



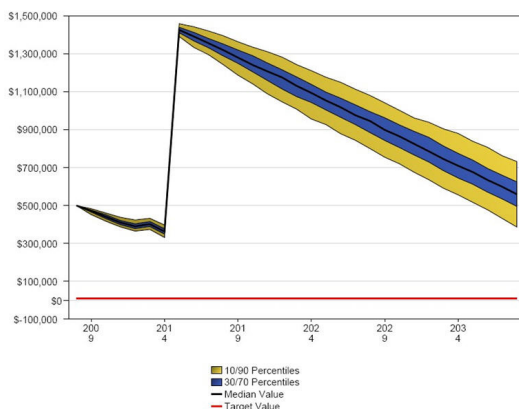
Bill and Sue – A long life lesson in a graph

Bill and Sue were dairy farmers but retired 10 years ago. They have transitioned from farm to lifestyle block to town. They are in their early 60's with two adult children. Over the next five years they want to transition their monies into a simplified structure for easy administration. Cumulatively they will have \$1.5 million to invest. They know that this sum of money will support them comfortably for a further 30 years. They feel that they are guardians of this money. This has been inter-generational farming money, but both their children have chosen off-farm careers and have flourished. It will give Bill and Sue pleasure to be able to pass on these assets to the next generation.

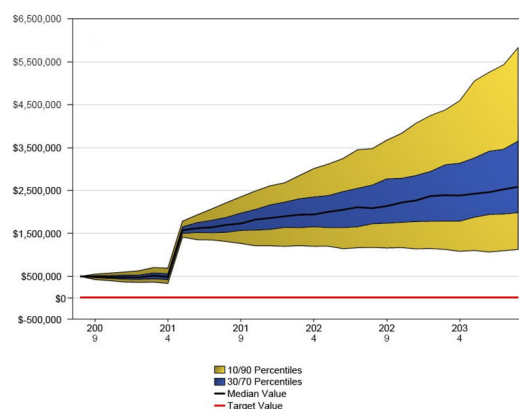
Bill has done some study and knows about bond portfolios and how they can be used to provide retirement income. However, like the Lotto ad "He feels like he needs something more?". Are there better options for him and Sue and the next generation? Can you have flexibility and certainty for the older generation but also provide something tangible for the next generation? Are there lifelong lessons on investing that can be passed on to the next generation by observation? **Can Bill and Sue find a prudent flexible compromise that lets them have the lifestyle they want now, knowing they are still doing the best for their children?**

Probability modelling provides us with the answers to all these questions. The modelling shows the consequence of choosing two different investment strategies. The first graph is using bonds to provide the retirement income. Bill and Sue were frankly shocked and then appalled at the outcome of using only bonds. It may have seemed a straightforward solution but running down their assets to a possible estate of \$550k was not the outcome they hoped for their kids. Conversely the outcome of the second graph showed the consequence of including shares into the portfolio. A further \$2 million more in estate value provided Bill and Sue with the reason to be more diversified.

Term Deposit Investment



Whole-of-Market Investment



The message is that bonds and fixed interest may appear like a simple financial solution in the short term, but clients' expectations are now long term. This requires different solutions. For Bill and Sue, including shares in their portfolio marks the difference between success and failure of their hopes.

Before giving investment advice, every new client I see starts with a probability model of their financial situation. Probability modelling delivers clarity through showing the consequences of financial choices. It also provides a great roadmap for judging financial safety because, if you remain in the blue section, then everything will always be alright!