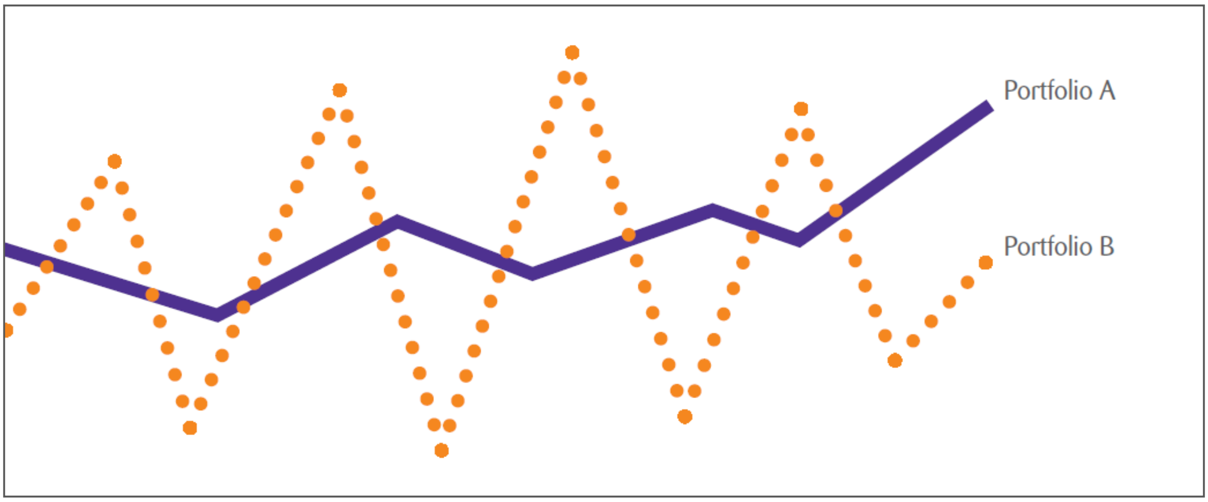
Source: Bloomsbury

Exhibit 3 - Less Volatility = Greater Wealth

Exhibit 4 shows two portfolios with the same average return. As a prudent investor, you want the smoother ride of Portfolio A not only because it helps you to ride out the emotional curve, but more importantly, because you will also create the wealth that you need to reach your financial goals.



Source: CEG Worldwide

Exhibit 4 – Two portfolios with the same average return

Concept Three: Use global diversification to enhance returns and reduce risk

Investors here in New Zealand tend to favour shares and bonds of New Zealand based companies. For many, it's much more comfortable emotionally to invest in firms that they know, and whose products they use, than in companies located on another continent.

Unfortunately, these investors' emotional reactions are causing them to miss out on one of the most effective ways to increase their returns. That's because the New Zealand share market represents less than 0.5% of the total investable capital market worldwide[2]. By investing overseas, you greatly increase your opportunity to invest in superior global firms that can help you grow your wealth more quickly.

Global diversification also reduces overall risk. The New Zealand share market and international markets generally do not move together. The individual shares of companies around the world with similar risk have the same expected rate of return. However, they don't get there in the same manner or at the same time. The price movements between international and New Zealand asset classes are often dissimilar, so investing in both can increase your portfolio's diversification.

Concept Four: Employ asset class investing

It is not unusual for investors to feel that they could achieve better investment returns, if only they knew a better way to invest. Unfortunately, many investors are using the wrong tools and put themselves at a significant disadvantage to institutional investors. Using actively managed investment funds is like trying to fix a sink with a screwdriver when you really need a pipe wrench. You need the right tools, and we believe that asset class investing is an important tool for helping you to reach your financial goals.

An asset class is a group of investments whose risk factors and expected returns are similar. Originally, institutional asset class funds were not available to the great majority of investors. Often the minimum investment for these funds was in the millions of dollars, effectively keeping them beyond the reach of all but large fund managers and the wealthiest individual investors. Fortunately, these institutional asset class funds are now accessible to all investors so you can gain the same advantages previously enjoyed only by large institutional investors.

Three major attributes of asset class funds make them attractive:

§ Lower operating expenses
§ Lower turnover, resulting in lower costs
§ Consistently maintained exposure to market segments

We'll look at each factor in turn.

1. Lower operating expenses

All managed funds have expenses that include management fees, administrative charges and custody fees. These are expressed as a percentage of assets. The average annual expense ratio for all New Zealand managed funds is 1.66%. By comparison, the same fee for institutional asset class funds is typically only one quarter of that of all retail funds. All other things being equal lower costs lead to higher net rates of return.

[2]MSCI World All Countries Investable Markets Index as at 31/12/2011

2. Lower turnover, resulting in lower costs

Many investment managers do a lot of trading, thinking that it adds value. This is costly to their investors because each time a trade is made there are transaction costs, including commissions, spreads and market impact costs. These hidden costs may amount to more than a fund's total operating expenses if the fund trades heavily, or if it invests in small-company shares for which trading costs are relatively high.

Institutional asset class funds generally have significantly lower turnover because their institutional investors want them to deliver a specific asset class return at as low a cost as possible.

