MacKay on Money

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INSURANCE STATISTICS

Life Cover related:

- Every 90 minutes a New Zealander dies from coronary disease
- Every year more than 600 women die from breast cancer
- 30% of all deaths in New Zealand are cancer related.

Trauma Cover related:

- 1 in 20 adults have been diagnosed with coronary heart disease
- It's estimated 1 in 3 New Zealanders who get cancer are cured
- There's an estimated 60,000 stroke survivors in New Zealand—many of whom are disabled and need significant daily support.

MARKET FLUCTUATIONS—A Question of Equilibrium

It's a common line in TV finance reports that sellers are out in force in the market these days after negative news on the economy, but have you ever wondered that if there are so many sellers out in the market, then who is buying?

The notion that in down days sellers outnumber buyers doesn't make sense.

What the newscasters should say, of course, is that prices adjusted lower because would-be buyers weren't prepared to pay the former price.

What happens in such a case is either the would-be sellers sit on their shares or prices adjust to a point where supply and demand come into balance. Buyers eventually invest if the price is low enough. This is when transactions occur and is described by economists as 'equilibrium'. But the price at which equilibrium is reached can change. That's because new information is coming into the marketplace continually, forcing would-be sellers and would-be buyers to constantly adjust their expectations. That new information might be company-specific news on earnings. It might be news that has implications for specific industries—like a spike in oil prices. Or it might be an economic development that affects the entire market, like a change in the unemployment rate. Given this constant flux in the flow of news and information and the changing expectations of participants, it can be reassuring to know that for everyone selling shares there must also be buyers. Otherwise, the trade would never take place. And whenever information changes, prices may change and quickly reach a new level of equilibrium.

Here's an example from outside the share market to explain how market equilibrium works:

Back in early 2011, a cyclone devastated about 75% of the banana crop in the Australian state of Queensland, which produces more than 90% of the national crop.

With supply short, retail prices for the fruit soared from around $3 to nearly $15 a kilogram within months. Farmers who had already harvested their crops sold at significant margins. Many consumers stopped buying bananas altogether because the prices were just too high for their tastes.

But then prices stopped rising as consumers pulled away from the market. And, as full supplies slowly returned, prices gradually fell to end the year back down where they began.

Similarly, security prices rise and fall continuously based on a multiplicity of influences, including supply and demand, news about the individual company and its industry, developments in the economy or even general expectations about the share market.

Trying to untangle all these influences and profit from perceived mispricing is not possible in a systematic and scalable way.

An alternative approach is to start by accepting that prices are fair and point to the collective expectations of market participants. While information frequently changes, this is quickly built into prices. Competition among buyers and sellers is such that it's not possible to consistently outguess the market.

The second step is see that fairly-priced securities can have different expected returns. And we can use market prices and security characteristics to identify those securities that offer higher expected returns.

The third step is to build highly diversified portfolios around these broad drivers of return, while implementing efficiently and managing the cost of buying and selling securities.

The final step is staying disciplined and rebalancing your portfolio to stay within your chosen risk parameters or to adjust for changes in circumstances.

Ultimately, the market is like a giant information processing machine. All those influences mentioned above are constantly being assessed by millions of participants. And prices constantly adjust based on those collective expectations.

The premiums we expect from investing are not there every day, every month, every week or even every year. But the longer we stay invested, the more likely we are to capture them.

So, rest assured, even when prices are falling there are still people buying. The market is doing its job and the rewards will be there if you remain disciplined.

—Jim Parker, Outside the Flags—Dimensional newsletter Sep 2018

INSURANCE FRAUD COSTS MAN AN ARM AND A LEG

A Nordic walking champion who cut his hand off with a circular saw and then had his leg severed by a train has emerged as one of the most unusual cases in an epidemic of insurance fraud in Denmark.

Danes make about NZ$965 million a year claiming for fake accidents and self-mutilation, according to Tryg the country's largest insurer. One Dane sliced his little finger off with a buzzsaw. Another allegedly borrowed a neighbour's excavator, dug a hole five metres deep and then pushed his company car into it. Yet none surpassed the grim determination of a retired farmer who stuck his right leg out in front of a train in Latvia to claim NZ$2.7m on his three accident policies.

