

DecidingFactors

Q1/10



Diversification is the key

The media is buzzing with comments about what may be the future for residential property, if the Government takes steps to change the taxation regime surrounding this asset sector. Who really knows what the final outcome will be and exactly what impact it would have on property values. However, it is probably fair to say the following:

- House prices are generally over valued relative to the rental return they generate.
- Many investors in residential property are there more for the capital gain than the income flow and they enjoy the benefits of gearing plus tax deductions and the ability to offset losses against their personal income.
- If the profitability of residential property investing declines due to taxation changes, then the sector will possibly become a less desirable place to invest ones hard earned money and as a result, house appreciation may not be as great in the future as what it has been in the past – assuming that all other factors remain constant.

- If interest rates go up, the tax situation becomes less favourable for residential property investors and at the same time, they struggle to increase rents to compensate, then we could potentially be staring at a period of stagnant to low growth.

What does this mean for the residential property investor and is there a life lesson in this for us all?

A change in the tax treatment of residential property is not necessarily a bad thing (unless you are a highly geared property investor). There is ample evidence to suggest that the country would benefit, if more investment dollars went to the domestic share market rather than residential property. House price appreciation in New Zealand has almost been a fairy tale – a situation where it is almost too good to be true. Somewhere along the line, we had to realise that the way property is treated here needs to come more into line with the rest of the world.

Any taxation change should not automatically mean that an investor should sell their rental



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Tanya has a clear understanding of financial needs and commitments, and has a client base that represents all age groups.



DecisionMakers

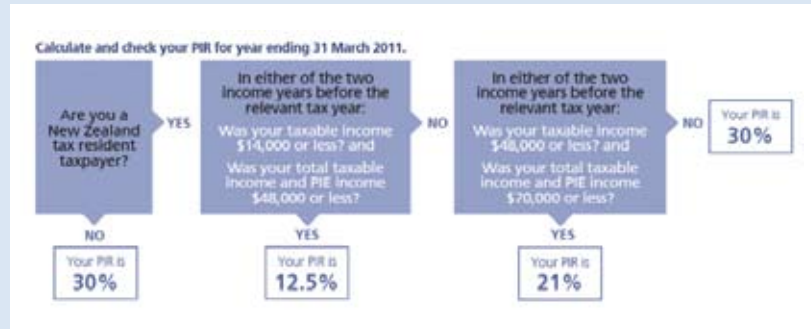
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properties. Investors, by nature are long term in their thinking and property prices are sure to rise over time. We all need to learn from the current uncertainty surrounding residential property and realise that we need to maintain diversification and flexibility in our investment portfolio. All asset classes have their ups and downs and no matter how good something may look, it is unlikely it will remain as rosy as today – sometime in the future. We need to spread our wealth amongst the various asset classes. If the taxation changes do come into effect, then there could be a gradual move of investment dollars towards the sharemarket. Combine this with the huge sums of money being invested annually via Kiwisaver, and it means that over the next decade, the sharemarket will become an increasingly more attractive place to invest. For confirmation of this, just look across the ditch at Australia. Compulsory superannuation has been a major factor in driving up the Australian sharemarket.

Talk to us about whether your investment portfolio and lifestyle assets are appropriately positioned to take advantage of the changing world in which we live.

Update your PIR

From 1 April 2010, new Prescribed Investor Rates (PIR) will apply. It is in your financial interests to check to ensure we have your correct rate. Your PIR is the tax rate levied on your taxable income plus income earned from Portfolio Investment Entities (PIEs) such as some New Zealand based unit trusts. Here is how you can check your PIR:



Contact us with your correct PIR as at 31 March 2010. We do not want to see you paying more tax than necessary, or even worse, paying too little tax due to the wrong rate being supplied and you then incurring IRD shortfall penalties.

Kiwisaver: it's still a no-brainer

Kiwisaver has been an outstanding success and has far exceeded the original expectations of the Government. Over 1 million New Zealanders have now signed up and are reaping the benefits that Kiwisaver provides.

The amazing thing is that this is only one in three of those who are eligible to join. What has happened to the other two million Kiwis and why have they not jumped at the chance of obtaining the Kiwisaver benefits? Is it apathy, skepticism or a misunderstanding of how Kiwisaver really operates?

If you are aged 64 years or under or know of those who are 64 years or under and are not in Kiwisaver, then spend a few minutes of your time talking to us about how Kiwisaver could be good for you and your friends.



