to pre-Covid migration rates is unlikely, some commentators are speculating that New Zealand could even see a net population outflow as displaced or disgruntled workers chase better employment opportunities offshore. Alternatively, New Zealand's low infection and mortality rates throughout the pandemic have not gone unnoticed on the world stage, so it's equally possible that our net migration rates could be boosted by a surge in 'safe haven' demand.

China lowers lending ratio

In December, in a move designed to support their ailing real estate market along with the broader Chinese economy, the People's Bank of China (PBOC) reduced the level of capital required to be held by domestic banks by 0.5 percentage points.

This followed a similar cut in July and came as several of the largest property developers in China had begun defaulting on their debt. By requiring Chinese banks to hold a lower proportion of deposits on reserve, the PBOC is effectively encouraging local banks to lend more money to businesses and consumers.



This is being interpreted as a sign of concern from the Chinese authorities about the current weakness in the Chinese property market, which accounts for about a quarter of China's economic activity.

It also marks an interesting contrast in approach to western central banks such as the Bank of England or the US Federal Reserve, which are both looking to tighten, not relax, their monetary conditions.

A return to conventional monetary policy?

In 2020, aiming to defy a potentially devastating economic outcome from Covid-19, global central banks quickly provided unprecedented levels of financial support to markets. Almost two years later, albeit with a very hefty price tag, this strategy seems to have achieved its goal.

Apart from an initial slump in Feb/Mar 2020, markets have continued to function effectively. Many companies were able to survive or even thrive in the intervening months, and unemployment levels in key developed markets are now significantly lower than most 2020 projections.

Now however, with global economic growth indicators remaining positive and inflation spiking around much of the world (even if only temporarily), central bankers are reviewing the extent to which this significant financial stimulus may still be required. The higher inflation rates alone are an indicator that the patient is 'responding to the medication', and that perhaps they can begin to look to reduce the dosage.

In fact, given the wording of many central bank monetary policy target agreements which are specifically aimed at controlling inflation within specific parameters, the existing levels of financial stimulus are likely to become harder and harder to maintain.

As quantitative easing programmes gradually begin to wind down and the world takes a collective step back towards a more conventional monetary policy approach, this creates another uncertainty. After years of abnormally accommodative policy settings, weaning the patient off this stimulatory financial medication entirely is unlikely to be a smooth transition.

What lies ahead?

We could offer you our best guess, but if we did you should be skeptical.

In spite of interpreting some of the information currently available in the markets in an effort to provide a broader context, there is sadly no reliable link between this information and future market performance, especially in the short term. Thankfully, it's not a problem we grapple with alone.

> Chasing returns is one thing; managing risk is something else entirely. Knitting these two together is where good advice and a prudent investment plan sit.

In truth, all investors, including all professional investors, suffer from the same problem. We just don't know, and can't know with certainty, what the future holds.

Over a long term horizon, shares will always have greater performance potential than bonds, and this continues to hold true today even though share markets have generally been performing very well for a long time. With interest rates still at relatively low levels in developed markets, overall return expectations from all fixed interest assets remains more subdued, at least for the time being.

However, given the much higher risk (variation in returns) that accompanies share market investments, investors with a high exposure to shares will inevitably need to navigate a fairly bumpy path. To balance out the bumps, maintaining a diversified portfolio of risk premia, including an appropriate mixture (for you) of higher risk and lower risk assets, will almost always be the best approach.

The mistake a lot of individual investors make on their own account is they will often unwittingly end up taking investment risks not well suited to their needs. Chasing returns is one thing; managing risk is something else entirely. Knitting these two together is where good advice and a prudent investment plan sit.

And, as all great advisers know, optimising your investments isn't just a mechanical discussion about risk and return, it's about creating and managing a portfolio of assets that can allow you to achieve your goals without interfering with the rest of your life.

Key market movements – quarter ending 31 December 2021

The quarter started on a positive note for most share markets which, aside from a November lull, mostly ended the year strongly. It was a slightly different story in bond markets, with a weak start extending to early November, and generally a small recovery thereafter.

Developed sharemarkets benefited from signs of economic resilience and good corporate earnings, leading to international developed market shares generating the best returns over the quarter. Economic growth continues to look relatively robust in spite of ongoing concerns about supply bottlenecks, rising inflation, potential central bank policy changes and the emergence of the Omicron variant of Covid-19. By comparison, the New Zealand sharemarket wasn't as rewarding to investors, with consumer and business confidence both waning.