The man, a father of three now in his mid-50s, had previously severed his wrist with an angle grinder in 2000. His hand was sewn back on by surgeons but had to be cut off again nine years later after he lost the use of his fingers.

He then took up competitive Nordic walking, and won a national championship. In 2011, he was rambling in the Latvian countryside when he was hit by a train. His right leg was amputated above the knee.

The man argued that he did not hear the train coming because he was listening to music through his headphones. Judges ruled that it was no accident, but rather a 'deliberate act', and that the man was not owed a penny by his insurers.

—The Times, January 2019

GLOSSARY OF INVESTMENT TERMS

Investment Term	Meaning
Fund	A type of investment that pools together money from a group of investors to spread across a range of investment assets. Also called a 'Managed Fund' as a manager (or 'Fund Manager') chooses how the fund is invested. Each investor in a fund owns a proportion of the total fund.
Fund Charge	The total cost (fee) charged by a Fund Manager to an investor to invest in a Managed Fund. Usually deducted by the manager from the value of the fund.
Fund Manager	The individual, team, or company that makes the investment decisions for an investment fund / Managed Fund, including the selection of the individual investments.
Fund of Funds	A Managed Fund, collective investment fund or other pooled investment that invests primarily in other funds rather than investing directly in individual securities (such as shares, bonds, or cash investments).

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"There are three faithful friends: an old wife, an old dog and ready cash".
— ***Benjamin Franklin***

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6 months	3.40% p.a.
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WILLS

Why should I have one—and what happens if I die without one?

They say, '*where there's a will, there's a way*'. But, if there isn't a Will, there isn't a way to ensure your property is disposed of in accordance with your wishes.

Why should I make a Will?

When you make a Will, you record how you would like your property and any dependents managed when you die.

Among other things, in your Will you:

- appoint your executor/s – usually a trusted family member, a close friend, or a professional. These executors are responsible for administering your estate.
- may request specific funeral arrangements
- provide for children, grandchildren, your partner
- may specify certain people to receive specific personal effects, and what will happen to other property
- may make donations to charities
- appoint guardians for young children

Talk to a lawyer

Because Wills are such important documents, the law requires them to be made in a specified way. You should get legal advice about how to make a Will that complies with the law. If you don't comply with the law, your Will can be invalid. I have recently reviewed a 'Will-kit Will' that didn't dispose of all a person's property, including a half share in a house. The cost of getting it wrong isn't worth it.

Making a Will can be straightforward. However, there is legislation that affects the freedom of a Will-maker, such as issues of relationship property, claims by close relatives and promises to make provision in return for services provided to you. It is important that you understand the effect of the law otherwise your wishes may be frustrated.

Do you know:

- entering a civil union or marriage revokes a Will unless it is made in contemplation of that event?
- what a life interest is, and how this can be a helpful tool if you are in a second relationship?
- who would have guardianship of your children if you passed away?
- the effect of receiving an inheritance?

What if I die without a Will?

If a person dies without a Will (intestate) the court appoints a personal representative, such as a family member or lawyer. This person is described as the administrator of your estate.

- If the total value of your estate is above $15,000 (including bank accounts, property and investments and KiwiSaver held in your sole name), the Administration Act 1969 determines how your property is to be distributed, usually to a surviving spouse and family members in specified proportions. This may not be in line with your wishes and can result in disputes over your estate. This process is more time consuming, costly and complicated than administering a valid Will.
- The person who stands to benefit most from your estate is entitled to apply to be administrator. If that person does not wish to act, another person can be appointed by the High Court. Your administrator must then distribute your estate in accordance with the Administration Act 1969.
- In a recent case the deceased's ex-spouse was entitled to apply to be Administrator and to receive the entire estate because their marriage was never dissolved. This was hardly what the deceased would have wished. If you have put off preparing one of the most important documents of your lifetime, don't delay it any longer. Also, if it has been over five years since you last reviewed your Will, you should do so today.|

—Bryce Williams, Gibson Sheat Law

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