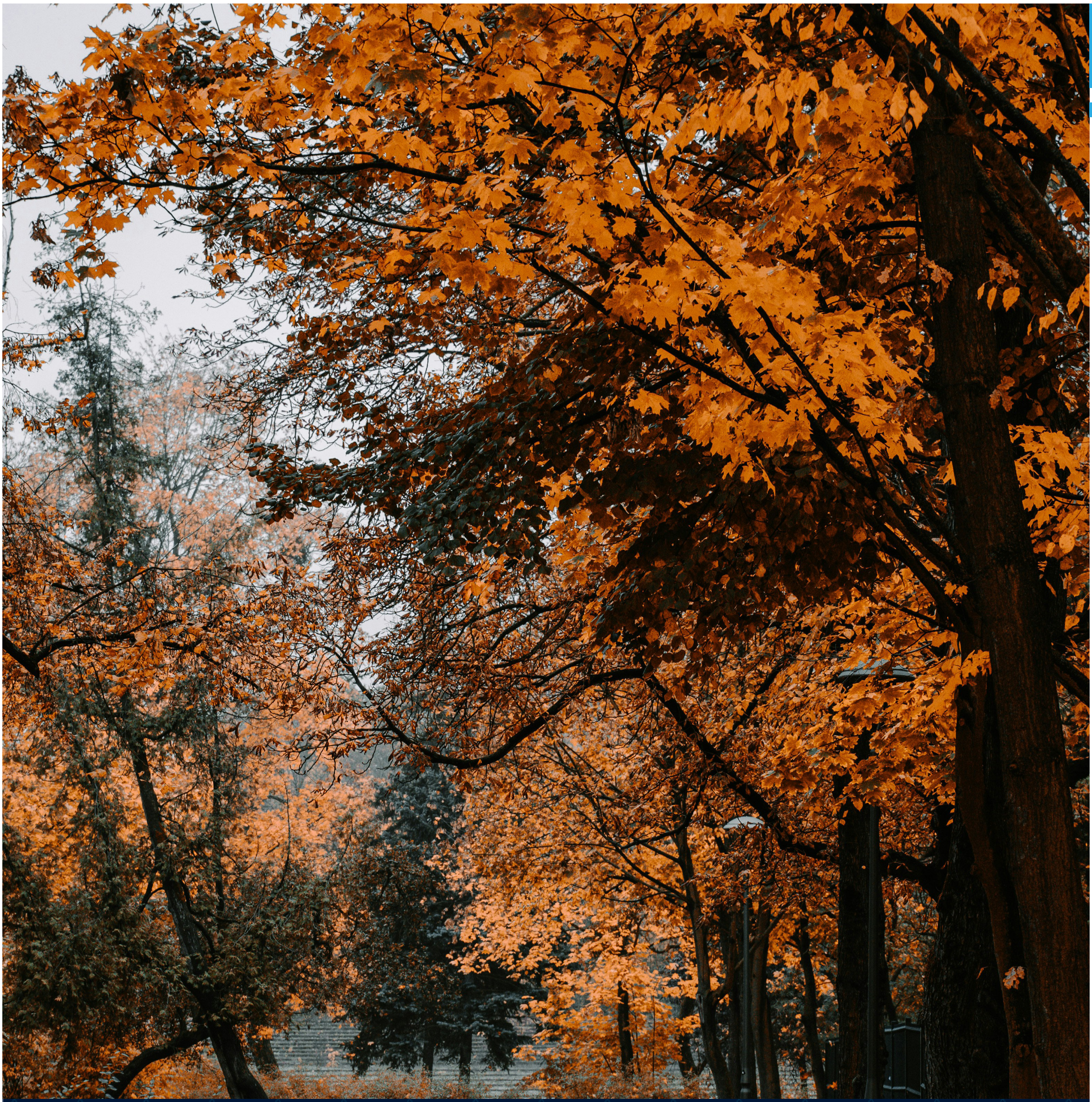


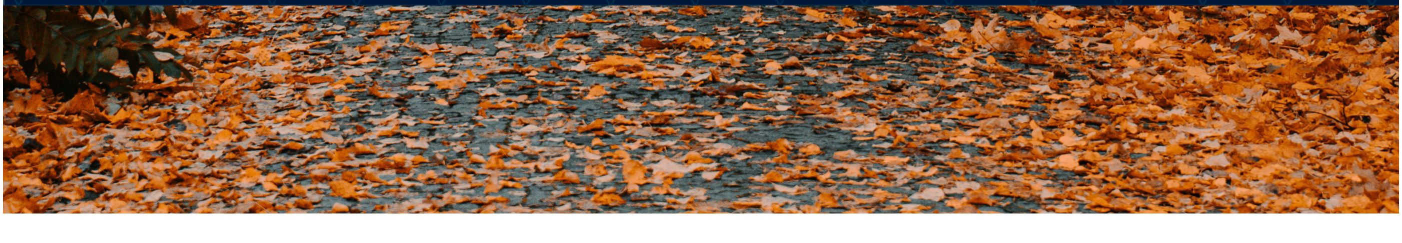
Milestone Financial

LIFE IS A JOURNEY. GET GOOD ADVICE

Extra Mile

Quarter 1 / 2025

Insight / Guidance / Dedication



Welcome to the Autumn 2025 edition of Extra Mile

It's a cauldron of uncertainty out there, and there's no disputing that New Zealand's economy has been through a tough recessionary patch. But positively, after some bitter medicine such as sharp interest rate hikes, layoffs and liquidations, it seems our economy is on the road to recovery.