3. Consistently maintained exposure to market segments

Most investment advisers agree that the greatest determinant of performance is asset allocation - how your money is divided among different asset classes. However, you can accomplish effective asset allocation only if the investments in your portfolio maintain a consistent asset allocation. That means your investments need to stay within their target asset classes.

Key Definitions

Expected rate of return is typically calculated as the risk free rate of return (such as from treasury bills or cash) plus the risk premium (the additional return over the risk free rate) associated with share investment.

Standard deviation is a measure of how far from the mean (average) the historical performance of an investment has been and is a measure of an investment's volatility.

Correlation coefficients measure the relationship between price movements among asset classes by quantifying the extent to which they move together in time, magnitude and direction.

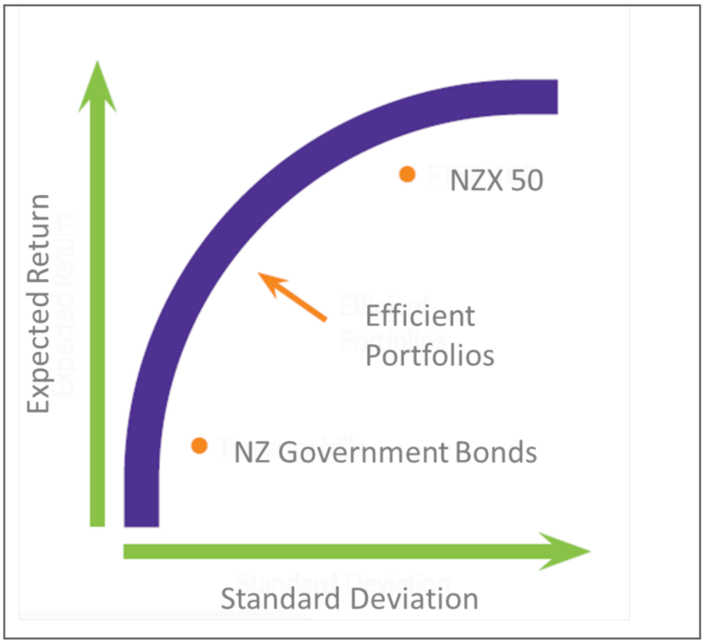
Unfortunately, most actively managed funds effectively force you to relinquish control of your asset allocation. On the other hand, because of their investment mandates, institutional asset class funds must stay fully invested in the specific asset class that they represent.

Concept Five: Design efficient portfolios

How do you decide which investments to use, and in what combination? Since 1972, major institutions have been using a money management concept known as Modern Portfolio Theory. It was developed at the University of Chicago by Harry Markowitz and Merton Miller and later expanded by Stanford professor William Sharpe. Markowitz, Miller, and Sharpe subsequently won the Nobel Prize in Economics for their contribution to investment methodology.

The process of developing a portfolio using Modern Portfolio Theory is mathematical in nature and can appear daunting. It's important to remember that mathematics is nothing more than an expression of logic, so as you examine the process, you can readily see the common sense approach that it takes - which is counter-intuitive to conventional and over-commercialised investment thinking.

Markowitz stated that for every level of risk, there is some optimum combination of investments that will give the highest rate of return. The combinations of investments exhibiting this optimal risk/reward trade-off form the efficient frontier line. The efficient frontier is determined by calculating the expected rate of return, standard deviation and correlation coefficient for each asset class and using this information to identify the portfolio with the highest expected return at each incremental level of risk.



Source: CEG Worldwide

Exhibit 5 - The Range of Efficient Portfolios

By plotting each investment combination, or portfolio, for a given level of risk and expected return, we are able to describe mathematically a series of points, or 'efficient portfolios'. This line forms the efficient frontier.

Most investor portfolios fall significantly below the efficient frontier. Portfolios such as the NZSX 50 Index, which is often used as a proxy for the New Zealand share market, fall below the line when several asset classes are compared. Investors can have either the same rates of return with an asset class portfolio with much less risk, or higher rates of return for the same level of risk.

Exhibit 5 illustrates the efficient frontier relative to the 'market'. Rational and prudent investors will restrict their choice of portfolios to those that appear on the efficient frontier and to the specific portfolios that represent their own risk tolerance level. A wealth manager's job is to make sure that for whatever risk level you choose, you are on the highest possible point on the efficient frontier so that you can maximise the probability of achieving your financial goals.

Your next steps

As we discussed at the beginning of this guide, taking a comprehensive approach to achieving all your financial dreams requires wealth management. This means more than just taking care of your investments.

It also means addressing your advanced planning needs, including wealth preservation, wealth enhancement, wealth transfer and philanthropy.

Such a wide range of financial needs requires a wide range of financial expertise. Because no one person can be an expert in all these subjects, the best wealth managers work with networks of experts – financial professionals with deep experience and knowledge in specific areas.

Effective wealth managers are experts at relationship management - first in building relationships with their clients in order to fully understand their unique needs and challenges and then coordinating the efforts of their clients' other advisers and professional networks in order to meet those needs and challenges.

