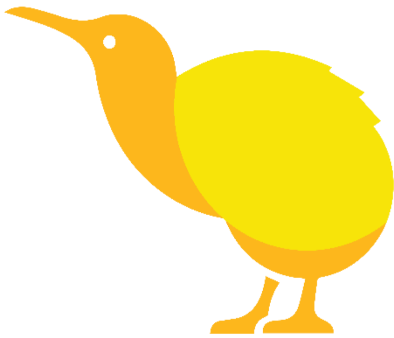
Kōura 2023 Financial Resilience Survey

In 2023 the economy has been a lot like the weather; tumultuous, volatile, and difficult to experience.

For many kiwi families these economic times have forced them to make changes big and small to the way they live their lives, personal and financially.



At kōura we wanted to see how this cost-of-living crisis was impacting individual behaviours. In particular we wanted to see if every day Kiwi's have been brave enough to continue investing through these difficult times.

In April 2023, we surveyed 1000 New Zealanders across the country about how the cost of living is impacting their lives.

Our key findings

Kiwi's investing habits have changed, but we are nervous that this trend might not be sustainable.

- **Kiwi's have finally become investors**
  New online platforms have driven everyday kiwis to become investors. New platforms like Hatch, Sharesies and InvestNow have made investing accessible for everyday investors.

- **The behaviours we see from investors give us reason to worry about whether they will remain investors**
  We are concerned that many investors have suffered losses (18.5%) or are unaware of their returns (21.5%). For investors that have lost money, they will take longer to come back, and not being aware of returns is a worrying sign around lack of engagement.

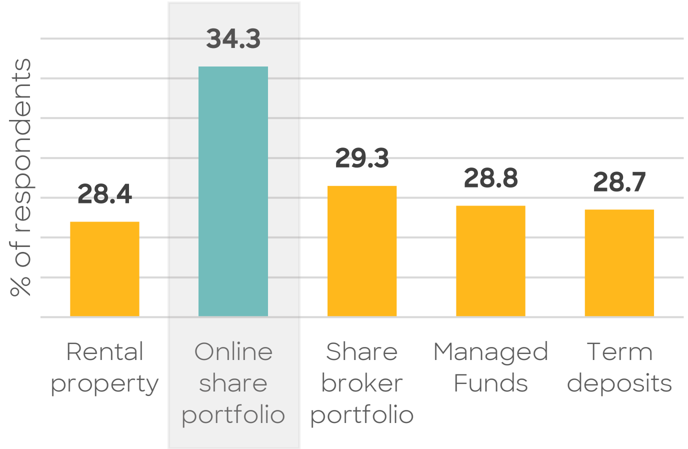
- **The current cost of living crisis is impacting people's mental health**
  Unsurprisingly people are most concerned about the things we would have expected, mortgages and food costs. Though we were surprised at the impact that the current state is having on people's mental health with 42.3% talking about increased stress levels.

Kiwi's investing habits

Over the last four years there has been a seismic shift in the way Kiwis invest.

New online investment platforms have opened up share markets to those with pocket change. The enthusiasm for investing was accelerated by the market recovery post-Covid. Investors who may have found traditional investing out of reach have embraced these platforms.

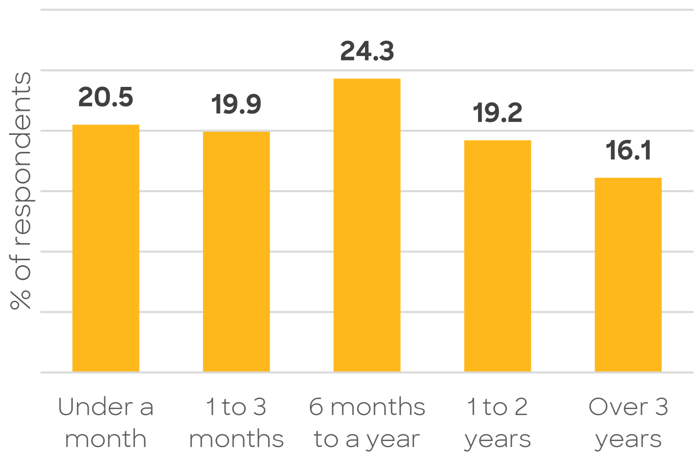
Outside of KiwiSaver, what other investments do you have?