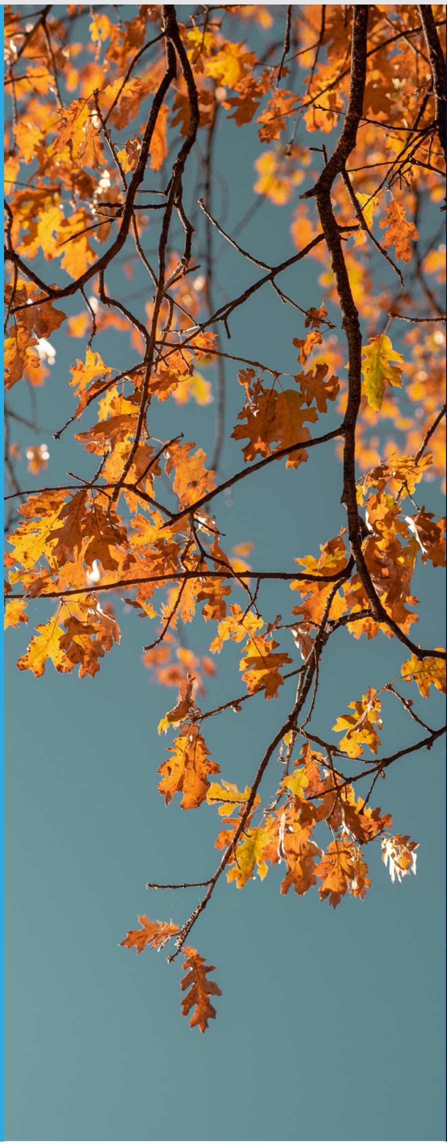
Looking to worldwide data, it seems that New Zealand is leading the economic frontier – in essence, we've been through the worst. While we are seeing green shoots, many developed economies such as the US, UK, Europe and Australia are only just now heading into recession.

In the realms of our financial sector, a lot of change has taken place recently including the surprise departure of the Head of our Reserve Bank (Adrian Orr), the opaque resignation of National's Commerce Minister (Andrew Bayley), and the surprise stepping down of Air NZ's CEO (Greg Foran). Perhaps these are the wholesale changes needed to bring fresh thinking and ideas to our economy.

We remain confident that Milestone's investment approach of bringing diversified exposure via fund offerings is right for the times. Our broad-basket approach will act to mitigate any shocks while our investors participate across the major investment sectors.

We hope you find this edition's content both interesting and thought provoking. As always, reach out to your adviser if you wish to discuss any of the subjects covered within.

Editor
Richard Maloy



Contents

Retirement – Remaining active (with your money)

As New Zealanders approach retirement, they face several key financial and lifestyle concerns.

Milestone's financial advisers remain available to discuss retirement plans and finances for both existing or new clients. We love helping our clients to make the most out of their retirement years with well-considered financial plans. Below we highlight some key findings from Massey University's 2024 New Zealand Retirement Expenditure Guidelines annual publication.

1. Financial Preparedness and Income Gaps

- Many retirees find that New Zealand Superannuation (NZ Super) alone is insufficient to maintain their desired standard of living.
- Retirees often rely on additional income sources, such as savings, investments, or part-time work, to supplement NZ Super.
- The report categorises two spending levels: "No Frills" (basic living) and "Choices" (comfortable lifestyle), with most retirees exceeding what NZ Super provides.
- The estimated lump sum savings required at retirement varies widely, from $48,000 to $1.14 million, depending on lifestyle and location.

2. Impact of Inflation and Cost of Living

- Inflation remains a significant concern, with rising costs in housing, transport, and insurance affecting retirees the most.
- Retired households experienced inflation rates between 1.8% and 3.46% over the past year, with some groups facing cost increases above the national average.
- Many retirees adjust their spending habits to cope with price increases, often at the expense of discretionary expenses like travel and entertainment.

3. Longevity Risk and the Fear of Running Out of Money (FORO)

- A major concern is outliving retirement savings, leading some retirees to underspend, sacrificing quality of life.
- Life expectancy continues to rise, making retirement planning more complex.
- Strategies to manage longevity risk include:
- Diversifying investments to balance income generation and capital growth.
- Adjusting withdrawal rates to ensure sustainable income.
- Considering annuities or other guaranteed income sources.

4. Retirement Income Sources and Dependence on NZ Super

- Most retirees supplement NZ Super with wages, self-employment, investments, or private pensions.
- The "Choices" households rely less on NZ Super (33-58% of their income), while "No Frills" households depend on it for 77-97% of their total income.
- Couples often have an advantage as one partner may continue working to provide extra income.

5. Planning for Future Healthcare and Lifestyle Changes

- Health-related expenses tend to increase with age, making medical costs a key concern.
- Many retirees need to plan for downsizing, moving into retirement villages, or covering aged care costs.
- Lifestyle adjustments, such as reducing travel and giving up homeownership, may become necessary in later years.

Credit: Massey University, Retirement Expenditure Guidelines – Annual Update 2024.

Conclusion

Retirement planning in New Zealand requires careful consideration of income sources, cost of living, and longevity risks. While NZ Super provides a foundation, most retirees must supplement this with savings or other income to maintain their desired lifestyle.