Overall, key interest rates were relatively unchanged internationally, although not without some intra-quarter volatility, as inflation fears and uncertainties about Omicron both impacted sentiment at times.

+8.1% *(hedged to NZD)*

+8.7% *(unhedged)*

International shares

International developed sharemarkets generally enjoyed a strong final quarter of the year.

In the USA, the flagship S&P 500 Index (total returns in USD) shrugged off an indifferent month in November and delivered an impressive +11.0% for the quarter. By year end, investors were seemingly less concerned about the rising spread of Omicron, or the potential speed of the Federal Reserve asset tapering. Instead, investors were taking their cues from robust corporate earnings reports and a generally stable/positive economic outlook. The technology sector was one of the strongest performers over the quarter, with chipmakers especially strong. Real estate companies also performed well, as investors expect e-commerce growth to drive further demand for industrial warehousing.

European markets followed a similar pattern. While a number of countries introduced restrictions on sectors such as travel and hospitality to try and reduce the spread of the new variant, the equity markets drew support from early data indicating a lower risk of severe illness. Utilities and IT companies were amongst the top performers for the quarter along with a rebounding luxury goods sector.

The UK market also performed well with the MSCI UK Index gaining +5.2%. This was once again slightly below the average return for the region, with the MSCI Europe ex UK Index returning +7.0%. A number of defensive areas in the UK outperformed, including some of the large internationally diversified consumer staples groups. However, domestically focused areas such as UK consumer-facing retailers and housebuilders were volatile as speculation about changes in UK base interest rates picked up, and the share prices of travel and leisure companies were buffeted by the latest Omicron related restrictions.

Despite an increasingly positive outlook, Japan trailed all the major markets for the quarter, with the MSCI Japan Index declining by -0.9%. Japan's general election was held in October (where the ruling Liberal Democratic Party was returned with a solid majority) and there was some initial uncertainty over the new Covid variant. This may have temporarily obscured the improving economic news. In particular, the strength of the rebound in industrial production as automobile output began to recover from the temporary weakness caused by the global semiconductor shortage. While the Japanese share market regained some ground in December, it was too little too late to salvage a positive quarter.

In New Zealand dollar terms, the MSCI World ex-Australia Index delivered a quarterly return of +8.1% on a hedged basis and +8.7% unhedged. The rolling 12 month return for the New Zealand dollar hedged index was +24.3% while the unhedged index gained +28.3%.

Source: MSCI World ex-Australia Index (net div.)

-0.5%

Emerging markets shares

Emerging market shares generally underperformed developed markets. Turkey was the weakest index market amid extreme volatility in the currency. The Central Bank of Turkey lowered its overnight interest rates by 4.0% over the quarter, but this only fuelled already rampant domestic inflation which ended the year at an eye-watering 36.1%. Unsurprisingly, the Turkish Lira has been coming under significant pressure.

In other key emerging nations – Brazil underperformed as the central bank continued to hike interest rates in response to rising inflation; Russia lagged as geopolitical tensions with the West ratcheted up amid a build-up of Russian troops on the Ukraine border; and China finished in negative territory as concerns over slowing growth persisted.

In contrast, Egypt, Peru and UAE all posted double-digit gains in US Dollar terms, while Taiwan (aided by a strong performance from semiconductor manufacturers) Indonesia and Mexico all recorded solid gains and outperformed.

In unhedged New Zealand dollar terms, the MSCI Emerging Markets Index produced a quarterly return of -0.5%, culminating in a +2.7% return over the last 12 months.

Source: MSCI Emerging Markets Index (gross div.)

-1.7%

New Zealand shares

New Zealand was one of the poorer performing global developed sharemarkets over the quarter with the S&P/NXZ 50 Index returning -1.7%, dragged down by a general underperformance from larger capitalisation companies. This concluded a relatively subdued calendar year for the New Zealand market, with the index up a mere +0.2%, one of the worst developed markets for the year after delivering in the upper echelon in recent years.

New Zealand's economic outlook remains positive. An extremely tight labour market is providing strong job security, and third quarter GDP data released in December showed that lockdowns hadn't damaged economic activity as much as feared. Whilst Covid-19 continues to create uncertainty, New Zealand's high vaccination rates are considered a strong positive.

