**HEADING: An eye on the end game**

**STANDFIRST:** It’s the life that you want

**PHOTO**:

**CAPTION**:

By Paul Dykes

Popular author and investment commentator Martin Hawes uses the same risk-management skills when climbing mountains near his Queenstown home as he does in his personal financial investments.

In both, it is the end game that is most important, he told delegates to the NZPIF national conference in Napier in October.

“I’ve been thinking a lot about the end game – what is the prize? Nothing happens until someone takes a risk; you get ‘paid’ to take risks.

“A person’s attitude to risk changes as they get older. You have to decide on an appropriate amount of risk, based on your own circumstances and appetite to risk.”

Martin stressed that his speech to the conference was class advice only – not personal advice (see disclaimer below).

“The end game for me is the life that you want. I can’t imagine not working, being part of society, and doing stuff. I need the activity and engagement.”

Martin says everyone has their own different goals, skills and priorities. They can make money by taking risk, but need to manage, embrace and accept that risk.

“You keep money by shedding risk. You can’t beat diversification [as a strategy] for holding on to wealth.”

Asset allocation is the key for Martin, he says, encompassing shares, property, bonds and cash. Success depended on how much of your portfolio you had in each investment class.

“I’m a property guy from way back, but you have to be prepared to put in the time, effort and money – to live, eat and breathe it.

He aims to never be a forced seller, always having enough strength in the portfolio to get through a downturn.

“Investors die through arrogance,” he suggests. “The current crop have enjoyed a tailwind of very good markets since 2007. Residential property is up about 60%, and shares and listed property are up by 100%.”

He tries to be ready to recycle his capital, to keep his mind open to other things out there that can make money.

“You have to embrace the hard stuff and hard times. And never forget the end game and the associated time, effort, energy and risk.”

Pondering the question “how much is enough”, Martin suggested each investor had to come up with their own number. Upon achieving that number, it was time to de-risk.

“I don’t care how many properties someone might have; it’s how much net worth they have. Wealth accumulation typically peaks about age 68 (the accumulation phase) and then we start to use that wealth to fund lifestyles (the de-accumulation phase).

“The de-accumulation phase is harder – it’s hard to take a sum of money and turn it into an income with a reasonably predictable cashflow.”

People should learn about the whole range of investments, says Martin, because at some stage they will need that knowledge.

“Every asset is valued based on its ability to generate money. Property investment does give good returns, it requires the smallest skills, it doesn’t require you to learn a new language and it requires relatively little capital.

“I’ve never been that keen on residential property – it’s a business, and I already have enough on my plate. I don’t want the maintenance and management of property. Your customers don’t have the money to pay more,” he told delegates.

He says he has watched three decades of politics in New Zealand, and residential property is a public policy issue. When there was a growing consensus that property values were too high in New Zealand, the body politic wants to flatten it off, and there is always the chance that they will cause a major downturn in the process.

For Martin, the solution is to invest in commercial property. It takes those problems out of the equation, but it is more costly and people often tend to compromise in terms of building quality, lease terms and tenants.

“I can’t afford that, so my solution is the listed property trusts, of which there are nine in New Zealand. They pay the costs, etc, and return the rest in dividends to you.”

He also likes that they tend to have the best tenants, with very long leases. They provide diversification and liquidity, with units available on the sharemarket.

“There is no work in them – they have the gearing already built in.”

Returning to the topic of de-accumulation, Martin feels that it wise then “to take some of the chips off the table” by diversifying. You get to choose the level of risk in the fund you buy into: conservative, balanced, aggressive (or kamikaze, he joked).

You might enjoy a long period in retirement, so you’ll need to cover every eventuality. As a rule of thumb, in periods of inflation opt for property, in deflation go for bonds and fixed interest, in a recession invest in bonds and cash and in an economic boom get into shares and property.

While no-one knows exactly what will happen, in that way you are covering most possibilities.

There was also the need to consider getting some money invested outside of New Zealand, in case the country suffered a major event, such as earthquake, volcanic eruption or biosecurity breach.

“You do have to do the hard stuff – there is no risk-free way to riches. There is nothing you can do with your money that is risk free.”

**Disclosure statement:** Martin Hawes is the Chair of the Summer KiwiSaver Investment Committee. Martin is an Authorised Financial Adviser. The views and opinions expressed above are not intended to be a personalised service for an individual retail client. The views and opinions are general in nature, may not be relevant to an individual's circumstances, and constitute a class advice only. Nothing contained in this article is endorsed by the Financial Markets Authority. Before making any investment, insurance or other financial decisions, you should consult a professional financial adviser.