

DecidingFactors

Q2/10



FALLOUT FROM GREECE

Just as it seemed that the world was emerging from the Great Financial Crisis (GFC), along comes Greece and the downgrading of its Sovereign debt and the necessity for European nations to bail out the stricken economy. Mohamed El-Erian who is CEO and Chief Investment Officer of PIMCO had this to say:

"Most countries around the world will feel aftershocks of the Greek tragedy. The transmission mechanisms involve trade, capital flows and the very functioning of markets; and the consequences range from the certain, to the balanced, and to the truly unpredictable.

It is certain that the Greek crisis will undermine aggregate demand and, therefore, trade flows – directly and, more importantly from a global perspective, by imparting an additional fiscal drag to other European countries.

This will strengthen the structural headwinds that are already weakening what has been a robust global cyclical recovery. It will also complicate the much needed handoff from temporary drivers of

growth (government stimulus and inventories) to more sustainable ones (components of private final demand).

This is most consequential for countries that export heavily to the Eurozone. Some are neighboring countries, such as Norway, Sweden, Switzerland and the UK. Others are further away, such as Singapore and Russia.

The second transmission mechanism pertains to capital flows and is more nuanced. Several countries, led by the US, stand to benefit from a reallocation of capital away from the Eurozone as investors react to both the deterioration in sovereign risk and the surge in volatility. As for the capital that flows just within the Eurozone, there will be an even greater differentiation in favour of the solid core countries, particularly Germany.

These flows are already happening. They will become even more pronounced in the weeks and months ahead as institutional investors revise their investment guidelines to exclude highly

Continued over



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Kirby Taylor had over 30 years experience developing and managing successful businesses before entering the Financial Planning industry eleven years ago. He has commitment and a passion for the industry, with a firm belief that Financial Planning improves clients' lives in so many ways.



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volatile government exposures from their “interest rate” bucket.

But there is an important qualifier here. Since Greece is part of a general phenomenon of bloated public finance and higher systemic risk, we should also expect a generalised and volatile step-increase in risk premia around the world. Capital will thus be more selective in terms of destination, as it opts for liquidity over returns and for government bonds over equities.

The third transmission mechanism is the most unpredictable. Over the next few months and years, we should expect politically driven changes to regulations that aim to lower the risk of contagion and dampen cross-border capital flows. And for the next few days, we should worry about cascading disruptions in the European banking system as interbank activities are undermined by renewed uncertainties about each institution’s exposures to peripheral European names.

Where does all this leave us?