Proper financial planning, early savings, and flexible spending strategies are essential for a secure and comfortable retirement.

If you know of someone who could benefit from a no-cost initial talk to a Milestone financial adviser, we welcome your referral.

Gulf in America

Under the Trump administration, deep social chasms are erupting as long-standing conventions are being uprooted.

Under the Trump administration, deep social chasms are erupting as long-standing conventions are being uprooted.

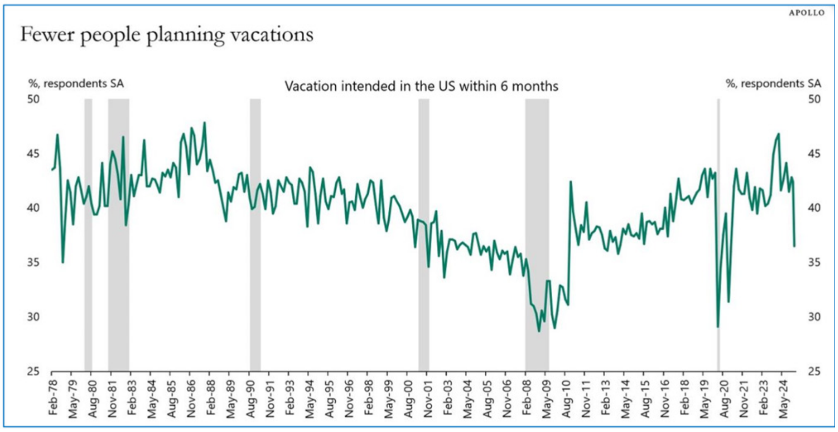
Big changes continue to emanate from the Beacon of Democracy. From verbal sparring in the White House, to tariffs being imposed upon geographical neighbours and friendly countries, unpredictability is a certainty with a Trump presidency.

Geographies are even being rebranded including Canada being intimidated to become America's 51st state, the Panama Canal reverting to pro-American ownership and the Gulf of Mexico renamed to Gulf of America. While the US economy remains relatively strong, there are indications that things are starting to waver. Jobs prints have disappointed, unemployment has nudged higher, and layoffs (led by the DOGE team) are rising. The US trade deficit has soared despite, and partly because of, new protectionist policies.

A recent New York Federal Reserve Bank (FRB) survey of consumer expectations reported a deterioration in consumers' outlook for the economy over the next 12 months.

This data mirrored surveys from other FRB offices where 39.4% of surveyed consumers are expecting a higher unemployment rate, looking one year ahead. This was a 5.4% increase in negative sentiment and the highest reading since September 2023. American sales while paring guidance for 2025.

The below chart, spanning 45 years, shows that surveyed US residents have drastically reduced their intentions for a vacation in the next six months:



households are also expecting their financial situations to deteriorate on the whole. This was reinforced by short-run inflation expectations which rose 0.13% to 3.13%.

Reflecting this pinch, Walmart and Costco both reported that shoppers are trading down and becoming more selective. Kohl's, a major US department chain, reported a 9.4% decline in net

The key takeaway from the above is to brace for an uncertain four years. This does not mean selling your investments and sitting on a pile of cash. In fact, being out of the market could mean missing out on four years of strong economic growth.

Sources for this article: Apollo, ANZ, Devon Funds

Fort Knox – the curious case of the unseen gold

Many of our readers will be familiar with the term Fort Knox which has become a metaphor referring to a high security facility. Indeed, the 1964 movie Goldfinger saw James Bond investigate a plot to contaminate the gold within the US Bullion Depositary near Fort Knox Army Base in Kentucky.

The historic backdrop is that Fort Knox Army Base sits adjacent to the United States Bullion Depository, where over half of America's gold reserves (with a value of approx. US$450 billion) are supposedly stored under very high security.

The last limited audit of the depository (more a look-and-see) occurred in 1974, and there have only been three publicised visits to the Fort Knox vaults by former Presidents or politicians. Due to the secrecy around the facility, there has long been speculation that not all the gold remains.

As part of his DOGE corruption purge, Elon Musk recently implied that gold may be missing from Fort Knox. "Maybe it's there, maybe it's not. That gold is owned by the American public! We want to know if it's still there".