As expected, an online share portfolios were the most popular investment mechanism.

Surprisingly, people were typically invested across multiple asset class / platforms so they are spreading their risk and trialling different platforms

How long have you been investing in your online investment platform



Surprisingly, people continued to start their investment journey last year after markets had begun to reduce.

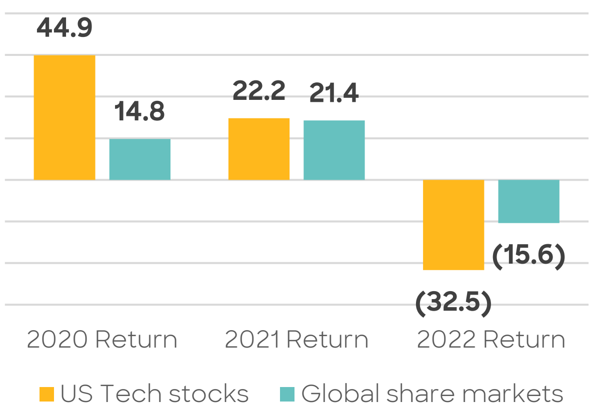
Though far too many have started that journey after the peak of the markets had already been reached.

Is the new found love affair with investing sustainable?

We are an advocate of this phenomenon and believe that platforms such as InvestNow, Hatch and Sharesies have delivered products that are long overdue for everyday Kiwis. We support transitioning our traditional investments away from property into a broader based set of investments.

Given how important this is for the future of New Zealand and New Zealanders we wanted to try find out if this was a generational shift, or a post-Covid blip. To do this we look at investors awareness of returns and their investment behaviour through these difficult market times.

Investment returns (%)



Understanding investor returns and behaviours during a market downturn are critical to understand whether this current trend will outlast the current market boom

Our survey found some facts that indicate New Zealand's new found love of investing might be less sustainable than we hoped.

- **Many investors have incurred losses or are unaware of their gains:**
  - 18.5% of people surveyed had earned negative returns.
  - A further 21.5% did not know what their returns were.
- **Far too many investors have reduced their investments:**
  - 45.7% of people have reduced their investments over the past 12 months.
  - Two of the most common reasons for stopping were that they lost money or were trying to avoid volatile markets (often the best time to invest).

How profitable have investments been?

Investors invest to make money, therefore this is a key issue in determining whether people will remain in their investing journey or potentially look to do something completely different.

Many studies have shown that once an investor loses money in a market crash the scarring can stick around for the long term. A 2011 study from the RBNZ here in New Zealand found New Zealand's poor savings rate could be seen as a "hangover" from the 1987 stock market crash[i].

A 2018 American study found that young American's were hesitant to put money into the stock market, highlighting the 2008 market crash as a key reason[ii].

We really need people to make money early in their investing journey as this will mean they stick with it through the tough times

Investor stated returns

It is concerning that so many investors have suffered losses, and how many are unaware of their returns

While not unexpected, it is confronting that 18.5% of investors have lost money since they started their investing journey.

The fact that 21.5% did not know their returns is highly concerning to us. A key role for any investor is to understand what they are investing in and what they are earning from those investments. A 2018 US-based study demonstrated that understanding of returns was an important signal of financial literacy[iii].

If investors start to doubt their ability to make money, they need to reference and learn from their KiwiSaver funds, most of which have delivered great long term returns over the past 15 years by investing in the markets.

Have Kiwis continued their investment journey in the tough times?