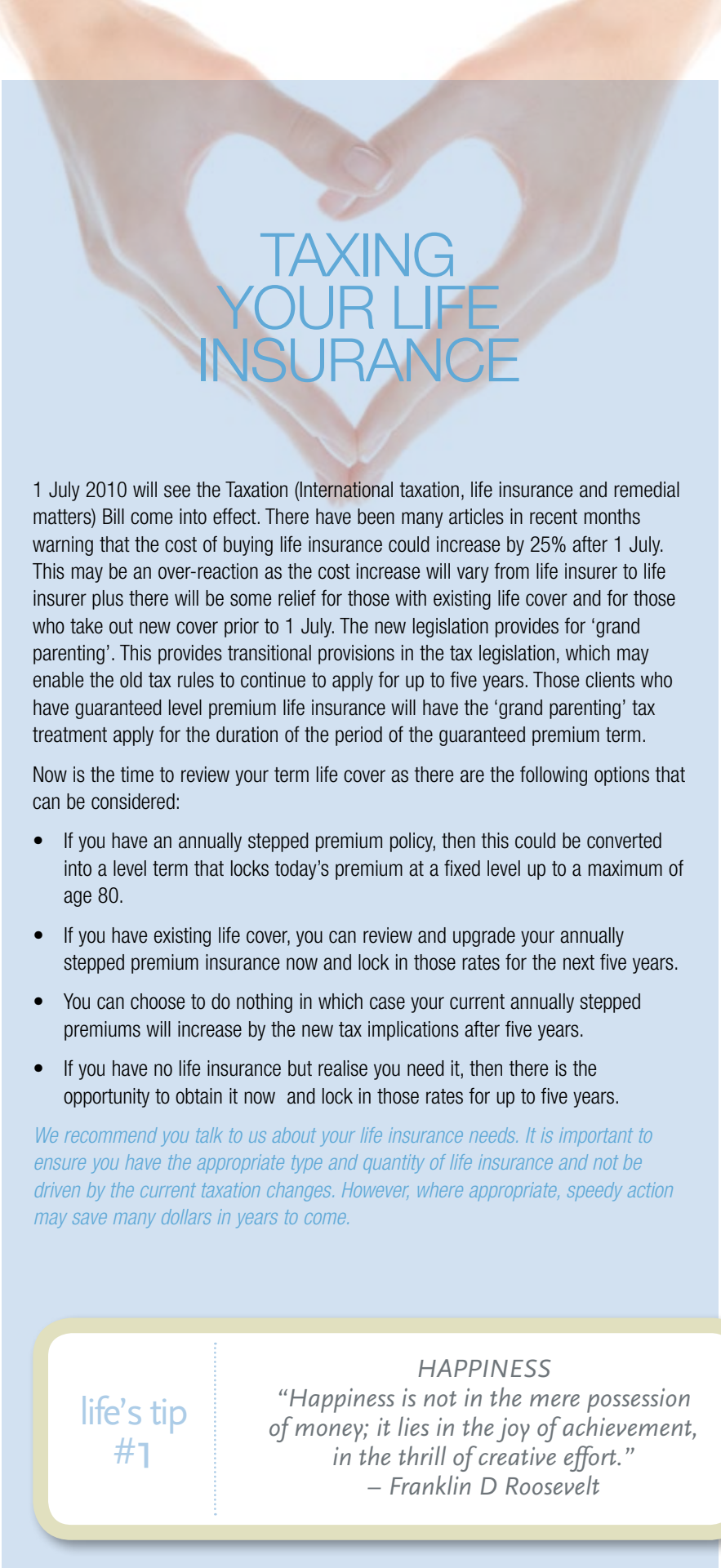
The Greek crisis has already morphed into a regional (Eurozone) shock. It now stands on the verge of morphing into a more global phenomenon.

Some countries will benefit, mainly on account of capital flows coming out of the Eurozone. The majority will not. And even those that do benefit should remain vigilant and responsive. Like most other countries in the world, they will also end up suffering from the consequences of lower international demand and renewed disruptions to the global banking system.”

Our natural instinct is to once again ‘head for the hills’ (metaphorically speaking), cease investing and ‘hunker down’. Is this actually the right thing to do?

What 2009 and early 2010 proved was that the world financial markets are remarkably resilient and have a tremendous capacity to bounce back from what sometimes appears to be the brink of disaster. Those who invested when the markets were at their cyclical low have made very healthy gains and are now reaping the rewards.

The markets have suffered as a result of fallout from the financial crisis in Greece and there will be nervousness for some time to come. However, nervousness can create opportunities and sticking to one’s financial game plan normally pays dividends in the future. Talk to us if you have any queries regarding the impact of the Greek financial crisis on your portfolio.



TAXING YOUR LIFE INSURANCE

1 July 2010 will see the Taxation (International taxation, life insurance and remedial matters) Bill come into effect. There have been many articles in recent months warning that the cost of buying life insurance could increase by 25% after 1 July. This may be an over-reaction as the cost increase will vary from life insurer to life insurer plus there will be some relief for those with existing life cover and for those who take out new cover prior to 1 July. The new legislation provides for ‘grand parenting’. This provides transitional provisions in the tax legislation, which may enable the old tax rules to continue to apply for up to five years. Those clients who have guaranteed level premium life insurance will have the ‘grand parenting’ tax treatment apply for the duration of the period of the guaranteed premium term.

Now is the time to review your term life cover as there are the following options that can be considered:

- If you have an annually stepped premium policy, then this could be converted into a level term that locks today’s premium at a fixed level up to a maximum of age 80.
- If you have existing life cover, you can review and upgrade your annually stepped premium insurance now and lock in those rates for the next five years.
- You can choose to do nothing in which case your current annually stepped premiums will increase by the new tax implications after five years.
- If you have no life insurance but realise you need it, then there is the opportunity to obtain it now and lock in those rates for up to five years.