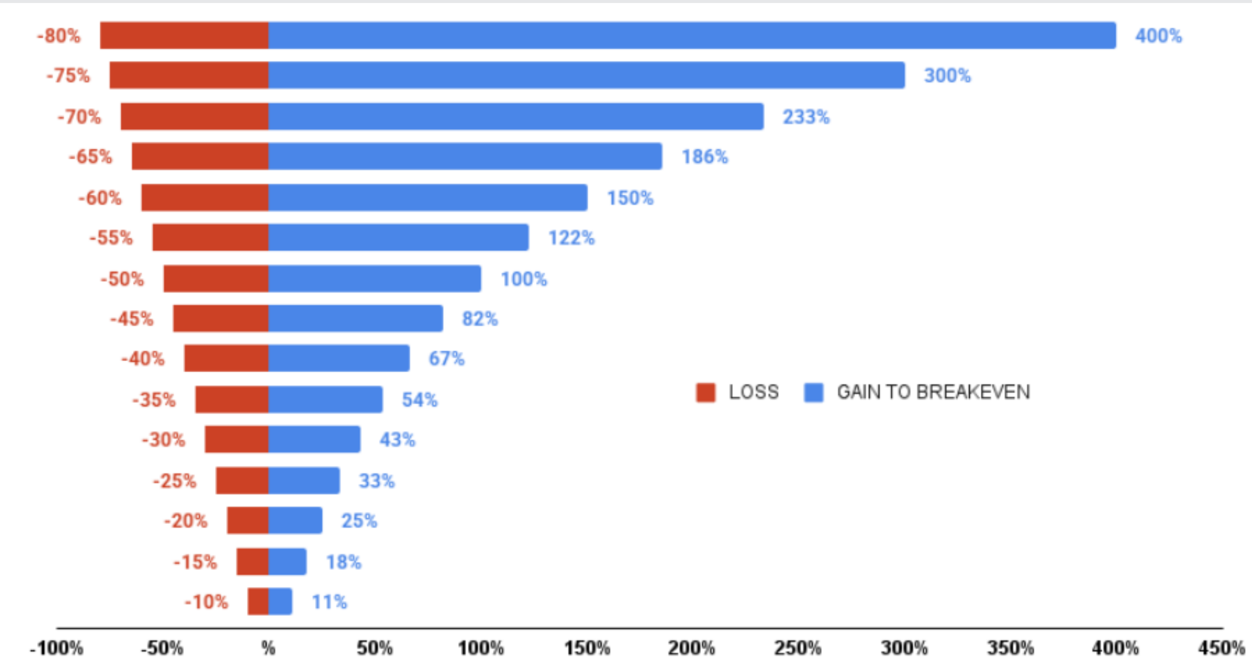
President Trump followed up, stating "we hope everything's fine with Fort Knox, but we're going to go to Fort Knox...to make sure the gold is there." Trump added last week: "If the gold isn't there, we're going to be very upset."

With a personal inspection being arranged for the President in the near future, we await the outcome with interest.

The numbers around loss recovery

Time for some mental gymnastics: we thought our readers would be fascinated with the chart below. It shows the percentage gain needed to recover from a loss.

To recover from a loss, a greater percentage gain is required than the initial loss. As an example, a 10% loss requires an 11.1% gain to break even, while a 50% loss needs a 100% gain. Were an investment to lose 80% of its value, a 400% recovery is required to break even!



Now, losses are a sure part of investing. However, the implications of the above are to limit losses where possible. Or to quote legendary investor Warren Buffett: "The first rule of an investment is don't lose [money]. And the second rule of an investment is don't forget the first rule."

Image credit: Trefis

What are the differences between Trump's first term and second term?

New Zealand fund manager Harbour Asset Management provide a response to their most common client question:

There are notable differences between what we perceive to be the direction of President Trump this term compared to his previous term. One of the more recent developments is that he is less focused on the stock market, whereas previously he often cited the stock market as his favoured sentiment barometer. Below we contrast these differences, with the main takeout being that the world and policy platform is vastly different to what it was in 2016:

Trump 1.0	Trump 2.0
	
New role/surprise win for him and others	Determined to return to office and act...his last term! (and others prepared)
Good majority (47 seats in house in 2016)	Razor thin 2 seat majority
Moderate fiscal deficit (3 – 3.5%) with 105% debt/GDP)	Very large deficit (6-7%) with 121% debt/GDP
Low rates (2 – 2.5% 10-year treasury yields)	Higher rates (4 – 5% 10-year treasury yields)
Big tax cuts/stimulus	Extending tax cuts and cutting government spending
Broadly stable and peaceful world	Heightened tensions and risks

Sources: Harbour Asset Management, T. Rowe Price, Wikipedia, whitehouse.gov

Moving from a fumbling first Presidential term to a focused second term (reflected in the above picture), it is clear the President is on a mission to affirm America's dominance this time around.

There's Always a Reason to Sell

With investment markets going through a volatile period, below we provide some timely commentary from global fund manager VanEck. This investment manager explains just how common market hiccups are, with an Australian focus.

The truth is that market crashes are more common than we often realise.

In the 50 years before the Wall Street crash of 1929, the US stock exchange experienced no fewer than seven financial crises (the credit shortage of 1884, the 1893 economic depression, the panics of 1896, 1901, 1907, 1910-1911 and the Great War).

Throughout history, financial markets have experienced periods of significant turbulence. These can be due to:

- economic downturns,
- credit crises,
- a speculative bubble bursting, or
- an unforeseen global event (aka. Black Swans)

Historical patterns demonstrate that despite short-term turmoil, markets have shown long-term resilience. Understanding past crashes and their recoveries provides essential insights for today's investors.

In the recent past, we have experienced each type of market crash:

1 - Economic downturn – 1990s recession - In 1994, the Australian share market experienced a significant fall due to the ongoing effects of the early 1990s recession, which was primarily caused by the high interest rates implemented by the Reserve Bank of Australia to curb inflation, leading to a decline in economic activity and impacting company profits.

2 - Credit crises – The GFC - The 2008 crisis, driven by the collapse of US subprime mortgage-backed securities, sent markets into freefall. The US Dow Jones Industrial Average fell over 50%, but by 2013, it had fully recovered, driven by aggressive monetary policy, including near-zero interest rates and quantitative easing by the Federal Reserve, alongside corporate earnings recovery and improved investor confidence.

