

Ignorance is Hit and Miss

What New Zealanders Don't Know about Investing

“Where ignorance is bliss, 'Tis folly to be wise.”

Thomas Gray

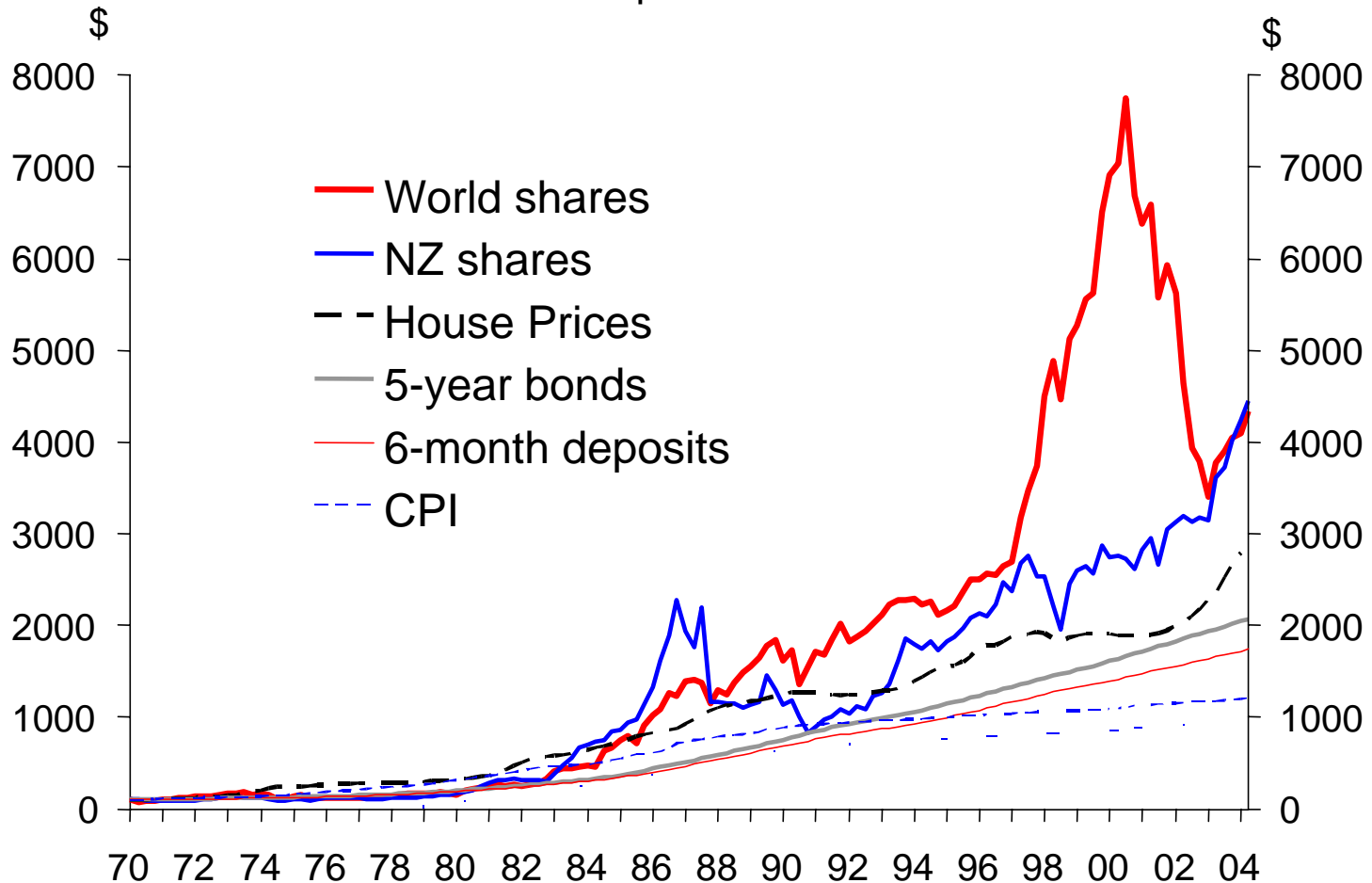
6 common misconceptions:

1. It's best to stick with term deposits for long-term savings.
2. You can't go wrong with rental property.
3. Shares are too risky.
4. It's easy to pick when to buy and sell shares.
Just read the papers, and brokers' reports.
5. If an investment has been doing well lately, get on board!
If it's been diving, get out.
6. If you can deduct an expense on your tax return, it costs you nothing.