However, consumer and business confidence deteriorated in December. For households, high inflation is eroding purchasing power. There is an increasing awareness of higher interest rates in the pipeline and the growing challenge this might present to the housing market. For businesses, labour shortages, cost pressures and supply chain disruptions were also weighing on confidence.

On the local share market, winners and losers were quite evenly split amongst the top 50 companies for the quarter, although there was, as always, a wide dispersion of individual returns. An earnings upgrade saw Steel and Tube's share price jump +50.5% over the quarter. Similarly, Sky Network Television announced significant permanent cost savings and revenue growth, which saw their share price leap in early December, closing out the quarter with a gain of +37.8%.

Meanwhile, even though Ryman Healthcare produced a solid enough profit result for the first half of the year in trying conditions for the sector, it experienced a gradual decline in share price. Ryman ended the fourth quarter -18.3% lower, effectively giving up its gains from the previous quarter.

Source: S&P/NZX 50 Index (gross with imputation credits)

+3.6%

Australian shares

The Australian sharemarket (ASX 200 Total Return Index) returned +2.1% quarter in local currency (returns to unhedged New Zealand investors were increased by a small appreciation in the Australian dollar over the quarter).

While all parts of the market contributed positively, it was the mid capitalisation companies (those ranked 51 to 100 in the index) which performed the strongest, gaining +5.8%. The materials and utilities sectors both produced positive double-digit results, while energy companies, information technology and, to a lesser extent financials, all struggled.

Fortescue Metals rebounded from a horror third quarter by gaining +28.4% on the back of a more than 20% rally in iron ore prices from mid November. Also aiding sentiment, was news that subsidiary Fortescue Future Industries (FFI) will become the largest supplier of green hydrogen to the United Kingdom after signing a multi-billion-pound deal.

A notable underperformer during the quarter was Magellan Financial Group which forecast a 6% decrease in its fiscal 2022 revenues, after a UK-based wealth manager ended a contract with the company. The mandate, Magellan's largest, accounted for an estimated 12% of its revenues, and news of its departure sent Magellan's shares to their sharpest fall on record, closing the quarter down -40.0%.

The 2021 calendar year return was a robust +16.2% in New Zealand dollars.

Source: S&P/ASX 200 Index (total return)

-0.4%

International fixed interest

Bond markets were buffeted over the quarter by concerns of persistent elevated inflation, hawkish central bank policy shifts and the emergence of the Omicron Covid-19 variant.

Overall, 10 year government yields were largely unchanged. Yields had been drifting downwards for most of the quarter before reversing in the final weeks of the year. Yield curves also tended to flatten in this process, with shorter-dated bonds hit harder as central bank rhetoric increasingly suggested an earlier reduction in existing financial stimulus and/or earlier action on interest rate hikes. Most notably, the US Federal Reserve (Fed) policy committee suggested in December that their tapering of asset purchases could be accelerated.

The US 10 year Treasury yield overall was little changed for the quarter, moving from 1.49% to 1.51%. However, it reached a high of 1.71% in October amid elevated inflation and expectations of policy tightening, then a low of 1.34% in early December amid fears over the Omicron Covid-19 variant. The US 2 year yield increased from 0.28% to 0.73% over the quarter.

The UK 10 year yield fell from 1.02% to 0.97%, dropping sharply in early November as the Bank of England (BoE) unexpectedly elected not to raise rates. The BoE did, however, raise rates in December. Germany's 10 year yield was little changed, from -0.19% to -0.18%, but this reflected a late surge with the yield having fallen below -0.40% in December.

Corporate bonds lagged government bonds for the quarter. Within the investment grade bond universe, the US market saw modestly positive total returns (local currency), but Europe weakened.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) returned -0.4% for the quarter, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) returned +0.2%. This meant a negative year for global bonds with returns of -0.7% and -1.2% respectively.

Source: FTSE World Government Bond Index 1-5 Years (hedged to NZD)

-1.4%

New Zealand fixed interest

At both their 6 October and 24 November meetings, the Reserve Bank of New Zealand (RBNZ) elected to increase the official cash rate by 0.25%, taking this benchmark rate from 0.25% to 0.75% over the quarter.

At their November meeting, the committee noted that global inflation had increased due to the rapid recovery in global demand, combined with significant supply chain bottlenecks and labour shortages in some sectors. Ongoing higher government spending and monetary policy stimulus in many countries was contributing to strong demand. However, there was also considerable uncertainty about the persistence of global inflationary pressures. The committee noted they expected inflation to remain high in the near term, before returning to the midpoint of their target band over the next two years.