3 – Speculative bubble bursting – The dot-com bubble - The late 1990s saw a surge in technology stocks, leading to an overheated market that eventually burst in 2000. The US's S&P 500 took about seven years to recover from its losses. The slower than usual recovery was partly due to Bush's 2002-2003 Steel Tariff policy, which disrupted global trade, increased costs for steel-dependent industries, and created market uncertainty which delayed the equity market recovery.

This policy combined with the lingering effects of the 2001 recession and corporate scandals like Enron and WorldCom, contributed to the prolonged US market downturn. The impact was not as severe on other markets like Australia's.

4 - Unforeseen global event – COVID crash 2020 - The pandemic-induced crash of early 2020 was among the fastest in history, with the S&P 500 dropping over 30% in a matter of weeks. Thanks to swift government intervention, the market rebounded in just six months.

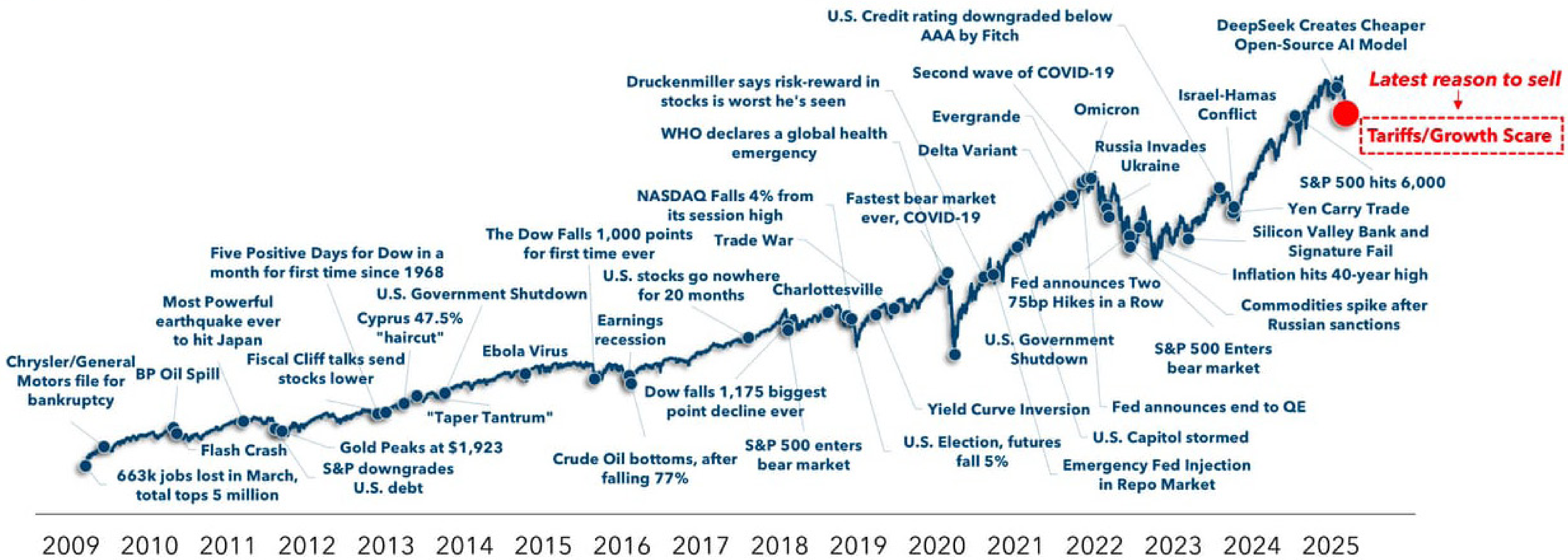
In each of these, the share market fell, but subsequently recovered, with the line trending upwards.

The following chart reinforces the above lessons, showing just how resilient investment markets have proven to be:

There's Always a Reason to Sell

Reasons to Sell and S&P 500 Price

Since 2009.



Source: Ritholtz Wealth Management, data via YCharts

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RITHOLTZ wealth management

sources and images: VanEck Australia, Ritholtz Wealth Management, YCharts.com, theirrelevantinvestor.com

Thirty-year portfolio – best decade first, mid or last?

The below content was published by Morningstar in January 2025. Written by Mark LaMonica, the article is titled "Unconventional wisdom: Don't play Russian Roulette with your finances".

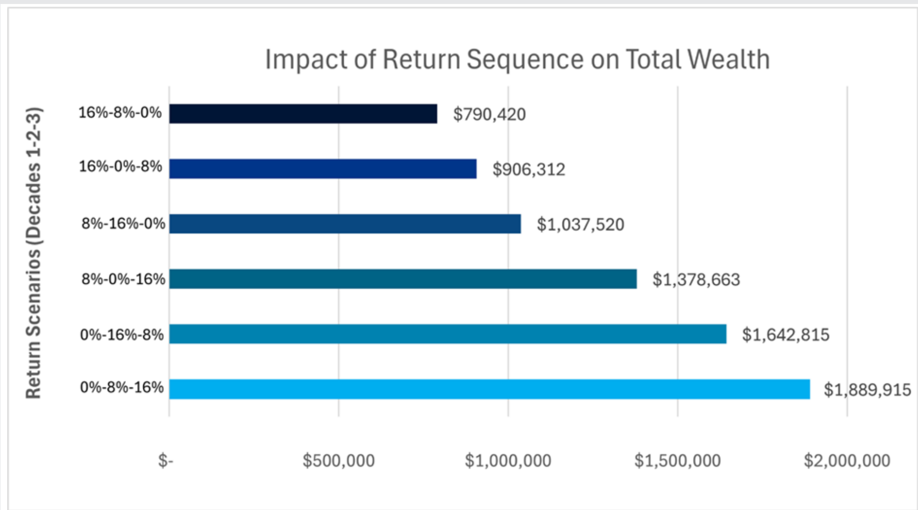
Randomness in Investing

Investment returns are unpredictable. Imagine investing over three decades, with one decade yielding flat returns, another offering 8% annually, and the best decade delivering 16% annually.