Many in the financial services industry today call themselves wealth managers, but offer little more than investment management. How will you know whether you are dealing with a true wealth manager?

First, the wealth manager should offer a full range of financial services, including the four areas of advanced planning that we mentioned above. As we've said, they should be backed up by a network of other professionals to provide these services.

Second, the wealth manager should work with you on a consultative basis. This allows them to uncover your true financial needs and goals, to craft a long-range wealth management plan that will meet those needs and goals and to build an ongoing relationship with you that ensures that your needs continue to be met as they change over time.

This consultative process usually unfolds over a series of meetings:

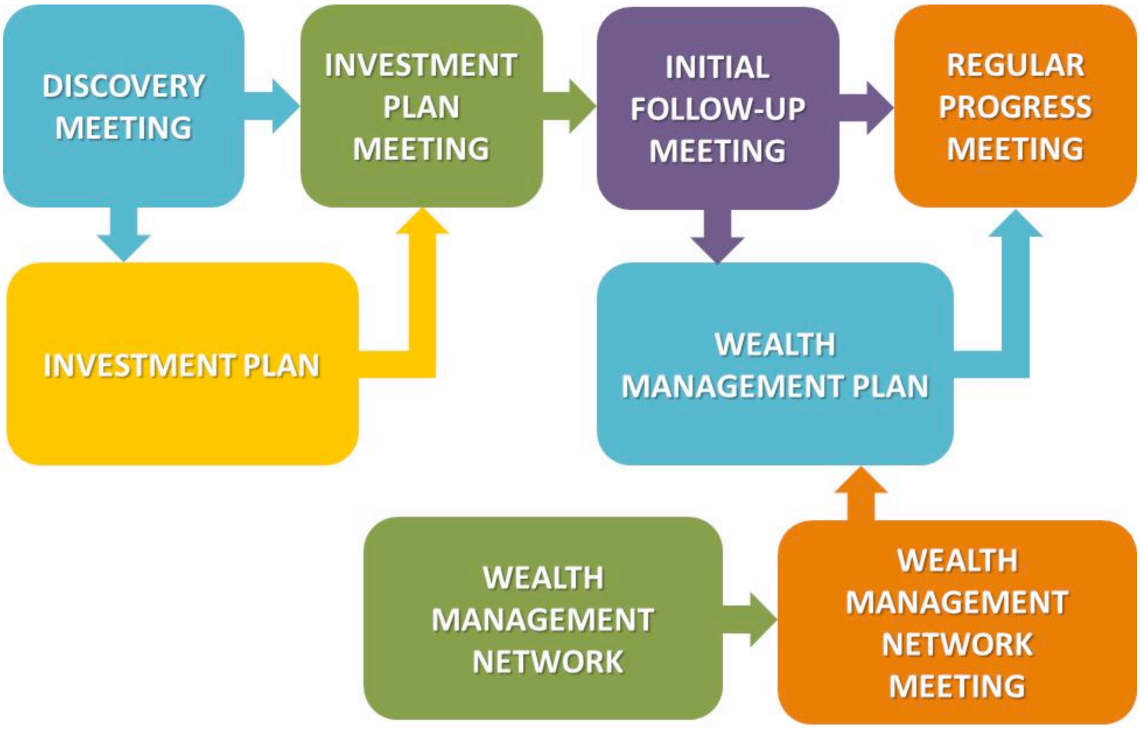
§ At the **discovery meeting,** the wealth manager determines your current financial situation, where you want to go and the obstacles that you face in achieving what is important to you.

§ At the **investment plan meeting,** the wealth manager, using the information they gathered at your first meeting, presents a complete diagnostic of your current financial situation and a plan for achieving your investment-related goals.

§ At the **initial follow-up meeting**, the wealth manager helps you to organise your new account paperwork and answers any questions you may have.

§ At regular **progress meetings**, which are typically held at least annually, the wealth manager reports to you on the progress you're making toward achieving your goals and checks in with you on any important changes in your life that might call for an adjustment to your investment plan. In addition, at the first regular progress meeting, the wealth manager presents to you an advanced plan - a comprehensive blueprint for addressing your advanced planning needs that has been developed in coordination with the wealth manager's network of other professionals. At subsequent progress meetings, you and the wealth manager decide how to proceed on specific elements of the advanced plan. In this way, over time, every aspect of your complete financial picture is effectively managed.

Exhibit 6 - The Consultative Wealth Management Process



You should always expect outstanding service from any wealth manager that you choose. Your phone calls should be returned on the same day, you should receive quick and complete responses to all your questions, you should be able to meet with your adviser as often as you wish and they should always take your unique needs and preferences into account. In short, you should expect to be treated as who you are - a very important client.

If you are currently working with a financial adviser and are unsure whether they are using the consultative wealth management approach we've discussed here, we recommend that you have another financial adviser complete a diagnostic of your situation so that you can have a second opinion.

You owe it to your family and yourself to make sure that your investment plan - and overall wealth management plan - is designed to address effectively your very specific financial needs in order to maximise the probability that you will achieve all your financial goals.

We wish you nothing but success in achieving all that's important to you