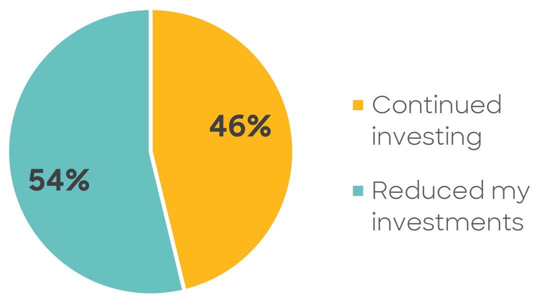
There have been many periods in history when investors get excited about the markets and flood the market with extra cash. It is critical that investors stay invested through the bad times as much as the good times.

As markets recover from downturns, those that stay invested or increase their investments during downturns are the ones that make the most money.

A 2020 research note from Vanguard revealed internationally, most investors tended to lose out on returns due to something called a "behaviour gap", the gap between investment returns and the actual profit of the investor.[iv]

The difference between a good and bad investor can be as simple as having the discipline to continue investing in the tough times

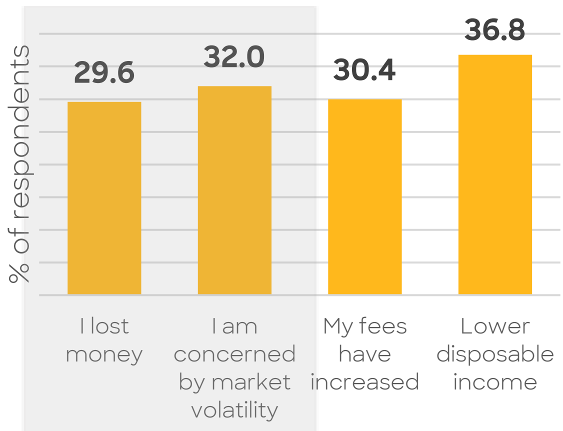
Have you changed your investment habits in the past 12 months?



Continuing to invest during a downturn is the most important way of generating returns. Historically markets have always recovered. Investors can earn outsized returns on investments made while markets are low, though to do this investments have to be appropriately diversified.

In March 2020 markets fell sharply. Many Kiwis moved their KiwiSaver from growth to conservative funds as a result of the volatility that decision is likely to have cost the average KiwiSaver up to $6,000 (or 20% of their balance).

Why have you reduced your investments?



Reducing investment activity because losses have been incurred or because you have suffered losses is concerning.

This indicates investors do not understand market cycles and are likely to miss out on the rebound when markets recover

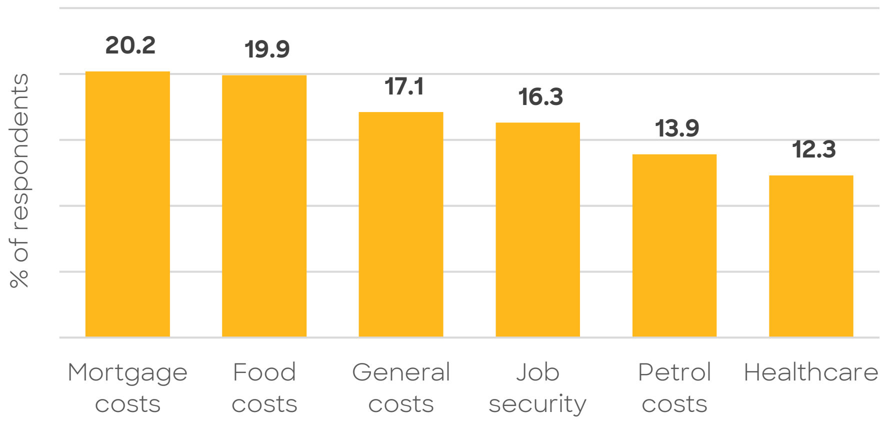
Kiwis reactions to the cost of living crisis

2022 and 2023 have been tough years for the average Kiwi.