Investors largely held with the view that the RBNZ would continue to steadily hike the official cash rate (OCR) in 0.25% increments until August 2022, before continuing with hikes at a slower pace. Over the quarter, the New Zealand 10 year government bond yield, climbed from 2.02% at the beginning of October to a peak of 2.68% on 12 November, before easing back to close the year at 2.33%, a yield increase of 0.31% over the quarter. The New Zealand 2 year government bond yield followed a similar pattern opening the quarter at 1.03% and ending the year at 1.98%, a yield increase of 0.95%.

Similar to the effects seen overseas, this flattening of the local yield curve and rising yield environment overall, generally meant negative short term returns for bonds of all durations.

The S&P/NZX A-Grade Corporate Bond Index fell -1.4% for the quarter and -4.4% for the year, while the longer duration but higher quality S&P/NZX NZ Government Bond Index fell -1.8% for the quarter and -6.2% for the year.

Source: S&P/NZX A-Grade Corporate Bond Index

Table 1: Asset class returns to 31 December 2021

Asset Class	Index Name	3 months	1 year	3 years	5 years	10 years
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	-1.7%	+0.2%	+14.8%	+14.7%	+16.1%
Australian shares	S&P/ASX 200 Index (total return)	+3.6%	+16.2%	+14.1%	+10.3%	+8.5%
International shares	MSCI World ex Australia Index (net div., hedged to NZD)	+8.1%	+24.3%	+20.6%	+14.4%	+14.7%
	MSCI World ex Australia Index (net div.)	+8.7%	+28.3%	+21.1%	+15.5%	+14.3%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	-0.5%	+2.7%	+10.6%	+10.6%	+7.2%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	-1.4%	-4.4%	+2.0%	+3.2%	+4.1%
International fixed interest	FTSE World Government Bond Index 1-5 Years (hedged to NZD)	-0.4%	-0.7%	+1.9%	+2.0%	+3.0%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	+0.2%	+0.4%	+0.8%	+1.2%	+2.0%

Unless otherwise specified, all returns are expressed in NZD. We assume Australian shares and emerging market shares are invested on an unhedged basis, and therefore returns from these asset classes are susceptible to movement in the value of the NZD. Index returns are before all costs and tax. Returns are annualised for time periods greater than one year.

You can't put a number on happiness

"What is your number?" That is the catch phrase of a popular advertisement that runs and re-runs amongst financial advising companies. The premise is a good one, namely that they are going to determine how much you need for retirement and then aim to help you hit that goal.

These types of campaigns are popular as many people will have a jolt of panic at some point just past mid-life, where they think, "Will I have enough for my retirement? I'd better get prepared." Having a target 'number' can help you to understand just how big the mountain you must climb, really is.

Recently, Massey University produced a retirement expenditure guideline report, sponsored by Consilium and Financial Advice New Zealand, that attempted to define a target amount that was relevant to all New Zealanders. That's a huge effort and as advisers we're thankful for anything that gives the general public a wakeup call on how much retirement actually costs.

Even though efforts to define a number are useful, looking at a single number in isolation does not always tell the full story. There's often both technical and psychological reasons that need to be further explored.

First, all numbers have huge assumptions built into them. The purpose of a number is to give retirees a map as they prepare for retirement, but unfortunately the landscape retirees face is constantly changing, and outdated maps aren't very useful.

So what changes? Well, markets never do what you expect. Your life and health and spending needs aren't always what you expect. For many, their family related spending is a real challenge to forecast.

Every year, with new information, the number changes. And we need to update our advice along with this new information.

We also find that surprises on the upside, such as unexpectedly large inheritances or a surplus when downsizing a property, are more common than you'd think.

In our view, the best advice isn't just about the number. Every year, with new information, the number changes. And we need to update our advice along with this new information. Instead of looking at a single number as the answer, we focus on the best decisions you can make today based on the information you currently know, including your best guess and our best experience of what the future holds. Next year, with more information, the number may change and so should the advice.

