

DecidingFactors

Q4/08

What a year it has been



Who would have believed back in January of this year that the world economic landscape could undergo so much change in only 12 months?

The International Monetary Fund (IMF) has labelled this the “worst economic shock since the Great Depression”.

The flow-on effects from events of this year are going to be with us throughout much of 2009. In other words, we are not out of the woods yet. However, there is some glimmer of better times to come.

Interest rates have fallen, banks have started to lend, and world sharemarkets are showing a small degree of rationality. These are all possible positive signs. Unfortunately, residential house prices in New Zealand continue to fall, and it is difficult to know when this trend will change.

However, out of adversity there is always opportunity and the good news is that almost

every investment is now cheaper than a year ago. It's like going to the supermarket and finding that everything is on special.

It is unlikely that there would be anyone in New Zealand with a well-diversified investment portfolio who has not incurred a negative return in 2008. But the way to recover is to stay invested and, where liquidity permits, reposition assets to take advantage of any recovery in prices.

We saw the world's greatest investor – Warren Buffett – start buying US shares in October 2008. He believed that good-quality assets were underpriced, so he started to acquire them with the intention of holding them for the long term but believing that, in the short term, they could still undergo a fair degree of volatility.

We consider that now is the time, in conjunction with good advice, to carefully dip your toe into today's volatile markets and buy quality assets at cheap prices.

> Whangarei

Kelli Morris

Freephone: 0800 867 237

kelli.morris@decisionmakers.co.nz

> Auckland

Tel: 09 488 0472

Colin Austin

colin.austin@decisionmakers.co.nz

Phil O'Malley

phil.omalley@decisionmakers.co.nz

Chris Ronayne

chris.ronayne@decisionmakers.co.nz

Tim Shand

tim.shand@decisionmakers.co.nz

Stephanie Harper

Freephone: 0800 346 238

stephanie.harper@decisionmakers.co.nz

> Waikato/Bay of Plenty

Rodney Hartles

Tel: 07 858 3500

rodney.hartles@decisionmakers.co.nz

> Manawatu

Judi Galpin

Tel: 06 355 2424

judi.galpin@decisionmakers.co.nz

> Wellington

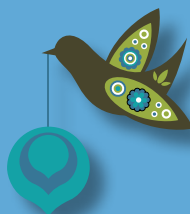
Kirby Taylor

Tel: 04 914 1900

kirby.taylor@decisionmakers.co.nz

www.decisionmakers.co.nz

WE WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK YOU, OUR VALUED CLIENT, FOR YOUR SUPPORT AND BUSINESS OVER THE PAST 12 MONTHS AND WISH YOU AND YOUR FAMILY A SAFE AND PROSPEROUS FESTIVE SEASON. WE LOOK FORWARD TO CONTACT WITH YOU AGAIN IN THE NEW YEAR.



DecisionMakers

The best financial decision you'll ever make

Credit ratings

Credit ratings are intended to provide investors with an informed opinion on an entity's ability to meet its debt-servicing obligations on time and in full. The lower the credit rating, the higher the probability or risk of an entity being unable to repay its debts in the eyes of the credit rating agency. Generally speaking, a lower credit rating should result in a higher rate of return offered to the investor to recognise the additional risk.

Ratings agencies assess an entity based on a variety of complex risk factors, taking into account both 'qualitative' (opinion-based) and 'quantitative' (data-based) factors. A range of economic, industry and business fundamentals are also assessed, in addition to the financial accounts and quality of the entity's management and governance structures.



Before relying on a credit rating, an investor should be comfortable with the quality of the credit rating agency itself. We recommend the big three international credit rating agencies: Standard & Poor's, Moody's and Fitch, as these are the most internationally experienced and proven in their field. The table below

groups and ranks the ratings classes of these three ratings agencies.

It should be remembered that credit ratings are not guarantees of future performance and only reflect the probability of default based on historical data.

	DESCRIPTION	S&P SCALE	MOODY'S SCALE	FITCH SCALE	APPROX. PROBABILITY OF DEFAULT OVER 5 YEARS*
CAPACITY TO MAKE TIMELY PAYMENT	Extremely strong	AAA	Aaa	AAA	1 in 600
	Very strong	AA	Aa	AA	1 in 300
	Strong	A	A	A	1 in 150
	Adequate	BBB	Baa	BBB	1 in 30
VULNERABILITY TO NON PAYMENT	Less vulnerable	BB	Ba	BBB	1 in 10
	More vulnerable	B	B	B	1 in 5
	Currently vulnerable	CCC	Caa	CCC	1 in 2
	Currently highly vulnerable	CC		CC	
	Default	D	C	D	

* The approximate median likelihood that an investor will not receive repayment of a five-year investment on time and in full, based on historical default rates published by each agency.