Everything has become more expensive, food prices are up over 12%, rents have skyrocketed and those lucky enough to own a house have seen their mortgage rates go eye wateringly high while their houses have lost value.

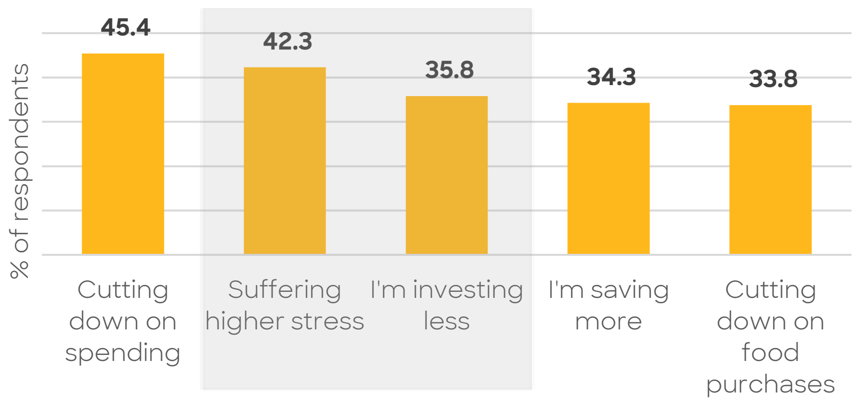
Unsurprisingly, people are worried about pretty much everything, though mortgages and food are causing the most strain in people's wallets. What was surprising was how people are dealing with this strain – higher stress levels and reduced spending are the most significant activities.

What is your biggest financial worry?



The results of what worries people are not entirely surprising and align with eh larger increases in costs that we have seen.

How has your behaviour changed due to the cost of living crisis?



We were somewhat surprised that a significant number of people are saving more despite the cost of living crisis.

We suspect that this is down to fears on jobs, if people are nervous about the future they are more inclined to save today.

The future cost of this cost of living crisis?

We were really disappointed to see that 35.8% of people were investing less for their future. This is a decision that will impact them for the longer term.

As mentioned in the previous section, stopping investments now will impact returns as investors are likely to miss out on the recovery. Though more importantly stopping saving today means you not only miss out on those foregone savings you will also miss out on the returns that those savings may have generated over time.

This is a long term cost that people will continue to bear into the future.

How can we help

As financial service providers it is incumbent on us to help our clients through these very tough times and encourage them to make decisions that will not impact their financial well being.

Fundamentally there are three things that all financial service providers should be doing in this current climate:

1. Proactively communicating with our clients

Times are tough and things that appear in the media can have a scary affect for every day people. It is critical that we proactively provide clients with the advice and help they need to make the best decisions possible.

For a KiwiSaver provider like kōura this means that we need to be open and honest about the performance of our funds when markets are down and being clear around expectations for the future. KiwiSaver managers are very good at communicating during the good times, but are often not as good at communicating when times are tough.

2. Being clear around what is available to help our clients

Many financial service providers have ways in which they can help clients, whether that be financial hardship for KiwiSaver, mortgage holidays from the banks or payment holidays for insurance providers. It is critical that we let our customers know that these are valid options that may help them through.

3. Financial education

We need to ensure that all clients are aware of the implications of their decisions. This can mean lots of things, but some of the most important pieces that we need to impart on our clients are:

- Providing tools for budgeting
- Helping clients understand the importance of an emergency fund; and
- Ensuring clients understand market cycles and what they need to do at all points in the market cycle – trying to get people to understand We need to ensure that if they stop their investments during a market downturn they understand the longer term implications of this

References

[i] https://www.treasury.govt.nz/sites/default/files/2011-02/swg-report-jan11.pdf

[ii] https://www.cnbc.com/2018/05/16/gallup-why-younger-americans-arent-investing-in-the-stock-market.html

[iii] Ibid

[iv] https://awealthofcommonsense.com/2013/04/the-behavior-gap/