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STUART·CARLYON

Financial advisers for your lifetime goals

A giant in the field

We admit it. We were going to do a story about scammers but in the past few weeks the topic has reached saturation point. It is the subject of a TV series, and more than that, the electronic society in which we all live has been blitzed by scammers who make the whole field of online commerce and banking fraught with risk.

But a more significant story overshadowed our editorial decision-making: the death at age 95 of economist Harry Markowitz. Talk about risk.

Markowitz, born in 1927, grew up in fairly humble circumstances as the only child of Morris and Mildred Markowitz, owners of a small grocery store in hard knuckled Chicago. Harry was a brilliant student and he later attended the University of Chicago where he focused on classical philosophers including David Hume who in the 18th Century argued that even with the perspective of the past, humanity cannot rationally dictate or determine future events because thoughts of the past are limited in scope compared to the boundless possibilities of the future.

This fascinated Markowitz who was considering the question posed by seemingly rational investors: where should I park my wealth? At issue was the tug of war between risk and reward.

Up to that point stock market strategies were dominated by the strategy of picking winners – buying shares in companies that had seemingly the brightest prospects. It was a narrow focus, only on returns.

His insight was to pay more heed to the risks of investing, and to take a portfolio approach to investment decision making. In short, he gave birth to the whole notion of Modern Portfolio Theory, an approach that utterly dominates the investment sector today.

His paper, "Portfolio Selection" successfully argued that investors could achieve better results by choosing a wider mix of assets that seek growth but also by choosing assets that recognise the investor's tolerance of risk. The key to doing that is to diversify. In doing so, the investor can actually push the risk/return envelope and achieve good returns but with minimised risk. His work is the basis of the mantra of "not putting all your eggs in one basket", but more importantly how many eggs we should assign to the different baskets in a structured manner.

According to the New York Times, which published a glowing obituary on June 25th, when in 1955 Markowitz submitted his paper for a PhD (under the supervision of Milton Friedman) he was subjected to a nerve-wracking joke. Friedman bluntly told Markowitz that while he and the academic panel could find no mistakes, the topic was extremely novel. "We cannot award you a Ph.D. in economics for a dissertation that is not economics," he said. Markowitz was told to wait outside the office for 5 minutes, during which he admitted getting sweaty palms. This after being so confident of his dissertation.

Finally, the NYT article reports, a panel member emerged and said, "Congratulations, Dr. Markowitz."

This sigh of relief has echoed throughout the investment world, and his influence has been profound. For readers of this newsletter or anyone who has discussed investments with us will be knowingly or unknowingly benefitting from Harry Markowitz's insight. His approach to risk basically made the world of investment accessible to the public.

Markowitz continued studying portfolio management theory, the field he pioneered, and he also developed a deep interest in Behavioural Economics: examining the sometimes illogical or irrational choices people make when they can't see into the future.

He won a 1990 Nobel Prize in Economic Sciences - an acknowledgement of the contribution he made to the field. He was a Giant.

A word on keeping safe in cyberspace

Stay sharp soldier. Well, you'd be forgiven for thinking the internet is a battleground. With so much scam activity showing no sign of let-up we are all obliged to lift our security levels to Code Red. Our clients trust us with their money, so it is timely to reassure you of the protective measures that we have in place.

First, the administration and management of your investment portfolio is operated through a custodian, who has a trust account that is dedicated to safely handle client monies. The custodial account is quarantined from their company operations.

Second: the suspicion factor. When you first set up your portfolio, we get proof of your bank account before loading it against your portfolio account. When you phone to withdraw money from your portfolio, it can only be sent to that specific account as loaded. We are simply unable to transfer money to a third party. If you make your withdrawal request by email, and it seems out of the ordinary, we will phone you to check.

Third, our IT provider ensures we adopt good "hygiene" practices to minimise cyber harm.

CertNZ, who is responsible for NZ's cyber security, has some tips on how to keep safe online:

- Back up your data by using an external hard drive or a cloud-based service.
- Keep your operating system up to date.
- Install antivirus software from a reputable company and run it regularly.
- Choose unique passwords for each account.
- Be cautious of free WiFi networks and hot spots as others could see what you are doing.
- Don't give out personal information even to legitimate-looking emails masquerading as banks or the IRD.

To the last point, if you have unwittingly provided your bank or credit card details either online or on the phone, immediately contact your bank. If you are ever unsure whether it's a scam or not, you can check on the Netsafe site.

Aotearoa - a new New Zealand

As members of the Estate and Taxation Planning Council, we recently attended a presentation by Paul Spoonley, Distinguished Professor Emeritus at Massey University. His topic: New Zealand's changing demographic picture. Prof Spoonley reminded us how demographic trends quietly turn up without fanfare and these societal changes have a deeper, more profound economic impact than we expect. Some highlights:

We are more multi-cultural than we might realise. Table tennis is one of our major sports.

- 20% of New Zealanders identify as Māori.
- They are younger and are spenders. The Māori economy soared to $68 billion - a growth of 60% in 5 years.
- The Pasifika population is also on the rise.
- 250,000 New Zealanders speak Te Reo.
- Asians make up 25% of NZ and 38% of Auckland's population.
- In 2019, 114,000 Aucklanders played table tennis compared with 59,280 who play rugby.

There is an uneven aging of New Zealanders. Asians are over-represented in the income earning, tax paying age bracket. Pakeha are over-represented in the NZ Super bracket.

- 1.3 million New Zealanders are aged over 65 (nearly 25% of the population and 220,000 aged 85+)
- NZ Super costs $36 billion being 25% of core government spending.
- A precursor to decline? Some towns like Thames are hyper-aged, that is, nearly 50% are 65+.
- Pakeha are living much longer (23.4 years from age 65 now compared to 14 years in 1956).
- 31% of working age are from one of the Asian communities.

Pakeha millennials and Gen Z

- Spending longer at university (5-8 years on average).
- Burdened by debt and have low property ownership.
- Progressing to a serious job not until their mid-30s.
- Environment is a major concern.

Do we have kids? Women choosing other options.

- Females choosing not to have children – more children born to mothers aged over 40.
- Declining fertility.

You can see we are very multi-cultural.

Looking into the future

- NZ will see continued urbanisation oriented to Auckland.
- An increasingly diverse population: older and browner.
- Regions will experience population decline due to ageing baby boomers.
- Paid workforce diminishing – can NZ Super remain universal and from age 65?

Shifting demographics inevitably affect our futures both economically and financially. The way we invest and what we invest in will keep evolving. Our assumptions for retirement planning, for example, have changed radically in the 20 years our firm has been in business. As the demographic story tells us, clients are living longer.