Newsletter to members

from the trustee

UNISAVER NEW ZEALAND

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# Who took the carbs out of my investments?

## Saving in a low-return environment

**Whether in the media or in presentations and comments from financial professionals, the term 'low-return environment' seems to be the flavour of the month. This does not sound that appealing – a bit like a low-carb diet one might say. Is this a short-term issue, or should savers consider this as a long-term challenge that might leave them hungry for returns? In this article, Noah Schiltknecht from our investment manager Russell Investments shares some thoughts on the current situation and what members should expect in the coming years.**

The easiest way to understand the low-return environment is to look at interest rates. Ten years ago, you could get close to 10% at the bank in New Zealand, but now you might only get 2%. As a result, your savings won't grow as fast as they once did by storing your money in a bank account.

And since investors typically assess the attractiveness of other investments relative to cash returns, expected returns for other assets like bonds and shares have fallen as well. In some cases, like in Japan and many European countries, interest rates on cash and yields on bonds have even fallen below zero. What is driving rates so low? There are numerous reasons, but we believe two are worth highlighting in particular: lower growth and lower inflation.

Ten years ago, the world economy was steaming ahead. Unemployment was low, and growth rates were high. As a result, inflation started to rise. In New Zealand, the Reserve Bank increased interest rates in several steps to combat the inflationary pressures. But then the world was confronted with the global financial crisis. Share markets dropped sharply, unemployment rose and economies went into recession. Growth outlooks were suddenly depressed, and investor confidence was at multi-year lows. Concerns about high inflation were replaced with worries about deflation (falling prices).

To kickstart the economy and increase confidence, central banks around the world started to use unprecedented monetary policy (commonly known as quantitative easing). As a result, interest rates fell sharply. At the same time, the slow but steady economic recovery in the United States led to a multi-year positive run in share markets. But it also created a new baseline for investors today. If cash is not returning much or nothing at all, one should, based on the historical return difference, expect that other assets like shares will return a lot less than 10% as well.

But didn't we just have several years of double-digit returns for investors? This is where the old words of caution in financial markets are as important as ever – 'past performance is not necessarily a good indicator of future performance'. Much like when driving a car, looking into the rear-view mirror is not the right way to think about what to expect in the future. As an investor, you should look forward rather than at historical returns.

In the current environment of low returns and tepid growth, most market participants believe that interest rates will not rise rapidly around the world for a considerable amount of time. Savers need to take this into account. While we cannot rule out a positive surprise, a sensible approach may be to budget for lower returns over the next 5 to 10 years. Depending on your goals, this might result in you needing to save more or to reconsider your tolerance for risk.

While one can't expect savings to grow as fast as they have in recent years, it is still worthwhile considering investing in a diversified portfolio to get some extra returns over time. Low returns are not a reason to stop saving or investing at all. *It is better to eat a low-carb diet than stop eating completely.*

## What's your investment personality?

The main thing to consider when choosing an investment fund or funds is your investment time horizon – how long you have until you need to access your money. The idea is that, the younger you are, the more risk you can afford to take on board. That's because you have more time to ride out the highs and lows associated with higher-risk assets like property and shares. The payoff is that you're likely to net a higher long-term return.

However, your investment personality is important too. Your choice needs to pass the 'sleep test' – you need to be comfortable with your decision. Some people are naturally more conservative while others are born risk takers. There are plenty of online tools you can use to help determine what type of investor you are. Try the 'investor kickstarter' at sorted.org.nz (look under 'tools'). Sorted also has a money personality quiz which you might find useful to clarify your attititudes to spending and saving, including tips on what might work best for your particular approach to money.

## Benefit payments over the holidays

The last payment date for benefits for 2016 will be Friday 23 December. You need to factor this in if you're planning to withdraw money over the holidays. This applies to all benefits, including first-home withdrawals, leaving service payments and withdrawals from deferred member accounts. However, automatic payments from deferred member accounts will be processed as usual.

- For a pre-Christmas payment, Mercer needs to receive the completed form from you (or Payroll in the case of leaving service payments) by **Friday 16 December**.
- Payments in the New Year will be processed from Wednesday 4 January.
- If you want to change your investment choice over this period, please make your change by Friday 16 December.

## Get your annual account statement online

We send you an account statement each year. Statements for the year to 31 December 2016 will be sent out at the end of March. If you like, we can email you a link rather than post it. You just need to change your communication preferences online. When you sign in to the website, you'll be prompted to update your details. You'll see your current 'Communication preferences' listed at the top of the 'Personal details' screen. Your email address is shown on the same screen. Choose the 'Update your current details' link at the bottom of the page to change your preferences.

**Around 70% of members choose to get their statements online.**

## Latest returns

The latest returns are posted on the website around the middle of each month (choose 'I'm a member' and look under 'Investments'). Check your account balances at any time by logging into your account.

Got a question?

unisaver.co.nz

You'll find lots of information to help you manage your savings and answer your questions about UniSaver on our website.

0800 864 724

The helpline hours are 9am to 7pm, Monday to Friday (except public holidays).