Misconception 1:

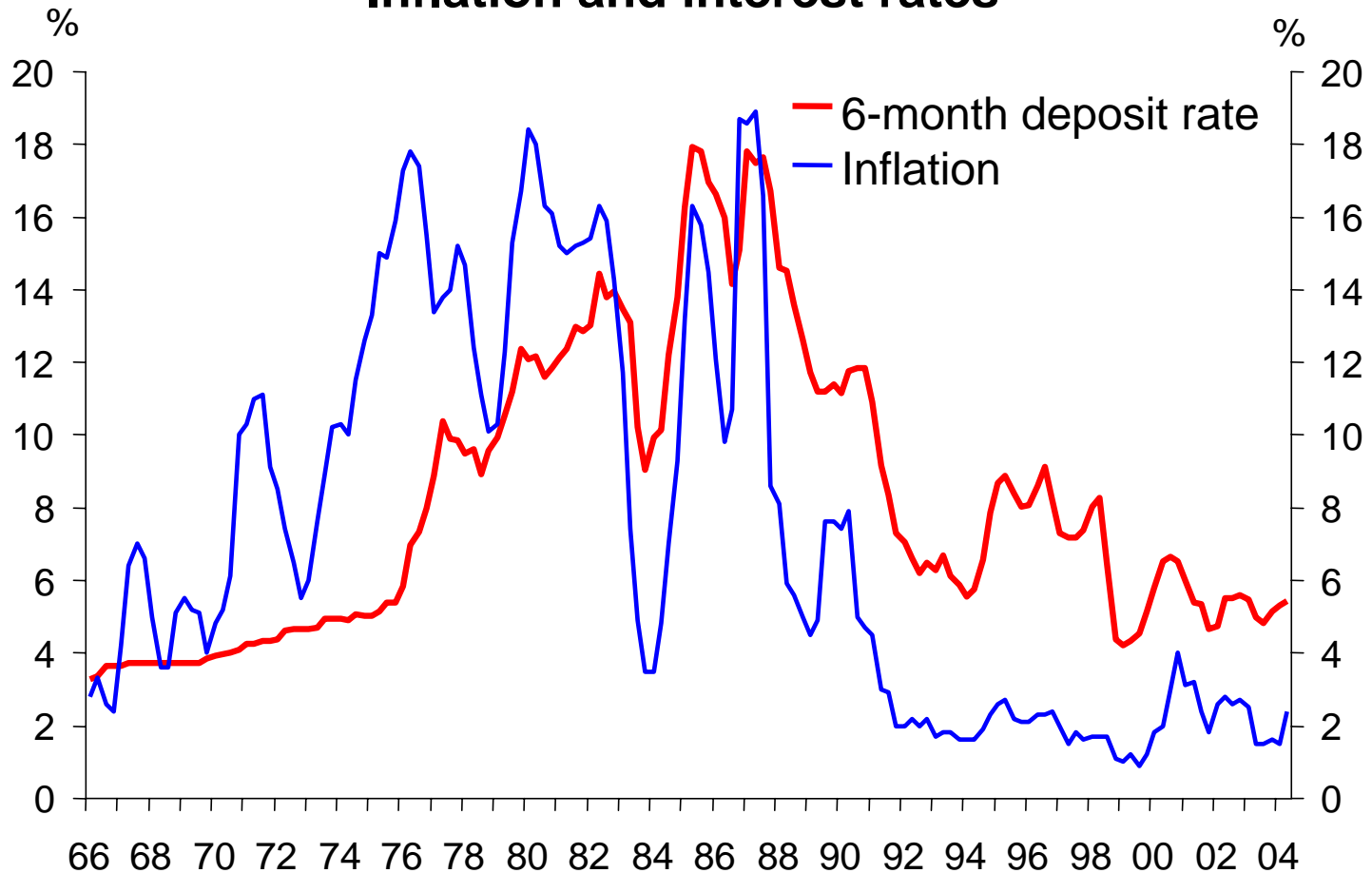
It's best to stick with term deposits for long-term savings.

Accumulation of \$100 from March 1970



Sources: RBNZ, Statistics NZ, Quotable Value NZ, Russell Investment Group Ltd.
5-year bond and 6-month deposit rates compound quarterly.