The order of these returns dramatically affects your final wealth, even with the average return remaining the same. The best outcome occurs when low returns happen early, and the strongest returns come later, accelerating compounding as you near retirement:

Return Scenario *save and invest $10,000 a year, over 30 years*			Total Wealth
Decade 1	***Decade 2***	***Decade 3***	
16%	8%	0%	$ 790,420
16%	0%	8%	$ 906,312
8%	16%	0%	$ 1,037,520
8%	0%	16%	$ 1,378,663
0%	16%	8%	$ 1,642,815
0%	8%	16%	$ 1,889,915

Here are these outcomes depicted as an image:



The above is a fascinating summary of the sequencing of investment returns. In reality, market cycles and consistent returns are beyond our control. For example, the S&P 500 experienced a negative return in the 2000s but rebounded with a 13.56% annual return in the following decade. Timing plays a significant role in financial outcomes.

How Good Times Can Undermine Financial Resilience

When markets perform well, investors often become complacent. The "wealth effect" leads people to spend more as their assets grow. A Visa study found that for every dollar increase in assets, people spent an extra 34 cents—often on fixed expenses like mortgage and car payments, reducing flexibility when conditions change.

Above-average returns may also lead to misjudging risk. Investors may overweight growth assets, chase momentum, or assume past winners will continue thriving. While these behaviours may not seem reckless, they can make a portfolio less resilient.

Building Financial Resilience

Since randomness influences financial outcomes, resilience is crucial. This requires trade-offs, sometimes leaving potential returns on the table to safeguard against unforeseen downturns. Here are three key ways to enhance financial resilience:

- *Minimising Non-Discretionary Spending*

  Spending less than you earn is essential, but true resilience means preparing for disruptions like job loss or pay cuts. Avoiding lifestyle creep ensures that essential expenses remain manageable. As incomes rise, maintaining a steady cost of living allows for greater flexibility if circumstances change.

- *Holding Cash Reserves*

  Cash provides a safety net, preventing the need to sell long-term investments during market downturns. While conventional advice suggests maintaining three to six months of expenses in cash, having a more substantial buffer — such as two years' worth — offers additional security and peace of mind.

- *Constructing a Resilient Portfolio*

  True risk isn't short-term volatility; it's permanent capital loss. A resilient portfolio consists of established companies in stable industries, avoiding speculative investments. Valuation matters—buying at reasonable prices helps prevent unrecoverable losses. Passive investing through index funds like the ASX 200 or S&P 500 also mitigates risk.

Final Thoughts

Financial resilience isn't a glamorous subject, but it's essential to consider. Popular narratives highlight bold investors striking it rich, overlooking the role of luck. By focusing on stability and adaptability, investors can safeguard their financial future against unpredictable market cycles.

Credit to Morningstar, a global financial research firm connecting people to the investing information and tools they need.

History Rhymes: The Opium Wars and today's parallels

The Opium Wars were a series of conflicts between China and Western powers in the 1840s. During this period, the West showed insatiable demand for Chinese products such as silk, tea and porcelain, however the Chinese didn't reflect the enthusiasm, showing little interest in foreign products.

The outcome was trade heavily imbalanced in China's favour. So it was, until Western powers introduced the Chinese to Opium. From 200 Opium chests in the 1730's to 40,000 chests one century later, a large part of the Chinese population became addicted to the substance with marked societal effects.

Highly immoral and despite the Chinese ban on the drug, the Opium Wars saw the Western victors coerce the Middle Kingdom to allow the continued trading of Opium. The outcome was

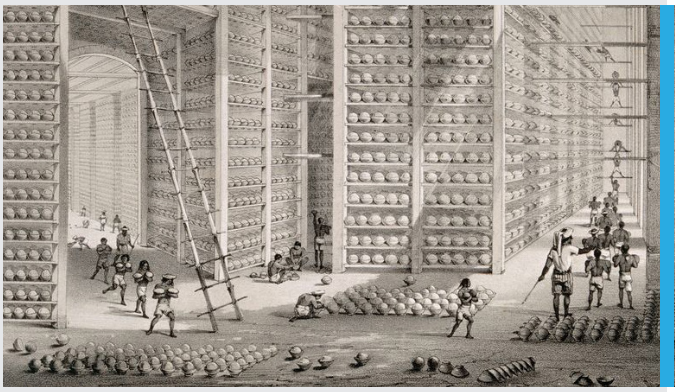
China moving from a net exporter of goods to a net importer. In modern parlance, China was running a heavy trade deficit.

A significant historical footnote, these wars resulted in Hong Kong being ceded to the UK for a 150-year period.

