MAKING BANK

With the *increasing* amount of CAPITAL required to get onto the first rung of the property ladder, *amassing* any form of long term WEALTH has been relegated to the 'too hard' basket by many. We investigate the *alternatives* to *think outside* the two-bedroom, one-bathroom, weatherboard box.

by **Madeline Saxton-Beer**

I am 27 years old and on a good day I might have $40k to my name, all invested in shares that my grandmother decided were worthy — I did after all, inherit the majority of that figure from her. But not everyone in my age group is as fortunate; having graduated from university with large student loans, the crippling cost of rent in the city and an entry level salary — there's not much left for saving schemes.

Before you jump to conclusions about Generation Y and our preoccupation with dining out, travelling and generally financially frivolous behaviour, recent evidence suggests the contrary. A 2016 survey conducted by US firm Fidelity Investments, proves that millennials do know how to save. In fact, they are doing much more of it than their predecessors did at the same age.

Neither the Baby Boomers nor Generation X began putting money away as early as 20 and 30-something-year-olds are today. Having borne witness to the 2008 Global Financial Crisis, millennials — much like their forefathers, several generations prior, who were psychologically affected by the Great Depression — were at an impressionable age and thus took heed from the global meltdown.

'Millennial super savers', as Fidelity calls them, are not necessarily high earners, however. On average, they make US$73,000 a year — a decent income but not enough to make saving a slam-dunk. One of the biggest issues this generation faces — as articulated by CNN's chief economist Christine Romans — is extremely steep accommodation costs. This is often up around the 40% mark when it should be 30% of one's income or lower.

With better retirement funds in place, and subsequently, higher employer contributions, Generation Y are "taking the right steps to build a solid future and that's a really good trend," says John Sweeney, Executive Vice President of retirement and investing strategies at Fidelity. His firm's survey of 305 millennials between age 25 and 35 found that 85% have some savings, 60% are saving for retirement (up from 51% in 2014) and 59% have emergency funds that would cover six and a half months of living expenses, on average. But, as surmised by a Wells Fargo survey, the majority (59%) of thirty-something workers "focus more on avoiding loss than maximising the growth of their investments for retirement." Suffice to say, engaged investing is not at the forefront of their minds.

It's all very well to save for a rainy day, or for life after receiving a coveted retirement Gold Card, but what about the meantime — your midlife years? With buying a house being the single symbol of financial and social stability, many young Aucklanders have become resigned to the fact that they will never be homeowners without a decent amount of help from their parents (if they are so lucky). But to avert being left in financial limbo, there are investment areas that those with limited savings can turn to in order to grow their wealth. Whether its $5,000 or $50,000, there's no reason not to take the bull by the horns and get a little more aggressive about augmenting your assets, physical or otherwise.

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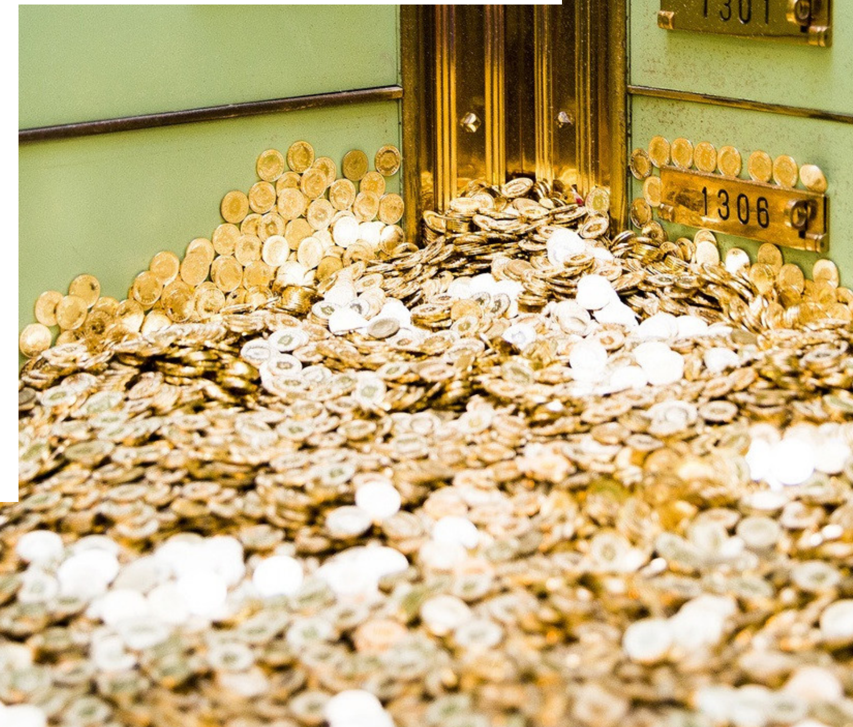