Inflation and interest rates

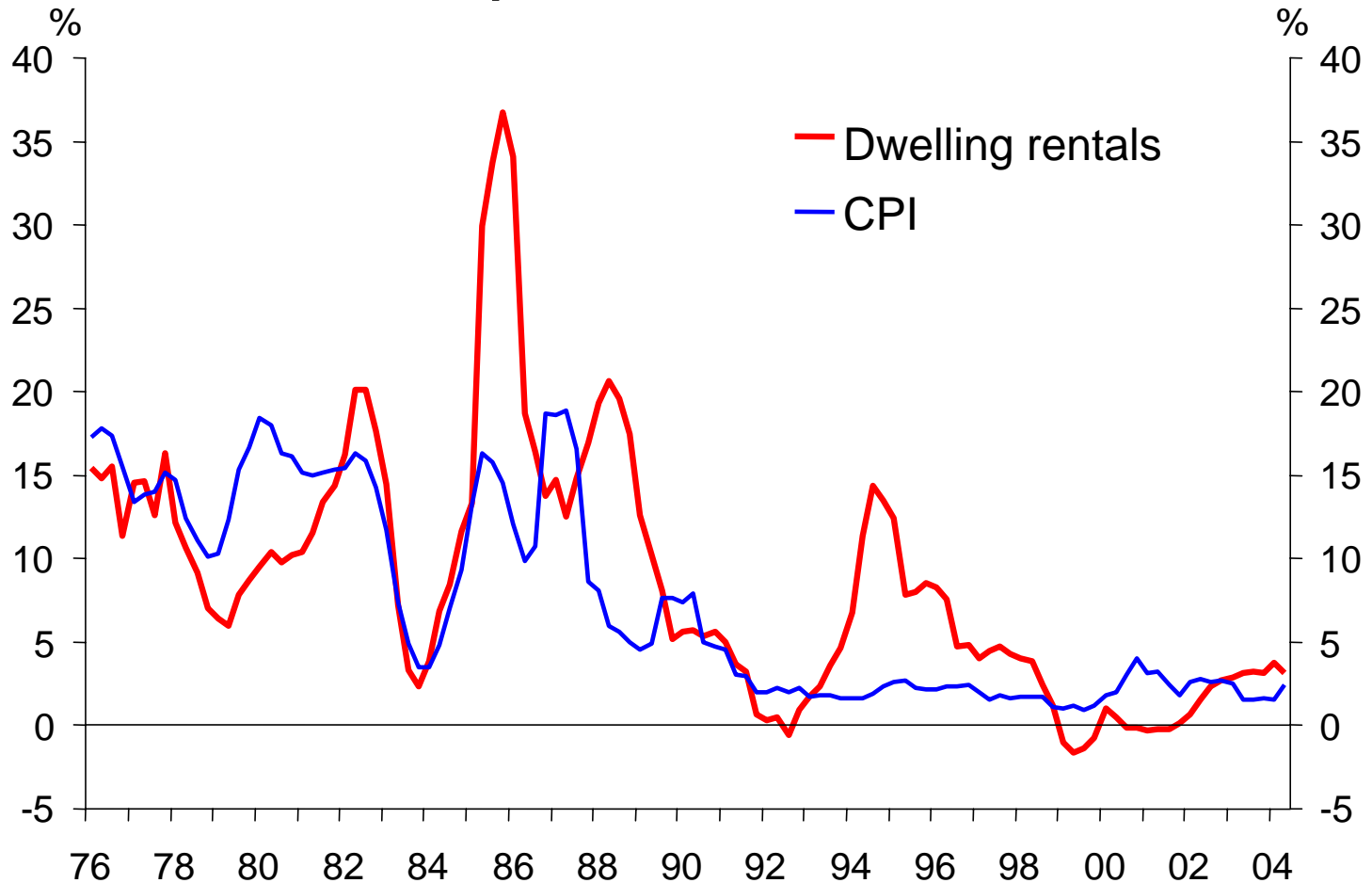


Sources: RBNZ, Statistics NZ. Inflation is CPI excluding interest rates over the full time period (interest rates were removed from the CPI regimen from June 1999).