Source: Table 1 – Standardised rating scale, Reserve Bank of New Zealand: Bulletin, Vol. 71, No. 3, September 2008

Put it away now!

By Robyn Pearce – the Time Queen

If you constantly struggle with 'stuff' left lying around, and your desk, office, garage or bedroom is a litter of 'I'll do that later' piles, it's time to change. Learn to put things away as you go and you'll surprise yourself as to how easy it is, and how fantastic you feel once it becomes a regular habit.

It's easier to shift a moving object than a stationary one. It generates higher energy, and it's less time-consuming. It's when we have to go back to something that we end up in a muddle. It slows us down – procrastination becomes a familiar companion, and tidiness becomes a hard and challenging chore.

Folk who struggle with this issue typically do good work but just stop too soon. They tend to leave the putting away, or the final completion, or the decision as to where an item should live, for another time.

Next time when you:

- Complete a task at work – put away the tools and paperwork.

- Finish the day – tidy your desk and leave out only the first task for tomorrow.
- Return from a trip – unpack everything immediately.
- Get out of bed – make it.
- Dress or undress – hang things up and put the dirty washing in the basket (or ready to go out the door next time you leave your bedroom).
- Eat something – clean up after yourself.
- Arrive home with used gear – clean and store it ready for next time.
- Finish a task in the garage, workshop or garden – clean down and put away the tools.
- Come in from work or town with a bundle of items (groceries, post, accounts to pay, magazines to put away) – whatever miscellany you typically bring home – deal with them straight away.

- Capitalise on your existing momentum. Do it now! Remember, it's faster (and a lot easier) to shift a moving object than a stationary one.

Every piece of paper or equipment lying around is a symptom of a decision not made or an action not completed.

For more information, visit www.gettingagrip.com



Consider this:

- What is clutter? Just something in the wrong place at the wrong time.
- Space and clutter strugglers just stop too soon – the job's not done until it's all put away. Simply shift the finish line.
- Why make it hard when it could be easy, all for the sake of another two or three minutes?

life's tip #1

"Time is like money – the less we have of it to spare, the further we make it go."
– Josh Billings

- Credit ratings are not the same as exam results. A 'B' rating is not something to be proud of.
- How often do you worry needlessly about some trivial, but unfinished project? Get it off your desk.

How to avoid the most common tax filing mistakes

Tax returns are often regarded by many investors as a 'pain' to complete and as a result, insufficient attention is paid to them. We recently discussed with a local accountant the most common mistakes when people complete their own tax returns:

1. Incorrect details/figures

Many taxpayers make simple mistakes, especially when adding up their total adjusted gross income. Alternatively, after taking the time to complete their tax return correctly, many taxpayers undo their good work by then entering either an incorrect IRD number or bank account number. This is especially unfortunate if they have calculated a tax refund! Take the time to double-check details and figures. It may save you money and will certainly save you time in the long run.

2. Return not signed or dated

This is a simple omission, but all too common. A tax return is considered invalid unless it is signed and dated by you.

Add this to your checklist after completing your return.

3. Due date

A late-filing of your tax return will result in a late-filing fee plus penalty interest on your overdue tax.

Late-filing fees are determined based on the following income brackets:



TOTAL ADJUSTED GROSS INCOME	LATE-FILING FEE
\$0-\$100,000	\$50
\$100,001-\$1,000,000	\$250
\$1,000,001+	\$500

You cannot avoid paying your taxes, but you can avoid paying penalties. Put a reminder in your diary around April each year to visit the Inland Revenue website (www.ird.govt.nz) for instructions or even call them directly; do not assume they will contact you first. Consider using internet banking to ensure payment is made on time.

4. Incorrect tax assessments

If you believe a tax assessment by IRD is incorrect, do not ignore it and assume it will go away. You will be considered guilty until proven innocent and obligated to pay the tax until a review has been completed by the IRD. Non-payment will result in additional penalties incurred and, while these may be reversed if your case is successful, you are taking an additional financial risk if you end up losing your appeal.

5. Copies of your documentation

Be sure to make a copy of your return and all documentation for your records. If a dispute does arise, these are the first things you will be asked for.

Contact your adviser today if you need any help with your tax issues.

The Christmas mum can't remember... and we'll never forget!

Isn't it funny how the relationship with your parents changes? When you are young, you rely totally on your parents. They look after you. They guide and provide. You are totally dependent on them. Then you grow up and you don't need to rely on your parent's support any more. And then, once more, the scenario changes and your parents become increasingly more reliant on you.

That's why the Christmas just gone was such a watershed in our family's life. All so horribly memorable.

You see that's when we realised that the relationship between Mum and us had gone to the next stage. And worst of all, we hadn't seen it coming!

