

DecidingFactors

Q1/09

We know this much is true

Speculation as to how 2009 will turn out for the world's financial markets is already rife with many fearing the worst of 2008 is not over. Media headlines continue to report on the apparent doom and gloom and paint a pretty bleak outlook for even the most discerning investor. However, what events last year have shown us is that even the experts can get it wrong. So should we really be as concerned as the media would have us believe or will we look back at 2009 with a sigh of relief?

Rather than trying to predict the future, let's stick to what we do know and can therefore say. Events in 2008 caught the entire financial world by surprise, prompting unprecedented action by governments and banks around the world. The effects of the global reaction to what was quickly recognised as a 'crisis' will be felt for some time – in fact, it is fair to say the world is still reacting.

However, the end of 2008 allowed us to close

off a period of time and compare it to previous years of financial data in order to gain an understanding of how it went relative to the entire history of financial markets. This is not to say the events of 2008 are in any way related to any previous market corrections or crisis, but it does give us some perspective and even hope.

The chart below plots the corrections for the worst three years of the Dow Jones Industrial Average since 1900 (an index calculated from the share prices of 30 of the largest and most widely held public companies in the United States):

As the chart shows, the current correction, as at the end of 2008, is significant and the crisis may not yet be over. However, take a look at the other two years on the chart, and you will see that 2008 is by no means unique. The world's financial markets have experienced corrections of this magnitude (and greater) before and recovered.

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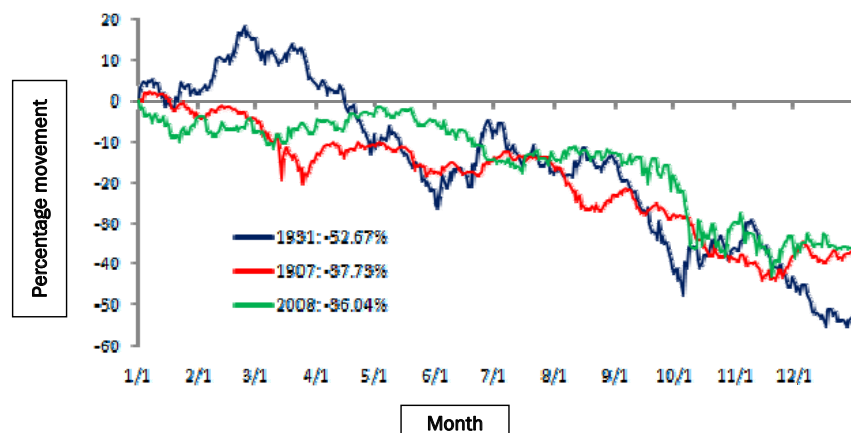
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Dow Jones worst years since 1900



Rodney Hartles

Rodney spent his first 15 years of working life as an Accountant where he was often asked for his views on investing and wealth creation. Wanting to gain knowledge in this field so he could give proper and informed advice he completed a Diploma in Business Studies endorsed for Personal Financial Planning. Many years on he has learnt that the benefit of being well educated is that you give people confidence especially in times of uncertainty. Having been through a few periods where financial markets were in turmoil he knows that sticking to a well researched and defined investment strategy and not making knee jerk decisions pays dividends in the long run.