Today's Equivalent

At a stretch, today's parallel is the US (under President Trump) imposing stiff trade tariffs on Canada, China and Mexico. The justification for these duties being "these countries have taken advantage of us for years, and we're not going to allow that to happen". Trump further made mention that the trade trio were not doing enough to halt the flow of fentanyl (a debilitating and addictive drug) into the US. On Inauguration Day, Trump had stated that foreign drug cartels are "killing 250,000 [or] 300,000 American people per year".

With this historical parallel in mind, the next step in our current era would be Canada, China and Mexico jointly invading parts of the US and enforcing the fentanyl trade. This won't be happening, however the similarities make for a fascinating case study and remind us that history perhaps doesn't repeat, but does rhyme.

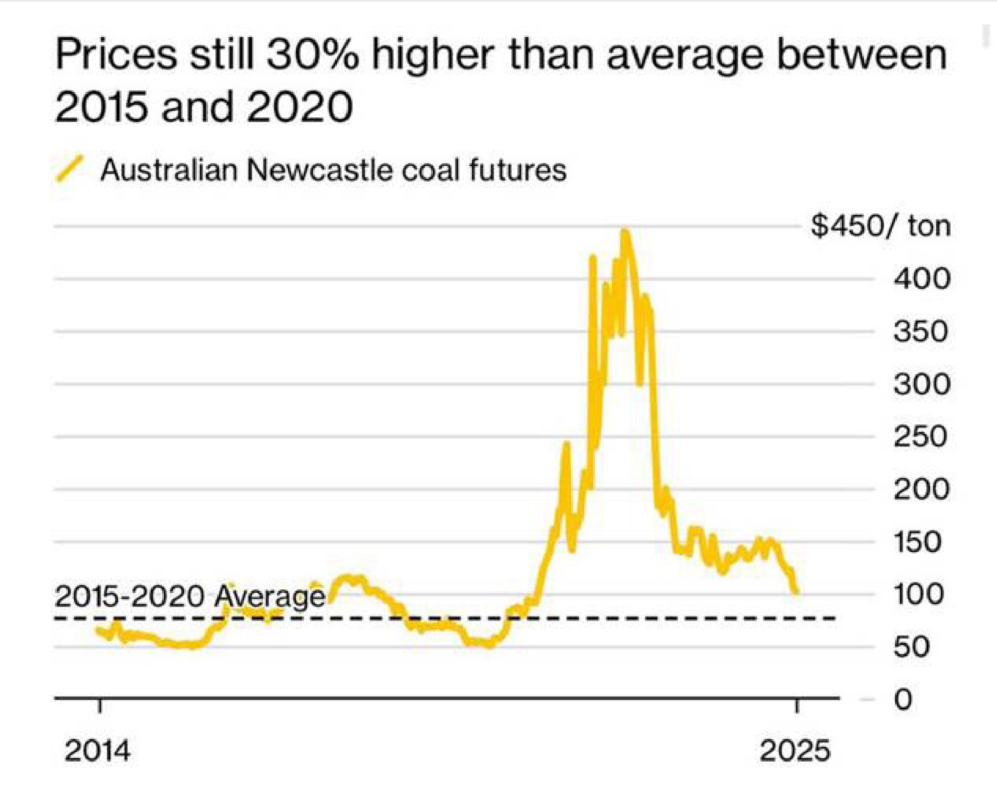


A "stacking room" in an opium factory in Patna, India. On the shelves are balls of opium that were part of Britain's trade with China.

sources and images: npr.org, globalnews.ca, asiapacificcurriculum.ca, britannica.com

Charts of interest

Has the movement to green energy been pared back? Australian coal prices have heavily retreated from Biden-era highs. This indicates that supplies of coal have become less scarce compared to the past four years:



sources: Intercontinental Exchange [ICE], Schroders.

Japanese 30-year bond yields have hit levels not seen since 2004. This is significant because Japan's enormous debt levels, accumulated since this period in a low-interest environment, need to be refinanced at notably higher levels - approaching 3%:

source: cnbc

This interesting chart shows where European Union (EU) budget funds come from and go to. Croatia, Hungary and Bulgaria are the biggest beneficiaries of EU subsidies in terms of % of GDP:

Source: amazingmaps, Schroders

How to Perfectly Time the Stock Market

We often hear from investors that they are worried about timing the market. What if they invest and the next crash or recession is imminent? The potential for loss is uncomfortable. Below we provide an [abridged] version of a recent publication by New Zealand fund manager Kernel Wealth:

Here's how to perfectly time the market

You will always find someone who thinks the market is too hot or cold right now and market prices are ultimately driven by investor sentiment. So we thought we would demonstrate how to perfectly time the markets...