To cut a long story short, Mum started doing and saying strange, out-of-character things. Things that we probably wouldn't have noticed when we just called in to see her, but which we saw almost immediately when she lived with us over Christmas. Half the time she was in cuckoo-land, doing strange things and having conversations and re-living experiences with acquaintances long gone. The other half of the time she was fine. Trouble is you never knew when she was which!

That's when it hit us. All this time, we'd assumed Mum was okay and we had been letting her run her own affairs, just as she'd always done. Trouble is, she wasn't capable and hadn't been capable for ages. But arranging to take it off her was something else.

Happily, we got the problem sorted out after a lot of time, trouble and expense. But here's what upset me most. We weren't prepared for it. Nobody, but nobody told me or the rest of the family that what happened could happen.

And nobody told us that there was a simple step we could have taken when Mum and Dad started getting on that would have solved a helluva lot of the problems.

And what is that simple step? It's called getting an enduring power of attorney. If you don't know what it is or what it can do (or if the people in your family for whom you just may become responsible haven't done it), then take my tip. Do something about it now. And that way, you may just avoid the Christmas (or any other time) from hell.

— Winston Marsh, Business Growth Centre

Contact us for more information on enduring powers of attorney.

KIWISAVER UPDATE

Why mortgage diversion is a good thing

Home-owners now have an excellent opportunity to divert part of their KiwiSaver contributions to their mortgage repayments and still receive all of the benefits KiwiSaver has to offer. Mortgage diversion rules, now in effect, allow those who have contributed to KiwiSaver for at least a year to divert up to 50% of their employee contributions (not including employer or government contributions) to paying off the mortgage on their own home. The effects of increasing mortgage repayments, while retaining the full benefits of KiwiSaver, leave the home-owner in a far better position over the long term.

If you are interested in finding out more about mortgage diversion and how it might affect you, feel free to give us a call.

summing
up

- If you believe a tax assessment by IRD is incorrect, do not ignore it and assume it will go away.
- Have your cake and eat it too. Divert what you pay into KiwiSaver to pay off your mortgage faster.

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Capitalism under question?

Throughout history various political and financial systems have been questioned and tested – from fascism at the far-right to communism at the far-left.

At the end of World War II, the Allies, with their varied political doctrines, had overcome the fascist-led axis. At the time, most people in the West had lost a loved one or someone they knew, and while there were a range of class systems operating overseas, New Zealand was a relatively egalitarian society. People helped and trusted their neighbours; many front doors were left unlocked; and greed was not a common aspiration.

In the intervening years, the offspring of those who had learned compassion through their experience of the Depression and World War II, received the nurture of those who had been deprived. Their children, the baby-boomers, often were given every opportunity to succeed in life.

life's tip #2

“As sure as the spring will follow the winter, prosperity and economic growth will follow recession.” – Bo Bennett

With the generally accepted measure of success being the accumulation of the dollar, areas of greed have entered society. Promised ‘trickle down’ effects have barely eventuated. Executives who have moved to the top of the pile think they are worth mega-millions, while much of the world is starving.

Greed, with its henchman, dishonesty, has caused the current questioning of the capitalist system. Not the sole cause, but an excellent example of the current problems is the sub-prime mortgage debacle – all caused by the arranging of mortgages for those with no income, no job, and no hope of repaying the debt. The creed has been “pass the parcel” – I’m ‘clipping the ticket’ and who cares about the end result”.

Now the music has stopped and many innocent workers are losing their jobs as a result of the greedy who overstretched themselves. Those who amassed assets of \$10 million are needing to accumulate \$50 million – there must be something seriously lacking in the makeup of one who cannot enjoy life on \$10 million! In pursuit of the dollar for the shareholder, manufacturing has been outsourced to the sweatshops of Asia at the expense of jobs at home. The West has become such a ‘service industry’ that one dare not consider the effects of a depression!

The above comments are of course generalisations. Many of the seriously wealthy and the ‘haves’ donate to charity, the arts, etc. Fraud, heists, greed, dishonesty, the bursting of financial bubbles – there is nothing new in this, but it does bring about the questioning of the system. Greed and dishonesty have almost brought about the collapse of the capitalist model. Only through the efforts of the central banks and governments in keeping the banking system afloat has a disaster been averted. However, much of the pain of job losses and mortgage sales have yet to be experienced.

When you look at the alternatives, capitalism still seems the best option. Once the precautions have been taken to minimise greed and dishonesty, and if people can change their mindset towards compassion for their fellow man, then capitalism will continue to offer the wider community the opportunity to move ahead.

As they say in the London Underground, “Mind the Gap”. If the gap between the ‘haves’ and the ‘have nots’ can be considerably narrowed, then capitalism will have been questioned, but seen to survive. But if that gap continues to widen, then who knows – we may need to look to the Paris of the 18th and 19th centuries for the outcome.

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