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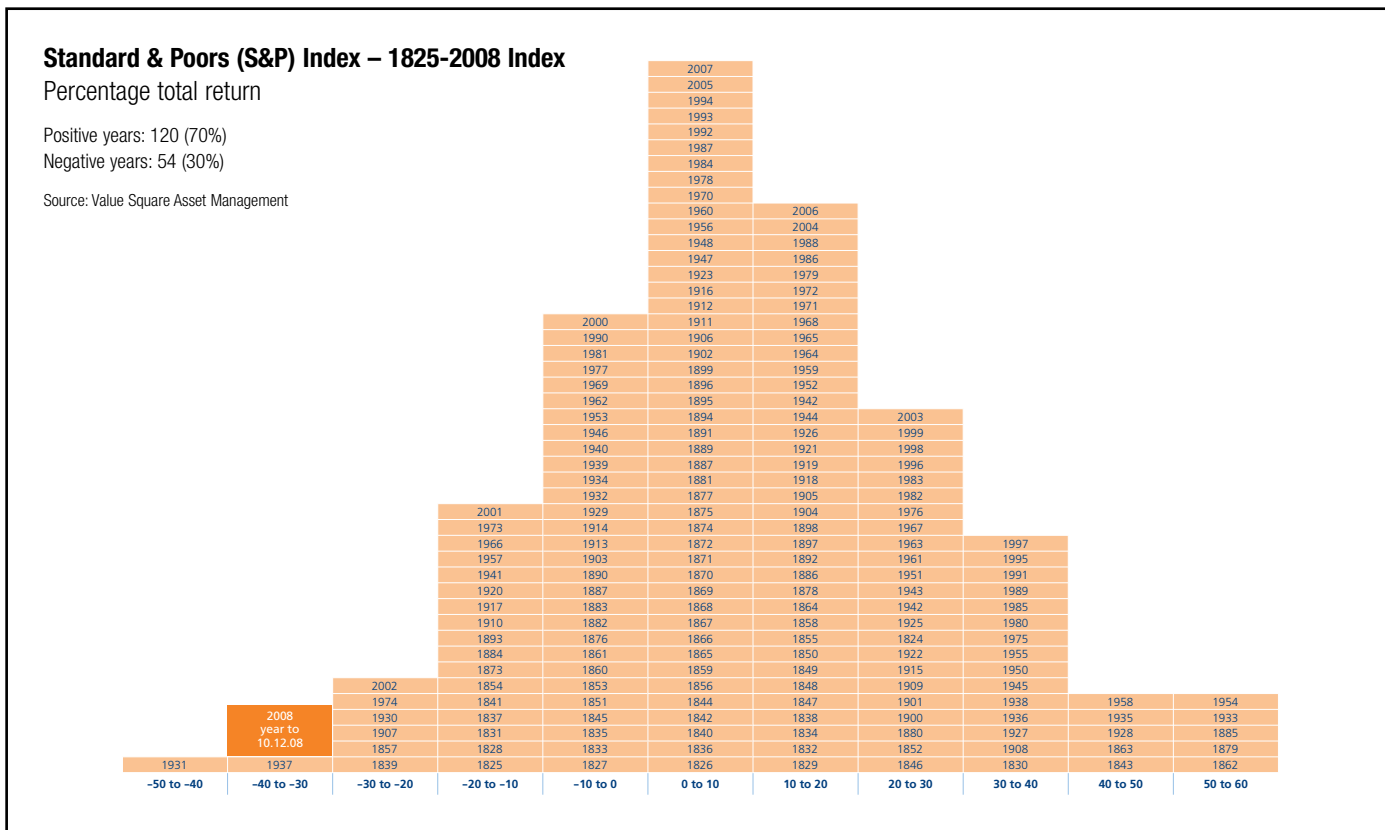
The histogram below shows a similar story for the Standard & Poor's (S&P) Index (an index of 500 key US shares) grouping each year between 1825 to 2008 according to their percentage returns.

While this histogram shows that 2008 was one of the biggest negative years on record, it also highlights that not only have

markets always recovered, but the recoveries themselves have been relatively significant over successive years.

It is fair to say no one is truly in a position to accurately predict what 2009 may hold for the world's financial markets, but if history is anything to go by, we know that markets do move in cycles. In any event, it is worth

having a little perspective in the context of the past. The nature of the financial turmoil of 2008 may well have been unprecedented, but the negative returns were not. History shows that markets have recovered from previous market corrections of a similar scale and we could potentially end 2009 with positive returns, across a number of indices.



Insurance – you get what you pay for



As the cost of living continues to increase and economic instability remains, most people have already begun looking at ways to cut their personal expenditure. Insurances are usually one of the first expenditures reviewed. However, before you consider switching or reducing your level of insurance cover, make sure you are not exposing yourself to unnecessary risks. A typical rule of thumb in insurance is that you get what you pay for: the less you pay, the less cover you get.

The benefits of insurance are intangible... until such time as you claim on your policy(s). As a result, these benefits are often ignored in times of hardship, especially when people feel they are in good health. Bear in mind too, that no one policy is the same and a lower premium offered by switching your policy to

another provider may result in exclusions of what you were previously covered for.

Ensure that your insurances are ideal for your circumstances now and in the foreseeable future. Contact us if you have any queries regarding your insurances and whether you have the appropriate level of cover for you and your family.

life's tip #1

"He who controls the past commands the future. He who commands the future conquers the past." – George Orwell

summing up

- Historically markets have bounced back fast after bottoming out
- Now is the time to review your insurances, keeping in mind your future needs

Personal tax cuts

From 1 April 2009

The Government is introducing a three-year programme of personal tax cuts starting from 1 April 2009. These changes are in addition to the tax cuts that came into effect on 1 October 2008. The package has two key elements:

- Changes to personal income tax rates and thresholds
- The introduction of an independent earner tax credit (IETC).

Changes to personal income tax rates and thresholds

Reductions to personal tax rates and changes to personal tax thresholds will be phased in over three years – starting 1 April 2009. Salary and wage earners will receive the tax cut through a reduction in the PAYE tax that their employers withhold on their regular pay. Self-employed and other non-salary and wage earners will receive the tax cut when they file a tax return or request a personal tax summary at the end of the tax year.

The following table (right) highlights the first round of tax cuts starting 1 April 2009:

Independent earner tax credit (IETC)

The IETC will provide tax relief to middle-income New Zealanders who do not receive core assistance from the Government.



From 1 April 2009, the IETC will deliver \$10 per week to individuals who earn between \$24,000 and \$44,000 and who do not receive a benefit, Working for Families tax credits or New Zealand Superannuation. The IETC will be abated at 13 cents for every dollar of income earned over \$44,000. The amount of the IETC will increase to \$15 per week from 1 April 2010.