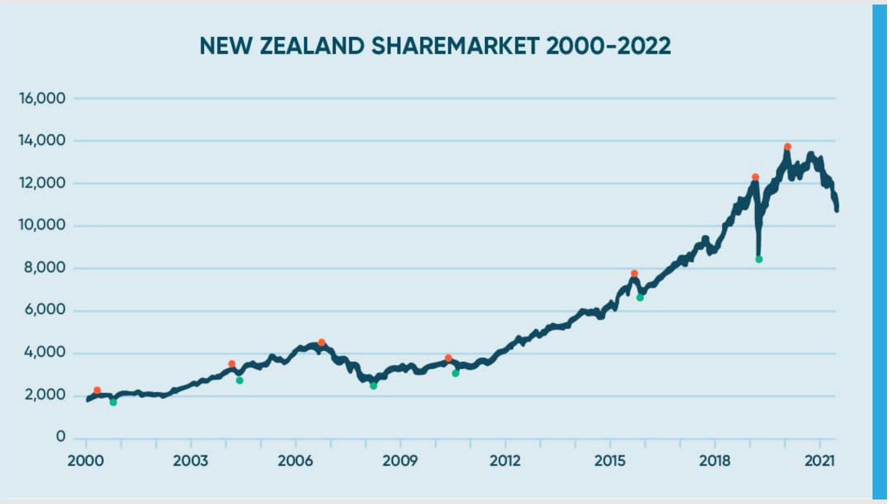
Imagine on New Years' Eve 2000, you made the resolution to save for the future by putting aside $100 per week. You had two options; a savings account earning a constant 2% per year, or an index fund tracking the NZ stock market with its fluctuating returns.

By 30 June 2022, you would have saved exactly $110,400. You chose to invest in an index fund and once you bought, you never sold and you always reinvested the quarterly distributions. This is because the investment is for your retirement or some long-term goal that didn't change. However, you might be wondering whether you could have chosen your moments better.

Let's look at a few different strategies based on when you jumped into the market and how you would fare today including tech bubbles, Global Financial Crisis, and the ongoing COVID pandemic.

Every investor wants to avoid market downturns

So, what if you held your money in a savings account until it was the perfect time to invest. After all, in hindsight, there were seven periods of greater than 10% "correction" between 2001 and today, shown below between the red and green dots.



If you had perfect timing

If you got it absolutely right and invested at the exact low point of the market (each green dot), your investment would be $333,605 today. This meant investing all the saved cash on September 17, 2001. Less than one week after 9/11 and then again on five 'ideal' days, including the days NZ went into lockdown due to the COVID pandemic. It can't be overstated how hard it is to predict the bottom of a market and the perfect hindsight required!

If you had spectacularly bad timing

By contrast, what if you got it spectacularly wrong and invested your saved balance on every red-dot day? Investing on the seven market peaks only for a significant fall to begin the following day including the current bear market – your investment would today be worth $243,729. Not as good, but almost double the $138,048 you would have from the 2% savings account alone.

What if you invested without any thought to timing?

How about a third approach – what if you just invested without any thought to timing, choosing an automatic approach?

On the very first day, you started putting your savings to work by automatically investing each week into an index fund. Then you rarely looked at your account again. Today your balance would be $309,488; only 7.7% off the theoretical perfect timing over 21 years.

How is that possible?

While many people try to convince you they can predict the future, as the adage goes, it's time in the market, not timing the market that gives the best results.

Autumn Gardening Tips

Every season in the garden marks a new milestone, and autumn is no exception. A time of renewal and preparation for the cooler months ahead, the air is crisp, the days are still warm, and it's the perfect time to refresh your garden

Autumn To-Do List 🍁

Your lawn has been through a lot this summer. Now it's time to give it some love! Autumn is perfect for sowing a new lawn or reviving your existing one.

Save your seeds! Collect seeds from last season's crops, label them like a pro, and store them for next year—it's a milestone moment in your gardening cycle.

Add a pop of color. Refresh pots and containers with vibrant autumn flowers to brighten up your space.

Strengthen your plants. A regular boost of organic seaweed tonic or a general plant conditioner will keep your garden healthy and thriving.

In the Veggie Patch 🥦🥕

Your soil worked hard all summer—now it's time to replenish those lost nutrients. Mix in compost, natural soil enhancers, and organic fertilisers to create a strong foundation for your next milestone harvest.

🌱 Time to plant: Broccoli, cauliflower, cabbage, beetroot, spinach, and Chinese cabbages thrive in the cooler months.

🥗 Lettuce lovers, rejoice! Plant early in autumn, and you'll have fresh greens in no time.

🌿 Sow winter staples: Carrots, turnips, swedes, and radishes love a light, free-draining seed mix.

🛡️ Watch out for garden pests! Slugs, snails, aphids, and whiteflies are on the move—protect young seedlings with natural pest deterrents or handpick where possible.

❄️ Frost alert? Keep delicate seedlings snug with a protective cloche or growing tunnel.

In the Fruit Garden 🍎🍊

Autumn is a milestone moment for the home orchard, with new fruit trees arriving at garden centers and existing trees heavy with delicious produce.

🍋 Citrus trees need a boost! Feed them with a balanced citrus fertiliser in early autumn (but hold off if frost is on the way!).

🌱 Prepping for new fruit trees? Enrich the soil with compost and nutrient-rich garden mix before planting.

🦜 Pesky birds eyeing your grapes? Protect ripening fruit with bird netting or natural deterrents.

In the Flower Garden 🌸🌼

As the seasons shift, so should your flower beds! Swap out summer blooms for hardy autumn varieties like pansies, violas, and polyanthus.

🌷 Planning for a stunning spring? Now's the milestone moment to plant bulbs—your future self will thank you!

✂️ Prune, support, and mulch. Trim back finished flowers, stake taller plants like dahlias and sweet peas, and spread a layer of mulch to keep weeds down and plants protected.

Credit to New Zealand's Tui Garden for these ideas.

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