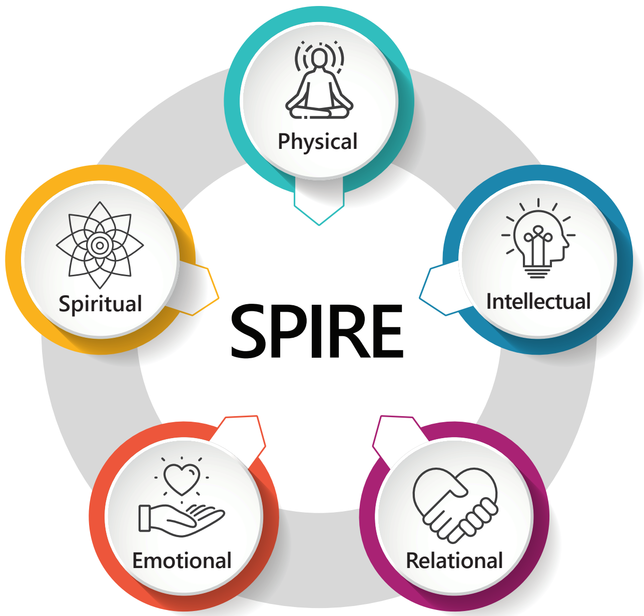
So that's the technical reason. The more interesting reason is that pursuing a number doesn't necessarily lead to greater fulfilment in life, at least not directly.

When you have a target number, the assumption is that the money is the destination or the object to reach for within a financial plan. Our experience teaches us otherwise. What we've learned is that money is the just the fuel to help you reach the destination.

In his book ***Happiness Studies***, Tal Ben-Shahar analyses what makes humans happy. He finds there are five components to our wellbeing. Derek Hagen, a financial behaviour expert and founder of Money Health Solutions, summarises the five components as follows:

- **Spiritual wellbeing:** this involves being in the present moment and having a sense of purpose.
- **Physical wellbeing:** this represents not only basic needs, rest, exercise, and nutrition, but also attending to the mind-body connection.
- **Intellectual wellbeing:** keeping our minds active, solving interesting problems, and being curious.
- **Relational wellbeing:** cultivating our interpersonal relationships and having a healthy relationship with ourselves.
- **Emotional wellbeing:** this represents not only cultivating positive emotions and coping with negative emotions, but also accepting all emotions as they arise and giving ourselves permission to be human.

Together these elements form the acronym **SPIRE**.



But did you notice the glaring omission from Tal Ben-Shahar's list above? Financial wellbeing isn't one of the elements that makes humans happy.

Surprised?

We were at first, but upon reflection, perhaps less so. We have met investors who tell us they have very specific financial goals. They want to be a millionaire by age 45. Or perhaps they'd like to build a portfolio to a value of $5,000,000. Or they want to live on $100,000 per year (inflation adjusted) the rest of their lives. Or perhaps less specific, but just as common, is the professional or executive that wants to climb the corporate ladder.

> What shouldn't change is the pursuit of wellbeing and making decisions on how best to use wealth to accelerate the enduring elements of a complete and happy life.

In all of these examples, the common theme is that financial wellbeing is the goal. For many of these goals, one could find a number to determine what all of that will cost.

Steven Covey, author of the 7 Habits of Highly Effective People said, it's easy "to work harder and harder at climbing the ladder of success only to discover it's leaning against the wrong wall."

We understand perfectly why investors want to focus on a number. In fact, we empathise because we've done the same. Money is a critical part of our lives and it's common to have financial goals embedded into a plan. But our experience working with many investors over a long period of time is that money is not a destination, nor a real source of happiness. Instead, money is the means, the transportation if you will, to help you achieve and enhance your wellbeing.

When Tal Ben-Shahar defined spiritual, physical, intellectual, relational and emotional wellbeing (SPIRE), he described states of being that are ends in themselves. Money can be used to support and help achieve any part of SPIRE. Thus, when it comes to designing the best financial plan, the goal is to find for each individual investor, those underlying elements they believe will really bring them enduring happiness and wellbeing. Once we know this, the goal is to draft a plan in a way that the money will energise those pursuits.

Maybe that does involve a 'number' to help us clarify what saving, spending and allocation decisions we need to make. But we also need to be mindful that the number will change over time. What shouldn't change is the pursuit of wellbeing and making decisions on how best to use wealth to accelerate the enduring elements of a complete and happy life.

So, if we can, we'd like to change the 'what's your number' question into something more holistic, like "what makes you truly happy?" While we know you can't put a price on happiness, you do get to decide what happiness looks like to you. And we'll work alongside you, helping to manage the plan (and the numbers!), in order to get you there.