Rules to Get You Started

CHANGE YOUR MINDSET

A 2016 Forbes article entitled 'The Blind Spot for Millennials' outlined how one of the biggest hurdles for this age group is that they don't think of themselves as 'investors'. In Fidelity's survey only 9% of millennials said they see themselves as investors — a very low number. Point being, there's a mindset that young people need to embrace before they can embark on a savvy path to growing their money.

EDUCATE YOURSELF

Don't fret if your knowledge on different investment tools is zilch. Gaining some knowledge on the subject is easy and highly worthwhile. The financial education site Smart About Money (*smartaboutmoney.org*) is an excellent resource with free guides that explain everything from stocks, bonds and mutual funds (called Managed Funds in NZ) to exchange traded funds, as well as outlining things you should be asking before you invest.

ACKNOWLEDGE THAT BEING A HOMEOWNER ISN'T THE BE ALL AND END ALL

Richard Milsom from global value fund manager Elevation Capital is quick to point out the risks of investing solely in property, describing New Zealand's national obsession with home and land ownership as a precarious way of placing the whole population's eggs in one basket, leaving Kiwis highly exposed in the event of a natural disaster, or, the market's eventual, cyclical downturn. Accepting this will help you look towards other investment opportunities such as the stock market, which isn't as volatile as you might perceive it to be. So long as you understand what you own — remember buying a share is owning a fractional part of a business — and be sure to look at the long term.

KNOW THAT IT'S NOT GOING TO HAPPEN OVERNIGHT

While there are some incredible stories à la Warren Buffet's Berkshire Hathaway Inc., getting into highly speculative investing is at one's own peril. Whether it's a savings account, an indexed share fund, or a managed share fund, allowing time for compound interest to accumulate, annual gains or losses to aggregate, or dividend reinvestments to kick in is what will really boost your financial gains. It's therefore better to establish a time period so that you can clearly calculate your goals — anywhere between 5-10 years is a good starting point. Using the CNN Money Millionaire Calculator online is also a motivational way to keep your head in the long-game. And, if you ever find yourself getting impatient, remember what Albert Einstein once said: "Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't... pays it."

So you want to call yourself a millionaire at 50?

We break down what you'll need to be investing each month in order to hit the $1 million target.

Starting Age	Monthly Contributions (with $25,000 deposit)		
	3% interest rate	6% interest rate	9% interest rate
20	**$1,600**	**$800**	**$325**
25	**$2,100**	**$1,200**	**$650**
30	**$2,900**	**$1,900**	**$1,200**
35	**$4,000**	**$3,100**	**$2,300**
40	**$6,500**	**$5,500**	**$4,500**

What to invest in?

PRIVATE MANAGED SHARE FUNDS

Such as: Elevation Capital (*elevationcapital.co.nz*)
Risk level: 3/10
Average annual return in the last 5 years: 9% p.a.