'OVER 1 MILLION NEW ZEALANDERS HAVE NOW SIGNED UP AND ARE REAPING THE BENEFITS THAT KIWISAVER PROVIDES.'

life's tip #1

*"The brain is a wonderful organ. It starts working the moment you get up in the morning and does not stop until you get into the office."
– Robert Frost*

- Taxation changes won't kill investment property but might breathe life into sharemarket investing.
- Unit Trust and PIE investors should check they have the correct PIR rate.

'A GOOD NUMBER OF LIFE INSURANCE CLAIMS AND INCOME PROTECTION INSURANCE CLAIMS ARE DECLINED IN NEW ZEALAND EVERY YEAR DUE TO FAILURE TO FULLY DISCLOSE ALL THE RELEVANT MEDICAL DETAILS RELATING TO THE APPLICANT.'

THE IMPORTANCE OF FULL DISCLOSURE

We all hate filling out forms, especially long ones that seem to ask endless questions about our personal situation. We tend to rush these and start to abbreviate our answers. However, resist this temptation when filling out insurance application forms. A good number of life insurance claims and income protection insurance claims are declined in New Zealand every year due to failure to fully disclose all the relevant medical details relating to the applicant. Insurers make their decision to provide insurance for you based upon the information you provide to them. The policy details clearly explain that you must disclose all relevant medical details and it is not up to you to decide what is relevant and what is not. That is the prerogative of the insurer.

Do not let yourself or someone you know become a future claim statistic. Take the time and fully and carefully complete any insurance application form.

Family trusts: Don't forget the administration

Family trusts are a great asset protection and estate planning vehicle. Unfortunately, they are only as robust as the administration that goes into the annual operation of them. If you let the administration fall away, then the trust has the ability to become weakened and could potentially be attacked at the very time you most need its benefits.

Consider the following at the end of the financial year:

- Is the tax return under control?
- What about beneficiary distributions?
- Have we minuted all necessary transactions and passed suitable trustee resolutions?
- Have we filed our annual gifting statement and Deed of Forgiveness of Debt?
- Have we kept family trust monies totally separate from other monies?

If in doubt, give us a call and we can review your family trust administration with you.



life's tip
#2

*"An expert knows all the answers –
if you ask the right questions."
– Levi Strauss*

summing
up

- If you don't disclose, insurance might not pay out.
- Poorly maintained family trusts are an accident waiting to happen.

The price is right!



An interesting aspect to consumer behaviour is the attitude we have towards insuring our own lives against the unexpected.

We don't seem to ever question the need to insure our houses, cars, boats and chattels. We view these types of insurances as a necessity and we also seem to accept that their price will increase on a regular basis. While we may grumble about such increases, we generally keep renewing these policies.

Yet, when it comes to insuring our own lives, we suddenly become very reluctant to put the required cover in place and we also become acutely focused on cost!

Perhaps it's because, under the surface, we are all reluctant to confront the possibility that we may not live the long, healthy lives we all wish for.

While the emotional reluctance to accept the risks we all face to our health and longevity is understandable, the fact remains that the financial burden placed on our families if we die or become disabled during our working lives is likely to be significantly greater than the loss of a chattel could ever be.

It is our ability to earn an income that is, at the end of the day, our greatest financial asset and it makes perfect sense, therefore, to insure against any risk to our ability to continue to produce that income.

life's tip
#3

*"It is always wise to look ahead,
but difficult to look further than
you can see." – Winston Churchill*

Why is it that we accept increasing car insurance premiums, even though the insured value of our vehicles decreases each year – yet we are quite likely to cancel our disability or life insurances as soon as the premiums increase?

Life insurance premiums increase when the overall risk of claims increases over that which had previously been calculated. This means that more people than expected have made claims, or that actual claims have lasted longer than expected and premiums must therefore increase to reflect these increased claims risks.

When you compare the premium costs of insuring your life or income against the significant financial benefits payable upon a claim, it is easy to see the true value of these products.

Continuing on that theme, when you compare the premium payable for the relatively large sums insured provided under life insurance contracts against the annual costs of insuring a car, for example, it is difficult to understand why anyone would consider cancelling their life insurances at any time during their working lives. After all, the older you get, the higher the chance you may have to make a claim against your policy.

So the next time you receive a notice advising you that your risk protection premiums are to increase, take the time to consider just how much value you are provided by these contracts, and accept that the price you are being asked to pay is a fair price for that value.

Don't let your reluctance to accept your own mortality prevent you from protecting your family against the financial burden that is sure to come with the loss of your income.

Finally, if you are concerned about the cost of your existing insurance, please talk to us as often there are solutions which do not involve cancelling your policy. We are here to help.



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