Randomness of returns

This table shows each asset class in our portfolios and their returns over the past 20 years, as well as the returns of a 50/50 portfolio. There is no discernible pattern in the results from year to year. This makes it exceptionally challenging to pick in advance, the highest performing asset class each year. To achieve more consistent results, we invest in multiple asset classes. This ensures our portfolios always have some exposure to the highest returning sectors, whilst never being at risk of only being allocated to the lowest returning sectors. This is known as prudent diversification.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Avg
New Zealand shares	-1.2%	25.6%	25.1%	10.0%	20.3%	-0.3%	-32.8%	18.9%	2.4%	-1.0%	24.2%	16.5%	17.5%	13.6%	10.1%	23.6%	6.0%	31.6%	14.6%	0.2%	10.2%
Australian shares	-20.1%	22.2%	21.0%	21.5%	29.6%	18.2%	-35.6%	42.1%	7.8%	-10.5%	15.0%	3.9%	1.8%	4.4%	9.0%	18.5%	-7.4%	22.6%	4.2%	16.2%	7.7%
Global large shares	-36.2%	6.0%	4.3%	15.7%	16.6%	-0.3%	-21.9%	4.5%	4.0%	-5.5%	9.4%	27.0%	10.6%	13.5%	5.3%	20.1%	-3.3%	27.0%	8.5%	28.2%	5.4%
Global value shares	-36.3%	10.0%	7.7%	15.8%	21.5%	-5.5%	-21.5%	1.8%	1.5%	-5.5%	9.1%	27.0%	9.3%	9.0%	10.0%	14.9%	-5.5%	21.1%	-7.4%	28.3%	4.0%
Global small shares	-33.1%	25.7%	13.0%	22.3%	13.8%	-7.9%	-23.5%	15.9%	17.4%	-9.0%	11.0%	32.7%	7.4%	14.1%	10.4%	20.4%	-8.8%	25.5%	8.6%	21.8%	7.4%
Emerging markets shares	-25.3%	24.1%	14.1%	41.7%	28.3%	27.5%	-38.5%	43.5%	10.7%	-18.4%	11.6%	-2.3%	3.1%	-2.6%	9.9%	35.0%	-9.5%	18.5%	11.0%	2.7%	7.0%
New Zealand property	10.4%	13.4%	20.0%	19.7%	24.9%	-4.3%	-20.8%	11.8%	3.4%	11.2%	20.5%	3.9%	24.2%	14.5%	3.8%	13.9%	10.9%	32.4%	5.0%	3.5%	10.5%
Global property	-11.9%	11.5%	25.2%	17.9%	38.3%	-20.8%	-28.7%	9.5%	15.1%	0.1%	17.7%	3.1%	28.7%	14.2%	4.1%	5.0%	-0.1%	23.0%	-14.5%	38.6%	7.2%
New Zealand fixed interest	6.5%	4.3%	5.9%	6.3%	5.9%	2.7%	15.4%	5.7%	8.7%	9.3%	6.3%	1.9%	7.4%	5.8%	4.1%	5.8%	4.4%	5.2%	5.4%	-4.4%	5.6%
Hedged global bonds	12.1%	6.3%	9.5%	9.1%	5.5%	8.9%	15.2%	3.5%	6.3%	8.3%	7.2%	2.2%	11.1%	4.5%	5.8%	4.0%	1.8%	7.5%	5.4%	-1.2%	6.6%
New Zealand cash	5.7%	5.6%	6.3%	7.3%	7.7%	8.6%	8.3%	3.1%	3.0%	2.7%	2.7%	2.7%	3.4%	3.3%	2.3%	1.9%	1.9%	1.5%	0.4%	0.4%	3.9%
Portfolio 50/50	-5.1%	11.8%	11.7%	12.2%	16.0%	3.5%	-8.2%	17.0%	9.1%	0.1%	12.4%	9.1%	9.0%	6.2%	9.0%	12.3%	-2.0%	14.3%	6.0%	7.9%	7.4%