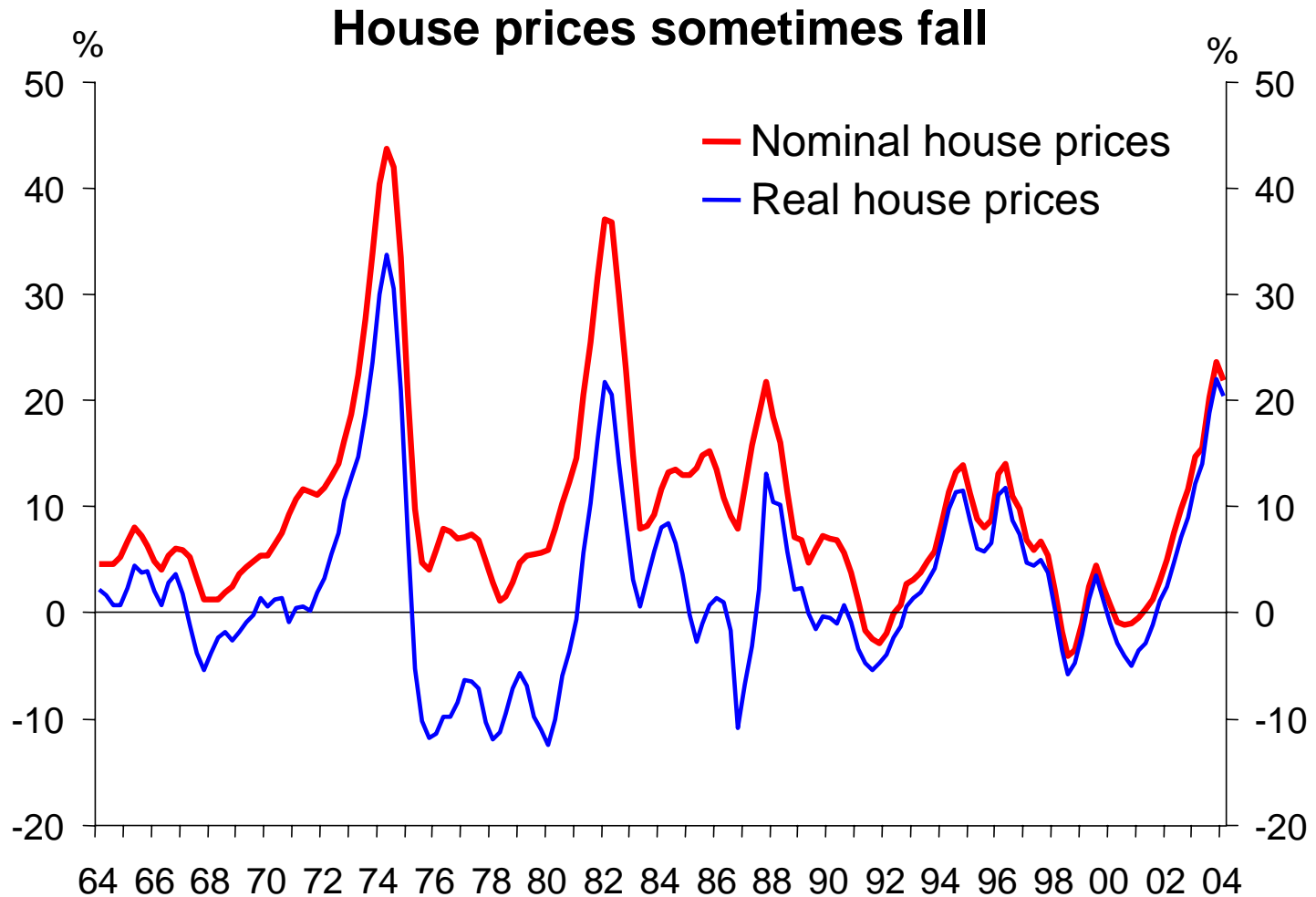
Misconception 2:

You can't go wrong with rental property.

The ups and downs of rents



Sources: Statistics NZ dwelling rental sub-group, CPI (excludes interest rates).

