



Fisher Funds

Investor Education Centre

*Making investing enjoyable, understandable
and profitable...*

Look beyond the obvious numbers

07/11/10

It has been said that there are three different types of untruth: lies, damned lies and statistics. The phrase describes the persuasive powers of numbers, whereby conclusions can be drawn from numbers that seem reasonable, but can be misleading.

Sometimes statements and statistics are not untrue as such, but should not be taken at face value.

For example, the claim that women are better drivers than men is not the same thing as saying all women are better drivers than men. Insurance company statistics show that on average, a woman driver in a certain age range will have had fewer accidents than men of the same age, driving the same car. However this statistic cannot be relied on because, for example, not everybody bothers to tell their insurance companies if they scratch the paint or clip the wing mirror.

The commentary surrounding the recent KiwiSaver performance surveys for the three years to September 2010, should not be taken at face value.

Most commentary to date has focused on the fact that since KiwiSaver began, people in Conservative Funds have fared best, compared with Growth or Aggressive Funds. Across the multi-sector conservative funds, the average three year return was 4.65% per annum.

On the face of it, this compares very favourably with the averages achieved over the same timeframe by Growth and Aggressive Funds (-2.21% p.a. and -2.59% p.a. respectively). However, this statistic simply reflects the percentage change in unit price over time and is quite different to the actual experience that many KiwiSaver members have enjoyed.

Many KiwiSaver members make regular contributions to their KiwiSaver account either through their pay cycle or regular direct debits. Most KiwiSaver funds are valued each day and the unit price changes daily to reflect market movements.

So savers are able to buy more units on the days the unit price goes down, and fewer units when the unit price goes up.

Over time, the cost of entry is averaged out, and this effect is known as dollar cost averaging.

KiwiSaver members in Growth or Aggressive Funds, in particular, have been subject to high levels of volatility since KiwiSaver began. These funds began investing money just as global share markets began a steady retreat in late 2007 which continued through 2008 and into early 2009.

During this time, members continued making regular contributions of the same dollar amount, but their money was progressively purchasing more units as the unit price fell. Markets have steadily recovered over the last 18 months, and so has the value of their KiwiSaver accounts.

Analysing accounts across our KiwiSaver clients - and I'm sure other KiwiSaver schemes will have had a similar experience - a significant number of our members who joined at the beginning of KiwiSaver are up more than 20%, which equates to a return of more than 6% per annum.

This is an accurate and much more interesting statistic than the averages produced in performance surveys.

Beware of averages and statistics – sometimes they hide more than they reveal.

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