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Highest	12.1%	25.7%	25.2%	41.7%	38.3%	27.5%	15.4%	43.5%	17.4%	11.2%	24.2%	32.7%	28.7%	14.5%	10.4%	35.0%	10.9%	32.4%	14.6%	38.6%
	10.4%	25.6%	25.1%	22.3%	29.6%	18.2%	15.2%	42.1%	15.1%	9.3%	20.5%	27.0%	24.2%	14.2%	10.1%	23.6%	6.0%	31.6%	11.0%	28.3%
	6.5%	24.1%	21.0%	21.5%	28.3%	8.9%	8.3%	18.9%	10.7%	8.3%	17.7%	27.0%	17.5%	14.1%	10.0%	20.4%	4.4%	27.0%	8.6%	28.2%
	5.7%	22.2%	20.0%	19.7%	24.9%	8.6%	-8.2%	17.0%	9.1%	2.7%	15.0%	16.5%	11.1%	13.6%	9.9%	20.1%	1.9%	25.5%	8.5%	21.8%
	-1.2%	13.4%	14.1%	17.9%	21.5%	3.5%	-20.8%	15.9%	8.7%	0.1%	12.4%	9.1%	10.6%	13.5%	9.0%	18.5%	1.8%	23.0%	6.0%	16.2%
	-5.1%	11.8%	13.0%	15.8%	20.3%	2.7%	-21.5%	11.8%	7.8%	0.1%	11.6%	3.9%	9.3%	9.0%	9.0%	14.9%	-0.1%	22.6%	5.4%	7.9%
	-11.9%	11.5%	11.7%	15.7%	16.6%	-0.3%	-21.9%	9.5%	6.3%	-1.0%	11.0%	3.9%	9.0%	6.2%	5.8%	13.9%	-2.0%	21.1%	5.4%	3.5%
	-20.1%	10.0%	9.5%	12.2%	16.0%	-0.3%	-23.5%	5.7%	4.0%	-5.5%	9.4%	3.1%	7.4%	5.8%	5.3%	12.3%	-3.3%	18.5%	5.0%	2.7%
	-25.3%	6.3%	7.7%	10.0%	13.8%	-4.3%	-28.7%	4.5%	3.4%	-5.5%	9.1%	2.7%	7.4%	4.5%	4.1%	5.8%	-5.5%	14.3%	4.2%	0.4%
	-33.1%	6.0%	6.3%	9.1%	7.7%	-5.5%	-32.8%	3.5%	3.0%	-9.0%	7.2%	2.2%	3.4%	4.4%	4.1%	5.0%	-7.4%	7.5%	0.4%	0.2%
	-36.2%	5.6%	5.9%	7.3%	5.9%	-7.9%	-35.6%	3.1%	2.4%	-10.5%	6.3%	1.9%	3.1%	3.3%	3.8%	4.0%	-8.8%	5.2%	-7.4%	-1.2%
Lowest	-36.3%	4.3%	4.3%	6.3%	5.5%	-20.8%	-38.5%	1.8%	1.5%	-18.4%	2.7%	-2.3%	1.8%	-2.6%	2.3%	1.9%	-9.5%	1.5%	-14.5%	-4.4%

*Source: **NZ equities:** NZSX 50 Index (Gross Dividends) from Jan 2002 to Dec 2015. S&P/NZX 50 Index (Gross with Imputation) from Jan 2016 to present. **Australian equities:** S&P/ASX 200 Index (Total Return) **Global large equities:** MSCI World Index (net div., AUD) **Global value equities:** MSCI World Value Index (net div., AUD) **Global small equities:** MSCI World Small Cap Index (net div., AUD) **Emerging markets equities:** MSCI Emerging Markets Index from Jan 2002 to Dec 2015. MSCI Emerging Markets (Gross Div.) from Jan 2016 to present. **NZ property:** New Zealand Property Index (Gross Dividends) from Jan 2002 to Dec 2015 S&P/NZX All Real Estate Index (Gross with ICs) from Jan 2016 to present. **Global property:** UBS Global Real Estate Index (Gross Dividends) from Jan 2002 to Dec 2014. S&P Developed REIT Index (net div.) from Jan 2015 to present. **NZ fixed interest:** NZX 10 Yr Govt Bonds from Jan 2002 to May 2003. ANZ Corporate A Bonds from Jun 2003 to Jun 2015. S&P/NZX A-Grade Corporate Bond Index Jul2015 to present. **Hedged global bonds:** Citigroup World Government Bond Index Hedged to NZD Jan 2002 to Dec 2012. Bloomberg Barclays Global Aggregate Bond Index (hedged to NZD) Jan 2013 to present. **New Zealand cash:** NZ One Month Bank Bill Yields. **50/50 portfolio:** portfolio returns net of manager fees, but gross of tax, adviser and platform fees.*