Salary and wage earners can receive the IETC regularly in their pay packets by electing a new tax code with their employer. A separate tax code is required to distinguish those who are eligible for the IETC from those who are not.

If you believe you qualify for the IETC and require some assistance in determining your new tax code or would simply like to know what your total tax savings will be as a result of all of the changes, please give us a call.

CURRENT (FROM 1 OCTOBER 2008)		FROM 1 APRIL 2009	
\$0-		\$0-	
\$14,000	12.5%	\$14,000	12.5%
\$14,001-		\$14,001-	
\$40,000	21%	\$48,000	21%
\$40,001-		\$48,001-	
\$70,000	33%	\$70,000	33%
\$70,001+	39%	\$70,001+	38%

the Employer Relations Act amendment relating to KiwiSaver will be repealed so that your gross pay can't be reduced if you join KiwiSaver.

These changes may have an impact on the amount of the member tax credit you receive and your mortgage diversion ability. See us for details on how to alter your contributions, plus those of your employer, and how this may affect you.

KIWISAVER CHANGES

From 1 April 2009

From 1 April 2009, the following changes will be made to KiwiSaver:

- The minimum employee contribution and compulsory employer contribution will both be capped at 2% of your gross salary
- The employer superannuation contribution tax (ESCT) exemption will be capped at the Compulsory Employer Contribution of 2%
- The fee subsidy will be removed
- The KiwiSaver Act will be amended, and

Important changes to Enduring Powers of Attorney legislation

There are broadly two types of powers of attorney: 'ordinary' and 'enduring'. Both are legal documents appointing a person or organisation to act on your behalf. 'Ordinary' powers are best used for temporary purposes, such as being away from home for a few months. 'Enduring' powers are used when someone is incapacitated temporarily or permanently by accident or illness, and relate to property and/or personal care and welfare.

The Protection of Personal and Property Rights Amendment Act 2007, which came into force on 26 September 2008, has made a number of changes in relation to Enduring Powers of Attorney (EPAs) due to concerns over abuse of these powers. As a result, there is greater monitoring to ensure the person appointing an attorney has the capacity to sign the documentation and has had everything clearly explained to them by an expert in this area. An EPA is now more accountable for the decisions they make on a person's behalf and will have to consult with the person on financial decisions. They will also have to maintain clear records of what they are doing.

We recommend you go through a thorough selection process before considering who to appoint as your EPA. While EPAs are now more accountable for their actions, the law does not prevent them from making a bad decision on your behalf. You should also consider appointing a 'stepped down' person as a replacement in the event that something happens to your appointed EPA.

No changes are required to any documentation of existing EPAs, but if you would like to organise an EPA or review your current EPAs, please feel free to contact us.

life's tip
#2

"If we had no winter, the spring would not be so pleasant: if we did not sometimes taste adversity, prosperity would not be so welcome." – Anne Bradstreet

summing
up

- If you're a middle-income earner, you may be eligible for an Independent Earner Tax Credit
- Changes to KiwiSaver mean you need contribute 2% of your income, as does your employer
- You are now more accountable for the decisions you make under Enduring Powers of Attorney

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Get a grip on your spending

The ability to save is directly related to how wisely we spend. Here are some ideas to help you and your family spend more wisely and save more diligently during tougher economic times.

1. After the bill is paid

When you pay off a bill, a car or any other debt, continue making the same instalment payment to your savings account. This is an especially good idea for car payments. When it is time to purchase your next car, you may be able to pay cash.

life's tip #3

"Few things in the world are more powerful than a positive push. A smile. A word of optimism and hope. A 'you can do it' when things are tough." – Richard M. DeVos

2. Stop using credit cards

Before shopping, determine exactly what you are going to buy, calculate the approximate cost of your purchase, and take cash. It is amazing how well you can stick to your list of intended purchases when you know you are paying cash. One place where this can be extremely effective is the grocery store. For some reason, people love to go 'wild' when shopping for food. It is so easy to justify everything as a 'necessary' expense.

3. Go to the library instead of buying books

The library is a great resource and it is free. You can get books on every subject imaginable. If you can't find the book you are looking for, most libraries will check with another branch and have it delivered to you (or to the branch). Don't forget about this great resource.

4. Eat dinner at home and take a lunch to work

Can you cut down on eating out



expenses? If this is hard, try to do it for just one month. Then identify how much money you saved and put it into a savings account or pay off a bill.

Now try it again a week or two later for another month. Do the same thing by paying off a bill or putting into a savings account or investment.

5. Regular investing

Invest in a managed fund on a regular payment basis with a direct debit going from your account. This is the easiest way to save because what you don't see, you won't spend or miss.

6. Put your loose change into a piggy bank every evening

You can make this a special fund for vacations, gift purchases, family trips, or a savings account. You will be surprised how quickly this money adds up. Keep the change container in the family room so everyone can contribute.



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