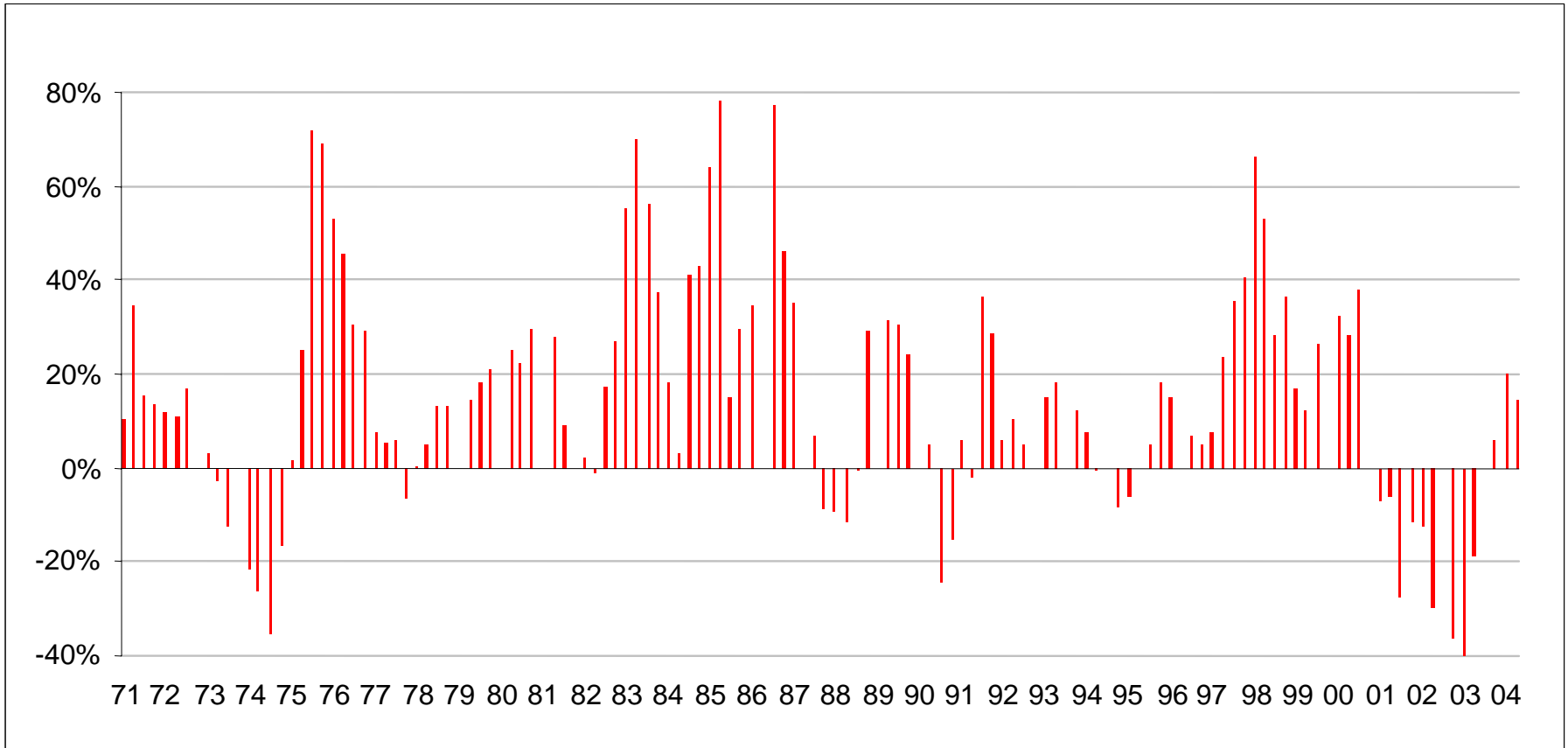


Sources: Quotable Value NZ, Statistics NZ, RBNZ.