We recommend you talk to us about your life insurance needs. It is important to ensure you have the appropriate type and quantity of life insurance and not be driven by the current taxation changes. However, where appropriate, speedy action may save many dollars in years to come.

life’s tip
#1

HAPPINESS
 “Happiness is not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort.”
 – Franklin D Roosevelt



FINANCIAL ADVICE INDUSTRY IS CHANGING

The Financial Advice industry is undergoing the most dramatic change in its relatively short history. The Government has introduced sweeping reforms that are spearheaded by the Financial Adviser Act and the Financial Service Providers Act. These two acts come into force on 1 July 2011 but the changes will be evident well in advance.

How will the changes impact upon you the client:

- A Code of Professional Conduct will be implemented. A key component of this is that an authorised financial adviser (AFA) must put the client's interest first. Advisers will only be able to provide advice in their areas of proven competence.
- All AFAs must have a recognised and approved qualification or else must hold the National Certificate in Financial Services (Financial Advice) (Level 5).
- Any person or company that provides financial advice must be registered with the Companies Office by December 2010. This will be a public register and will enable people seeking financial advice to search the website to ensure their prospective adviser is actually registered.

life's tip #2

MONEY TALK

"The rule is not to talk about money with people who have much more or much less than you." – Katherine Whitehorn

'THE GOVERNMENT HAS INTRODUCED SWEEPING REFORMS THAT ARE SPEARHEADED BY THE FINANCIAL ADVISER ACT AND THE FINANCIAL SERVICE PROVIDERS ACT.'

- Advisers who are selling category 1 products (predominantly investments) and/or provide a financial planning service will need to be an AFA and be authorised with the Securities Commission. The costs of operating under the new regime will be significantly greater than at present so a number of advisers may choose to operate under a Qualifying Financial Entity (QFE). A QFE will normally be a large organisation that must be responsible for the regulatory behaviour of the advisers within it. It is conceivable that QFEs will limit the range of solutions it permits its advisers to provide.
- All advice will need to be in writing. This will increase the cost of doing business.
- All advice needs to be based on detailed information gathering. This will help improve the understanding an adviser has of the client's circumstances but once again, it will increase the cost of doing business.
- There will be full disclosure of adviser remuneration and the provision of a Disclosure Statement will be mandatory.
- All AFAs must belong to a Disputes Resolution Scheme.

The purpose of the Financial Advisers Act is to "promote the sound and efficient delivery of financial advice and to encourage public confidence in the professionalism and integrity of financial advisers". We fully support the introduction of the new legislation and the Code of Professional Conduct. We are working to develop a new and improved client advice proposition, greater transparency and heightened compliance standards. All of this will help to protect the consumer but it will result in the cost of accessing a financial adviser increasing in months to come. We will keep you informed as we progress towards fully implementing the new regulatory requirements into our business.

summing
up

- Government regulation of the advice industry well overdue
- Reforms protect you and include a number of new safeguards

Capturing your TAX SAVINGS



The May 2010 budget was kind to many of our clients in the provision of various tax cuts or increases in benefits. If you are a wealth accumulator, then you will only benefit from the tax cuts by making a conscious effort to capture in your budget, the additional revenue you receive. There is a great temptation to spend the small household revenue increase on an extra coffee, muffin or some other goodie. This may make you feel good but the benefits of the budget will be lost to you. Discipline is what is needed.

Are you in the minority?

Recent research undertaken by Business Health Pty indicates that 87% of clients of financial advisers regularly use email and the internet. The new regulations will require us to have you sign additional documents and sign off on others. In addition,

we are implementing a number of enhancements to our services and the best way for us to contain costs is to electronically send you some of our communications. Do we have your current email address? If not, could you please send us an email.

Equity release

Many of our clients have financially successful children but are themselves asset rich and cash poor. Our clients may be retired and occupying a very expensive home, have a reasonable investment portfolio but are not keen on eroding the capital to increase their retirement lifestyle. One option that is becoming more common in recent years is where the retiree enters into an agreement with one or more family members whereby the family members advance to a retiree a sum of money so they can enjoy a heightened life style. This money is secured via a mortgage against the property of the retiree. The arrangement needs to be properly drawn up by a solicitor to protect all parties in the future. This equity release is a win/win. The retiree has cash to enjoy their retirement and the children now have a low risk investment in the form of a registered mortgage against their parent(s) property. The parties may have agreed to some interest payment for the monies advanced. This interest payment would not be paid each year. Instead, it would be added to the mortgage and repaid when the house is eventually sold. See us for details on how this may work.

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