Stocks, historically and over the long term, have outperformed bonds and cash. What's important is measuring the result against an appropriate timeline. Data on US shares back to 1871 is readily available. According to Craigs Investment Partners, the average annual return since then has been 8.9%, and shares were up in 74% of those 144 years. What's more, if you look at 10-year blocks, shares were higher 99% of the time with the best annual return was 19% over the period, and the worst a 1.1% loss. Thus, investing in shares is fairly simple so long as you are sufficiently-diversified (own an array of different shares).

Choosing the right stock, however, isn't always easy, even if you have a 'solid' tip-off. Using a reputed firm can be the best bet and it doesn't have to be daunting just because you don't have $100k to put in off the bat either. NZ-based Global Share Fund, Elevation Capital, works with monthly APs from young investors who don't need a down payment. Its approach is to invest offshore in shares that are undervalued with respect to the quality of the business. The great thing about this firm is that clients are encouraged to familiarise themselves with the businesses the fund invests in, getting to know players such as Discovery Communications (Discovery Channel & Animal Planet) and Luxottica (Eyewear company that has the licence to produce Chanel, Dolce & Gabbana and Giorgio Armani glasses).

INDEXED SHARE FUNDS

Such as: Smartshares (*smartshares.co.nz*)
Risk level: 2/10
Average annual return in the last 5 years 8% p.a.

As endorsed by well-known financial advisor, Mary Holm, indexed share funds are a straight-forward way of investing in the stock market's biggest companies. Because they operate on such a large scale, there are low interest and operational fees. Smartshares builds a portfolio of funds that invests across New Zealand, Australia and a variety of global stock exchanges. A quick visit to the website provides more in-depth detail including benefits, holdings, value, fees and performance. Forbes also claims that indexed share funds can be a highly favourable investment in the long term. Here, you can invest as little as $500 up front and $50 dollars per month, if not more, to slowly accumulate units.

BONDS/SECURITIES

Such as: Nikko Asset Management (*nikkoam.co.nz*)
Risk level: 3/10
Average annual return in the last 5 years: 7% p.a.

Bonds, as opposed to shares, are another way for companies to raise funds, by borrowing money from the public with the promise to pay it back for an agreed interest rate. Government bonds are issued by a national government and can be purchased by members of the public through some registered banks and are very trustworthy given their credit rating is AA+ — just beneath the highest possible. They are usually purchased for terms of six months, one year, two years or four years, generally with a promise to meet periodic interest payments and to repay the face value on the maturity date.

Bonds, also called fixed income investments, can be issued by large corporations too. If this is the avenue you're looking to however, it's highly recommended that these debt securities be bought through an investment adviser or share broker such Nikko Asset Management rather than straight through the NZDX market. Using Rabobank as a conduit, Nikko Asset Management offers a range of funds in which you can invest for as little as $250.

TERM DEPOSIT

Such as: Offered by your bank
Risk level: 1/10
Average annual return in the last 5 years: 3% p.a.

As one of the safest, and perhaps least inspiring ways to invest your money, naturally the return on keeping cash as cash isn't going to be the best out there. That said, if you have anything upwards of $5,000 that you don't intend on doing anything with for the foreseeable future, only let sit in the comfort of your savings account, it's likely to do much better in a term deposit. This doesn't mean locking it up forever either. A six-month deposit on $10,000 in an ASB term fund would receive 3.2% per annum interest as opposed to the flat, 1% yearly rate in your Fastsaver account.

STARTUP EQUITY

Such as: Equitise (*equitise.com*)
Risk level: 7/10
Average annual return in the last 5 years: Unknown

While the opening up of regulations that surround crowdfunding, i.e. selling off a small part of a business to the public, has been a real coup for those wanting to invest in something different and a little more exciting, the projected return for such investments are yet to be seen. Australian-New Zealand firm Equitise has marketed sell-offs for the New Zealand compression clothing business Skins and flight drink 1Above. To become involved, investors can choose from one of eight syndicates, given their minimum buy-in (which ranges from $50 to $5k) and which industries they prefer to invest in. Here, the 'unknown' factor is much greater, but it provides some great fodder to discuss with your mates over Friday drinks.