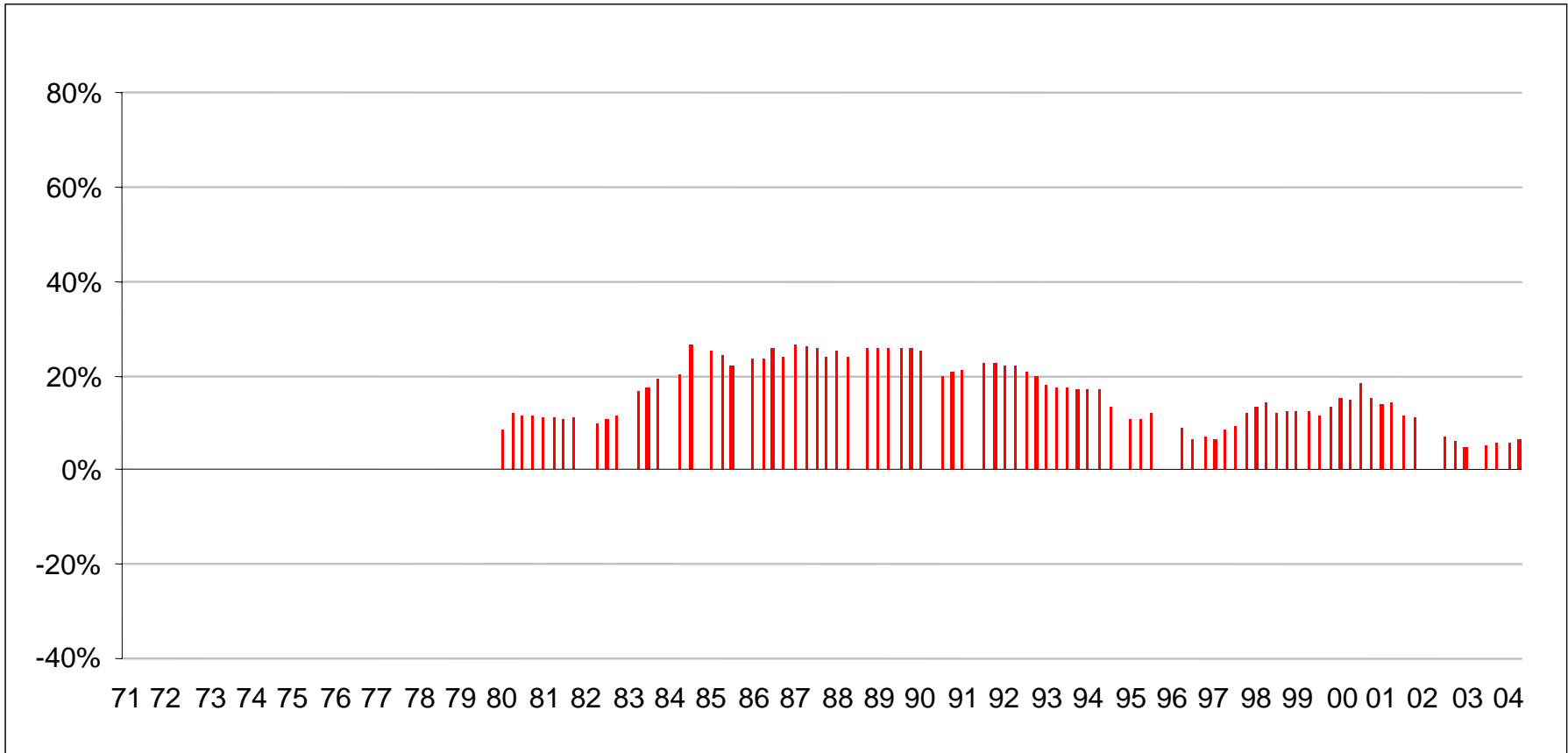
Misconception 3:

Shares are too risky.

Rolling 1 year gross returns (%)



Rolling 10 year gross returns (% p.a.)



Misconception 4:

It's easy to pick when to buy and sell shares.

Just read the papers, and brokers' reports.

If you're in and out, you might miss out

Average annual returns 1992 to 2002 on the S&P500

Over 10 years, there were more than 2500 trading days.

If you were in the market all the time, your return was 10% a year.

If you missed just the 5 best days 7.5%

... the 20 best days 3%

... the 30 best days 1%

Misconception 5:

If an investment has performed well lately, get on board!

If it's been diving, get out.

Should you go with last year's best performer?

Start with \$10,000 in 1982

Your options: Cash, NZ shares, NZ property,
international shares

If each year you move the money to last year's
best performer, today you will have \$70,000

If you move the money to last year's
worst performer, today you will have?

\$207,000

1984 – 2002

S&P500 grew 12% a year

Return for average investor in a US share fund 2.6% a year

Research shows: People moved into funds that did well in the previous 12 – 18 months and ...

... out of funds that were often just about to perform well.

Misconception 6:

If you can deduct an expense on your tax return, it costs you nothing.

How much does 8% interest cost you, after you've taken the tax deduction?

Taxable income	Tax bracket	Multiply 8% interest rate by:	After-tax Cost
Less than \$38,000	21 %	0.79	6.3 %
\$38,000 - \$60,000	33 %	0.67	5.4 %
More than \$60,000	39 %	0.61	4.9 %

"Organisations that rate their plans as highly successful

are more than twice as likely to have an educational approach to member communication

than those rating them as only somewhat successful."

Mercer Human Resource Consulting
& Mercer Investment Consulting

“If you think education is expensive – try ignorance.”

**Derek Bok, former president of
Harvard University**