

# STUART CARLYON

Financial advisers for your lifetime goals

## How the crisis affects your financial plan - *time to adjust your roadmap*

How have you coped with the lockdown experience? What surprised us most at Stuart Carlyon was the speed with which everything occurred. A remote virus one day. Total lockdown a few days later. We were especially delighted by the positive and realistic reactions our clients have shown towards the situation. There was no panic selling, and as far as we can tell, no panic buying from the supermarkets.



In fact, some good things have occurred during lockdown. In a poll of 1000 New Zealand adults\* the respondents were asked if they had taken the lockdown opportunity to re-evaluate their lifestyle. Some 68% said yes, they had.

Many New Zealanders rediscovered the joy of a slower pace – they did more things such as reading books and home cooking - and mostly loved it, though the survey showed that a significant number of Kiwis utterly missed the beach (3% admitted they'd broken that particular rule.)

For sure, a significant percentage of New Zealanders (at least 30%) are worried about their small businesses or employment situation. As of week three, some 6% said they'd been laid off, another 4% reported that business had totally dried up while 17% took a pay cut, or used up their annual leave.

Now is a good time to reset our expectations. How will all this adjust your roadmap? Consider these facets of your financial arrangements:

- **Preparedness for catastrophe:** The world reacts to so-called Black Swan events as if they're as rare as, well, black swans. But just about every year we encounter another of these birds. SARS, The Christchurch Quake, The Mosque Shooting, Auckland's electricity meltdown in 1998. We are getting more prepared for future crises. But now we are learning to add a lockdown survival kit to our home preparations. Water, tinned or dried food, BBQ for boiling water, torch, batteries, and a transistor radio.

- **Job insecurity:** The lockdown put a significant percentage of the workforce on hold, or out of work within 48 hours. Most NZ businesses run on tight margins, and two weeks of closure (let alone more weeks) was enough to send many small businesses to the wall. We stress, particularly for working age New Zealanders, to have an emergency fund in place that will last two months in case your job disappears. This gives you time to think about the next steps.

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- **Less really can be more:** A hard core of 30% of NZers missed their shopping, but for many of the rest, the lockdown reintroduced us to simpler living. More time with the kids. Less running around. Low petrol costs. The timing is right for more employers to offer a 4 day working week – and even if this is 80% of your usual pay, it might be worth it from a lifestyle point of view. Work out what your priorities are and allocate spending accordingly.
- **Re-evaluate all insurances:** Do they even cover in the event of a pandemic? As many travellers found, travel insurance does not cover pandemics, protests and those other Black Swans. Maybe it is better to travel domestically. Or if you go overseas, build an emergency fund to cover the uninsurable events.
- **Review your retirement plan:** Especially if you are near retirement then you may have discovered the benefits of a relaxing home life. Does your retirement pot need calibrating to take advantage of the current investment conditions? Do you need to step up your savings regime so that you can consider retiring earlier?





- **Keep knocking down the mortgage:** Some clients will have been granted mortgagee repayment holidays or extensions. These still need to be paid, so plan to reduce the mortgage as soon as you are in a better position money-wise.
- **Diversification matters:** Many investors took big bets on building wealth via a handful of shares –such as Air NZ and (for related reasons) Auckland International Airport Ltd. Both were sure-fire picks. It took only 4 weeks for international air travel and airlines to collapse. Diversification helps mitigate risk. That's our mantra for our investment portfolios.
- **Interest rates will stay low and dividends will reduce:** Companies are unlikely to make vast profits, therefore expect lower or no dividends for some time (banks have been ordered to not pay dividends out to shareholders). So cashflow income from portfolios will be lower. That signals a good time to review your spending and, if possible, avoid dipping into your capital while values are down. We've already had clients showing their foresight by phoning us to reduce their level of drawings and live just a bit more simply than they did before.
- **Sometimes it takes a crisis to get ourselves sorted on the estate planning front:** For example, it's important to have Enduring Powers of Attorney (EPA) in place. If elderly parents get sick, their children cannot act on their behalf nor gather any information without an EPA in place.

## Looking on the bright side...

The lockdown was a necessary step for beating the COVID-19 virus, but it also proved to be an interesting social experiment. Here are some good things that came out of it.

- **Giving the planet a breather:** Fewer cars on the road. Fewer factories spewing smoke. Society has been made more mindful of the impact of catastrophes. We will see continued interest in investment funds that have an environment-friendly focus.
- **Goodbye motorway:** More than 25% of workers migrated home and continued working. Expect a steep change in the

percent of people who work from home. Who didn't enjoy the 5 second commute? And while it has some bugs, Zoom proved a satisfactory tool to keep up with colleagues.

- **Family, friends and neighbours matter:** Many of our clients are in a healthy situation money-wise and have not hesitated to dip into their portfolios to assist their children who have lost their jobs. Our portfolios have always been adjustable and tailor-made to our clients' circumstances, but they will always have a cash float to meet emergencies.

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- **Government support programmes:** We are so fortunate in NZ that people - through no fault of their own - have become financially stretched but are getting assistance from the Government.
- **Hooray for the humans who put their lives on the line:** Society needs to value more our nurses and supermarket workers, police, cleaners, rubbish collectors.
- **Socialism vs capitalism:** Our core values in this regard didn't take much of a shake. In the Survey of New Zealanders 18% felt that in light of the crisis we need more Central Government, while 18% feel we need less Central Government. 64% decided that both are equally important. We need to keep a balance between a productive economy and a caring society that has the resources to handle a crisis such as the one we've just experienced.

Now is an excellent time to review your financial and lifestyle arrangement. Strike while the iron is hot! We've rediscovered our priorities and new opportunities are on the way.

*\*Kudos Survey of 1000 NZers aged 18+. Conducted 9th-12th April 2020*

